HALKBANK a.d. Belgrade

Financial Statements as of and for the Year Ended 31 December 2023

and

Independent Auditor's Report

CONTENT

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER AND THE BOARD OF DIRECTORS OF HALKBANK AD BELGRADE

Opinion

We have audited the financial statements of HALKBANK AD BELGRADE (hereinafter: the "Bank"), which comprise the balance sheet as of 31 December 2023 and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policies and other explanatory information.

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

Basis for Opinion

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

Other Information

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

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

INDEPENDENT AUDITOR'S REPORT

**TO THE SHAREHOLDER AND THE BOARD OF DIRECTORS
OF HALKBANK AD BELGRADE (Continued)**

Other Information (Continued)

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER AND THE BOARD OF DIRECTORS
OF HALKBANK AD BELGRADE (Continued)

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

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

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

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

Belgrade, 21 March 2024

Društvo za reviziju BDO d.o.o Beograd

Danijela Krtinic
Danijela Krtinic
Certified Auditor

INCOME STATEMENT
For the period from 1 January to 31 December 2023
(In RSD thousand)

	Note	2023	2022
Interest income	3.1, 4a	6,388,000	3,846,270
Interest expenses	3.1, 4b	(1,732,441)	(887,485)
Net interest income		**4,655,559**	**2,958,785**
Fee and commission income	3.2, 5a	2,622,764	2,147,386
Fee and commission expenses	3.2, 5b	(742,780)	(571,923)
Net fee and commission income		**1,879,984**	**1,575,463**
Net (gains)/losses from changes in the fair value of financial instruments	6	(4,361)	9,642
Net gains /(losses) on derecognition of the financial assets measured at fair value	7	-	(80)
Net foreign exchange gains and positive currency clause effects	3.3, 8	22,935	2,237
Net losses from impairment of financial assets not measured at fair value through profit or loss (FVTPL)	9a	(521,767)	(154,391)
Net gains on derecognition of financial instruments measured at amortized cost	10	-	1,159
Net gain on derecognition of investments in associates and joint ventures	11	1,375	-
Other operating income	12	16,525	11,704
TOTAL OPERATING INCOME, NET		**6,050,250**	**4,404,519**
Salaries, compensations and other personnel expenses	13	(1,849,014)	(1,478,613)
Depreciation and amortization expenses	3.4, 3.5, 3.6, 21	(631,000)	(522,341)
Other income	14	84,061	63,154
Other expenses	14	(1,276,923)	(1,053,804)
PROFIT BEFORE TAX		**2,377,374**	**1,412,915**
Current income tax expense	3.10, 15	(251,109)	(131,142)
Deferred tax gains	3.10, 15	2,326	2,748
PROFIT FOR THE YEAR	27	**2,128,591**	**1,284,521**

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

These financial statements were adopted by the Executive Board of **HALKBANK a.d. Belgrade** on 21 March 2024

AKCIONARSKO DRUŠTVO HALKBANK BEOGRAD

Aleksandar Mijailovic	Dusica Eric	Aziz Arslan
Head of the Financial Management and Planning Division	Member of the Executive Board	v Chairman of the Executive Board

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the period from 1 January to 31 December 2023
(In RSD thousand)

	2023	2022
PROFIT FOR THE YEAR	**2,128,591**	**1,284,521**
Items that will not be subsequently reclassified to profit or loss:		
Increase/(decrease) in revaluation reserves arising from intangible assets and property, plant and equipment (Note 21b)	-	-
Actuarial gains/(losses) (Note 25b)	(2,727)	1,027
Items that will or may be subsequently reclassified to profit or loss:		
Positive effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVTOCI) (Note 18)	773,523	313,295
Negative effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVTOCI) (Note 18)	(2,066)	(1,961,651)
Total (negative)/positive other comprehensive income for the year	**768,730**	**(1,647,329)**
TOTAL POSITIVE /(NEGATIVE) COMPREHENSIVE INCOME FOR THE YEAR	**2,897,321**	**(362,808)**

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Head of the Financial Management and Planning Division	Member of the Executive Board	Chairman of the Executive Board

AKCIONARSKO DRUŠTVO HALKBANK BEOGRAD

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

	Note	2023	2022
ASSETS			
Cash and balances held with the central bank	3.8, 16	16,729,593	21,728,051
Receivables under derivatives	17	5,195	11,752
Securities	3.7, 18	13,713,114	12,084,609
Loans and placements to banks and other financial institutions	3.7, 19	13,924,349	4,066,855
Loans and placements to customers	3.7, 20	78,324,435	71,193,873
Intangible assets	3.6, 21a	1,619,806	1,016,170
Property, plant and equipment	3.4, 21b, 21c, 21e	2,066,194	1,596,832
Investment property	3.5, 21d	121,201	132,687
Current tax assets	3.10	-	64,997
Deferred tax assets	3.10, 15c	53,076	51,106
Other assets	22	1,173,418	713,727
TOTAL ASSETS		**127,730,381**	**112,660,659**
LIABILITIES AND EQUITY			
Liabilities under derivatives	17	-	1,573
Deposits and other liabilities due to banks, other financial institutions and central bank	3.7, 23	8,259,225	8,212,864
Deposits and other liabilities due to other customers	3.7, 24	92,066,727	81,057,821
Provisions	2.6, 25	110,478	85,176
Current tax liabilities		130,711	131,142
Other liabilities	26	2,637,588	1,543,751
TOTAL LIABILITIES		**103,204,729**	**91,032,327**
EQUITY			
Share capital	3.11, 27	18,362,669	18,362,669
Profit	27	2,128,591	1,285,063
Reserves	3.11, 27	4,034,392	1,980,600
TOTAL EQUITY	27	**24,525,652**	**21,628,332**
TOTAL LIABILITIES AND EQUITY		**127,730,381**	**112,660,659**

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

These financial statements were adopted by the Executive Board of **HALKBANK a.d. Belgrade** on 21 March 2024

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AKCIONARSKO DRUŠTVO HALKBANK BEOGRAD

STATEMENT OF CHANGES IN EQUITY
In the period from 1 January to 31 December 2023
(In RSD thousand)

	Share and other capital	Share premium	Reserves from profit and other reserves	Revaluation reserves	Retained earnings	Total equity
Balance as of 1 January 2022	**7,939,540**	**4,559,509**	**2,938,563**	**(200,031)**	**889,936**	**16,127,517**
Capital increase	2,549,400	-	-	-	-	2,549,400
Share issue premium increase	-	3,314,220	-	-	-	3,314,220
Actuarial losses, net	-	-	-	1,027	-	1,027
Profit for the year	-	-	-	-	1,284,521	1,284,521
Gains on the changes in the fair value of property, plant and equipment	-	-	-	-	-	-
Previous year's profit distribution	-	-	889,394	-	(889,394)	-
Transfer from reserves to retained earnings due to reversal of reserves	-	-	-	-	-	-
Other comprehensive income:						
Negative effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVTOCI)	-	-	-	(1,648,356)	-	(1,648,356)
Other			1	2		3
Balance as of 31 December 2022	**10,488,940**	**7,873,729**	**3,827,958**	**(1,847,358)**	**1,285,063**	**21,628,332**
Opening balance as of 1 January 2023	**10,488,940**	**7,873,729**	**3,827,958**	**(1,847,358)**	**1,285,063**	**21,628,332**
Capital increase	-	-	-	-	-	-
Share issue premium increase	-	-	-	-	-	-
Actuarial gains, net	-	-	-	(2,727)	-	(2,727)
Profit for the year	-	-	-	-	2,128,591	2,128,591
Previous year's profit distribution	-	-	1,285,063	-	(1,285,063)	-
Other comprehensive income:						
Negative effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVTOCI)	-	-	-	771,457	-	771,457
Other	-	-	-	(2)	-	(1)
Balance as of 31 December 2023	**10,488,940**	**7,873,729**	**5,113,022**	**(1,078,630)**	**2,128,591**	**24,525,652**

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

These financial statements were adopted by the Executive Board of **HALKBANK a.d. Belgrade** on 21 March 2024

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AKCIONARSKO DRUŠTVO HALKBANK BEOGRAD

STATEMENT OF CASH FLOWS
In the period from 1 January to 31 December 2023
(In RSD thousand)

	2023.	2022
Cash inflows from operating activities	**9,000,385**	**6,112,981**
Interest receipts	6,351,345	3,947,637
Fee and commission receipts	2,633,664	2,153,924
Receipts of other operating income	14,207	10,901
Dividend receipts and profit sharing	1,169	519
Cash outflows from operating activities	**(5,284,520)**	**(3,810,345)**
Interest payments	(1,467,825)	(794,632)
Fee and commission payments	(740,451)	(570,108)
Payments to, and on behalf of employees	(1,780,684)	(1,376,237)
Taxes, contributions and other duties paid	(74,008)	(56,204)
Payments for other operating expenses	(1,221,552)	(1,013,164)
Net cash generated by operating activities prior to increases/decreases in financial assets and financial liabilities	**3,715,865**	**2,302,636**
Decrease in financial assets and increase in financial liabilities	**11,878,705**	**5,960,314**
Decrease in receivables per securities and other financial assets not intended for investment	-	4,322
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	11,878,705	5,955,992
Increase in financial assets and decrease in financial liabilities	**(7,861,506)**	**(14,254,806)**
Increase in loans and placements to banks, other financial institutions, the central bank and customers	(7,861,506)	(14,254,806)
Net cash inflow/(outflow) from operating activities before tax	**7,733,064**	**(5,991,856)**
Income tax paid	(180,626)	(123,586)
Net cash from/(used in) operating activities	**7,552,438**	**(6,115,442)**
Cash inflows from investing activities	**1,234,676**	**557,424**
Proceeds from sales of investment securities	1,216,000	400,000
Inflow from the sale of investments in subsidiaries and associated companies and joint ventures	3,187	-
Proceeds from sales of intangible assets, property, plant and equipment	15,489	68,613
Proceeds from the sale of investment property	-	88,811
Cash outflows from investing activities	**(3,279,049)**	**(804,342)**
Cash used for investing in investments securities	(2,173,580)	-
Cash used for the purchases of intangible assets, property, plant and equipment	(1,105,469)	(804,342)
Net cash used in investing activities	**(2,044,373)**	**(246,918)**
Cash inflows from financing activities	**260,885**	**6,693,348**
Inflows based on capital increase	-	5,863,620
Inflows from borrowings	260,885	829,728
Cash outflows from financing activities	**(1,970,409)**	**(1,683,303)**
Cash used in the repayment of borrowings	(1,714,345)	(1,479,433)
Other outflows from financing activities	(256,064)	(203,870)
Net cash from/(used in) financing activities	**(1,709,524)**	**5,010,045**
TOTAL CASH INFLOWS	**22,374,651**	**19,324,067**
TOTAL CASH OUTFLOWS	**(18,576,110)**	**(20,676,382)**
NET CASH INCREASE /(DECREASE)	**3,798,541**	**(1,352,315)**
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	**8,737,872**	**10,069,676**
FOREIGN EXCHANGE GAINS/(LOSSES), NET	**(17,246)**	**20,511**
CASH AND CASH EQUIVALENTS, END OF YEAR	**12,519,167**	**8,737,872**

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

These financial statements were adopted by the Executive Board of **HALKBANK a.d. Belgrade** on 21 March 2024

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AKCIONARSKO DRUŠTVO HALKBANK BEOGRAD

1. CORPORATE INFORMATION

1.1. Establishment

HALKBANK a.d. Belgrade, formerly known as Čačanska banka, has been operating since 1 July 1956, and during its operations and development it has changed its legally registered name and organizational form several times.

In May 2015, Turkiye Halk Bankasi AS, Istanbul/Turkey became the majority owner of Čačanska banka. The change of ownership caused the change to the Bank's name and headquarters. The new name of the Bank is HALKBANK a.d. Belgrade (hereinafter: the "Bank"). During 2018, Turkiye Halkbankasi AS, Istanbul/Turkey became its sole (100%) owner after purchase of the remaining shares held by the minority (non-controlling) shareholders.

The Bank was registered with the Serbian Business Registers Agency under number BD 54244 on 13 September 2005.

1.2. Activities

The Bank is registered in the Republic of Serbia for payment, credit and deposit activities in the country and abroad and it operates in accordance with the effective Law on Banks.

The Bank's head office is in Belgrade, at the address of no. 9e, Milutina Milankovica Street, as registered with the Business Registers Agency under number BD 82129/2016 on 19 October 2016.

As of 31 December 2023, the Bank's network consisted of 38 branches (2022: 30 branches as follows: Belgrade (ten branches), Cacak (three branches), Jagodina, Gornji Milanovac, Kraljevo, Uzice, Kragujevac, Krusevac, Arandjelovac, Valjevo, Sabac, Nis, Leskovac, Novi Sad, Stara Pazova Pancevo, Novi Pazar, Subotica, Smederevo, Sremska Mitrovica, Vranje, Ivanjica, Pozega, Prijepolje, Zrenjanin, Pirot and Paracin, as well as 5 sub-branches (2022: 9 sub-branches) in Vrnjačka Banja, Tutin, Sjenica, Topola and Presevo, as well as one cash desk.

In 2023, the Bank opened three new branches in Prijepolje, Vojvode Stepe street in Belgrade and Stara Pazova, as well as a sub-branch in Sjenica. In addition, during 2003, the status of 5 sub-branch offices was changed to branches.

As of 31 December 2023, the Bank had 721 employees, and as of 31 December 2022 - 657 employees. The Bank's tax identification number is 100895809.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION

2.1. Basis of Preparation and Presentation of the Financial Statements

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

In accordance with the Law on Accounting ("Official Gazette of RS", nos. 73/2019 and 44/2021 – the other law), the Bank, as a large legal entity, is obligated to apply the International Financial Reporting Standards ("IFRS"). In addition, in accordance with the Amendments to the Law on Banks ("Official Gazette of RS", No. 14/2015), banks in the Republic of Serbia are obliged to apply International Financial Reporting Standards, as well as subsequent amendments to standards and related interpretations, from the date determined by the competent international body as the date of their application. IFRSs comprise the Conceptual Framework for Financial Reporting, International Accounting Standards - IAS, International Financial Reporting Standards - IFRS and related interpretations, subsequent amendments to these standards and related interpretations, published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC).

The accompanying financial statements are presented in the format prescribed under the National Bank of Serbia's Decision on the Forms and Contents of the Items in the Forms of the Financial Statements of Banks ("RS Official Gazette", No. 93/2020).

The accompanying financial statements are stand-alone financial statements of the Bank. The Bank is not a parent entity, i.e., it has no subsidiaries or associates so that it does not prepare consolidated financial statements. The Bank's sole shareholder is Turkiye Halkbankasi AS, Istanbul/Turkey.

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

2.1. Basis of Preparation and Presentation of the Financial Statements (Continued)

The accompanying financial statements pertain to the reporting period ended 31 December 2023. These financial statements were adopted by the Bank's Executive Board on 21 March 2024.

These financial statements were prepared under the historical cost principle, except for the measurement of the following significant items of the balance sheet:

- property stated at market and/or revalued value,
- financial instruments measured at fair value through other comprehensive income (FVTOCI),
- financial assets measured at fair value through income statement,
- derivative financial instruments stated at fair value.

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

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

The accounting policies and estimates adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Bank's financial statements for the year ended 31 December 2022, except for the adopted new and amended IFRS Accounting Standards disclosed in Note 2.2. from 1 January 2023, where applicable. New standards and amendments to existing standards that have been issued but are not yet in force are disclosed in Note 2.3.

The Bank's financial statements are stated in thousands of dinars. Dinar (RSD) is the official presentation currency in the Republic of Serbia.

2.2. *New Standards, Interpretations and Amendments to Existing Standards Mandatory for the First Time for the Financial Year Beginning on 1 January 2023*

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

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

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

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

2.2. New and Amended IFRS Accounting Standards Mandatory for the First Time for the Financial Year Beginning on 1 January 2023 (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

2.2. New and Amended IFRS Accounting Standards Mandatory for the First Time for the Financial Year Beginning on 1 January 2023 (Continued)

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

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

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

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

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

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

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

2.3. New Standards, Interpretations and Amendments to Existing Standards that are Not Yet Effective and Have Not Been Early Adopted by the Bank

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

- Amendments to IFRS 16 "Leases" – Lease Liability in a Sale and Leaseback (effective for annual reporting periods beginning on or after 1 January 2024). The amendments are intended to improve the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction in IFRS 16, while it does not change the accounting for leases unrelated to sale and leaseback transactions.
- Amendments to IAS 1 "Presentation of Financial Statements" – Classification of Liabilities as Current or Non-current (effective for annual reporting periods beginning on or after 1 January 2024). The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current.
- Amendments to IAS 1 "Presentation of Financial Statements" – Non-current Liabilities with Covenants (effective for annual reporting periods beginning on or after 1 January 2024). The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. Additional disclosures are also required for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period.
- Amendments to IAS 7 "Statement of Cash Flows" and IFRS 7 "Financial Instruments: Disclosures" – Supplier Finance Arrangements (effective for annual reporting periods beginning on or after 1 January 2024). The amendments add disclosure requirements, and "signposts" within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements.
- IFRS S1 "General Requirements for Disclosure of Sustainability-related Financial Information" and IFRS S2 "Climate-related Disclosures" (effective for annual reporting periods beginning on or after 1 January 2024). IFRS S1 and IFRS S2 represent new IFRS sustainability disclosure standards, whereas IFRS S1 includes the core framework for the disclosure of material information about sustainability-

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

2.3. New Standards, Interpretations and Amendments to Existing Standards that are Not Yet Effective and Have Not Been Early Adopted by the Bank (Continued)

related risks and opportunities across an entity's value chain while IFRS S2 sets out requirements for entities to disclose information about climate-related risks and opportunities. Application of these standards in our country depends on regulatory process and enactment of regulations introducing their mandatory application.

- Amendments to IAS 21 "The Effects of Changes in Foreign Exchange Rates" – Lack of Exchangeability (effective for annual reporting periods beginning on or after 1 January 2025). The amendments contain guidance to specify when a currency is exchangeable and how to determine the exchange rate when it is not.

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

2.4. Comparative Information

Comparative information in the accompanying financial statements comprise the data from the Bank's financial statements for 2022.

2.5. Statement of Compliance

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

2.6. Key Accounting Estimates and Judgments

Preparation of the financial statements in accordance with IFRS Accounting Standards requires the Bank's management to make the best estimates and reasonable assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as income and expenses for the reporting period. The actual values of the assets and liabilities may vary from these estimates.

These estimations and underlying assumptions are subject to regular review. The revised accounting estimates are presented for the period in which they are revised as well as for the ensuing periods.

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

The Bank recognizes ECL provisions for financial assets measured at AC or for debt instruments measured at FVTOCI and for credit commitments and guarantees issued.

Assumptions and estimates used by the Bank as inputs to the model for ECL measurement and assessment of a significant increase in credit risk are disclosed in Note 30.1.

The evidence could include available data indicating adverse changes in respect of the customer's ability to settle its liabilities toward the Bank in a timely manner.

The Bank's management makes estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those of the portfolio, at the time of projecting its future cash flows. The methodology and assumptions used for estimating both the amount and timing of the future cash flows are reviewed on a regular basis in order to reduce any differences between the estimated and actual losses (Notes 9b, 19 and 20).

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

2.6. Key Accounting Estimates and Judgments (Continued)

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

The determination of the useful lives of intangible assets, property and equipment is based on historical experience with similar assets as well as on any anticipated technological development and changes influenced by wide range of economic or industry factors. Adequacy of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions (Note 21).

c) Impairment of Non-Financial Assets

As of the 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 (Note 21).

d) Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. In order to be maintained, the best possible estimates are considered, determined and, if necessary, adjusted at each reporting date.

When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are reversed through profit and loss. Provisions are monitored per type and they can be used only for the expenses they were initially recognized for. Provisions are not recognized for future operating losses.

Contingent liabilities are not recognized in the financial statements. Contingent liabilities are disclosed in the notes to the financial statements, unless the probability of an outflow of resources containing economic benefits is very remote (Note 25).

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

e) Provisions for Litigations

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

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

A provision represents a liability with an uncertain maturity date or an uncertain amount. A provision is an amount of monetary funds the Bank sets aside in order to provide for the outflows for expected and possible yet at the moment of provisioning uncertain liabilities which may arise in the future as a result of pre-defined past events. Provisions are estimated on a quarterly basis. The required provision may change in the future due to occurrence of new events or obtaining additional information.

f) Deferred Tax Assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that expected future taxable profit will be available, against which the unused tax losses can be utilized. The Bank's management necessarily makes significant estimates in order to determine the amount of deferred tax assets that can be recognized, based on the period of occurrence and the amount of future taxable profit. Additional information in this respect is disclosed in Note 3.10.

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

2.6. Key Accounting Estimates and Judgments (Continued)

g) Retirement and Other Post-Employment Benefits

The costs of defined employee benefits payable upon termination of employment, i.e., retirement in accordance with the fulfilled legal requirements, are determined based on the actuarial valuation. The actuarial valuation includes the average salary paid in the Republic of Serbia, an assessment of the discount rate, future movements in salaries, mortality rates and employee turnover. As these plans are long-term, significant uncertainties influence the outcome of the estimations. Additional information in this respect is disclosed in Note 3.12.

h) Fair Value of Financial Instruments

Fair value of the financial instruments traded in an active market is based on quoted market prices at the reporting date. Fair value of the financial instruments that are not quoted in an active market is determined using certain valuation techniques, which entail using judgement in fair value assessment. Valuation models reflect the current market conditions at the fair value measurement date and need not represent the market conditions prevailing before or after the measurement date. Therefore, valuation techniques are periodically reviewed so as to adequately reflect the market conditions.

Those entail the use of the present value method and other methods and models based on the observable and, to a less extent, unobservable inputs.

Valuation models are primarily used for measurement of derivatives in the stock exchange market and government bonds and debt securities not traded in active markets. These models take into account the credit risk impact if it is material. All valuation models are validated before they are used as the basis for financial reporting and they are subject to periodic review by qualified staff members, independent of those that created the model.

Wherever possible, the Bank compares the measurement resulting from the model applied to the quoted prices of the similar financial instruments and the actual prices achieved in actual transactions in order to validate calibrate its models. Various factors are incorporated into the Bank's models, including the actual and estimated market values and rates, as well as the time factor and changes in the market depth, liquidity and changes in the credit risk of financial liabilities.

The Bank applies models consistently from one period to another, thus ensuring comparability and continuity of valuation during time. However, fair value assessment inevitably entails significant extent of judgement. Therefore, the management sets up valuation adjustments to cover the differences relating to the estimates of unobservable parameters and assumptions within the models.

Although in some instances substantial judgement is required for fair value assessment, the management believes that the fair values presented in the statement of financial position and changes in the fair values reported in the income statement are prudent and reflect the actual economic conditions, based on the executed controls and protection procedures.

Valuation methods, assumptions and techniques used in fair value assessment are explained in greater detail in Note 30.

i) The Bank's Related Parties

In accordance with the Law on Banks and in accordance with the internal Exposure Risk Management Procedure, the persons related to the Bank are:

1) members of the banking group in which the Bank is, HALKBANK;
2) members of the Management and Executive Board of the Bank, members of the Board of the Bank determined by the Law on Banks, members of the management and governing body of a member of the banking group in which the Bank is, as well as family members of these persons;
3) persons with participation in the bank and in persons who are members of the banking group in which the Bank is, as well as family members of these persons;
4) legal entities in which the persons referred to in item 2) and 3) of this paragraph have a controlling interest.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES

3.1. Interest Income and Expenses

The Bank presents within the income statement income (revenues) and expenses grouped according to their nature and discloses the amounts of the major types of income and expenses.

Presentation in the income statement and disclosures in the notes to the financial statements cover all the income and expense items in accordance with the prescribed content and forms for preparation of the financial statements.

For all interest-bearing financial instruments, interest income and expenses are recognized within the income statement using the effective interest rate method.

The Bank ceases to recognize income from accrued regular interest in the following cases:

- when a decision has been made on instigation of a bankruptcy procedure over the borrower;
- when a decision on instigation of court proceedings for collection of receivables from the borrower has been made;
- when decision on derecognition of income from accrued interest has been made by the Bank's competent board or when other circumstances, which aggravate the collection of receivables, have been identified;
- when the borrower, a legal entity or an entrepreneur, is over 150 days past due in liability settlement.

When the Bank ceases to recognize income from accrued regular interest, a suspended interest calculation is performed in order to reconcile receivables and liabilities with the debtor and the accrued interest is recorded by the Bank within the other off-balance sheet assets. After identifying objective evidence of impairment and recognizing an impairment loss, interest income on Level 3 placements is calculated and recognized in the income statement using the effective interest rate on a net basis (Unwinding).

Loan origination fees per loans with pre-defined repayment schedules are recognized within the interest income in the profit or loss statement and are amortized using the effective interest method. Loan origination fees per loans without pre-defined repayment schedules (framework loans, current account overdrafts, credit cards and the like), guarantees and other types of sureties are amortized on a straight-line basis and presented within the fee and commission income.

3.2. Fee and Commission Income and Expenses

All fees and commissions that are not an integral part of the effective interest rate of the financial instrument are calculated in accordance with IFRS 15.

Income is recognized over time when or until the Bank fulfills its obligations, i.e. when it provides contracted services to its clients.

The Bank recognizes as contract liabilities consideration received for unfulfilled performance obligations and presents them as other liabilities in the statement for financial position. Similarly, if the Bank fulfils a performance obligation before it receives the consideration it recognizes in the statement of financial position either a contract asset or receivable depending on whether or not something other than a certain time to obtain the consideration is required.

Fees and commissions consist mainly of fees for payment operations, fees for guarantees, fees from FX changes, fees per payment cards and these revenues are related to both the corporate and retail segment of customers, as disclosed in Note 5.

In all cases the total transaction price for a certain contract is allocated between the various performance obligations based on the relatively separate sales prices of the separate products and services. The consideration that the Bank receives is determined in the various Bank's tariffs and does not include a variable component. The transaction price under the contract excludes all amounts collected on behalf and at the expense of third parties. Fee and commission income is recognized over time. Significant part of the fee and commissions income is recognized after the service is provided and the consideration is collected from the customer.

Commissions arising from foreign currency transactions are reported in the statement of profit or loss and other comprehensive income upon their receipt. Loan origination and processing fees and commissions when considered to be part of the effective income are amortized during the loan term and are recognized as current finance income during the period by applying the effective interest method.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.3 Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at the official middle exchange rate of the National Bank of Serbia effective as at the transaction date.

Assets and liabilities denominated in foreign currencies at the reporting date are translated into dinars at the official middle exchange rate of the National Bank of Serbia effective as at the reporting date.

Net foreign exchange effects arising upon performance of transactions in foreign currencies and upon translation of the assets and liabilities denominated in foreign currencies are recognized as foreign exchange gains or losses, in accordance with IAS 21 – "The Effects of Changes in Foreign Exchange Rates". Gains and losses arising in instances of annuities (instalments) linked to an RSD/ foreign currency exchange rate are calculated at the reporting date and presented as positive or negative currency clause effects.

Commitments and contingent liabilities denominated in foreign currencies are translated into dinars at the official middle exchange rate of the National Bank of Serbia effective as at the reporting date.

3.4. Property, Plant and Equipment

Buildings are initially measured at cost. Cost includes expenditure that is directly attributable to the acquisition of assets.

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

Valuation of buildings after the initial recognition is performed using the revaluation model stipulated by IAS 16 – "Property, Plant and Equipment", buildings are stated at revalued amounts less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Assessment of revalued amounts and useful life of buildings is carried out at least once every three years by an independent certified appraiser (expert valuer in civil engineering).

Assessment of the Bank's building property market value/impairment was performed by an independent certified appraiser as of 30 November 2023 for repossessed assets and internal estimate of the competent departments for the Bank's buildings.

Plant and equipment are initially measured at cost, less accumulated depreciation and subsequently at cost less accumulated depreciation and impairment losses, if any.

Depreciation is calculated on a straight-line basis to the cost or revalued amount of each part of an item of property, plant and equipment and investment property in order to fully write off the cost of assets over their estimated useful lives in accordance with the Bank's Rulebook on Amortization of Intangible Assets and Depreciation of Property, Equipment and Investment Property.

At each year-end, the Bank internally reviews the carrying amounts of its buildings in order to determine if there are indications that there have been any impairment losses. If there are such indications, the Bank assesses the recoverable amounts of such assets in order to determine impairment loss amounts, if any.

The following depreciation rates were used in 2023 and were not changed compared to the rates used in 2022:

Buildings	2.50%
Investment property	2.50%
Leasehold improvements	16.67% - 20.00%
Computer equipment	14.29% - 20.00%
Furniture and other equipment	16.67% - 20.00%

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.5. Investment Property

Investment property is property held by the Bank for the purpose of lease and it is accounted for in accordance with IAS 40 – "Investment Property". Investment property is initially measured at cost or purchase price.

After initial recognition, the Bank measures its investment property at cost less the accumulated depreciation.

Depreciation of investment property is calculated using the straight-line method over an estimated life of investment property, in accordance with the Bank's internal bylaws.

Depreciation of investment property is carried out over the period of 40 years, using a depreciation rate of 2.5%.

At each year-end, the Bank internally reviews the carrying amounts of its investment properties in order to determine if there are indications that there have been any impairment losses. If there are such indications, the Bank assesses the recoverable amounts of such assets in order to determine impairment loss amounts, if any.

3.6. Intangible Assets

Intangible assets are measured at cost or purchase price, while after initial recognition, intangible assets are carried at cost less accumulated amortization and subsequent accumulated impairment losses. Intangible assets comprise licenses, patents and software.

Amortization is calculated using the straight-line method to the cost of intangible assets over the agreed period of use of such assets or their estimated useful lives unless a period of use is agreed. Most commonly, those are periods from 3 to 5 years, except for investments into the Bank's CORE system whose useful life is estimated at 10 years.

Intangible assets also include intangibles in progress that are not depreciated, since they are not yet in use. Investments in the bank's CORE system are recorded as part of these investments.

Intangible assets created through development (development project) can be recognized if the following conditions are met:

- Technical feasibility of the project
- The intention to complete the project and to use or sell the intangible asset
- Intangible assets will generate probable future economic benefits
- Availability of all resources to complete the project
- Ability to evaluate and measure Intangible assets.

During the duration of the intangible assets development project, the Bank capitalizes, i.e. increases the value of intangible assets for the value of the costs incurred due to development activities (project planning and business analysis, solution testing, project control).

Some typical examples of costs and activities during project development that are capitalized are:

- Creation of detailed functional specifications
- Software coding
- System testing
- Data conversion costs
- Fees paid to third parties for services provided for software development
- Salary costs and costs related to salaries during the development phase

Capitalization will cease when the development project is substantially complete and ready for intended use (typically the launch date).

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.7. Financial Instruments

A financial instrument is each contract based on which a financial asset of one entity and a financial liability or an equity instrument of another entity arise.

The Bank recognizes its financial assets and financial liabilities in the statement of financial position in accordance with IFRS 7 "Financial Instruments: Disclosures" and IFRS 9 "Financial Instruments'.

The Bank recognizes a financial asset or a financial liability from the moment it becomes a party to the contractual terms of an instrument.

Financial instruments are classified into:

a) Financial assets
- Equity instruments
- Debt instruments
- Derivatives

b) Financial liabilities

3.7.1 Financial Assets

3.7.1.1 Equity Instruments

Financial equity instruments relate to equity investments (interests) represent long-term financial investments in equity of other entities (banks, insurance companies, shareholding and limited liability companies) that have not been acquired for sale in the near term, as well as securities, i.e., shares of other entities acquired for sale in the near term.

The accounting treatment of the equity investments depends on the influence the investor has over the investee. The following three cases are possible:

- The investor has control over the investee (investments in subsidiaries) and the parent-subsidiary relationship is formed if the equity investment exceeds 50% or other criteria are met as defined by IAS 27;
- The investor exercises a significant influence over the investee (investments in associates) and the parent-associate relationship is formed if the equity investment exceeds 20% or other criteria are met as defined by IAS 28; and
- The investor exercises no significant influence over the investee (other investments) if the equity investment is below 20%.

The Bank is not a parent entity, i.e., it has neither subsidiaries nor associates and does not prepare consolidated financial statements.

Equity investments the Bank holds in other entities and shares are stated at fair value and the changes in fair value thereof are recorded in the profit or loss statement (FVTPL) under IFRS 9.

3.7.1.2 Debt Instruments

The Bank classifies debt instruments as financial assets subsequently measured at amortized cost (AC), at fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL) based on:

- the business model for management of the financial assets, and
- characteristics of the contractual cash flows of the financial assets.

Debt instruments are classified upon initial recognition, i.e., when the Bank becomes a party to the contractual terms of the instrument.

Debt instruments are initially measured at fair value increased by transaction costs directly attributable to the acquisition or issuance of the financial asset, except for the financial assets at FVTPL.

The transaction cost or fair value of the consideration given or received in exchange for a financial instrument is usually the best evidence of the fair value of the financial instrument upon initial recognition.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.7. Financial Instruments (Continued)

3.7.1 Financial Assets (Continued)

3.7.1.2 Debt Instruments (Continued)

Debt instruments measured at amortized cost (AC)

Debt instruments are measured at AC if the following two criteria are met:
- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows (HTC model); and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The Bank's business model for classification and measurement of the Bank's loans and receivables and letters of credit and guarantees except for debt securities is AC measurement model (the hold-to-collect model and cash flows that are solely payments of principal and interest – HTC and SPPI). Only if the SPPI test reveals that contractual terms exist due to which the assets have failed the SPPI test and cannot therefore be measured at AC, does the Bank use the fair value through profit or loss measurement model (FVTPL). Debt securities may be measured and held within the amortized cost model, FVTOCI model and FVTPL model, depending on each individual case and intention of the management.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Amortized cost is the amount at which a financial asset is measured upon initial recognitions increased or decreased by accumulated amortization using the effective interest method on all the differences between the initial amount and amount upon maturity, less any payments and adjustments for expected credit losses. All loans and receivables originated by the Bank are recognized in the statement of financial position in the amount of gross amortized cost less the individual allowances for impairment. Gross amortized costs represent total receivables from the Bank's customers (including principal outstanding, nominal interest, penalty interest, receivables for fees and other receivables) adjusted by the amount of unamortized fees.

The initial effective interest rate for IFRS 9 purposes represents the rate that precisely discounts the estimated future cash inflows or outflows during the expected life of a financial asset or a liability to the gross carrying value thereof. For IFRS 9 purposes, the effective interest rate is calculated so that it can he used in the process of determining the amortized cost and interest income during the life of a financial instrument. In using the effective interest method, the Bank identifies fees that are part of the effective interest rate of the financial asset in accordance with its Impairment Allowance Methodology under IFRS 9

The Bank calculates and recognizes impairment allowance in accordance with its Impairment Allowance Methodology under IFRS 9 for all financial instruments measured at AC and at FVTOCI.

IFRS 9 introduces a concept of expected credit losses (ECL), entailing probability-weighted estimates of the lifetime ECL if the credit risk of the financial instruments has significantly increased since initial recognition or there is objective evidence of its impairment identified (Stage 2 and Stage 3 assets) or of the 12-month ECL the Bank is to identify and recognize for all financial for all financial instruments where the credit risk has not s significantly increased since initial recognition (Stage 1 assets).

In its internal bylaws the Bank has defined parameters the identification of which is indicative of the significant increase in credit risk of Stage 2 customers and the default status for Stage 3 customers.

Debt instruments measured at fair value through other comprehensive income (FVTOCI)

Financial assets are measured at FVTOCI if the following two criteria are met:
- the objective of the business model within which the Bank holds the assets is achieved by collection of the contractual cash flows and by sale of the assets; and
- the contractual terms of the assets give rise to the cash flows at specific future dates that represent solely payments of the principal and interest on the principal amount outstanding.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.7. Financial Instruments (Continued)

3.7.1 Financial Assets (Continued)

3.7.1.2 Debt Instruments (Continued)

Debt instruments measured at FVTOCI are assets that the Bank intends to hold for an indefinite period yet they may be sold for liquidity maintenance purposes or due to changes in the interest rates, foreign exchange rates or market prices.

Upon initial recognition of such assets, the Bank measures them at fair value increased by transaction costs.

Following their initial recognition, these financial assets are measured at fair value with gains or losses on the changes in their fair value and impairment losses (impairment allowances) recognized under revaluation reserves within equity. Impairment allowance of the financial assets measured at FVTOCI is calculated in the same manner as the impairment allowance of financial assets measured at AC, However, the accumulated impairment allowance in the financial statements is not deducted from the fair value of assets but from the cumulative change in the fair value recorded within the other comprehensive income. Foreign exchange gains or losses, i.e., gains or losses on the changes in the value of the financial asset arising from the movements in the foreign exchange rates (if the asset is denominated in a foreign currency or linked to a currency clause) are not recognized within equity.

Pledged financial assets are measured under the same principle. These are financial assets that are allocated separately for accounting purposes because they are pledged with the NBS for REPO transactions with the National Bank of Serbia (they are stated separately at nominal value).

At the sale date, the carrying amount of the asset and revaluation reserves from the asset will be derecognized and the excess or shortage of the sale proceeds will be recognized as the gain or loss on the sale of the asset.

Debt instruments measured at fair value through profit or loss (FVTPL)

The Bank measures debt instruments at FVTPL if they are not measured at AC or at FVTOCI.

A financial asset at FVTPL is an asset acquired primarily for sale or repurchase in the near future, with the aim to earn a profit from short-term price fluctuations and/or dealer’s margin, or such an asset is a derivative instrument.

A derivative is a financial instrument or another contract whose value is changing (as a result of changes in the defined/agreed interest rate or the price of the financial instrument or its stock exchange price or foreign exchange rate or price growth index or another variable), which requires no initial net investment or an initial net investment which is lower than that for other agreement types that are expected to show similar responses to the changes in market conditions, and which will be settled at a future date.

The initial positive or negative difference in the fair value of a derivative is recorded on-balance sheet as an asset or a liability. Effects of the changes in the fair value of a derivative are subsequently recorded within the income statement. The positive fair value of the derivative is recognized as an asset and the negative fair value of the derivative as a liability.
The derivative is derecognized at the moment when the contractual rights and obligations (exchange of cash flows) arising from the derivative expire, i.e., at the termination date.

As of the termination date the carrying amount of an asset is derecognized and all the gains or losses (within the income or expenses) on the changes in the fair value of the asset are cancelled, with the ultimate effects of gain or loss from the derivative recorded within realized exchange gains or losses. In the event that there is an active market for derivatives in the country of the Bank’s domicile, the ultimate effect of the sale of a derivative instrument is recorded in the profit or loss statement as a gain or loss on the sale of derivatives. The only derivative transactions the Bank performs are currency swaps.

Fair value option

Even if a financial asset meets the criteria for classification and measurement at AC or FVTOCI, it may be measured at FVTPL if doing so would eliminate or significantly reduce a measurement or recognition inconsistency (‘accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Bank did not use the FVTPL option.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.7. Financial Instruments (Continued)

3.7.1 Financial Assets (Continued)

3.7.1.2 Debt instruments measured at fair value through profit or loss (FVTPL (Continued)

Financial assets – derecognition and reclassification

The Bank derecognizes a financial asset when the Bank has transferred the asset to another party and determined that it has transferred all the risks and rewards associated with the asset. If so, the asset will be derecognized from the Bank's books. If the Bank has retained substantially all the risks and rewards of ownership over the asset, the asset cannot be derecognized.

3.7.2 Financial liabilities

Financial liabilities – measurement and derecognition

A financial liability is any contractual obligation of the Bank to give cash or another financial asset to the counterparty. Upon initial recognition, a financial liability is measured at cost, representing the fair value of the consideration received.

Financial liabilities held for trading are measured at FVTPL, while all other financial liabilities are measured at AC unless the fair value option is elected. The Bank does not use the fair value measurement option.

A financial liability is derecognized when the contractual obligation underlying the liability is discharged or cancelled or has expired.

A gain or loss on cancellation/derecognition of the financial liability is recognized within the profit or loss statement.

If the Bank has not substantially retained or transferred all the risks and rewards of the asset, then the bank must assess whether it has relinquished control of the asset or not. If the bank does not control the asset, then it may cease recognition of that asset, otherwise, if the Bank not transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset.

Borrowings

Liabilities arising from borrowings are initially recognized at fair value less directly attributable transaction costs. Subsequent to initial recognition, borrowings are measured at amortized cost. Borrowings are classified as current liabilities unless the Bank has an unconditional right to settle the liability within no less than 12 months after the reporting date.

3.8. Cash and Balances Held with the Central Bank

Cash and balances held with the central bank are comprised of cash in RSD and in foreign currencies, i.e., cash held on the Bank's gyro and current accounts, cash on hand and other cash in RSD and foreign currencies, gold and other precious metals and liquid surpluses deposited with the National Bank of Serbia.

For purposes of the cash flow statement, cash includes cash on hand in local and foreign currencies, balances on accounts held with other banks, as well as available funds held with the National Bank of Serbia,

3.9. Managed Funds

The funds that the Bank manages on behalf of and for the account of third parties for fees are disclosed within off-balance sheet items.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.10. Taxes and Contributions

Current Income Taxes

Income tax is recognized and calculated in accordance with IAS 12 – “Income Taxes“ and the effective Law on Corporate Income Tax.

Income tax represents the amount calculated by applying the statutory income tax rate of 15% to the profit before taxes, after deducting the effects of permanent differences that adjust the prescribed tax rate to the effective tax rate.

The final amount of income tax liability is calculated by applying the prescribed tax rate to the taxable income determined in the tax statement and reported in the annual tax return.

Deferred Taxes

Deferred taxes are provided for using the balance sheet liability method on all temporary differences at the reporting date between the taxation-purpose amounts of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rate enacted at the reporting date is used to determine the deferred tax amount.

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or portion of the deferred tax assets to be utilized.

Indirect Taxes and Contributions

Indirect taxes and contributions include property tax, value added tax, payroll taxes and contributions charged to the employer, as well as other taxes and contributions payable in accordance with the tax regulations of the Republic of Serbia and local municipal tax regulations.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.10. Taxes and Contributions (Continued)

Deferred Taxes (Continued)

Transfer Prices

The Bank's tax statement for 2023 was not submitted to the Tax Administration until the preparation date of the Bank's Separate financial statements given that the tax return is submitted to the tax authorities within 180 days after expiry date of the financial year, i.e., until June 29 of the following year. The Bank has calculated tax effects based on the Corporate Income Tax Law of the Republic of Serbia but has not yet prepared the final report (study) of the transfer prices. However, the Bank's management believes that there will be no material effects on its financial statements for 2023 in this respect since so far there had been no adjustments in respect of the related party transactions and in 2023 the Bank had no significant changes in types of services exchanged with its related parties in comparison with the previous year.

3.11. Equity and Reserves

Equity represents the Bank's assets in excess of all its liabilities. Equity is not assessed and measured separately. Equity consists of the Bank's issued (share) capital, reserves and retained earnings. The Bank is required to maintain at all times its regulatory capital in the amount sufficient to cover all the risks that may arise in the course of the Bank's business (capital requirements), as explained in greater detail in Note 30.2.

3.12. Employee Benefits

The Bank does not have its own pension funds or share-based payment options and consequently had no liabilities recognized in this respect as of 31 December 2023.

As of 31 December 2023, the Bank made provisions for retirement benefits and unused annual leaves based on the assessment carried out by a certified actuary.

Provisions were made based of the following assumptions:

Average salary for September 2023 paid in Republic of Serbia)	117,472.00 RSD
Discount rate	6.50%
Salary growth rate	11.00%
Employee turnover rate	7.00%

Short-Term Employee Benefits – Taxes and Contributions for Social Security

Pursuant to the regulations effective in the Republic of Serbia, the Bank has an obligation to pay personal income tax contributions to various state social security funds. This obligation involves the payment of the tax and contributions on behalf of the employee, by the employer, in amounts calculated by applying the specific, legally prescribed rates. The Bank is also legally obligated to withhold the tax amount and contributions from gross salaries to employees, and to transfer the withheld portions on their behalf directly to the appropriate government funds. These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

Short-Term Compensated Absences

Accumulating compensated absences (annual vacation leaves) may be carried forward and used in future periods if the current period's entitlement is not used in full. Expenses for compensated absences are recognized at the amount the Bank expects to pay as a result of the unused entitlement that has accumulated at the reporting date. In the case of non-accumulating compensated absences, an obligation or expense is recognized when the absences occur.

3.13. Going Concern

During 2023, the Bank realized a profit in the amount of RSD 2,128,591 thousand (2022: profit in the amount of RSD 1,284,521 thousand). The Bank achieved significant business results in the previous period, so the Bank's management expects stable revenues in the forthcoming period, as well as that the increase in costs will be less than the increase in revenues. In accordance with all the foregoing, the Bank's financial statements have been prepared on a going concern basis, assuming that the Bank will continue to operate in the foreseeable future.

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.13. Going Concern (Continued)

3.13.1. The impact of the Russia-Ukraine conflict on HALKBANK a.d. Belgrade

From the very beginning of war conflicts, i.e. from the beginning of military operations on February 24, 2022, throughout 2022 and 2023 until today, the entire European and world economy and society globally are and still are under the influence of these circumstances. In order to preserve stability, the Bank monitors and assesses posible impacts in all business segments. Our assumption that the conflict will not territorially go beyond the borders of the countries where it is currently taking place, as well as that there was no impact on the Bank's operations, continues to be confirmed.

The Bank is closely monitoring the situation regarding sanctions and restrictions imposed by the EU countries, the United States and the United Kingdom, particularly restrictions on Russian banks, their branches and related parties, in order to minimize the possible risk, all in cooperation and with enhanced communication with the Association of Serbian Banks and the NBS.

The risk of individual payment transactions to Russia and Belarus is reduced to a minimum, i.e. clients sign a statement before the transaction, releasing the Bank from any responsibility related to stopping the transaction or freezing the funds. In addition, before the start of the implementation of the transaction with the correspondent banks, it is checked whether there are any restrictions related to the participants in the transaction.

As for the direct impact on the Bank's liquidity and liquidity indicators, no negative effects have been recorded and we do not expect them in the future.

As the diversification of the Bank's portfolio is good and as no clients have been identified whose structure of liabilities and receivables is highly dependent on Ukraine and/or Russia, i.e. clients who in their business have a high dependency on goods or services from the markets of countries affected by the conflict, there have been no material negative effects arising from credit risk, the Bank's assessment is that they are not expected in the future either. Regarding the impact of negative trends in certain activities and prices of goods, it is possible to expect negative impacts in the case of clients engaged in energy trade, international transport and export of agricultural products. The Bank closely monitors the operations of clients from the aforementioned groups, as well as the measures and decisions taken by the Government of the Republic of Serbia, the Ministry of Economy, the Chamber of Commerce and the NBS, in order to preserve the stability of the system and the operations of companies, which we are sure will not be absent.

With regard to Serbia, the planned GDP growth rate in 2023 is 2.5%. The forecast of the Ministry of Finance predicts that next year the real GDP growth rate will be 3.5%, while in 2025 a recovery and an increased GDP growth rate are expected.

In relation to the growth rate of consumer prices in 2022, which amounted to 15.1% in 2023, there was a significant reduction in the growth rate of prices, and in 2023, the inflation rate is 7.6%. Inflation rates were significantly reduced in the USA and EU, which proves that the restrictive measures of central banks have produced significant results.

It can be said that a period of stability has begun and further reductions in inflation rates and interest rates are expected in the future.

Due to all of the above, it can be said that the risk of a negative impact on the operations of the Bank and clients is significantly reduced

3. SUMMARY OF MATERIAL ACCOUNTING POLICIES (Continued)

3.14. Leases

As from 1 January 2019, the Bank applies International Financial Reporting Standard 16 (IFRS 16) for the coverage of leasing contracts.

A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

For each lease contract, the Bank assesses whether the contract contains elements of a lease. The Bank assesses whether the contract identifies the asset and whether the Bank has the right to control the use of identifiable assets for a specified period of time.

Incremental borrowing rate is the rate of interest that the Bank (a lessee) would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The Bank does not apply the requirements of IFRS 16:

-to the lease contracts with terms shorter than 12 months and those not containing the purchase option, and/or
-lease contracts with low-value assets (RSD equivalent of USD 5,000 or less).

3.15 Repossessed Assets

Under assets acquired through collection of receivables, the Bank presents tangible assets received in lieu of debt collection (collection of receivables) until the moment of their sale or use for the Bank's own needs.

Repossessed property is recognized after the acquisition at the lower of their estimated market value and the cost of acquisition. Until the moment of sale or change of purpose of the repossessed property, the Bank provides once a year a revaluation of each individual repossessed property and if the revalued amount is lower than the carrying value, it performs impairment in accordance with IAS 2.

3.16 Financial Guarantees

In the ordinary course of business, the Bank issues 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 client fails to settle its liabilities in due time as required under the terms of the contract.

Financial guarantees are initially recognized in the financial statements at fair value as at the date the guarantee is issued. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amortized 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 recognized in the income statement. The premium received is recognized in the income statement within the fee and commission income on a straight-line basis over the life of the guarantee.

Financial guarantees are presented under contingent liabilities, within the Bank's off-balance sheet items (Note 28).

4. INTEREST INCOME AND EXPENSES

a) INTEREST INCOME

Interest income includes:

	In RSD thousand For the year ended 31 December 2023	2022
RSD loans measured at AC, to:		
Banks	258,873	1,598
Public companies	32,521	8,813
Corporate customers	2,682,787	1,388,505
Entrepreneurs	294,137	192,507
Public sector	40,496	31,188
Individuals	1,678,283	1,144,454
Other customers	183,324	139,030
	5,170,421	**2,906,095**
Foreign currency loans measured at AC, to:		
Corporate customers	60,608	26,372
Entrepreneurs	3	1
Public sector	-	1,469
Individuals	103	71
Other customers	472,626	326,296
	533,340	**354,209**
RSD deposits measured at AC, to:		
Banks	143,611	87,984
	143,611	**87,984**
FX deposits measured at AC, to:		
Banks	4,666	1,478
Other customers	12,368	286
	17,034	**1,764**
Securities measured at FVTOCI:		
In RSD	523,594	495,877
	523,594	**495,877**
Other placements measured at AC:		
In RSD	-	-
In foreign currencies	-	341
	-	**341**
TOTAL:	**6,388,000**	**3,846,270**

Total interest income recognised on impaired loans for the year ended 31 December 2023 amounted to RSD 23,389 thousand (2022: RSD 34,372 thousand).

4. INTEREST INCOME AND EXPENSES (Continued)

b) INTEREST EXPENSES

	In RSD thousand For the year ended 31 December 2023	2022
RSD borrowings measured at AC, due to:		
Banks	656	609
Corporate customers	12	-
	668	**609**
Foreign currency borrowings measured at AC, due to		
Public sector	173,781	37,396
Banks	26,576	24,681
Other customers	18,730	14,122
	219,087	**76,199**
RSD deposits measured at AC, due to		
Banks	125,191	89,462
Public companies	90,090	52,742
Corporate customers	384,548	148,106
Entrepreneurs	7,085	1,469
Public sector	41,946	19,930
Individuals	169,645	116,808
Other customers	41,180	28,926
	859,685	**457,443**
Foreign currency deposits measured AC, due to		
Banks	96,963	96,109
Public companies	11,046	-
Corporate customers	105,375	60,532
Entrepreneurs	430	154
Public sector	-	4,297
Individuals	404,289	165,324
Other customers	15,195	7,357
	633,298	**333,773**
Interest expense on other liabilities measured at amortized cost:		
In RSD	1,309	6,555
In foreign currency	18,394	12,906
	19,703	**19,461**
TOTAL:	**1,732,441**	**887,485**

Interest expenses that relate to the lease of business premises for the year ended 31 December 2023 amounted to RSD 18,648 thousand (2022: RSD 13,185 thousand), while interest expenses on vehicle leasing for the year ended 31 December 2023 amounted to RSD 1,056 thousand (2022: RSD 1,215 thousand).

5. FEE AND COMMISSION INCOME AND EXPENSES

a) FEE AND COMMISSION INCOME

	2023	In RSD thousand For the year ended 31 December 2022
Fee and commission income in RSD:		
Banks and other financial institutions	200,316	97,307
Public companies	13,172	10,080
Corporate customers	1,452,047	1,224,921
Entrepreneurs	358,687	300,937
Public sector	1,901	2,632
Individuals	367,944	344,831
Non-residents	15,965	12,472
Other customers	57,700	32,272
TOTAL	**2,467,732**	**2,025,452**
Fee and commission income in foreign currencies		
Banks and other financial institutions	81,075	68,270
Western Union	216	238
MasterCard / VISA	66,972	46,615
Individuals	5,827	5,469
Corporate customers	7	10
Non-residents	935	1,332
	155,032	**121,934**
TOTAL:	**2,622,764**	**2,147,386**

b) FEE AND COMMISSION EXPENSES

	2023	In RSD thousand For the year ended 31 December 2022
Fee and commission expenses in RSD:		
Banks and other financial institutions	131,989	97,476
Corporate customers	85,475	74,092
Entrepreneurs	217	31
Public sector	750	596
Other customers	29,588	22,756
	248,019	**194,951**
Fee and commission expenses in foreign currencies:		
Banks and other financial institutions	99,998	98,636
Public sector	-	17
Entrepreneurs	-	-
Non-residents	394,763	278,319
	494,761	**376,972**
TOTAL:	**742,780**	**571,923**

6. NET GAINS/(LOSSES) FROM CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

	In RSD thousand For the year ended 31 December 2023	2022
Gains/(Losses) from the changes in the fair value of financial assets measured at FVTPL	1,215	(792)
Gains/(Losses) from the changes in the fair value of financial liabilities measured at FVTPL	(592)	1,156
Gains/(Losses) from the changes in the fair value of other derivatives	(4,984)	9,278
TOTAL:	**(4,361)**	**9,642**

7. NET GAINS/(LOSSES) ON DERECOGNITION OF THE FINANCIAL ASSETS MEASURED AT FAIR VALUE

	In RSD thousand For the year ended 31 December 2023	2022
Gains from derecognition of financial assets measured at FVTOCI	-	-
Losses from derecognition of financial assets measured at fair value through profit or loss	-	(80)
TOTAL:	**-**	**(80)**

8. NET FOREIGN EXCHANGE GAINS AND POSITIVE CURRENCY CLAUSE EFFECTS

	In RSD thousand For the year ended 31 December 2023	2022
Foreign exchange gains	1,801,624	2,610,715
Positive currency clause effects	152,548	169,717
TOTAL:	**1,954,172**	**2,780,432**
Foreign exchange losses	(1,730,483)	(2,536,859)
Negative currency clause effects	(200,754)	(241,336)
TOTAL:	**(1,931,237)**	**(2,778,195)**
Net foreign exchange gains:	**22,935**	**2,237**

The share of foreign currency items in the total Bank's balance sheet assets was 15.05% (2022: 50.24%), while the share of foreign currency items in the total balance sheet liabilities was 52.77% (2022: 56.91%).

9. NET LOSSES ON IMPAIRMENT OF FINANCIAL ASSETS AND CREDIT RISK-WEIGHTED OFF-BALANCE ITEMS

a) Credited/(Charged) to the Profit or Loss

	In RSD thousand For the year ended 31 December 2023	2022
Impairment allowance of financial assets measured at AC	(706,258)	(566,281)
Reversal of impairment allowance of financial assets measured at AC (Note 9b)	271,416	293,810
Net losses	**(434,842)**	**(272,471)**
Provisions for off-balance sheet items (Note 25a)	(8,963)	(2,138)
Reversal of provisions for off-balance sheet items (Note 25a)	2,080	40,822
Net gains/(losses)	**(6,883)**	**38,684**
Impairment allowance of financial assets measured at FVTOCI	(4,897)	(7,031)
Reversal of impairment allowance of financial assets measured at FVTOCI	2,066	4,686
Net losses	**(2,831)**	**(2,345)**
Write-off of irrecoverable receivables	(3,141)	(1,447)
Recovery of receivables previously written off	66,443	71,319
Net gains	**63,302**	**69,872**
Gains on the modification of financial instruments	8,979	13,255
Losses on the modification of financial instruments	(149,492)	(1,386)
Net gains/(losses)	**(140,513)**	**11,869**
TOTAL:	**(521,767)**	**(154,391)**

For the year ended 31 December 2023, the Bank recognized interest income on impaired loans using the effective interest rate on the amortized cost of loans, i.e., their net values along with adjustment of the income recorded in the income statement and with the calculated impairment allowance of receivables in this respect, and recorded losses on impairment of financial assets measured at amortized cost within the line item of the net gains/losses from impairment of financial assets not measured at fair value through profit or loss.

The impairment allowance made in this respect was recorded in the amount of RSD 23,389 thousand (2022: RSD 34,372 thousand).

Due to the foregoing, losses on impairment assets recorded in the income statement (Note 9a) exceeded by the same amount losses on impairment presented in the table of movements on impairment allowance accounts (Note 9b).

Also, the impairment allowance of of the placement in the income statement (Note 9a) are higher by the amount of RSD 19,531 thousand compared to the amount of expenses stated in the table of movements on impairment allowance accounts (Note 9b) as a result of impairment of other non-financial assets that are not stated in Note 9b.

Total impairment allowance of other assets presented in Note 22 totalling RSD 91,850 thousand (2022: 60,680 thousand) includes impairment allowance of both financial and non-financial other assets, while in Note 9b) only impairment allowance of other financial assets in the amount of RSD 67,087 thousand (2022: RSD 56,952 thousand).

The bank implemented the Decision on temporary measures related to retail residential loans and accordingly modified 1,806 loans. As of December 31, 2023, losses due to the modification of residential loans amount to RSD 146,158 thousand.

9. NET LOSSES ON IMPAIRMENT OF FINANCIAL ASSETS AND CREDIT RISK-WEIGHTED OFF-BALANCE ITEMS (Continued)

b) Movements on impairment allowance accounts

In RSD thousand - 2023

	Cash and balances with e central bank (Note 16)	Loans and placement s to banks (Note 19)	Loans and placements to customers (Note 20)	Financial assets at FVTOCI (Note 18)	Other financial assets (Note 22)	Total
Balance as of 1 January 2023	**2,498**	**2,072**	**763,634**	**-**	**56,952**	**825,156**
Impairment losses on balance sheet items	3,147	4,367	639,028	-	16,796	663,338
Reversal of impairment of balance sheet items (Note 9a)	(2,852)	(4,080)	(260,186)	-	(4,298)	(271,416)
Foreign exchange effects	-	-	(75)	-	-	(75)
Impairment allowance translation due to currency clause	-	-	(519)	-	-	(519)
Assignment of receivables	-	-	-	-	-	-
Accounting write-off, aligned with NBS	-	-	(33,981)	-	(2,363)	(36,344)
Definite write-off	-	-	(1,210)	-	-	(1,210)
Other	-	-	(354)	-	-	(354)
Balance as of 31 December 2023	**2,793**	**2,359**	**1,106,337**	**-**	**67,087**	**1,178,576**

9. NET LOSSES ON IMPAIRMENT OF FINANCIAL ASSETS AND CREDIT RISK-WEIGHTED OFF-BALANCE ITEMS (Continued)

b) Movements on impairment allowance accounts (Continued)

In RSD thousand - 2022

	Cash and balances with e central bank (Note 16)	Loans and placements to banks (Note 20)	Loans and placements to customers (Note 21)	Financial assets at FVTOCI (Note 18)	Other financial assets (Note 22)	Total
Balance as of 1 January 2022	**840**	**2,430**	**1,029,832**	**-**	**30,727**	**1,063,829**
Impairment losses on balance sheet items	1,686	6,855	489,135	-	34,233	531,909
Reversal of impairment of balance sheet items (Note 9a)	(28)	(7,213)	(284,272)	-	(2,297)	(293,810)
Foreign exchange effects	-	-	(30)	-	6	(24)
Impairment allowance translation due to currency clause	-	-	(1,706)	-	-	(1,706)
Assignment of receivables	-	-	(60,332)	-	(3,044)	(63,376)
Accounting write-off, aligned with NBS	-	-	(408,767)	-	(2,157)	(410,924)
Definite write-off	-	-	(261)	-	(516)	(777)
Other	-	-	35	-	-	35
Balance as of 31 December 2022	**2,498**	**2,072**	**763,634**	**-**	**56,952**	**825,156**

10. NET GAINS ON DERECOGNITION OF FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

		In RSD thousand For the year ended 31 December
	2023	**2022**
Net gains/(losses) on recognition of financial instruments measured at amortised cost	-	1,159
TOTAL:	**-**	**1,159**

11. NET PROFIT BASED ON DISRECOGNITION OF INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

		U hiljadama dinara Za godinu koja se završava 31. decembra
	2023.	**2022.**
Net gain on derecognition of investments in associates and joint ventures	1,375	-
TOTAL:	**1,375**	**-**

12. OTHER OPERATING INCOME

		In RSD thousand For the year ended 31 December
	2023	**2022**
Other income from operations	15,051	11,185
Dividend income and profit sharing	1,474	519
TOTAL:	**16,525**	**11,704**

13. SALARIES, COMPENSATIONS AND OTHER PERSONNEL EXPENSES

		In RSD thousand For the year ended 31 December
	2023	**2022**
Salaries and compensations	1,002,239	807,112
Taxes on salaries and salary compensations	121,086	98,276
Contributions on salaries and salary compensation	460,800	376,436
Other personal expenses	15,177	13,959
Provisions for retirement and other employee benefits (Note 25b)	247,826	182,144
Considerations payable to temporary and seasonal staff members	1,886	686
TOTAL:	**1,849,014**	**1,478,613**

Within the line item of salaries and salary compensations, the amount of RSD 50,033 thousand (2022: RSD 49,416 thousand) relates to the remunerations to the Executive Board members remunerations, while the Board of Directors members' remunerations are presented within the line item of other personal expenses in the amount RSD 11,777 thousand (2022: 11,655 thousand).

14. OTHER INCOME AND EXPENSES

	In RSD thousand For the year ended 31 December 2023	2022
Gains on the sale of property, plant, equipment and intangible assets	7,836	9,161
Surpluses	613	1,100
Other income	53,027	43,849
Income from the reversal of unused provisions for liabilities	22,585	9,044
TOTAL:	**84,061**	**63,154**
Operating expenses		
Cost of materials	110,456	100,903
Costs of production services	390,311	327,023
Non-material expenses	680,379	589,175
Taxes payable	15,560	14,122
Contributions payable	1,009	1,066
Other expenses	1,909	1,572
Provisions for liabilities	55,394	6,965
	1,255,018	**1,040,826**
Other expenses		
Losses on the retirement and disposal of property, equipment and intangible assets	344	102
Other expenses	21,467	7,954
Losses on the change in value of fixed assets, investment property and intangible assets	-	4,802
Deficiencies and damages	94	120
	21,905	**12,978**
TOTAL:	**1,276,923**	**1,053,804**

Within the line item non-material expenses, the most significant amount relates to paid insurance premiums of RSD 298,417 thousand (2022: RSD 262,269 thousand), of which the largest portion is the insurance premium paid for retail deposits in the amount of RSD 220,652 thousand (2022: 196,112 thousand) and insurance premium paid for cash loans for pensioners in the amount of RSD 47,729 thousand (2022: RSD 42,048 thousand). In addition, non-material expenses relate to the costs of securing facilities and transporting money in the amount of RSD 70,989 thousand (2022: RSD 56,313 thousand), costs of renting software in the amount of RSD 47,402 thousand (2022: RSD 48,903 thousand).

Within the line item of costs of production services, the largest amount relates to rental costs of RSD 101,579 thousand (2022: RSD 85,820 thousand).

The expenses of real estate lease covered by IFRS 16 amount to RSD 81,549 thousand, of which the largest part is value added tax for all real estate leased from legal entities, personal income tax for individuals, as well as service costs of the Central Bank lease.

Vehicle rental costs covered by IFRS 16 relate to value added tax borne by the lessee (bank) and amount to RSD 9,374 thousand.

The costs of property leases, which due to their low value are not covered by the IFRS 16 standard, amounted to RSD 11,198 thousand in 2023 (real estate RSD 543 thousand and ATMs RSD 10,655 thousand). ATM lease agreements do not meet the requirements for posting under IFRS 16, due to the low value of the contract and the indefinite validity period.

15. INCOME TAXES

a) Components of income tax are as follows:

In RSD thousand	2023	2022
Current tax expense for the period	(251,109)	(131,142)
Increase in deferred tax assets and decrease in deferred tax liabilities	2,326	2,748
Total	**(248,783)**	**(128,394)**

b) Income tax reconciliation with prescribed tax rates

	In RSD thousand For the year ended 31 December 2023	2022
Profit before taxes	2,377,374	1,412,915
Income tax at the statutory rate of 15%	356,607	211,937
Tax effects of expenses not recognized for tax purposes and other expense adjustments	22,160	329
Tax effects of income from debt securities and other income adjustments	(127,658)	(80,678)
Other	-	(446)
Utilization of tax loss carry forwards	-	-
Income tax stated in the tax statement	251,109	131,142
Effective tax rate	10,56%	9.28%
Profit arising from deferred taxes	(2,326)	(2,748)
Total tax expense of the period	**248,783**	**128,394**
Effective tax rate	**10,46%**	**9.09%**

15. INCOME TAXES (Continued)

c) Components of deferred tax assets and liabilities

The Bank recognized deferred tax assets in accordance with its projected results as per the adopted five-year business strategy. Given that as of 31 December 2023, there were changes in the amount of deferred tax assets compared to the 2022 year-end, The Bank recorded an increase in deferred tax assets compared to the previous year, in the amount of RSD 2,326 thousand.

Deferred tax assets and liabilities relate to:

	2023			2022		
In RSD thousand	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Deferred tax assets per temporary differences on property, plant and equipment	45,688	-	45,688	46,173	-	46,173
Deferred tax assets per tax losses carried forward	-	-	-	-	-	-
Deferred tax assets per securities	7,664	-	7,664	7,616	-	7,616
Deferred tax assets per litigation provisions	11,851	-	11,851	9,553	-	9,553
Deferred tax assets per provisions for employee retirement benefits	3,064		3,064	2,599		2,599
Deferred tax liabilities per changes in the value of property, plant and equipment	-	(14,858)	(14,858)	-	(14,858)	(14,858)
Deferred tax liabilities arising from actuarial losses	-	(1,053)	(1,053)	-	(697)	(697)
Deferred tax assets per impairment of assets	720		720	720		720
Total	**68,987**	**(15,911)**	**53,076**	**66,661**	**(15,555)**	**51,106**

Movements of temporary differences during 2023 are shown in the following table:

In RSD thousand	Balance as of 1 January	Reported in the income statement	Reported in other comprehensive income	Balance as of 31 December
Deferred tax assets per temporary differences on property, plant and equipment	46,173	(485)	-	45,688
Deferred tax assets per tax losses carried forward	-	-	-	-
Deferred tax assets per securities	7,616	48	-	7,664
Deferred tax assets per litigation provisions	9,553	2,298	-	11,851
Deferred tax assets per provisions for employee retirement benefits	2,599	465		3,064
Deferred tax liabilities per changes in the value of property, plant and equipment	(14,858)	-	-	(14,858)
Deferred tax liabilities arising from actuarial losses	(697)	-	(356)	(1,053)
Deferred tax assets per impairment of assets	720	-	-	720
Total	**51,106**	**2,326**	**(356)**	**53,076**

16. CASH AND BALANCES HELD WITH THE CENTRAL BANK

In RSD thousand

	31 December 2023	31 December 2022
Gyro account balance	7,747,321	4,050,776
Cash in hand in RSD	1,075,190	1,190,581
Liquidity surpluses	1,200,000	10,000,000
Cash in hand in foreign currencies	1,097,755	1,359,795
Mandatory foreign currency reserve held with NBS	5,611,468	5,128,687
Other cash and cash equivalents	652	710
Less: Impairment allowance of the cash and balances held with the central bank	(2,793)	(2,498)
Balance as of	**16,729,593**	**21,728,051**

Mandatory RSD reserve represents the minimum average balance of RSD funds that the Bank has to allocate to its gyro account in accordance with the National Bank of Serbia's Decision on Banks' Required Reserves with the National Bank of Serbia (Official Gazette of the Republic of Serbia nos. 76/2018 and 77/2023).

In accordance with Article 6 of this Decision, the Bank is obliged to calculate and allocate the RSD mandatory reserve at the rate of 7% on the average daily balance of RSD deposits, borrowings and other liabilities with a maturity of up to two years, during one calendar month, while for deposits, borrowings and other liabilities with a maturity of over two years, the allocation rate is 2%. Mandatory reserve is calculated once a month. During the year 2023, the NBS calculated and paid interest on the amount of the realized average daily balance of the allocated dinar mandatory reserve in the calculation period, which does not exceed the amount of the calculated RSD mandatory reserve, at the interest rate from January 1, 2023 until the end of 2023. kept at the level of 0.75% on an annual basis. Exceptionally, in order to mitigate the economic consequences caused by the COVID-19 pandemic, the NBS pays and calculates additional interest at an interest rate of 0.50% on a part of these funds, if the prescribed conditions are met.

As of 31 December 2023, the mandatory RSD reserve was calculated in the amount of RSD 7,365,492 thousand (2022: RSD 4,819,138 thousand). The stated amount is included within the gyro account balance line item.

The portion of the calculated foreign currency mandatory reserve allocated in dinars amounts to 46% and relates to deposits, borrowings and other liabilities with contractual maturity of up to two years and 38% relates to deposits, borrowings and other liabilities with contractual maturity of over two years, so that the total RSD mandatory reserve consists of the sum of the calculated RSD reserve in dinars and the stated part of the calculated foreign currency reserve.

The mandatory foreign currency reserve represents the minimum average balance of foreign currency assets which the Bank is obligated to allocate to its account held with NBS, in accordance with the Decision on Banks' Required Reserves with the National Bank of Serbia (Official Gazette of the Republic of Serbia nos. 76/2018 and 77/2023). The Bank is obliged to calculate and allocate the foreign currency reserve to the amount of the average daily balance of foreign currency deposits, borrowings and other liabilities during one calendar month at a rate of 23% for those with contractual maturity of up to two years, 16% for those with contractual maturity of over two years and 100% for the average balance of the foreign currency clause-indexed RSD liabilities. NBS does not pay any interest on the mandatory foreign currency reserve funds on the Bank's account held with NBS.

The line item "reserve requirement with the NBS in foreign currency" represents the current balance on the foreign currency account with the NBS where the required reserve is allocated. The obligation of the Bank is that the average monthly balance of allocated funds be at the level of calculated required reserves in foreign currency. As this account is used for other purposes, individual days have a different balance. The table shows the balance on that account as of 31 December 2023.

As of 31 December 2023, the Bank's mandatory foreign currency reserve amounted to RSD 5,523,781 thousand (2022: RSD 5,283,431 thousand).

The Bank's mandatory foreign currency reserve was comprised of 54% of the foreign currency reserve calculated per the Bank's liabilities with maturities of up to two years and 62% of the foreign currency reserve calculated per the Bank's liabilities with maturities of over two years.

16. CASH AND BALANCES HELD WITH THE CENTRAL BANK (Continued)

For the purposes of preparation of the cash flow statement, the Bank includes in the cash and cash equivalents cash funds held on the gyro account, cash in hand in both RSD and foreign currencies, and cash funds on the accounts held with foreign banks. The item of cash and balances held with the central bank was reconciled with the items of the statement of cash flows at the end of the reporting period as follows:

In RSD thousand

	31 December 2023	31 December 2022
Cash and balances held with the central bank	16,729,593	21,728,051
Mandatory foreign currency reserve held with NBS	(5,611,468)	(5,128,687)
Foreign currency accounts held with foreign banks	2,598,249	2,136,010
Liquidity surpluses	(1,200,000)	(10,000,000)
Receivables for accrued interest, fees and commissions related to the cash and balances held with the central bank	-	-
Impairment allowance of the cash and balances held with the central bank	2,793	2,498
Balance as of	**12,519,167**	**8,737,872**

17. RECEIVABLES/(PAYABLES) UNDER DERIVATIVE FINANCIAL INSTRUMENTS

In RSD thousand

	31 December 2023	31 December 2022
Receivables from financial derivatives	5,195	11,752
Liabilities under derivative financial instruments	-	(1,573)
Balance as of	**5,195**	**10,179**

The reported receivables in the amount of RSD 5,195 thousand relate to the positive effects of adjusting the value of a currency swap in RSD with the National Bank of Serbia to its fair value (RSD 2,935,488,000).

18. SECURITIES

In RSD thousand

	31 December 2023	31 December 2022
a) Securities measured at FVTPL		
Corporate shares	14,737	13,522
	14,737	**13,522**
b) Securities measured at FVTOCI		
Bonds issued by the Republic of Serbia in RSD	13,698,377	12,071,087
	13,698,377	**12,071,087**
Balance as of	**13,713,114**	**12,084,609**

18. SECURITIES (Continued)

In 2023, a net negative effect in the amount of RSD 771,457 thousand was realized based on changes in the value of securities that are measured at fair value through other comprehensive income (the statement of other comprehensive income shows the positive effect of changes in the value of debt instruments in the amount of RSD 773,523 thousand, while the negative effect amounted to RSD 2,066 thousand). The statement of changes in equity also presents the negative effects of changes in the value of debt instruments that are measured at fair value through other comprehensive income within revaluation reserves in the amount of RSD 771,457 thousand.

In 2022, a net negative effect in the amount of RSD 1,648,356 thousand was realized based on changes in the value of securities that are measured at fair value through other comprehensive income (the statement of other comprehensive income shows the negative effect of changes in the value of debt instruments in the amount of RSD 1,961,651 thousand, while the positive effect amounted to RSD 313,295 thousand). The statement of changes in equity also presents the negative effects of changes in the value of debt instruments that are measured at fair value through other results within revaluation reserves in the amount of RSD 1,648,356 thousand.

As of 31 December 2023, the securities and investments traded by the Bank in the Belgrade Stock Exchange comprised corporate shares.

The rates of return on the government securities in RSD purchased during 2023 ranged from 2.50% to 6.35%.

19. LOANS AND PLACEMENTS TO BANKS AND OTHER FINANCIAL INSTITUTIONS

		In RSD thousand
	31 December 2023	**31 December 2022**
Loans per repo transactions in RSD	8,006,154	-
Foreign currency accounts	2,598,249	2,136,010
Loans in RSD	334,185	32,612
Placements that are approved and mature within one day	1,054,563	-
Other investments:		
- In RSD	585,900	1,056,060
- In foreign currencies	370,501	747,970
Deposits:		
- In RSD	-	-
- In foreign currencies	975,934	96,198
Receivables for accrued interest on loans, deposits and other investments:		
- In RSD	1,479	122
- In foreign currencies	-	-
Deferred income from receivables carried at amortized cost using the effective interest rate	(257)	(45)
Gross loans and placements to banks and other financial institutions	**13,926,708**	**4,068,927**
Less: Impairment allowance (Note 9b)	(2,359)	(2,072)
Balance as of	**13,924,349**	**4,066,855**

Foreign currency assets with the Central Securities Depository and foreign currency assets on transaction accounts held with domestic and foreign banks as of 31 December 2023 amounted to RSD 2,598,249 thousand (2022: RSD 2,136,010 thousand) and are presented within the line item of foreign currency accounts.

The bank has approved Commerzbank AG, Frankfurt placement, which matures within one day, in the total amount of RSD 1,054,563 thousand.

The largest amount within the position Deposits in foreign currency refers to the deposit placed by Commerzbank AG, Frankfurt in the amount of RSD 878,740 thousand.

19. LOANS AND PLACEMENTS TO BANKS AND OTHER FINANCIAL INSTITUTIONS (Continued)

The item of other investments in foreign currencies mostly relates to receivables for contracted purchase and sale of foreign currency monetary assets:

- from domestic banks – National Bank of Serbia in the amount of RSD 585,900 thousand, Unicredit Bank Srbija a.d. Belgrade in the amount of RSD 117,174 thousand, Banka Intesa a.d. Belgrade in the amount of RSD 117,174 thousand, OTP bank a.d Novi Sad in the amount of RSD 117,174 thousand, NLB Komercijalna banka a.d. Belgrade in the amount of RSD 11 thousand (2022: National Bank of Serbia - in the amount of RSD 1,056,060 thousand, Unicredit Bank Srbija a.d. Belgrade in the amount of RSD 586,612 thousand, Banka Intesa a.d. Belgrade in the amount of RSD 117,322 thousand),
- From foreign banks – Commerzbank AG in the amount of RSD 18,968 thousand (2022: Turkiye Halkbankasi AS in the amount of RSD 44,023 thousand).

20. LOANS AND PLACEMENTS TO CUSTOMERS

In RSD thousand

	31 December 2023	31 December 2022
Loans in RSD and loans indexed to EUR	72,024,352	64,417,629
Loans and placements in foreign currencies	6,868,996	7,225,730
Other placements in RSD	96,410	11,729
Other dedicated deposits	500	-
Receivables for accrued interest on loans, deposits and other placements:		
- in RSD	351,526	227,472
- in foreign currency	1,375	595
Accrued receivables for interest on loans, deposits and other investments in RSD		
- in RSD	188,838	191,807
- in foreign currency	70,707	56,721
Receivables for fee and commission income, deposits and other placements	265	354
Deferred income for receivables carried at amortized cost using the effective interest rate		
- in RSD	(153,303)	(152,831)
- in foreign currency	(18,894)	(21,699)
Gross loans and placements to customers	**79,430,772**	**71,957,507**
Less: Impairment allowance (Note 9b)	(1,106,337)	(763,634)
Balance as of	**78,324,435**	**71,193,873**

Short-term loans were placed to corporate customers, entrepreneurs and agribusiness clients for the improvement of production, trade of goods, provision of services, import, export, maintenance of current liquidity and other purposes. Short-term loans were approved with repayment periods of up to 12 months, in RSD, f/x loans and in foreign currencies.

Loans from the Bank's potential in dinars were approved during 2023 with interest rates on an annual level ranging from 6m BELIBOR + from 0.75% p.a to 9.00% p.a with a variable interest rate and from 3.35% to 15.9% with a fixed interest rate. Short-term RSD loans with an agreed currency clause are approved at annual interest rates ranging from 6m EURIBOR + 2.15% to 9.00%, and long-term loans in dinars with an agreed currency clause and loans in foreign currency are approved at annual interest rates. in the range of 6m EURIBOR + from 2.45% to 9.00%. Loans in foreign currency are approved with annual interest rates in the range of 6m EURIBOR + from 2.75% to 9.00%.

20. LOANS AND PLACEMENTS TO CUSTOMERS (Continued)

The largest part of long-term loans placed during 2023 related to:

- loans extended in the amount EUR 338 million in Corporate, SME and agribusiness segments, through loans granted from the Bank's resources, as well as certain programs and actions. The focus was on loans granted from the Bank's resources, and credit lines in cooperation with the SEF foundation, Micro credits campaign, FRK campaigns of investment loans in cooperation with the National Bank of Serbia, as well as placements in the agribusiness customers.

- In 2023, the Bank was also selected on a public invitation from the Ministry of Economy of the Republic of Serbia for the participation of commercial banks and leasing companies in the implementation of the Program to support small businesses for the purchase of equipment. This year, 8 banks and 3 leasing companies are participating in the Program. The regulation foresees the amount of grants of EUR 11.9 million. Bearing in mind the above, the total potential for investment financing amounts to at least EUR 47.6 million, of which the credit potential is 70% of that amount, or EUR 33.3 million.

- The bank signed an agreement with the Ministry of Agriculture regarding subsidized loans for working capital and agricultural equipment. This is the sixth year of the Bank's participation in the program, through which significant results were achieved through marketing to the segment of Agro clients. In addition, the Bank, in cooperation with the Ministry of Agriculture, Forestry and Water Management, started implementing the Project for Competitive Agriculture financed by the World Bank, for the allocation of grants in agriculture. The target group is commercial and market-oriented agricultural farms that do not meet the conditions for using funds from the European Union funds.

- The bank received the approval of the NBS and is preparing to introduce the loan product "Project Financing" into its offer for the business client segment. Project financing is considered the financing of legal entities for special purposes (so-called SPV) for the purpose of development, construction or refinancing of previous investments in development and construction, where the source of loan repayment is inflow based on the sale, lease and/or exploitation of the financed project.

  The expected positive effects on the Bank's operations in the event of the introduction of a new product into the Bank's offer are as follows:

  - offer in the corporate segment will become more competitive on the market,
  - diversification of the existing credit portfolio,
  - increasing the volume of housing placements,
  - increasing the bank's loan portfolio covered by solid collateral,
  - transformation from short-term to long-term exposures,
  - better risk control.

- The Bank signed an agreement with the Ministry of Agriculture regarding subsidized loans for working capital and agricultural equipment. This is the sixth year of the bank's participation in the program, through which significant results were achieved through marketing to the segment of agricultural clients. In addition, the bank, in cooperation with the Ministry of Agriculture, Forestry and Water Management, started the realization of the project for competitive agriculture financed by the World Bank, for the allocation of grants in agriculture. The target group is commercial and market-oriented farms that do not meet the conditions for using funds from the European Union.

Gross placements to corporate customers (including gross NPLs as of 31 December 2023), excluding interest, fees and accrued fees amount to RSD 56,738,390 thousand (2022: RSD 51,700,244 thousand) and are of the following structure:

In RSD thousand

Loan type	**31 December 2023**	**31 December 2022**	**% of change**
Loans from the Bank's resources	53,414,839	47,402,693	12.68%
Loans from credit lines obtained from the International Financial Institutions	3,323,551	4,297,551	(22.66%)
Balance as of	**56,738,390**	**51,700,244**	**9.74%**

20. LOANS AND PLACEMENTS TO CUSTOMERS (Continued)

As of 31 December 2023, the Bank's gross amount of loans and placements to retail customers without interest and fees yet including NPLs totalled RSD 22,250,727 thousand (2022: RSD 19,954,264 thousand) and are broken down as follows:

In RSD thousand

Loan Type	31 December 2023	31 December 2022	% of change
Cash loans	12.020.091	9.598.973	25,22%
Housing loans	9.209.163	9.285.051	-0,82%
Consumer loans – other purposes	141.639	208.005	-31,91%
Consumer loans – energy efficiency	126.447	179.828	-29,68%
Matured loan receivables	319.059	268.771	18,71%
Consumer loans – purchase of vehicles	97.878	129.889	-24,65%
Authorized current account overdrafts	168.463	149.856	12,42%
Unauthorized current account overdrafts	20.116	23.580	-14,69%
Receivables per credit cards	147.871	110.311	34,05%
Balance as of	**22.250.727**	**19.954.264**	**11,51%**

21. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY

a) Intangible assets

In RSD thousand

	Intangible assets under construction	Patents, licenses and software	Total
Cost			
Balance as of 1 January 2022	352,145	710,172	1,062,317
Additions	411,386	-	411,386
Transfer (from)/to	(137,677)	137,677	-
Disposal	-	(66,105)	(66,105)
Balance as of 31 December 2022	**625,854**	**781,744**	**1,407,598**
Accumulated amortisation			
Balance as of 1 January 2022	-	345,423	345,423
Charge for the year	-	112,110	112,110
Disposal	-	(66,105)	(66,105)
Balance as of 31 December 2022	**-**	**391,428**	**391,428**
Carrying value as of 31 December 2022	**625,854**	**390,316**	**1,016,170**
Cost			
Balance as of 1 January 2023	625,854	781,744	1,407,598
Additions	750,327	-	750,327
Transfer (from)/to	(62,494)	61,392	(1,102)
Disposal	-	(29,288)	(29,288)
Balance as of 31 December 2023	**1,313,687**	**813,848**	**2,127,535**
Accumulated amortisation			
Balance as of 1 January 2023	-	391,428	391,428
Charge for the year	-	145,589	145,589
Disposal	-	(29,288)	(29,288)
Balance as of 31 December 2023	**-**	**507,729**	**507,729**
Carrying value as of 31 December 2023	**1,313,687**	**306,119**	**1,619,806**

21. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

a) Intangible assets (Contined)

The Bank is in the process of introducing the new CORE system. The selection of vendors was carried out in 2020. During 2021, the Project Preparation and Analysis phases were completed. The phases that started in 2021 and are still ongoing are Technical Preparation and Environment Development, Migration and Testing. During 2023, the phases of financial, manual and technical reconciliation began. Full implementation of the new CORE system is expected in the first half of 2024.

The largest amount of increase in intangible assets in 2023 relates to the capitalisation of intangible assets in the new Bank's Core system:

- RSD 351,045 thousand for salaries of employees engaged on the new Core system
- RSD 305,269 thousand for payment to vendors in accordance with the Agreement on Implementation and Licensing of the new Bank's Core system.

In 2023, the Bank invested in the development of the Banksoft software infrastructure for managing payment cards, i.e. development and implementation of functionality on the bank's card system and on the POS application and system that enables control of manual input on the POS terminal when the POS terminal is integrated with the fiscal cash register in the amount of RSD 24,569 thousand, improvement and development of software for receiving and sending electronic invoices and sending individual and collective VAT records through the electronic invoice system (ePismonoša) in the amount of RSD 2,700 thousand, renewal of Microsoft Enrollment Enterprise software licenses in the amount of RSD 3,670 thousand, implementation of the Mastercard Apple Pay solution and Visa "in-app provisioning" functionality in the amount of RSD 4,184 thousand, implementation of DWH solution in the amount of RSD 4,241 thousand, development of DAF (Digital Authentication Framework) during the authorization of e-commerce transactions in the amount of RSD 2,405 thousand, upgrade of the IP telephone VoIP system of the Bank in the amount of RSD 4,922 thousand, implementation of contactless cards and accepting certification on Diebold Nixdorf ATMs in the amount of RSD 3,358 thousand, purchase and implementation of VMware server licenses in the amount of RSD 2,664 thousand, improvement of the functionality of the software for providing m-banking services, for the development and implementation of "in-app provisioning" functionality in the amount of RSD 2,456 thousand, implementation of a software solution and provision of services for secure delivery of PIN codes for payment cards via SMS in the amount of RSD 1,408 thousand, development of TAVV (Token Authentication Verification Value) functionality for e-commerce tokenized transactions in the amount of RSD 1,545 thousand, implementation of DeepLink functionality on the Bank's Instant Payment system in the amount of RSD 1,457 thousand, as well as other application software required for work in the Bank's system in the amount of RSD 1,814 thousand.

Pursuant to the decision on the adoption of the report on the completed annual inventory of assets and liabilities with the balance as of 31 December 2023, software and licenses were disposed of in the total amount of RSD 29,288 thousand, which were fully amortized.

b) Property

In RSD thousand

	31 December 2023	31 December 2022
Cost		
Balance as of 1 January	357,266	356,921
Additions	-	345
Revaluation	-	-
Removal from inventory	-	-
Sale / disposal	-	-
Balance as of 31 December	**357,266**	**357,266**
Accumulated depreciation		
Balance as of 1 January	160,664	151,151
Charge for the year	9,518	9,512
Revaluation	-	-
Removal from inventory	-	-
Sale / disposal	-	-
Balance as of 31 December	**170,182**	**160,663**
Balance as of	**187,084**	**196,603**

21. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

b) Property (Continued)

The Bank has satisfactory evidence of ownership of all assets in its possession, except for three buildings with the total carrying value of RSD 607 thousand as of 31 December 2023 (2022: RSD 637 thousand). The Bank has no encumbrances registered on the property.

In accordance with the Bank's Accounting Policy, the Bank used internally comparable data for the review of the market value of the property owned as of 30 November 2023.

If the Bank applied the cost model less depreciation when calculating the value of buildings owned by the Bank, the carrying value of buildings as of 31 December 2023 would amount to RSD 177,566 thousand (2022: RSD 187,090 thousand).

In accordance with the Bank's accounting policies, revaluation of buildings is performed every three years. The Bank engaged a certified appraiser to carry out the revaluation of all buildings owned by the Bank as of 30 November 2021. Upon valuation the comparative market method and income approach were used. In the appraisal report submitted to the Bank, the appraiser stated that the carrying amounts of buildings owned by the Bank did not depart significantly from their market values so that the total increase in their vale amounted to RSD 3,304 thousand. The effects of the revaluation performed were recognized in the amount of the certified appraiser’s assessment within equity.

The following table presents valuation techniques as well as significant non-determinable parameters used in estimating the fair value of buildings.

Valuation technique	Significant unobservable inputs	Relation between the key unobservable inputs and the fair value
Market Approach - is based on the method of comparable transactions, i.e., on the comparison of assets that are valued with other comparable assets subject to buying/selling in the market	Real estate prices in the local market are observed. Comparable real estate was found for the bank's buildings. Comparable market prices in Belgrade as of 31 December 2023 ranged from 1,600 to 4,600 EUR/m^2 in Belgrade, and in Cacak, Gornji Milanovac and Jagodina from 720 to 1,600 EUR/m^2, in Kraljevo from 650 to 1,200 EUR/m^2, in Krusevac from 1,200 to 1,900 EUR/m^2.	The assessed fair value would increase/(decrease) if the prices of comparable properties in the local real estate market increased/(decreased)

The property revaluation process

The property revaluation is performed once every three years based on the appraisal reports prepared by qualified independent appraisers hired by the Bank, while the Bank internally reviews and reassess the market values of the building properties on an annual basis. The most recent appraisal performed by independent appraisers was made in November 30, 2021.

The appraisal reports are prepared based on:

- the information obtained from the Bank on the current rent amounts, lease of similar properties, utility service prices, amounts of capital expenditures made by the Bank, etc.; such information is taken from the Bank’s systems for finance management, property and collateral management and is subject to the general controls within the control environment;
- the assumptions and models used by the appraisers for revaluation of the Bank’s property are usually market-bases, such as comparable prices, and depend on the professional estimates and judgments made by the appraisers, as well as on their observation of the market;

Information and data the Bank provides to the independent appraisers as well as the assumptions and models applied by the appraisers are subject to review of the Collateral Management Department and the Director of the Finance Management and Planning Division. Such a review entails analyses of changes in the fair values of the property items over the year. If the Director of the Finance Management and Planning Division finds the appraisal report adequate, the report is submitted to the Bank’s Executive Board. The Executive Board considers and discusses the appraisal report as part of its regular activities.

21. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

c Equipment and other fixed assets

In RSD thousand

	Equipment and other fixed assets under construction	Equipment and other fixed assets	Total
Cost			
Balance as of 1 January 2022	109,157	1,366,806	1,475,963
Additions	394,072	-	394,072
Transfer (from)/to	(410,590)	329,815	(80,775)
Sales	-	-	-
Disposals and write-offs	-	(74,728)	(74,728)
Balance as of 31 December 2022	**92,639**	**1,621,893**	**1,714,532**
Accumulated amortisation			
Balance as of 1 January 2022	-	841,862	841,862
Charge for the year	-	178,750	178,750
Sales		-	-
Disposals and write-offs	-	(74,639)	(74,639)
Balance as of 31 December 2022	**-**	**945,973**	**945,973**
Carrying value as of 31 December 2022	**92,639**	**675,920**	**768,559**
Cost			
Balance as of 1 January 2023	92,639	1,621,893	1,714,532
Additions	294,809	-	294,809
Transfer (from)/to	(261,392)	261,343	(49)
Sales	-	-	-
Disposals and write-offs	-	(112,164)	(112,164)
Balance as of 31 December 2023	**126,056**	**1,771,072**	**1,897,128**
Accumulated amortisation			
Balance as of 1 January 2023	-	945,973	945,973
Charge for the year	-	216,248	216,248
Sales	-	-	-
Disposals and write-offs	-	(111,784)	(111,784)
Balance as of 31 December 2023	**-**	**1,050,437**	**1,050,437**
Carrying value as of31 December 2023	**126,056**	**720,635**	**846,691**

The largest amount of investment in 2023 relates to the adaptation and relocation of branches/sub-branches in the amount of RSD 61,951 thousand, computer equipment and related IT equipment in the amount of RSD 60,854 thousand, the purchase of equipment for counting and tying money and counter cash registers in the total amount of RSD 60,226 thousand, computer equipment for the needs of the new Core system in the amount of RSD 23,427 thousand, procurement of furniture for the needs of equipping branches/sub-branches in the amount of RSD 16,486 thousand, installation of video surveillance and fire alarm systems in the amount of RSD 12,101 thousand.

The difference between the equipment and other fixed assets under construction and put into use in the amount of RSD 49 thousand refers to the adjustment of the invoice, which is identified as an expense, and not a fixed asset.

21. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

d) Investment property

In RSD thousand

	31 December 2023	31 December 2022
Cost		
Balance as of 1 January	151,546	168,213
Increases	-	84,069
Decreases	(9,666)	(100,736)
Balance as of 31 December	**141,880**	**151,546**
Accumulated depreciation		
Balance as of 1 January	18,859	41,525
Charge for the year	3,834	2,692
Sale / disposal	(2,014)	(25,358)
Balance as of 31 December	**20,679**	**18,859**
Balance as of	**121,201**	**132,687**

Revenues from the lease of facilities/premises in 2023 amounted to RSD 2,708 thousand (2022: RSD 2,696 thousand). Receivables based on re-invoiced lease costs in 2023 amounted to RSD 4,878 thousand (2022: RSD 1,623 thousand).

After initial recognition, the Bank's investment property is stated at cost less accumulated depreciation. If the Bank had not chosen the purchase value method in accordance with IAS 40, but the fair value method, the fair value on 31 December 2023 would have amounted to RSD 141,877 thousand (31 December 2022: RSD 131,051 thousand).

During 2023, the Bank sold business premises - two premises for which the activity has not been determined, with a total area of 716 m^2 in Bulevar Oslobođenja no. 76 in Čačak.

Valuation technique	**Significant unobservable inputs**	**Relation between the key unobservable inputs and the fair value**
Market Approach - is based on the method of comparable transactions, i.e., on the comparison of assets that are valued with other comparable assets subject to buying / selling in the market.	Real estate prices in the local market are observed. Comparable real estate was found for the bank's buildings. Comparable market prices in Belgrade as of 31 December 2023 ranged from 1,600 to 4,600 EUR/m^2 in Belgrade, and in Cacak and Uzice from 400 to 1,400 EUR/m^2	The assessed fair value would increase/(decrease) if the prices of comparable properties in the local real estate market increased/(decreased)

The Bank has satisfactory evidence of ownership of all assets in its possession.

e) Leases

In accordance with IFRS 16 – “Leases" effective as from January 1, 2019, after the reporting date, the Bank amended its accounting policies to regulate the accounting treatment of leases.

A lease is an agreement whereby the lessor (the legal owner of an asset) conveys to the lessee (the user of the asset) the right to use an asset for an agreed period of time in return for a payment or series of payments.

For each lease contract, the Bank assesses whether the contract contains elements of a lease. The Bank assesses whether the contract identifies the asset and whether the Bank has the right to control the use of identifiable assets for a specified period of time.

Within this standard, the Bank includes:
- Business premises and
- Vehicles.

21. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

e) Leases (Continued)

The rate at which the Bank calculates the right of use is the incremental borrowing rate. Incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

For calculation of the incremental borrowing rate for business premises the Bank uses the average cost of funding sources (term deposits and credit lines).

In order to ensure inclusion of the market factors, the projected price takes into account the rates of return on the secondary market of securities of the Republic of Serbia. In this way, the calculation covers both the country-specific risk and Bank-specific risk.

The Bank leases vehicles under leases with maturities of up to four years. Accordingly, and taking into account that these are permanent working capital, the total amount of the right-of-use assets for all vehicles, which is significantly less than the right-of-use assets for business premises, these assets would not be financed from credit lines.

Additionally, since these are extremely easily marketable assets, the Bank evaluates these contracts by calculating the average cost price on total demand deposits and term deposits plus the insurance premium, i.e., the Bank uses the average rate on deposits (term deposits and demand deposits), which is adjusted (increased) for the cost of deposit insurance.

As of 31 December 2023, the standard was applied to the lease of:
- 39 properties
- 72 vehicles.

Right-of-use assets		**In RSD thousand**
	31 December 2023	**31 December 2022**
Properties		
Balance as of 1 January	547,807	552,461
Increase during the year	638,168	176,168
Decrease during the year	(2,524)	-
Charge for the year	(213,491)	(180,822)
Balance as of	**969,960**	**547,807**

	31 December 2023	**31 December 2022**
Vehicles		
Balance as of 1 January	83,863	89,059
Increase during the year	21,789	33,259
Decrease during the year	(873)	-
Charge for the year	(42,320)	(38,455)
Balance as of	**62,459**	**83,863**

22. OTHER ASSETS

	31 December 2023	31 December 2022
Receivables for calculated fees and commissions related to other assets	30,940	30,387
Trade receivables	1,419	1,465
Other receivables from regular operating activities	26,330	26,377
Receivables for accrued interest related to other assets	3	2
Other receivables in RSD	1,010,555	524,522
Other receivables in foreign currencies	96,946	84,875
Other investments	1,537	3,349
Other deferred expenses	31,273	19,504
Deferred interest expenses in foreign currencies	665	18,326
Other prepayments in foreign currencies	-	-
Inventories of materials, tools, spare parts and other inventories	-	-
Tangible assets acquired through collection of receivables (Note 30.3)	65,600	65,600
	1,265,268	**774,407**
Less: Impairment allowance of other assets		
Impairment of the value of receivables from employees	(24,763)	(3,728)
Impairment of other receivables	(67,087)	(56,952)
Balance as of	**1,173,418**	**713,727**

The line item of other receivables in RSD relates mostly to receivables in the calculation based on cards (Visa, Dina, MasterCard) in the amount of RSD 609,010 thousand (2022: Visa, Dina, MasterCard in the amount of RSD 325,118 thousand) and to the balance on the transitional account for cards in the amount of RSD 214,181 thousand.

The line item of other receivables in foreign currencies mostly relates to receivables in card settlement (Visa, MasterCard)) in the amount of RSD 28,798 thousand, advances given to landlords as collateral on the basis of contracts in the amount of RSD 52,070 thousand.

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

		In RSD thousand
	31 December 2023	31 December 2022
Deposits due to banks		
Transaction deposits	204,509	163,875
Special-purpose deposits	92,009	18,022
Other deposits	6,169,526	4,765,812
Other financial liabilities	1,093,326	1,909,557
Interests and fees payable	2,303	516
Accrued liabilities for accrued interest on deposits and other financial liabilities due to banks	97,479	75,244
	7,659,152	**6,933,026**
Borrowings due to banks and financial institutions		
Borrowings due to banks and other financial institutions	587,816	1,266,323
Liabilities for accrued interest on borrowings due to banks	14,418	16,255
Deferred expenses for liabilities measured at amortized cost using the effective interest rate	(2,161)	(2,740)
	600,073	**1,279,838**
Balance as of	**8,259,225**	**8,212,864**

The line Other deposits relates to short-term deposits of insurance and other financial institutions in RSD in the amount of RSD 2,617,952 thousand (2022: RSD 1,082,252 thousand) and to deposits from other financial institutions in foreign currency in the amount of RSD 2,214,814 thousand (2022: RSD 2,803,642 thousands), deposits of domestic banks in foreign currency in the amount of RSD 1,308,670 thousand (in 2022: RSD 645,273 thousand).

Short-term deposits due to banks and other financial institutions in dinars were deposited during 2023 at rates 5,25% per year for maturities of up to 7 days, while deposits with maturities of up to 1 year were deposited during 2023 at rates ranging from 5.50% to 6.70% per year.

Long-term deposits of banks and other financial organizations are scheduled to expire in 2023 at a rate of 6.15% per year.

Deposits due to domestic banks and other financial institutions in foreign currency were deposited in 2023 at rates ranging from 1.80% per year to 3.90% per year for maturities of up to 7 days, while deposits with maturities of up to 1 year in foreign currency were deposited in 2023 at rates ranging from 3.50% to 4.60% per year, while during 2023 there were no new long-term deposits due to banks and other financial institutions in foreign currency. Deposits of the parent bank were deposited for up to 7 days, with an annual interest rate ranging from 3.25% per annum to 4.25% per annum.

The line item of other financial liabilities due to banks mostly relates to:

- RSD financial liabilities due to domestic banks: UniCredit Bank Srbija AD for contracted purchase and sale of foreign currency cash in the amount of RSD 117,174 thousand, Banka Intesa a.d. Belgrade in the amount of RSD 117,174 thousand and OTP bank a.d. Novi Sad in the amount of RSD 117,174 thousand.
- Foreign currency financial liabilities relate to liabilities for contracted purchase and sale of foreign currency cash to National Bank of Serbia in the amount of RSD 585,869 thousand and Commerzbank AG in the amount of RSD 18,830 thousand.

The item of borrowings due to banks in the amount of RSD 587,816 thousand in 2023 (2022: RSD 1,166,323 thousand) relates to the following credit lines: Demir-Halk Bank (Netherlands) NV in the amount of RSD 292,934 thousand, Green for Growth Fund (GGF) credit line in the amount of RSD 275,704 thousand and Erste bank AG Vienna credit line in the amount of RSD 19,178 based on the negative balance on the nostro account of that foreign bank. The borrowings from GGF and Demir-Halk Bank were obtained at interest rates ranging from 2.65% to 2.70% + 6M EURIBOR.

In accordance with the defined limits in the contract concluded with the International Financial Institutions, Green for Growth Fund (GGF), the Bank is obliged to fulfill certain financial indicators until the final repayment of the borrowings.

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

As of 31 December 2023, the Bank was in compliance with all agreed financial indicators.

Changes in borrowings due to banks during 2023 are shown in the following table:

Creditors	Balance as of 01 January 2023 in 000 EUR	Balance as of 01 January 2023 in 000 RSD	Repayments in 2023 in 000 EUR	Repayments in 2023 in 000 RSD	Net exchange difference in 2023 in 000 RSD	New borrowings in 2023 in 000 EUR	New borrowings in 2023 in 000 RSD	Balance as of 31 December 2023 in 000 EUR	Balance as of 31 December 2023 in 000 RSD	Due in 2024 in 000 EUR	Due after 2024 in 000 EUR	Final Maturity date
Demir-Halk Bank (Nederland)	7,000	821,257	(4,500)	(527,859)	(464)	-	-	2,500	292,934	2,500	-	19.1.2024
Green for Growth Fund (GGF)	2,941	345,066	(588)	(68,909)	(394)	-	-	2,353	275,704	588	1,765	15.9.2027
	9,941	**1,166,323**	**(5,088)**	**(596,768)**	**(858)**	**-**	**-**	**4,853**	**568,638**	**3,088**	**1,765**	
Obligations based on loans for daily liquidity	852	100,000	(852)	(100,000)								
Loan obligations based on the negative balance on the nostro account with Erste bank AG Vienna	-	-	-	-		164	19,178	164	19,178	164	-	01.1.2024
Balance as of	**10,793**	**1,266,323**	**5,060**	**(696,768)**	**(858)**	**164**	**19,178**	**5,017**	**587,816**	**3,252**	**1,765**	

24. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

In RSD thousand

	31 December 2023	31 December 2022
Deposits due to customers		
Transaction deposits	40,413,662	35,378,567
Savings deposits	25,266,186	20,983,174
Deposits securitizing loans	3,755,405	4,149,178
Special-purpose deposits	1,233,088	1,255,156
Other deposits	11,969,557	10,546,368
Deposits and loans maturing within one day	4,618,043	3,340,684
Other financial liabilities due to customers	169,934	126,231
Interest and fee liabilities due to customers	12,644	10,852
Accrued liabilities for interest payable on deposits and other financial liabilities due to customers	422,501	190,839
	87,861,020	**75,981,049**
Borrowings due to customers		
Borrowings due to customers	4,177,944	5,059,553
Liabilities for accrued interest on borrowings	27,766	17,222
Deferred expenses for liabilities measured at amortized cost using the effective interest rate	(3)	(3)
	4,205,707	**5,076,772**
Balance as of	**92,066,727**	**81,057,821**

RSD and foreign currency demand deposits and current accounts of retail customers are non-interest bearing, i.e., they were deposited at the annual interest rate of 0.00%. Short-term retail deposits were deposited at annual interest rates ranging from 2.00% to 6.00% for RSD funds, and from 0.10% to 4.50% for foreign currency funds. Long-term retail deposits in foreign currencies were deposited at annual interest rates ranging from 0.70% to 4.50% per annum.

By ongoing monitoring of market trends, individual and proactive approach to the customers, the Bank increased the amount of corporate customer deposits by 12.31%. With its offer of several types of deposit products, the Bank provided its clients with adequate funds management, resulting in an increase of deposits of individuals by 18.91% with the Bank’s market share of total customer deposits reaching 2.55%.

Deposits of corporate clients denominated in RSD were placed at interest rates ranging from 1.50% to 7.00% p.a., while deposits denominated in foreign currency were placed at interest rates ranging from 0.10% to 4.50% p.a.

Borrowings relate to long-term loans approved to the Bank by the European Investment Bank with the mediation of NBS in the amount of EUR 27.1 million, and the European Agency for Reconstruction in the amount of EUR 8.5 million.

Maturities of borrowings due to customers in accordance with contracts

Creditors	Balance as of 31 December 2023 in 000 EUR	Balance as of 31 December 2023 in 000 RSD	Due in 2024	Due in 2025	Due in 2026	Due after 2026
EIB	27,119	3,177,590	3,947	4,128	4,128	14,920
FRK	8,537	1,000,354	3,703	2,753	1,580	501
Balance as of	**35,656**	**4,177,944**	**7,650**	**6,881**	**5,708**	**15,421**

Borrowings due to customers were approved to the Bank at the following annual interest rates:
- from 0.32% to 0.75% + 3M EURIBOR;
- from 0.36% to 0.72% + 6M EURIBOR.

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

Changes in borrowings due to customers during 2023 are shown in the following table:

Creditors	Balance as of 01 January 2023 in 000 EUR	Balance as of 01 January 2023 in 000 RSD	Repayments in 2023 in 000 EUR	Repayments in 2023 in 000 RSD	Net exchange difference in 2023 in 000 RSD	New borrowings in 2023 in 000 EUR	New borrowings in 2023 in 000 RSD	Balance as of 31 December 2023 in 000 EUR	Balance as of 31 December 2023 in 000 RSD
EIB	32,113	3,767,574	(4,994)	(585,679)	(4,305)	-	-	27,119	3,177,590
FRK	11,012	1,291,979	(4,535)	(531,898)	(1,434)	2,061	241,707	8,537	1,000,354
Balance as of	**43,125**	**5,059,553**	**(9,529)**	**(1,117,577)**	**(5,739)**	**2,061**	**241,707**	**35,656**	**4,177,944**

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25. PROVISIONS

In RSD thousand

	31 December 2023	31 December 2022
a) Movements on provisions for potential losses on off-balance sheet items		
Balance as of 1 January	4,161	42,845
Charge for the year (Note 9a)	8,963	2,138
Reversal of provisions (Note 9a)	(2,080)	(40,822)
Other	(1)	-
Balance as of	**11,043**	**4,161**
b) Movements on provisions for retirement benefits		
Balance as of 1 January	17,327	125,707
New provisions	1,551	182,144
Transfer to short-term liabilities to employees	-	(209,863)
Release of provisions	(822)	(79,768)
Actuarial (gains)/losses	2,372	(893)
Balance as of	**20,428**	**17,327**
c) Movements on the provisions for litigations:		
Balance as of 1 January	63,688	80,916
New provisions (Note 14)	55,394	6,965
Release of provisions (Note 14)	(22,585)	(24,193)
Payment	(17,490)	-
Balance as of	**79,007**	**63,688**
Balance as of	**110,478**	**85,176**

Provisions for potential losses in the amount of RSD 11,043 thousand (2022: RSD 4,161 thousand) were created per guarantees and other off-balance sheet items.

In 2022, the Bank reclassified short-term provisions for employees that refer to provisions for unused annual vacation, provisions for bonuses and other short-term provisions for employees in the total amount of RSD 209,863 thousand to liabilities to employees.

In respect of the lawsuits filed against the Bank and the relating claims, according to the status of the cases as of 31 December 2023, the Bank made a provision of RSD 79,007 thousand (2022: RSD 63,688 thousand).

As of 31 December 2023, there were 2,058 lawsuits pending against the Bank (2022: 2,445 lawsuits) with claims in the total amount of RSD 127,640 thousand without potential interest (2022: RSD 146,077 thousand). The Bank has adopted the Methodology for the Calculation of Litigation Loss Provisions, so in accordance with this Methodology, it calculates the amounts of provisions required on a quarterly basis.

26. OTHER LIABILITIES

In RSD thousand

	31 December 2023	31 December 2022
Trade payables	64,999	48,259
Advances received	166,481	296,458
Lease liabilities (Note 21e)	1,018,694	609,314
Liabilities from consignment operations	167	167
Other operating liabilities	6,760	48,053
Liabilities in settlement	194,654	165,680
Temporary and suspense accounts	697,091	12,009
VAT liabilities	14,832	10,854
Liabilities for other taxes and contributions payable	6,461	2,875
Accrued liabilities	45,187	44,717
Deferred other income	83,652	71,352
Other accruals – subsidized interest	59,535	23,185
Liabilities to employees	279,075	210,828
Balance as of	**2,637,588**	**1,543,751**

Trade payables in the amount of RSD 64,999 thousand relate to the Bank's regular business activities, which were paid in early 2024.

Liabilities arising from received advances refer to customer payments of undue loan repayments in the amount of RSD 166,481 thousand.

The position temporary and suspense accounts mostly refers to the undistributed inflow in the amount of RSD 679,146 thousand, which was written-off at the beginning of January 2024.

Lease liabilities are related to Bank’s liabilities to its lessors based on the discounted lease payments for property and cars.

Lease Liabilities

In RSD thousand

	31 December 2023	31 December 2022
Maturity period		
0-1 year	16,380	16,040
1-3 years	109,033	225,518
3-5 years	290,328	226,763
5-10 years	602,953	140,993
Balance as of	**1,018,694**	**609,314**

Liabilities for lease of property

In RSD thousand

	31 December 2023	31 December 2022
Maturity period		
0-1 year	2,873	16,040
1-3 years	78,228	168,837
3-5 years	272,225	199,532
5-10 years	602,953	140,993
Balance as of	**956,279**	**525,402**

26. OTHER LIABILITIES (Continued)

Liabilities for lease of vehicles

	31 December 2023	31 December 2022
		In RSD thousand
Maturity period		
0-1 year	13,507	-
1-3 years	30,805	56,681
3-5 years	18,103	27,231
Balance as of	**62,415**	**83,912**

An overview of the incremental borrowing rates used for vehicle leases

Type of leased vehicle	Leasing liabilities due – contract maturity (per years)	Incremental borrowing rate	In RSD thousand
Automobile	0-1 year	1.30%-1.30%	13,507
Automobile	1-3 years	1.20%-1.26%	30,805
Automobile	3-5 years	1.52%-2.23%	18,103
Balance as of			**62,415**

An overview of the incremental borrowing rates used for property leases

Maturity of lease liabilities by years	Incremental borrowing rate	In RSD thousand
0-1 year	1.37%-3.08%	2,873
1-3 years	1.73%-3.67%	78,228
3-5 years	2.02%-3.83%	272,225
5-10 years	3.75%-5.03%	602,953
Total		**956,279**

Total lease outflows in 2023 amounted to RSD 256,064 thousand.

The Bank regularly settles its liabilities arising from leased assets.

Increase in the line item of liabilities in settlement relates to card-based liabilities (liabilities to retailers based on card acceptance, liabilities for received funds based on VISA and MasterCard cards).

Accrued liabilities refer to costs incurred in the current reporting period for which the Bank did not obtain documentation for recording by the reporting date, so it made a provision for them.

27. EQUITY

Equity and Bank's Share Capital Structure

Pursuant to the Contract on Incorporation and the Articles of Association, the Bank's equity consists of:

- share capital
- share premium
- profit and
- reserves.

The Bank is managed by its founders commensurately with their funds invested in Bank's ordinary shares, in accordance with the Contract on Incorporation and the Articles of Association.

A breakdown of the Bank's equity as of 31 December 2023 and 2022 is provided in the following table:

		In RSD thousand
	31 December 2023	**31 December 2022**
Share capital – ordinary shares	9,887,600	9,887,600
Share capital – preference shares	601,340	601,340
Share premium	7,873,729	7,873,729
Revaluation reserves	(1,078,630)	(1,847,358)
Reserves from profit	5,113,022	3,827,958
Prior years' profit	-	542
Current year's profit	2,128,591	1,284,521
Balance as of	**24,525,652**	**21,628,332**

The Bank's share capital consists of 988,760 ordinary shares and 60,134 preference shares whose nominal value is RSD 10,000. Total Bank's equity consists of share capital in the amount of RSD 10,488,940 thousand (2022: RSD 10,488,940 thousand), share premium in the amount of RSD 7,873,729 thousand (2022: RSD 7,873,729 thousand), reserves from profit in the amount of RSD 5,113,022 thousand (2022: RSD 3,827,958 thousand) and negative revaluation reserves in the amount of RSD 1,078,630 thousand (2022: RSD 1,847,358 thousand). In 2023 the Bank reported profit in the amount of RSD 2,128,591 thousand (2022: RSD 1,284,521 thousand).

The Bank is required to maintain a minimum capital adequacy ratio of 8% as prescribed by the National Bank of Serbia. The Bank's capital adequacy ratio as of 31 December 2023 was 26.98% (2022: 29.99%), which is higher than the minimum prescribed by the National Bank of Serbia.

Breakdown of reserves

		In RSD thousand
	31 December 2023	**31 December 2022**
Revaluation reserves:		
Reserves from value changes of property, plant and equipment	84,196	84,196
Reserves from value changes of RSD debt instruments	(1,154,754)	(1,926,210)
Actuarial gains/(losses)	(8,072)	(5,344)
Revaluation reserves	(1,078,630)	(1,847,358)
Reserves from profit	5,113,022	3,827,958
Balance as of	**4,034,392**	**1,980,600**

Reserves from value changes of property, plant and equipment are related to the effects of an appraisal of Bank's buildings from previous years. Reserves from value changes of debt instruments refer to adjustment effects with the fair value of securities through other comprehensive income as of 31 December 2023. Actuarial losses are related to the effects of changes in provisions for employees' retirement benefits on the basis of an actuarial assessment. Profit reserves refer to cumulative effects of profit distribution.

27. EQUITY (Continued)

Bank's shareholder structure as of 31 December 2023:

		In RSD thousand				Interest (%)			
No.	**Shareholder**	**Ordinary shares**	**Cumulative preference shares**	**Other preference shares**	**TOTAL**	**Ordinary shares**	**Cumulative preference shares**	**Other preference shares**	**TOTAL**
1.	TURKIYE HALK BANKASI A.S.	9,887,600	1,340	600,000	10,488,940	100,00	100,00	100,00	100,00
	TOTAL:	**9,887,600**	**1,340**	**600,000**	**10,488,940**	**100,00**	**100,00**	**100,00**	**100,00**

Bank's shareholder structure as of 31 December 2022:

		In RSD thousand				Interest (%)			
No.	**Shareholder**	**Ordinary shares**	**Cumulative preference shares**	**Other preference shares**	**TOTAL**	**Ordinary shares**	**Cumulative preference shares**	**Other preference shares**	**TOTAL**
1.	TURKIYE HALK BANKASI A.S.	9,887,600	1,340	600,000	10,488,940	100,00	100,00	100,00	100,00
	TOTAL:	**9,887,600**	**1,340**	**600,000**	**10,488,940**	**100,00**	**100,00**	**100,00**	**100,00**

Turkiye Halk Bankasi AS is the owner of 100% of Bank's shares.

	31 December 2023			31 December 2022		
	Total	**Turkiye Halkbankasi**	**% Turkiye Halkbankasi**	**Total**	**Turkiye Halkbankasi**	**% Turkiye Halkbankasi**
Ordinary shares	988,760	988,760	100,00%	988,760	988,760	100,00%
Preference shares	60,134	60,134	100,00%	60,134	60,134	100,00%
Balance as of	**1,048,894**	**1,048,894**	**100,00%**	**1,048,894**	**1,048,894**	**100,00%**

28. OFF-BALANCE SHEET RECORDS

	31 December 2023	In RSD thousand 31 December 2022
a) Managed funds	**225,797**	**234,678**
b) Guarantees, sureties and irrevocable commitments		
RSD guarantees	23,615,614	19,306,942
Guarantees in foreign currencies	3,796,321	2,885,878
Total guarantees:	**27,411,935**	**22,192,820**
c) Irrevocable commitments for undrawn loans and placements	**3,670,831**	**2,131,883**
Total guarantees, sureties and irrevocable commitments	**31,082,766**	**24,324,703**
d) Derivatives held for trading at the agreed value	**2,940,683**	**4,097,585**
e) Other off-balance sheet items		
Calculated suspended interest	5,315,478	5,231,256
Commitments for framework loans and facilities	21,099,135	13,369,033
Other off-balance sheet records and written-off financial assets	101,483,155	98,039,626
Total other off-balance sheet items	**127,897,768**	**116,639,915**
Balance as of	**162,147,014**	**145,296,881**

Other off-balance sheet records include all tangible and intangible assets the Bank obtained as collateral securitizing repayment of loans totalling RSD 95,963,606 thousand as of 31 December 2023 (2022: RSD 91,661,608 thousand).

In addition, an amount of RSD 3,940,026 thousand within other off-balance sheet records as of 31 December 2023 (2022: RSD 4,076,496 thousand) refers to write-offs of receivables according to relevant decisions of the Board of Directors and to the accounting write-off in line with the Decision on the Accounting Write-Off of Bank's Balance Sheet Assets of the National Bank of Serbia, effective from 30 September 2017. Within the meaning of this Decision, the accounting write-off is a write-off of a non-performing loan when the amount of the impairment of that loan calculated by the bank and credited to allowance for impairment equals 100% of its gross carrying amount. The Bank does not give up on the recovery of its receivables subject to the accounting write-off but simply transfers such receivables to the off-balance sheet items.

29. RELATED PARTY DISCLOSURES

The Bank conducts transactions with its related parties. All balances of receivables and payables at the reporting date, as well as income and expenses realized/ incurred during the year, are the result of the ordinary course of business. The Bank charges and pays interest on its receivables and payables, calculated by applying usual interest rates.

The following table provides the total exposure to related parties that may have an impact on the Bank's performance:

In RSD thousand

	31 December 2023	31 December 2022
a) Granted loans, deposits, other placements and receivables		
Parent company and companies under the joint control of the parent		
Turkiye Halk Bankasi AS	245,078	938,801
Halkleasing	949,339	352,846
Halk Faktoring	352,387	352,608
Halkbank a.d. Skopje	120,891	46,564
Other related parties		
RVM d.o.o.	22,148	32,601
DOO Duomos Novi Pazar	786	-
Animalis d.o.o. Aranđelovac	1,511	1,106
Profesional 2000 d.o.o. Gornji Milanovac	4,179	4,437
Agrohemija d.o.o. Čačak	1,008	5,026
Inceptus d.o.o. Čačak	732	4,183
Other corporate customers	7,798	10,229
Retail customers	428,794	401,811
Balance as of	**2,134,651**	**2,150,212**
b) Received loans, deposits and other liabilities		
Parent company and companies under the joint control of the parent		
Turkiye Halk Bankasi AS	-	44,061
Demir Halkbank Netherlands	301,812	833,125
Other related parties		
RVM d.o.o	6,167	5
Agrohemija d.o.o. Čačak	4,426	-
Animalis doo Arandjelovac	1,389	217
"Radulović" STR	404	312
Duomos doo Novi Pazar	10	2,957
Nova Yutkl doo Nis	-	14,103
Other corporate customers	6,864	6,815
Retail customers	496,138	356,921
Balance as of	**817,210**	**1,258,516**
c) Off-balance sheet receivables and payables		
Parent company and companies under the joint control of the parent		
Turkiye Halk Bankasi AS	777,069	1,336,132
Halkbank a.d. Skopje	117,174	117,322
Other related parties		
RVM d.o.o.	252,115	304,904
DOO Duomos Novi Pazar	2,970	-
Animalis d.o.o. Arandjelovac	2,500	1,900
Profesional 2000 d.o.o. Gornji Milanovac	600	-
Ninex d.o.o. Čačak - in bankruptcy	-	65,145
Agrohemija d.o.o. Cacak	-	10,000
Other corporate customers	717	1,300
Retail customers	26,679	24,628
Balance as of	**1,179,824**	**1,861,331**

29. RELATED PARTY DISCLOSURES (Continued)

Loans and deposits approved and received from the parent company and companies under the joint control and significant influence of the parent company were granted and obtained at the prevailing market interest rates disclosed in Notes 18, 19, 22 and 23 to the accompanying financial statements.

In RSD thousand

	31 December 2023	31 December 2022
d) Interest, fee and commission income		
Parent company and companies under the joint control of the parent		
Turkiye Halk Bankasi AS	908	4,732
Halkleasing	26,332	7,104
Halkfaktoring	14,313	7,068
Other related parties		
RVM d.o.o.	1,446	1,361
Animals d.o.o. Arandjelovac	516	285
Profesional 2000 d.o.o. Gornji Milanovac	452	85
Agrohemija d.o.o. Cacak	397	510
Inceptus d.o.o. Cacak	339	331
Jelena Mijailovic PR	291	219
“Radulović“ STR	157	147
Ivex Drink d.o.o. Ivanjica	116	91
Ena Ugljanin PR	106	144
Bdnn-Glišić doo export-import Brdjani	66	65
DOO Duomos Novi Pazar	63	48
“TIVA-TEX” PR Gornji Milanovac	47	103
TIBO Kompanija doo Beograd, Mladenovac	39	40
Vaga szr Marinovic	10	21
ST-KR Dekoratex	-	29
Nova Yutkl doo Nis	-	12
Other corporate customers	482	236
Retail customers	31,132	20,944
TOTAL:	**76,304**	**43,575**
e) Interest, fee and commission expenses		
Parent company and companies under the joint control of the parent		
Turkiye Halk Bankasi AS	9,430	91,552
Halkbank a.d. Skopje	221	-
Entities under the significant influence of the parent		
Demir Halkbank, the Netherlands	28,102	24,916
Other related parties	1	6
Retail customers	4,315	2,102
TOTAL:	**42,069**	**118,576**

Gross remunerations to the Chairmen and members of the Bank’s Board of Directors and Executive Board in 2023 amounted to RSD 78,758 thousand (2022: RSD 63,278 thousand). Net remunerations to the Chairmen and members of the Bank’s Board of Directors and Executive Board in 2023 amounted to RSD 51,810 thousand (2022: RSD 50,358 thousand).

30. RISK MANAGEMENT

Introduction

Pursuant to the Law on Banks ("Official Gazette of RS", no. 107/2005, 91/2010 and 14/2015), the National Bank of Serbia's Decision on Risk Management ("Official Gazette of RS", no. 45/2011, 94/2011, 119/2012, 123/2012, 23/2013 – other decision, 43/2013, 92/2013, 33/2015, 61/2015, 61/2016, 103/2016, 119/2017, 76/2018,57/2019, 88/2019, 27/2020 and 67/2020 – other decision 89/2022 and 77/2023), the Decision on Banks' Liquidity Risk Management ("Official Gazette of RS", no. 103/2016 and 100/2023), as well as Bank's corporate policies, methodologies and procedures, the following risks that the Bank is exposed to when doing business have been identified:

- Liquidity risk;
- Credit risk, which includes the residual risk, downgrade risk, settlement/free delivery risk, counterparty risk, credit-interest rate risk, credit-foreign exchange risk, risk of the portfolio currency structure, and concentration risk;
- Risk of incurring losses due to the external factors;
- Interest rate risk;
- Market risks, which include foreign exchange risk, price risk and commodity risk;
- Outsourcing risk;
- Risk of money laundering and terrorism financing;
- Risk of introducing new products/services;
- Risks of investing in other corporate customers and fixed assets;
- Country risks related to the counterparty the Bank is exposed to;
- Operational risk, including legal risk;
- Reputation risk;
- Strategic risk;
- Compliance risk, including the risk of sanctions by regulatory bodies, risk of financial losses and reputational risk;
- Environmental and social risks.

The Bank's objectives in risk management, defined within the risk management system, are minimization of the adverse effects of the Bank's exposure to the above listed risks on the Bank's financial performance and capital with simultaneous adherence to the defined risk appetite frameworks and maintenance of the required capital adequacy ratio. In 2023, the Bank did not change its risk management objectives, but it significantly improved the risk management framework and adequate articulation of the overall risk management objectives by introducing new strategies, policies, procedures, methodologies and instructions.

In 2023, the Bank improved risk management processes by adjusting and improving existing strategies, policies, procedures, methodologies and instructions relating to the risk identification, measurement, assessment, mitigation and management and capital management.

The Bank's risk management system in place consists of:

- Risk management strategies and policies as well as the procedures and instructions for risk identification, measurement, assessment and management;
- Risk appetite – the Bank's intention to assume risks in order to implement its strategies and policies (the risk structure) and definition of the acceptable levels of the assumed risks (risk tolerance).
- An optimum and acceptable risk level that the Bank is willing to accept is qualified through risk appetite;
- Risk profile – a Bank's estimate of the structure and levels of all the risks it is or may be exposed to in the course of its operations;
- Risk appetite framework (RAF) – the overall approach, including strategies, policies, procedures, processes, controls and systems for establishing, communicating and reviewing the roles and responsibilities of the Bank's organizational units in charge of supervising RAF implementation and monitoring. RAF considers risks material to the Bank, as well as to the high esteem and reputation of the Bank among its customers, depositors, creditors and in the market in general. RAF is aligned with the Bank's business strategy.
- Risk appetite statement (RAS) – represents an aggregate risk level the Bank is ready and willing to accept, or avoid, in order to achieve its business goals; it includes qualitative descriptions, and quantitative measures expressed as relative to the income, capital, risk measurement, liquidity and other relevant indicators;
- Internal organization, i.e., organizational structure that ensures functional and organizational separation of the risk management activities from the risk assumption activities, with clearly defined segregation of duties for employees, which prevents conflict of interest;

30. RISK MANAGEMENT (Continued)

Introduction (Continued)

- Effective and efficient risk management process entailing mitigation, monitoring and control of the risks the Bank is or may be exposed to;
- An internal control system as a set of processes and procedures in place intended to ensure adequate risk control, operational effectiveness and efficiency monitoring, financial and other data reliability and compliance with the effective legislation and the Bank's internal bylaws with a view to achieve safe and stable banking operations;
- Adequate information system.

The Bank's Board of Directors is responsible for establishment of a uniform risk management system throughout the Bank and for supervision of that system. The Board of Directors has to ensure that the Bank's Executive Board will identify the risks the Bank is exposed to and control such risks in accordance with the bank's adopted policies and procedures.

The Bank's Executive Board implements the risk management strategies and polices adopted by the Board of Directors, defines procedures, instructions and guidelines for risk identification, measurement, assessment and management, analyses their efficiency and reports back to the Board of Directors on these activities.

The Audit Committee is in charge of an ongoing oversight of implementation of the risk management policies and procedures and performance of the internal control system.

The Asset and Liability Management Committee ("ALCO") is in charge of monitoring the Bank's exposure to the risks arising from the structure of the Bank's receivables and liabilities and off-balance sheet items and proposes measures for risk management.

The Competent Credit Committee decides on loan approval and origination of other receivables as well as on the amendments to the contracted terms of such loans and receivables. It decides in the loan recovery matters, including rescheduling and restructuring of loans and on all other issues related to the potentially non-performing, non-performing loans and receivable and bad and doubtful exposures.

30.1 Credit Risk

Credit Risk Management

Credit risk is a risk of possible adverse effects on Bank's financial performance and capital arising from the customers failing to meet their obligations toward the Bank. The effects of this risk are measured by the amount of the Bank's expenses incurred due to the customer default.

The following organizational units of the Bank are responsible for credit risk management:

- The Board of Directors, which has defined the risk management strategy and credit risk management policy;
- The Executive Board, which implements the adopted strategy and policy and defines procedures and instructions for risk management;
- ALCO, which monitors the Bank's exposure to the credit risk and proposes adequate measures for credit risk management;
- The Bank's Credit Committee, which approves loans and make decision on all the matters of collection of potential NPLs, NPLs and doubtful receivables;
- Credit Monitoring Department, which assess the customer credit risk; and
- Risk Management Department, which monitors the loan portfolio quality.

Assessment of the credit risk exposure is carried out within the Lending Division and Risk Management Department.

At the Lending Division a credit risk exposure is assessed during an analysis of customer requests. Credit risk is identified, controlled and monitored in the same division at a borrower level, by assessing borrower's creditworthiness and collateral quality.

Credit risk identification, control and monitoring on portfolio basis are performed by the Risk Management Department through preparation and analysis of the Bank's portfolio, control over classification of the balance sheet assets and off-balance sheet items, calculation of impairment allowances and provisions and control of the quality of the balance sheet assets and off-balance sheet items.

30. RISK MANAGEMENT (Continued)

30.1.2 Analysis of Financial Assets, Financial Liabilities and Off-Balance Sheet Items

Bank’s financial assets and financial liabilities as of 31 December 2023 and 31 December 2022 are presented below by:

- Net credit risk exposure,
- Gross credit risk exposure,
- Gross and net impairment,
- Internal categories in accordance with IFRS 9 on gross and net bases,
- Fair value of collaterals and other security instruments on a gross basis,
- LTV ratio for financial assets securitized with mortgages,
- Past-due intervals on gross and net bases,
- Industry on gross and net bases,
- Geographic region on a net basis,
- Fair value,
- Repossessed property following the foreclosure,
- Write-off of receivables,
- Breakdown of restructured financial assets.

Structure of Net Financial Assets, Financial Liabilities and Off-Balance Sheet Items

Bank’s financial assets, financial liabilities and off-balance sheet items are presented in the following tables in net amounts. Loans and receivables due from banks and other financial institutions as well as loans and receivables due from customers are presented net of the collected, but not credited to income loan processing fees, which are included in the effective interest rate calculation during the loan approval, and are subsequently recognized within interest income using the effective interest rate, and net of impairment allowances. As for off-balance sheet items, the Bank has no deferred fees for processing costs (the effective interest method), but fees and commissions are deferred on a straight-line basis. Therefore, off-balance sheet items are also presented in net amounts, i.e. their gross amounts are decreased by the provisions for losses.

As of 31 December 2023, Bank’s cash, cash equivalents and balances held with the central bank increased by RSD 4,998,458 thousand than as of 31 December 2022, and they account for 13.53% in total financial assets. Securities are higher by RSD 1,628,505 thousand. Loans and receivables due from customers increased by RSD 7,130,562 thousand and account for 63.35% in total financial assets.

As of 31 December 2023, deposits and other liabilities due to customers are higher by RSD 11,008,906 thousand than as of 31 December 2022, and they account for 91.77% in total financial liabilities.

As of 31 December 2023, net off-balance sheet items increased by RSD 14,481,283 thousand in comparison to 31 December 2022. Guarantees and letters of credit increased by RSD 5,217,512 thousand and account for 52.54% in total off-balance sheet items. Unused liabilities are higher by RSD 9,263,771 thousand and account for 47.46% in total net off-balance sheet items.

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Structure of Net Financial Assets, Financial Liabilities and Off-Balance Sheet Items (Continued)

Financial assets and liabilities in net amounts are presented below by categories in accordance with IFRS 9.

	31 December 2023	In RSD thousand 31 December 2022
Financial assets		
Cash and balances held with the central bank	16,729,593	21,728,051
Pledged financial assets	-	-
Receivables for financial derivatives	5,195	11,752
Securities	13,713,114	12,084,609
Loans and receivables due from banks and other financial institutions	13,924,349	4,066,855
Loans and receivables due from customers	78,324,435	71,193,873
Other assets	931,807	557,713
Balance as of	**123,628,493**	**109,642,853**
Financial liabilities		
Liabilities from derivatives	-	1,573
Deposits and other liabilities due to banks, other financial institutions and the central bank	8,259,225	8,212,864
Deposits and other financial liabilities due to customers	92,066,727	81,057,821
Other liabilities	1,381,421	891,494
Balance as of	**101,707,373**	**90,163,752**

	31 December 2023	In RSD thousand 31 December 2022
Guarantees and letters of credit		
Public sector	570,674	799,588
Large corporate customers	7,523,467	5,924,262
SMEs, micro enterprises and entrepreneurs	16,237,065	12,537,207
Retail customers	-	-
Other customers	3,078,154	2,931,088
	27,409,360	**22,192,145**
Commitments per undrawn loans		
Public sector	295,833	315,893
Large corporate customers	6,119,030	3,078,005
SMEs, micro enterprises and entrepreneurs	17,795,230	11,667,495
Retail customers	550,444	435,870
Other customers	961	167
	24,761,498	**15,497,430**
Off-balance sheet items (net)	**52,170,858**	**37,689,575**

Gross Credit Risk Exposure

Gross credit risk exposure resulting from loans and receivables due from customers as of 31 December 2023 is higher by RSD 7,473,265 thousand than as of 31 December 2022. The exposure to large corporate customers increased by RSD 115,563 thousand, the exposure to SMEs, micro enterprises and entrepreneurs is higher by RSD 4,784,259 thousand, the exposure to retail customers is higher by RSD 2,293,327 thousand and to the public sector by RSD 294,789 thousand. The exposure to other customers was reduced by RSD 14,673 thousand.

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

***Gross Credit Risk Exposure* (*Continued*)**

Credit risk – gross exposure (in RSD thousand)

	31 December 2023	In RSD thousand 31 December 2022
Financial assets		
Cash and balances held with the central bank	16,732,386	21,730,549
Pledged financial assets	-	-
Receivables for derivatives	5,195	11,752
Securities	13,713,114	12,084,609
Loans and receivables from banks and other financial institutions	13,926,708	4,068,927
Loans and receivables due from customers	**79,430,772**	**71,957,507**
Out of which:		
Public sector	578,440	283,651
Large corporate customers	7,438,428	7,322,865
SMEs, micro enterprises and entrepreneurs	49,080,326	44,296,067
Retail customers	22,333,520	20,040,193
Other customers	58	14,731
Other assets	998,894	614,665
Balance as of	**124,807,069**	**110,468,009**

Gross credit risk exposure by off-balance sheet items as of 31 December 2023 is higher by RSD 14,488,165 thousand, i.e. 38.44%, than as of 31 December 2022. Gross credit risk exposure based on guarantees and letters of credit to SMEs, micro enterprises and entrepreneurs by RSD 3,701,080 thousand, to large corporate customers by RSD 1,599,553 thousand and to other customers by RSD 147,392 thousand. Gross credit risk exposure based on guarantees and letters of credit to public sector decreased by RSD 228,910 thousand.

Commitments per undrawn loans increased by RSD 9,269,050 thousand, or 59.80%, as of 31 December 2023 in comparison to 31 December 2022. Gross exposure under commitments per undrawn loans to large corporate customers increased by RSD 3,041,186 thousand, to SMEs, micro enterprises and entrepreneurs by RSD 6,132,249 thousand, to retail customers increased by RSD 114,799 thousand, to other customers increased by RSD 1,084 thousand, whereas it decreased by RSD 20,268 thousand to public sector.

Gross exposure by off-balance sheet items (in RSD thousand)

	31 December 2023	In RSD thousand 31 December 2022
Off-balance sheet items		
Guarantees and letters of credit		
Public sector	570,685	799,595
Large corporate customers	7,523,859	5,924,306
SMEs, micro enterprises and entrepreneurs	16,238,474	12,537,394
Retail customers	-	-
Other customers	3,078,917	2,931,525
	27,411,935	**22,192,820**
Commitments per undrawn loans		
Public sector	295,869	316,137
Large corporate customers	6,119,257	3,078,071
SMEs, micro enterprises and entrepreneurs	17,802,471	11,670,222
Retail customers	551,118	436,319
Other customers	1,251	167
	24,769,966	**15,500,916**
Balance as of	**52,181,901**	**37,693,736**

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Impairment of Financial Assets

In accordance with the requirements of IFRS 9, the Bank adopted a methodology for assessing the impairment allowance of financial assets (Methodology for Calculation of Impairment Allowance under IFRS 9). The methodology is applied to all financial instruments measured at amortized cost and at fair value through other comprehensive income (FVTOCI), except for:

- Equity investments in subsidiaries, associates and joint ventures that are accounted for in accordance with IFRS 10 “Consolidated Financial Statements”, IAS 27 “Separate Financial Statements” or IAS 28 “Investments in Associates and Joint Ventures” (except for the instances when IFRS 10, IAS 27 or IAS 28 request or allow a reporting entity to account for investments in subsidiaries, associates or joint ventures in accordance with some or all requirements of IFRS 9);
- Employer’s rights and obligations according to the employee benefit plans, within the scope of IAS 19 “Employee Benefits”;
- Rights and obligations within the scope of IFRS 15 “Revenue from Contracts with Customers” that are financial instruments other than those to be accounted for under this standard.

Financial instruments are defined under IAS 32 as contracts that give rise to a financial asset of one entity and a financial liability or an equity instrument of another entity. Therefore, financial assets for the purposes of impairment calculation requirements are as follows:

- Cash and cash equivalents, and
- Contractual rights entailing cash receipts or other financial assets from another entity or an exchange of financial assets or financial liabilities with another entity under potentially favourable conditions.

Recognition and Modification of Financial Assets

The Bank recognizes a financial asset in its financial statements when it has become a party to the contractual terms of the instrument. Upon initial recognition, the Bank measures a financial asset at fair value increased or decreased by transaction costs that can be directly attributable to the acquisition or issuance of the financial asset.

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

In such instances, the Bank performs both qualitative and quantitative assessments to determine whether there is a significant difference between the cash flows of the original financial asset and the cash flows of the modified asset. If there is a significant difference, the contractual rights to the original financial assets will be deemed expired and the new asset, issued under new terms is to be recognized. A significant difference between the cash flows of the two assets means a change in the present value of the cash flows of above 10% (the so-called quantitative test).

A financial asset may be modified or replaced as part of a transaction with the same counterparty. For example, when the Bank’s customer (borrower) is experiencing financial difficulties, restructuring of some or all of the borrower’s liabilities may be negotiated in order to enable adequate debt repayment capacity, in part or in full. Such circumstances are commonly referred to as “forbearance” in the banking practice.

Modifications resulting in derecognition of the existing assets and initial recognition of the new assets, driven by deteriorated credit rating and repayment capacity of the borrowers and if at the same time the following two conditions are met:

- that it is a significant modification (the difference in cash flows is greater than 10%) and
- exposure exceeds EUR 200,000,

All leading to the initial recognition of financial assets defined under IFRS 9 as purchased or originated credit-impaired assets (“POCI”), i.e. assets impaired on the initial recognition.

In instances of significant modification of a financial instrument, IFRS 9 prescribes derecognition of the original financial asset and recognition of the new asset at fair value as of the recognition date. Derecognition of the gives rise to a permanent gain or loss, which must be recognized within profit or loss, in the amount equal to the difference between the amortized cost of the original financial asset and the fair value of the new financial asset net of expected credit losses recognized as the impairment allowance of the new financial asset.

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Expected Credit Losses

IFRS 9 introduces a concept of expected credit losses (ECL) that the Bank should identify and recognize for all financial assets within the scope of the standard. The Bank calculates and recognizes an impairment allowance in accordance with its methodology for financial instruments recognized at amortised cost and financial assets measured at FVTOCI.

Allowance for impairment of financial assets at FVTOCI and financial assets carried at amortised cost is recorded as an expense under the income statement. However, the accumulated impairment allowance in the financial statements is not deducted from the fair value of assets but from the aggregate change in the fair value recorded under other comprehensive income.

Calculated expected credit losses represent probability-weighted estimates of credit losses (the present value of all the differences between the contractual cash flows and the cash flows the Bank expects to receive) during the expected life of a financial instrument. Therefore, for financial assets, the credit loss is the present value of the difference between:

- the contractual cash flows belonging to the Bank under the relevant contract, and
- the cash flows the Bank expects to receive,

As for undrawn commitments arising from the granted framework loan, a credit loss is the present value of the difference between:

- the contractual cash flows belonging to the Bank if the borrower draws down the loan funds and
- The cash flows the Bank expects to receive if the loan is drawn down.

As for exposures on documentary business, such as guarantees or letters of credit, a credit loss is the present value of the difference between:

- the contractual cash flows if the beneficiary demands the payment by the Bank and
- The cash flows the Bank expects to receive from the borrower after the payment.

The Bank classifies all financial assets measured at amortised cost into the following three stages depending on the risk level, i.e. the expected credit loss:

- Stage 1 includes all new financial assets upon initial recognition except for purchased or originated credit-impaired (POCI) assets, and instruments without a significant increase in credit risk since initial recognition and low-risk financial assets;
- Stage 2 includes financial assets with a significant increase in credit risk since initial recognition, but without objective evidence of credit loss impairment;
- Stage 3 includes financial assets with objective evidence of impairment at the reporting date or a customer default status; and
- POCI assets that include all purchased or originated credit impaired assets (POCI) as impaired upon initial recognition.

Modifications that cause derecognition of a financial asset and initial recognition of a new asset, motivated by a decline in creditworthiness and repayment capacity, lead to the initial recognition of financial assets that the standard defines as “POCI”, i.e. assets that were impaired during the initial recognition.

For analysis purposes, the Bank identified a number of criteria used for assessment and comparison with the balance during the initial recognition of financial instruments in accordance with IFRS 9. The identification of one or more of the listed indicators may indicate a significantly increased credit risk, which results in financial assets being classified under Stage 2, as follows:

- Corporate customers:

    1) Over 30 days past due as of the date
    2) Blockade of over 30 days as of the date
    3) FBE PE status
    4) Gearing ratio: total debt (long-term liabilities + short-term liabilities)/equity >1 and at the same time changes in the sales, i.e. decrease in revenue of over 30%
    5) Gearing ratio: total liabilities (long-term liabilities + short-term liabilities)/equity >1 and at the same maturity mismatch (current assets – current liabilities) < 1 and inadequate cash flows (cash flows from operating activities – short-term financial liabilities) <1.

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Expected Credit Losses (Continued)

Criteria 4 and 5 are not taken into consideration for newly founded companies and financial institutions.

- Retail segment:
  1) Over 30 days past due as of the date
  2) FBE PE status
  3) Deceased clients – receivables in arrears up to 30 days

The FBE PE status is related to forborne performing loans/receivables where the contractual terms of the loan have been changed but not due to the deterioration of the borrower's financial situation.

For the purpose of classifying financial assets under Stage 3, the Bank identified a list of indicators that need to be monitored in order to identify the default status, which are based on general (regulatory) default indicators (days past due, blockade, bankruptcy, FBE NPE status) as well as on quantitative indicators within the borrower's financial statements, determined based on the history of the Bank's portfolio movements. Identified default indicators are as follows:

- Corporate customers:
  1) Over 90 days past due as of the date
  2) Blockade of over 90 days as of the date
  3) FBE NPE status
  4) Initiated bankruptcy or liquidation procedures or lawsuits filed against the client and interest suspension
  5) Loss in excess of net assets, and the same time inadequate cash flows (cash flows from operating activities – short-term financial liabilities) <1 and at the same time a decrease in revenues of over 50% according to the official annual financial statements for the past two years;
  6) POCI

Criterion 5 is not taken into consideration for newly founded companies and financial institutions.

- Retail segment:
  1) Over 90 days past due as of the date
  2) Lawsuit filed
  3) Instruments for which interest has been suspended
  4) FBE NPE status
  5) POCI
  6) Deceased clients – receivables in arrears up to 30 days

The FBE NPE status is related to forborne performing loans/receivables where the contractual terms of the loan have been changed but not due to the deterioration of the borrower's financial situation.

Past due criteria include a material delay that is defined as at least 1% of a single receivable, but not below RSD 1,000 for a retail customer and/or RSD 10,000 for a corporate customer.

Since the Bank does not have an adequate history of migrations and exposure at default to countries, central banks and financial institutions, it relies upon researches and data of renowned external rating agencies (Fitch, Moody's, S&P) when assessing an allowance for impairment and a risk of exposure at default arising from financial instruments of countries, its bodies and financial institutions with an external rating.

The Bank applies an external rating for countries, central banks and financial institutions that have been assigned a credit rating by the rating agency Moody's, whereas it uses the rating of the country of origin for those that are not assigned a credit rating by a rating agency. Countries, central banks, banks and financial institutions with a credit rating ranging from AAA to B3 will be classified under Stage 1, those whose rating is from CAA1 to CAA3 will be classified under Stage 2, and a rating from CA and C will be classified under Stage 3.

Additionally, debtors whose external ratings have deteriorated by 2 compared to the previous calculation are also assigned to Level 2.

Accordingly, at each reporting date the Bank calculates impairment allowance in the amount that equals lifetime expected credit losses if the credit risk of the financial instrument has significantly increased since the initial recognition (financial assets under Stage 2) or there is identified objective evidence of impairment (financial assets under Stage 3), or in the amount equal to 12-month expected credit losses for all financial instruments without a significant increase in credit risk since the initial recognition (financial assets under Stage 1).

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Expected Credit Losses (Continued)

Lifetime ECLs calculated in this manner represent losses recognized by the Bank for the purpose of calculating the impairment allowance under Stages 2 and 3, whereas the maximum 12-month period of such ECL represents an expected credit loss recognised for financial instruments under Stage 1.

The Bank calculates lifetime expected credit losses using the following formula:

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

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

The EAD component, i.e. exposure at default, is an estimate of the carrying amount of the Bank's receivables under IFRS 9 at the time of default, taking into account the profile of the contractual cash flows and possible additional drawdowns from the approved lines of credit before the time of default. For the financial instruments with no contractually defined cash flows or maturities, the Bank determines those based on the empirical experience.

Accordingly, the Bank uses credit conversion factors (CCF) separately for:

- Payment and performance guarantees and letters of credit,
- Undrawn limits on credit facilities (separately for revocable and irrevocable commitments),
- Credit cards,
- Segment overdrafts.

PD parameter

Probability of default (PD), i.e. the probability that a borrower will default on the loan repayment over the lifetime of the financial instrument, represents one of the basic parameters used in calculation of the impairment allowance under IFRS 9. As such, this parameter has undergone significant changes compared to the PD calculation previously used for impairment allowance calculation under IAS 39.

Migration matrices, as the basis for PD calculation, are calculated by the Bank separately for each sub-segment by observing monthly movements of annual migrations of customers, i.e. placements, form internal rating categories 1, 2, 3 and 4 to internal category 5 (default category) for a minimum period of 5 years.

In the context of multiannual PDs, it is important to distinguish among several types of PDs. Therefore, the Bank consistently applies the terminology defined under the Methodology. All of the below described PD types are available at both the individual financial instrument level and the internal rating level within each of the sub-segments:

- Marginal PD refers to the (unconditional) PD that will occur exactly at a t point in time.
- Forward PD (as well as the conditional PD) refers to PD that will occur during the period t assuming that was no default between the moment *t0* and the beginning of the period t.
- Cumulative PD refers to PD that will occur by the period *t* inclusive. The probability of default before or along with the T maturity approximates the lifetime PD, i.e. PD over the lifetime of the financial instrument.
- Forward lifetime PD refers to the conditional probability that default will occur within an interval $(t,)$ taking into consideration there was no default between the t0 period and the beginning of the period t.

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Expected Credit Losses (Continued)

When developing PD parameters used for the calculation of the impairment allowance in accordance with the Methodology, the Bank applies the following adjustments for compliance purposes with IFRS 9 requirements:

- the point-in-time (PiT) adjustment;
- Taking into consideration the forward-looking information on macroeconomic conditions, whereby the Bank examines the relations between realized default rates and the following macroeconomic factors identified as material: rate of annual change in GDP, index of change in industrial production, inflation rate - approximated by the growth rate of retail prices (CPI index), monetary aggregate M3, movement of the RSD/EUR exchange rate, index of annual change in gross income of legal entities, net average salary in the Republic of Serbia converted into EUR, unemployment rate and reference interest rates.

Forward-looking Information on Macroeconomic Conditions

The impact of the movements in macroeconomic variables on default rate movements is assessed separately for retail and corporate segments (aggregately for all sub-segments within these segments) in order to determine regularities and patterns and correlations that exist in the observed period between the realised quarterly default rate, as a dependent variable, and macroeconomic variables, as independent variables.

On that occasion, the Bank examines whether correlations between realised default rates (dependent variables) and trends in macroeconomic factors identified as having material effects on the default rates (as independent variables).

The Bank uses the linear regression model to assess the relation between the observed parameters at the beginning of the calendar year and updates the model components on an annual basis and reassesses the linear regression, so that the parameters used are also apply to the following reporting period observed. To this end, and for reliability validation, it is ensured that linear regression meets the statistical significance criteria.

PD correction for country risk
For all persons whose country of origin is not the Republic of Serbia, the Bank makes an adjustment for the risk of the debtor's country of origin, in such a way as to increase the calculated value correction by applying a percentage that represents the PD of the country according to Moody's rating determined on the calculation date.

LGD Parameter

Loss given default, i.e. LGD, is an estimate of loss with a financial instrument, assuming that the default status has occurred. LGD is one of the key components in the calculation of risk parameters for expected credit loss (ECL) calculation.

Namely, when assessing credit losses measured in accordance with its Methodology and IFRS 9, the Bank wishes to reflect the possibility of collection of receivables from both regular cash flows and collaterals and other security instruments directly related to the relevant financial instrument. To that end, the Bank generally applies the concept of LGD split to LGD secured and LGD unsecured components, depending on the securitization of each exposure.

For the purpose of calculating LGD secured, i.e. expected loss rate after collateral foreclosure, the Bank takes into account all internally available collaterals with an assessment of collectability. In the process, the Bank relies on the historical experience in collateral realization.

For the purpose of calculating LGD unsecured, the Bank monitors the collection of default cases and identifies its sources. For that purpose, each migration to the default status is observed separately, and all collections of payments in respect thereof are chronologically identified.

Approach to the segment of exposures to countries and financial institutions

In the absence of historical collection data, based on which the LGD component could be reliably modelled, the Bank uses LGD in accordance with Basel regulations in order to determine the allowance for impairment in line with its Methodology.

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Expected Credit Losses (Continued)

Stage 3 and Expected Credit Losses

Introduction

The calculation of the allowance for impairment in accordance with the Methodology for Stage 3 exposures is estimated for all exposures that have an identified default status.

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

In case of POCI assets, the credit-risk-adjusted effective interest rate is calculated as the original or initial interest rate. Such an effective interest rate is the internal rate of return that discounts the present value of the expected cash flows of that asset to the fair value of the POCI asset during its initial recognition. It is believed that the effective interest rate arrived at in this manner already includes expected credit losses.

Individual Impairment Assessment

Since ECLs under IFRS 9 represent probability-weighted estimates of credit losses, the Bank considers several possible scenarios of collection in estimating the future cash flows. The scenarios considered are as follows:

- collateral foreclosure,
- rescheduling or restructuring,
- bankruptcy,
- sale of receivables,
- settlement, and
- Other scenarios deemed as relevant.

The Bank assesses collection sources from borrower's expected future operating cash flows (the borrower continues operating as a going concern), or expects to collect its receivables from the realisation of collaterals (the expectation that the borrower will cease to operate as a going concern and become gone concern) based on the following criteria:

1) Corporate customers – at the moment of being assigned FBE NPE status, all borrowers are automatically considered gone-concern borrowers and the assessment of impairment is made based on the expected collection from collateral foreclosure, while the defined period of monitoring and probation covers 6 months or 3 consecutive payments (of either both the principal and interest or interest), with no days past due identified of over 90 days. Following the defined monitoring and probation period, the borrower may return to the going-concern status and the impairment may be assessed based on the estimated collection from the borrower's future operating cash flows;

2) Retail customers – at the moment of being assigned FBE NPE status, all borrowers with proven credit repayment capacity (a. from the regular salary paid by the employer and/or b. other regular income that can be documented, such as rental income, fees received under service contracts, closed-end employment contract, income from farming business, services rendered or temporary and seasonal work), may be treated as going-concern borrowers and impairment allowance may be made based on the expected future operating cash flows. Otherwise, they are treated as gone-concern borrowers, up to the fulfilment of the aforesaid condition of credit repayment capacity, and the impairment allowance will be made based on the assessed collection form the collateral foreclosure.

Upon determining the probabilities of certain scenarios (expressed as percentages), the Bank relies on the historical collection of NPLs, but also considers the specificities of individual financial instruments as well, and assigns appropriate weights to the scenarios accordingly, which must add up to 100% in the sum of all the scenarios considered. If the borrower meets the going-concern criteria, the Bank may define at least one scenario of collection form the expected operating future cash flows. Otherwise, the scenarios are defined under the gone-concern assumption, with collection expected from collateral activation and foreclosure. In this manner, the ultimately calculated credit losses meet the standard definition – they represent probability-weighted estimates of credit losses.

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Expected Credit Losses (Continued)

Collective Impairment Assessment (Continued)

The Bank applies collateral haircuts and realization periods as prescribed by the Collateral Management, Measurement and Insurance Procedure. In the above-described manner, the Bank estimates ECL for all financial instruments in Stage 3 that exceed the respective materiality levels of RSD 1.2 million at the retail loan facility level and RSD 3 million at the corporate borrower level. Upon defining the materiality levels, the Bank observed the materiality levels existing within its internal loan approval procedures, and the materiality level to the overall portfolio ratio, taking into account the operating capability to calculate an adequate number of facilities based on case-by-case assessments.

Collective Impairment Assessment

The Bank applies a group or collective approach to all other exposures, which entails grouping of the financial instruments remaining under Stage 3 into the sub-segments, as follows:

- retail customers,
- corporate customers (including banks and other financial institutions without an external credit rating)
- Exposures to governments and other government institutions (state and state authorities, banks and financial institutions).

The retail segment is further classified into sub-segments by product:

- housing loans,
- cash and consumer loans,
- loans to farmers/entrepreneurs,
- credit cards and overdrafts
- fee receivables for payment operations from farmers/entrepreneurs/corporate customers

The Bank further classifies borrowers from each sub-segment under the following internal categories by groups based on days past due:

Internal category	Days past due
1	0
2	1 to 30
3	31 to 60
4	61 to 90
5	Over 90

Borrowers in group 5 are borrowers with a default status.

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Expected Credit Losses (Continued)

Collective Impairment Assessment (Continued)

The effects that affected the movements in the allowance for impairment in the period from 1 January 2023 to 31 December 2023 inclusive are presented below.

	Stage 1			Stage 2			Stage 3		
	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes
Cash and balances held with the central bank	295	-	-	-	-	-	-	-	-
Securities	-	-	-	-	-	-	-	-	-
Loans and receivables due from banks and other financial institutions	353	9	(75)	-	-	-	-	-	-
Loans and receivables due from customers	32,443	272	-	(16,977)	146	-	326,809	10	-
Other assets	(1,917)	13	-	18	-	-	12,017	4	-
Total	**31,174**	**294**	**(75)**	**(16,959)**	**146**	**-**	**338,826**	**14**	**-**

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Expected Credit Losses (Continued)

Collective Impairment Assessment (Continued)

The effects that affected the movements in the allowance for impairment in the period from 1 January 2022 to 31 December 2022 inclusive are presented below.

	Stage 1			Stage 2			Stage 3		
	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes
Cash and balances held with the central bank	1,658	-	-	-	-	-	-	-	-
Securities	-	-	-	-	-	-	-	-	-
Loans and receivables due from banks and other financial institutions	(359)	-	-	-	-	-	1	-	-
Loans and receivables due from customers	46,961	-	(26)	33,328	(113)	(52)	(347,533)	1,509	(272)
Other assets	109	-	-	15	-	-	26,116	-	(15)
Total	**48,369**	**-**	**(26)**	**33,343**	**(113)**	**(52)**	**(321,416)**	**1,509**	**(287)**

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Expected Credit Losses (Continued)

Collective Impairment Assessment (Continued)

Exposure movements according to impairment levels from 1 January 2023 to 31 December 2023 inclusive are presented below.

	Movements in the credit risk exposure from 1 January 2023 to 31 December 2023			
	Opening balance as of 1 January 2023	**Stage 1**	**Stage 2**	**Stage 3**
Cash and balances held with the central bank	**Opening balance as of 1/1/2023**	**21,730,549**	**-**	**-**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	221,130	-	-
	Repayment, write-off and transfer to off-balance sheet items	(5,219,293)		
	Closing balance as of 31/12/2023	**16,732,386**	**-**	**-**
Receivables under derivatives	**Opening balance as of 1/1/2023**	**11,752**	**-**	**-**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	5,195	-	-
	Repayment, write-off and transfer to off-balance sheet items	(11,752)	-	-
	Closing balance as of 31/12/2023	**5,195**	**-**	**-**
Securities	**Opening balance as of 1/1/2023**	**12,084,586**	**23**	**-**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	2,889,297	-	-
	Repayment, write-off and transfer to off-balance sheet items	(1,260,769)	(23)	-
	Closing balance as of 31/12/2023	**13,713,114**	**-**	**-**
Loans and receivables due from banks and other financial institutions	**Opening balance as of 1/1/2023**	**4,068,926**	**-**	**1**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	9,886,569	-	1
	Repayment, write-off and transfer to off-balance sheet items	(28,788)	-	-
	Closing balance as of 31/12/2023	**13,926,707**	**-**	**1**
Loans and receivables due from customers	**Opening balance as of 1/1/2023**	**60,350,816**	**10,475,243**	**1,131,448**
	Transfer to Stage 1	1,815,193	(1,805,505)	(9,688)
	Transfer to Stage 2	(4,816,807)	4,828,541	(11,734)
	Transfer to Stage 3	(303,956)	(154,246)	458,202
	Increases through origination	33,640,259	3,825,356	227,645
	Repayment, write-off and transfer to off-balance sheet items	(26,596,613)	(3,362,040)	(261,342)
	Closing balance as of 31/12/2023	**64,088,892**	**13,807,349**	**1,534,531**
Other assets	**Opening balance as of 1/1/2023**	**542,087**	**1,623**	**70,955**
	Transfer to Stage 1	179	(95)	(84)
	Transfer to Stage 2	(490)	492	(2)
	Transfer to Stage 3	(6,773)	(3,145)	9,918
	Increases through origination	386,790	4,950	12,037
	Repayment, write-off and transfer to off-balance sheet items	(12,997)	(1,028)	(5,523)
	Closing balance as of 31/12/2023	**908,796**	**2,797**	**87,301**
Total	**Closing balance as of 31/12/2023**	**109,375,090**	**13,810,146**	**1,621,833**

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Expected Credit Losses (Continued)

Collective Impairment Assessment (Continued)

Exposure movements according to impairment levels from 1 January 2022 to 31 December 2022 inclusive are presented below.

	Movements in the credit risk exposure from 1 January 2022 to 31 December 2022			
	Opening balance as of 1 January 2022	**Stage 1**	**Stage 2**	**Stage 3**
Cash and balances held with the central bank	**Opening balance as of 1/1/2022**	**12,690,155**	**-**	**-**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	9,040,394	-	-
	Repayment, write-off and transfer to off-balance sheet items			
	Closing balance as of 31/12/2022	**21,730,549**	**-**	**-**
Receivables under derivatives	**Opening balance as of 1/1/2022**	**901**	**-**	**-**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	11,752	-	-
	Repayment, write-off and transfer to off-balance sheet items	(901)	-	-
	Closing balance as of 31/12/2022	**11,752**	**-**	**-**
Securities	**Opening balance as of 1/1/2022**	**14,279,463**	**1,224**	**-**
	Transfer to Stage 1	1,206	(1,206)	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	490	5	-
	Repayment, write-off and transfer to off-balance sheet items	(2,196,573)	-	-
	Closing balance as of 31/12/2022	**12,084,586**	**23**	**-**
Loans and receivables due from banks and other financial institutions	**Opening balance as of 1/1/2022**	**3,840,947**	**-**	**-**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	242,715	-	1
	Repayment, write-off and transfer to off-balance sheet items	(14,736)	-	-
	Closing balance as of 31/12/2022	**4,068,926**	**-**	**1**
Loans and receivables due from customers	**Opening balance as of 1/1/2022**	**53,869,516**	**11,443,154**	**1,857,543**
	Transfer to Stage 1	3,423,334	(3,399,998)	(23,336)
	Transfer to Stage 2	(3,378,805)	3,427,071	(48,266)
	Transfer to Stage 3	(233,772)	(132,137)	365,909
	Increases through origination	26,561,793	3,051,134	15,487
	Repayment, write-off and transfer to off-balance sheet items	(19,891,250)	(3,913,981)	(1,035,889)
	Closing balance as of 31/12/2022	**60,350,816**	**10,475,243**	**1,131,448**
Other assets	**Opening balance as of 1/1/2022**	**262,667**	**2,185**	**62,629**
	Transfer to Stage 1	1,238	(953)	(285)
	Transfer to Stage 2	(312)	313	(1)
	Transfer to Stage 3	(4,493)	(2,867)	7,360
	Increases through origination	301,155	3,914	10,240
	Repayment, write-off and transfer to off-balance sheet items	(18,168)	(969)	(8,988)
	Closing balance as of 31/12/2022	**542,087**	**1,623**	**70,955**
Total	**Closing balance as of 31/12/2022**	**98,788,716**	**10,476,889**	**1,202,404**

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Expected Credit Losses (Continued)

Collective Impairment Assessment (Continued)

Movements in the impairment allowance according to impairment levels from 1 January 2023 to 31 December 2023 are presented below.

	Movements in the impairment allowance from 1 January 2023 to 31 December 2023			
	Opening balance as of 1 January 2023	**Stage 1**	**Stage 2**	**Stage 3**
Cash and balances held with the central bank	**Opening balance as of 1/1/2023**	**2,498**	**-**	**-**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	3,147	-	-
	Repayment, write-off and transfer to off-balance sheet items	(2,852)	-	-
	Closing balance as of 31/12/2023	**2,793**	**-**	**-**
Securities	**Opening balance as of 1/1/2023**	**-**	**-**	**-**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	-	-	-
	Repayment, write-off and transfer to off-balance sheet items	-	-	-
Loans and receivables due from banks and other financial institutions	**Opening balance as of 1/1/2023**	**2,072**	**-**	**1**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	1,005	-	1
	Repayment, write-off and transfer to off-balance sheet items	(718)	-	-
	Closing balance as of 31/12/2023	**2,359**	**-**	**1**
Loans and receivables due from customers	**Opening balance as of 1/1/2023**	**126,168**	**128,661**	**508,805**
	Transfer to Stage 1	2,248	(2,194)	(54)
	Transfer to Stage 2	(39,180)	40,867	(1,687)
	Transfer to Stage 3	(178,956)	(56,006)	234,962
	Increases through origination	306,615	39,649	107,859
	Repayment, write-off and transfer to off-balance sheet items	(58,012)	(39,147)	(14,261)
	Closing balance as of 31/12/2023	**158,883**	**111,830**	**835,624**
Other assets	**Opening balance as of 1/1/2023**	**4,310**	**37**	**52,605**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	(24)	24	-
	Transfer to Stage 3	(4,250)	(2,088)	6,338
	Increases through origination	4,175	2,109	8,475
	Repayment, write-off and transfer to off-balance sheet items	(1,805)	(27)	(2,792)
	Closing balance as of 31/12/2023	**2,406**	**55**	**64,626**
Total	**Closing balance as of 31/12/2023**	**166,440**	**111,885**	**900,251**

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Expected Credit Losses (Continued)

Collective Impairment Assessment (Continued)

Expected credit losses are also calculated for securities that are measured at fair value through other comprehensive income. However, the expected credit losses in this case are not accounted for as the balance sheet asset impairment allowance but on the accounts of group 82 - Revaluation reserves and unrealized gains / losses. Therefore, the expected credit loss on securities is not shown in the table above, where impairment allowances of other financial assets are presented. The expected credit losses on securities that are measured at fair value through other comprehensive income amounted to RSD 32,546 thousand as of 31 December 2023 (31 December 2022: RSD 29,715 thousand).

Movements in the impairment allowance according to impairment levels from 1 January 2022 to 31 December 2022 are presented below:

	Movements in the impairment allowance from 1 January 2022 to 31 December 2022			
	Opening balance as of 1 January 2022	**Stage 1**	**Stage 2**	**Stage 3**
Cash and balances held with the central bank	**Opening balance as of 1/1/2022**	**840**	**-**	**-**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	1,686	-	-
	Repayment, write-off and transfer to off-balance sheet items	(28)	-	-
	Closing balance as of 31/12/2022	**2,498**	**-**	**-**
Securities	**Opening balance as of 1/1/2022**	**-**	**-**	**-**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	-	-	-
	Repayment, write-off and transfer to off-balance sheet items	**-**	**-**	**-**
Loans and receivables due from banks and other financial institutions	**Opening balance as of 1/1/2022**	**2,430**	**-**	**-**
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	6,854	-	1
	Repayment, write-off and transfer to off-balance sheet items	(7,212)	-	-
	Closing balance as of 31/12/2022	**2,072**	**-**	**1**
Loans and receivables due from customers	**Opening balance as of 1/1/2022**	**79,233**	**95,498**	**855,101**
	Transfer to Stage 1	8,338	(8,185)	(153)
	Transfer to Stage 2	(79,365)	79,577	(212)
	Transfer to Stage 3	(99,048)	(55,753)	154,801
	Increases through origination	407,316	69,218	12,601
	Repayment, write-off and transfer to off-balance sheet items	(190,306)	(51,694)	(513,333)
	Closing balance as of 31/12/2022	**126,168**	**128,661**	**508,805**
Other assets	**Opening balance as of 1/1/2022**	**4,201**	**22**	**26,504**
	Transfer to Stage 1	62	(2)	(60)
	Transfer to Stage 2	(8)	8	-
	Transfer to Stage 3	(2,905)	(1,811)	4,716
	Increases through origination	6,504	1,835	25,894
	Repayment, write-off and transfer to off-balance sheet items	(3,544)	(15)	(4,449)
	Closing balance as of 31/12/2022	**4,310**	**37**	**52,605**
Total	**Closing balance as of 31/12/2022**	**135,047**	**128,698**	**561,411**

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Collective Impairment Assessment (Continued)

Expected credit losses are also calculated for securities that are measured at fair value through other comprehensive income. However, the expected credit losses in this case are not accounted for as the balance sheet asset impairment allowance but on the accounts of group 82 - Revaluation reserves and unrealized gains / losses. Therefore, the expected credit loss on securities is not shown in the table above, where impairment allowances of other financial assets are presented. The expected credit losses on securities that are measured at fair value through other comprehensive income amounted to 32,546 thousand as of 31 December 2023 (31 December 2022: 29,715 thousand).

Financial Assets by Impairment

The total allowance for impairment of financial assets as of 31 December 2023 amounts to RSD 1,178,576 thousand (31 December 2022: RSD 825,156 thousand) and it decreased by RSD 353,420 thousand or 42.83% in comparison to 31 December 2022. The major impact on movements in the impairment allowance had the increase of impairment of receivables classified in stage 3.

Financial assets by impairment levels in accordance with IFRS 9 are presented below:

In RSD thousand

	31 December 2023	31 December 2022
Cash and balances held with the central bank	**16,732,386**	**21,730,549**
Stage 1	16,732,386	21,730,549
Receivables under derivatives	**5,195**	**11,752**
Stage 1	5,195	11,752
Securities	**13,713,114**	**12,084,609**
Stage 1	13,713,114	12,084,586
Stage 2	-	23
Stage 3	-	-
Loans and receivables due from banks and financial institutions	**13,926,708**	**4,068,927**
Stage 1	13,926,707	4,068,926
Stage 2	-	-
Stage 3	1	1
Loans and receivables due from customers	**79,430,772**	**71,957,507**
Stage 1	64,088,892	60,350,816
Stage 2	13,807,349	10,475,243
Stage 3	1,534,531	1,131,448
Other assets	**998,894**	**614,665**
Stage 1	908,796	542,087
Stage 2	2,797	1,623
Stage 3	87,301	70,955
Total gross	**124,807,069**	**110,468,009**
Stage 1 impairment allowance (Note 18)	166,440	135,047
Stage 2 impairment allowance (Note 18)	111,885	128,698
Stage 3 impairment allowance (Note 18)	900,251	561,411
Total impairment allowance	**1,178,576**	**825,156**
Total net	**123,628,493**	**109,642,853**

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Financial Assets by Impairment (Continued)

Financial Assets by Category

The following breakdown presents financial assets according to categories used to calculate impairment allowances, as follows:

- Assets not classified as financial assets in line with IFRS 9.
- Assets classified under Stage 1 under IFRS 9.
- Assets classified under Stage 2 under IFRS 9.
- Assets classified under Stage 3 under IFRS 9.

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Financial Assets by Category (Continued)

A breakdown of financial assets according to stages and internal categories in line with the Methodology for the Calculation of Impairment Allowances under IFRS 9:

(In RSD thousand)

Category	31 December 2023 Gross exposure	31 December 2023 Net exposure	31 December 2022 Gross exposure	31 December 2022 Net exposure
Cash and balances held with the central bank	**16,732,386**	**16,729,593**	**21,730,549**	**21,728,051**
Stage 1, out of which:	**16,732,386**	**16,729,593**	**21,730,549**	**21,728,051**
Internal rating category 1	2,173,597	2,171,855	2,551,086	2,551,086
Government, state and other institutions with external ratings	14,558,789	14,557,738	19,179,463	19,176,965
Receivables under derivatives	**5,195**	**5,195**	**11,752**	**11,752**
Stage 1, out of which:	**5,195**	**5,195**	**11,752**	**11,752**
Internal rating category 1	-	-	-	-
Government, state and other institutions with external ratings	5,195	5,195	11,752	11,752
Securities	**13,713,114**	**13,713,114**	**12,084,609**	**12,084,609**
Stage 1, out of which:	**13,713,114**	**13,713,114**	**12,084,586**	**12,084,586**
Internal rating category 1	14,738	14,738	13,499	13,499
Government, state and other institutions with external ratings	13,698,376	13,698,376	12,071,087	12,071,087
Stage 2, out of which:	**-**	**-**	**23**	**23**
Internal rating category 1	-	-	23	23
Stage 3, out of which:	**-**	**-**	**-**	**-**
Internal rating category 1	-	-	-	-
Loans and receivables due from banks and other financial institutions	**13,926,708**	**13,924,349**	**4,068,927**	**4,066,855**
Stage 1, out of which:	**13,926,707**	**13,924,349**	**4,068,926**	**4,066,855**
Internal rating category 1	1,088,410	1,086,686	943,452	942,767
Internal rating category 2	1,069	1,053	861	854
Government, state and other institutions with external ratings	12,837,228	12,836,610	3,124,613	3,123,234
Stage 3, out of which:	**1**	**-**	**1**	**-**
Internal rating category 5	1	-	1	-
Loans and receivables due from customers	**79,430,772**	**78,324,435**	**71,957,507**	**71,193,873**
Stage 1, out of which:	**64,088,892**	**63,930,009**	**60,350,816**	**60,224,648**
Internal rating category 1	58,285,066	58,178,222	56,054,119	55,958,851
Internal rating category 2	5,803,826	5,751,787	4,296,697	4,265,797
Stage 2, out of which:	**13,807,349**	**13,695,519**	**10,475,243**	**10,346,582**
Internal rating category 1	12,829,914	12,756,399	9,638,212	9,576,320
Internal rating category 2	706,723	698,859	489,946	486,659
Internal rating category 3	223,373	201,741	159,511	141,253
Internal rating category 4	47,339	38,520	187,574	142,350
Stage 3, out of which:	**1,534,531**	**698,907**	**1,131,448**	**622,643**
Internal rating category 1	137,174	123,830	57,524	45,838
Internal rating category 2	50,799	43,868	18,920	13,792
Internal rating category 3	42,836	34,361	73,856	66,270
Internal rating category 4	48,844	41,141	11,558	9,456
Internal rating category 5	1,254,878	455,707	969,590	487,287

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Financial Assets by Category (Continued)

Category	31 December 2023 Gross exposure	31 December 2023 Net exposure	31 December 2022 Gross exposure	31 December 2022 Net exposure
Other assets	**998,894**	**931,807**	**614,665**	**557,713**
Stage 1, out of which:	**908,796**	**906,390**	**542,087**	**537,777**
Internal rating category 1	906,705	904,310	536,845	532,545
Internal rating category 2	1,916	1,905	2,415	2,406
Government, state and other institutions with external ratings	175	175	2,827	2,826
Stage 2, out of which:	**2,797**	**2,742**	**1,623**	**1,586**
Internal rating category 1	1,628	1,615	1,135	1,118
Internal rating category 2	156	153	78	75
Internal rating category 3	674	643	126	117
Internal rating category 4	339	331	284	276
Stage 3, out of which:	**87,301**	**22,675**	**70,955**	**18,350**
Internal rating category 1	29,962	2,473	29,049	1,847
Internal rating category 2	317	84	58	33
Internal rating category 3	125	40	119	50
Internal rating category 4	15	4	24	12
Internal rating category 5	56,882	20,074	41,705	16,408

The division of financial assets according to internal categories was carried out in accordance with the Methodology for the Calculation of Impairment Allowances under IFRS 9. The Bank divided all debtors into 5 internal categories by days past due:

Internal category	Days past due
1	0
2	1 to 30
3	31 to 60
4	61 to 90
5	Over 90

Borrowers in group 5 are borrowers with a default status.

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Financial Assets by Category (Continued)

Fair Value of Collaterals

The Bank's collateral management system entails a set of activities and prescribed measures and rules implemented for regular recording, allocation and measurement of collaterals.

In order to mitigate its credit risk exposure, the Bank obtains collaterals from borrowers to securitize loan repayments. Security instruments that the Bank accepts may be in the form of:

- Financial assets (guarantee deposits)
- Guarantees issued by other banks as payment security
- Mortgages on immovable assets, i.e. property (residential and commercial real estate)
- Pledges over movable assets (machinery, equipment and vehicles); and
- Other collaterals

The Bank does not approve placements to customers based on the value of a security instrument, but on a positive assessment of the customer's financial position. Collaterals are therefore exclusively used to mitigate the credit risk exposure.

Collateral types and their fair values at the time of issuing securitized financial instruments comply with the loan type, maturity and borrower type.

Collaterals are recorded with relevant registers that are publicly available to all stakeholders.

The Bank may activate collaterals only after the default status has been declared and the contract with the borrower is terminated. The method of collection from the collateral depends on the collateral type. The fair value (collected value) of collaterals activated in 2023 amounts to RSD 36,206 thousand (2022: RSD 369,706 thousand).

For the purpose of assessing an additional credit risk arising from potential difficulties in collateral activation and a time lapse between a borrower's default and the Bank's ability to foreclose the collateral, the market value of the collateral underlying the security instrument (lien) in favour of the Bank is reduced to arrive at the value that the Bank would achieve in case of a possible sale of the goods in order to collect its receivables securitized by the asset.

The fair values of collaterals are presented in the following breakdown at an estimated market value but only to the amount of the receivables they secure, which applies to mortgages, pledges, deposits and guarantees received from borrowers.

The coverage of total financial assets by above-mentioned collaterals equalled 30.74% as of 31 December 2023. The coverage of gross financial assets under Stage 1 by total collateral was 26.85%, while the coverage by mortgages was only 14.98%. The coverage of financial assets under Stage 2 by total collateral was 62.92%, whereas the coverage by mortgages was 46.66%. The coverage of financial assets under Stage 3 by total collateral was 51.32%, and the coverage by mortgages was 25.85%.

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Financial Assets by Category (Continued)

Fair Value of Collaterals (Continued)

An assessment of the fair values of collaterals and other security instruments by placements as of 31 December 2023:

(In RSD thousand)

	Gross assets	Deposits	Securities and guarantees of the Republic of Serbia	Mortgages	Pledges	Other
Financial assets	**176,988,970**	**4,215,561**	**828,133**	**32,376,699**	**4,488,664**	**12,491,519**
Stage 1	157,373,847	3,695,349	732,980	23,567,328	3,984,790	10,269,445
Stage 2	17,970,823	508,834	89,360	8,384,387	479,404	1,844,797
Stage 3	1,644,300	11,378	5,793	424,984	24,470	377,277

An assessment of the fair values of collaterals and other security instruments by placements as of 31 December 2022:

(In RSD thousand)

	Gross assets	Deposits	Securities and guarantees of the Republic of Serbia	Mortgages	Pledges	Other
Financial assets	**148,161,745**	**4,411,970**	**1,860,100**	**29,368,167**	**3,499,399**	**10,328,567**
Stage 1	130,930,584	3,377,870	1,609,923	22,139,127	3,107,183	7,695,900
Stage 2	16,025,377	1,027,647	237,257	6,805,868	354,075	2,559,668
Stage 3	1,205,784	6,453	12,920	423,172	38,141	72,999

LTV ratio

The LTV ratio is calculated as a ratio between the gross value of a financial asset and the estimated market value of the property on which a mortgage lien has been constituted in favour of the Bank. As regards financial assets secured with mortgages as of 31 December 2023, financial assets secured with mortgages with an LTV ratio below 50% account for the largest share of 42.19%, financial assets secured with mortgages with an LTV from 50% to 70% account for 25.12%, financial assets secured with mortgages with an LTV ratio from 70% to 90% account for 15.37%, financial assets secured with mortgages with an LTV ratio over 100% account for 12.79%, whereas financial assets secured with mortgages with an LTV ratio from 90% to 100% account for 4.52%.

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Financial Assets by Category (Continued)

LTV ratio (Continued)

LTV ratio balance as of 31 December 2023:

(In RSD thousand)

LTV	Below 50%	50%-70%	70%-90%	90%-100%	Above 100%
Financial assets secured with mortgages	**13,659,847**	**8,133,881**	**4,977,211**	**1,464,659**	**4,141,101**
Stage 1	7,073,029	7,172,867	4,489,255	1,069,157	3,763,020
Stage 2	6,496,252	936,690	317,199	278,820	355,426
Stage 3	90,566	24,324	170,757	116,682	22,655

LTV ratio balance as of 31 December 2022:

(In RSD thousand)

LTV	Below 50%	50%-70%	70%-90%	90%-100%	Above 100%
Financial assets secured with mortgages	**9,836,239**	**10,796,925**	**6,102,239**	**293,682**	**2,339,082**
Stage 1	5,616,291	9,417,856	5,230,976	265,848	1,608,156
Stage 2	3,931,878	1,364,011	762,348	27,834	719,797
Stage 3	288,070	15,058	108,915	-	11,129

Financial Assets by Days Past Due

As of 31 December 2023, 96.13% of financial assets in the total gross financial assets have no days past due, 2.58% of financial assets are from 1 to 30 days past due, 0.27% of financial assets are from 31 to 90 days past due, 0.16% of financial assets are from 91 to 180 days past due, 0.20% of financial assets are from 181 to 365 days past due, and 0.65% of financial assets are over 365 days past due.

Breakdown of financial assets by days-past-due intervals

	31 December 2023		31 December 2022	
	Gross exposure	**Net exposure**	**Gross exposure**	**Net exposure**
No days past due	119,980,276	119,700,951	100,182,762	99,951,685
From 1 to 30 days past due	3,222,304	3,187,452	8,903,556	8,874,743
From 31 to 90 days past due	334,324	287,032	424,725	349,984
From 91 to 180 days past due	201,838	79,979	152,008	74,108
From 181 to 365 days past due	254,390	70,707	226,226	136,943
Over 365 days past due	813,937	302,372	578,732	255,390
Total	**124,807,069**	**123,628,493**	**110,468,009**	**109,642,853**

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Financial Assets by Industry

The structure of financial assets by industry in net and gross amounts is presented below.

As of 31 December 2023, the exposure to banks and financial institutions accounts for the largest share in gross financial assets, i.e. 24.72% (2022: 23.15%).

Concentration of financial assets by industry (in RSD thousand)

	31 December 2023		31 December 2022	
	Gross exposure	Net exposure	Gross exposure	Net exposure
Agriculture, forestry and fishery	4,502,360	4,459,890	3,925,481	3,888,900
Mining	1,045,662	1,043,160	974,058	970,673
Manufacturing and processing industry	15,100,840	14,845,586	14,360,355	14,145,651
Electricity, gas and air conditioning supply	728,088	702,686	737,713	720,030
Construction industry	8,583,180	8,343,208	8,178,371	8,125,281
Trade and repair of motor vehicles and motorcycles	12,016,281	11,844,172	9,585,168	9,457,319
Transport and storage, accommodation and food, information and communications	5,452,587	5,400,295	5,462,169	5,410,938
Real estate, professional, scientific and technical activities, arts, entertainment and leisure	2,538,614	2,520,910	2,258,497	2,245,278
Banks, financial institutions and insurance companies	30,857,897	30,825,929	25,572,830	25,537,703
Retail customers	22,355,350	22,076,312	20,178,668	19,943,104
Other	21,626,210	21,566,345	19,234,699	19,197,976
Total	**124,807,069**	**123,628,493**	**110,468,009**	**109,642,853**

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Financial Assets by Industry (Continued)

Concentration of financial assets by industry (in RSD thousand)

Exposures to customers in other industries:

- Non-residents, including foreign banks without a defined and registered business activity in line with the Regulation on the Classification of Industries of the Government of the Republic of Serbia,
- State authorities,
- Administrative, ancillary and services activities,
- Travel agencies, education,
- Health care and welfare,
- Art, entertainment and leisure industry.

Concentration of off-balance sheet items by industry (in RSD thousand)

	31 December 2023		31 December 2022	
	Gross exposure	Net exposure	Gross exposure	Net exposure
Agriculture, forestry and fishery	234,249	234,128	279,864	279,840
Mining	2,095,712	2,095,681	68,222	68,220
Manufacturing and processing industry	12,287,596	12,284,786	8,562,018	8,561,339
Electricity, gas and air conditioning supply	765,591	765,530	670,788	670,504
Construction industry	16,772,562	16,769,858	13,131,025	13,130,577
Trade and repair of motor vehicles and motorcycles	8,455,709	8,454,553	5,365,472	5,365,139
Transport and storage, accommodation and food, information and communications	4,041,567	4,039,906	3,335,870	3,334,632
Real estate, professional, scientific and technical activities, arts, entertainment and leisure	2,440,742	2,440,089	1,632,127	1,631,907
Banks, financial institutions and insurance companies	8,073	7,782	11,234	11,232
Retail customers	551,118	550,445	435,722	435,276
Other	4,528,982	4,528,100	4,201,394	4,200,909
Total	**52,181,901**	**52,170,858**	**37,693,736**	**37,689,575**

The concentration of financial assets by industry is within the prescribed internal limits.

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Financial Assets by Geographic Region

The table below shows financial assets by exposure to certain geographic regions. As of 31 December 2023, a net exposure to customers in Serbia is prevailing (90.75%). Borrowers from the European Union account for 3.56%, from the USA and Canada account for 0.07%, whereas borrowers from other regions account for 5.62%.

Concentration of financial assets by region, net exposures

(In RSD thousand)

	31 December 2023	31 December 2022
Serbia	112,197,195	100,200,158
European Union	4,396,141	1,840,541
USA and Canada	92,393	91,390
Other	6,942,764	7,510,764
Total	**123,628,493**	**109,642,853**

Financial Assets by Serbian Regions

The table below shows financial assets by exposure to certain geographic regions in Serbia. As of 31 December 2023, a net exposure to customers in Belgrade is prevailing 58.29%, the exposure to customers in Western Serbia is 21.38%, in Vojvodina 10.42%, and the exposure in Southern and Eastern Serbia is 6.20% and 3.71% respectively.

Concentration of financial assets by Serbian regions, net exposures (in RSD thousand)

(In RSD thousand)

	31 December 2023	31 December 2022
Belgrade	65,402,810	58,749,452
Vojvodina	11,687,644	9,589,187
Southern Serbia	6,951,442	5,944,814
Eastern Serbia	4,166,704	3,581,614
Western Serbia	23,988,595	22,335,091
Total	**112,197,195**	**100,200,158**

Write-Off of Receivables

The Bank will adequately manage the collection of NPLs as long as it assesses that collection activities are economically justified, i.e. as long as the collection is possible. The Bank deems that it is no longer economically justified to attempt the collection in the following instances:

- Severe collection difficulties, including death of a borrower or a pledger;
- Lack of assets for an execution/enforcement procedure,
- Prolonged periods without collection and no prospects of further collection; and
- Debt amount is low and does not justify the use of Bank’s resources for collection purposes.

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Write-Off of Receivables (Continued)

If the Bank assesses that a loan cannot be collected, it performs a so-called debt relief. After performing a debt relief, the Bank permanently waives collection of receivables from a borrower, based on a settlement (agreement) with the borrower/co-borrowers, a legally binding court decision, an enforceable document (adjudication or decision), a relevant decision of a Bank's competent body or an assignment of receivables resulting in the cessation of the right to further collection. In such a case, all Bank's receivables are derecognized from Bank's balance and off-balance sheet items. A relief of a loan and/or receivable may but need not be preceded by the direct write-off of the loan and/or receivable. On the other hand, the Bank conducts so-called accounting write-off of balance sheet assets with low collectability. Accounting write-off entails a transfer of balance sheet assets to off-balance sheet items of the Bank. Balance sheet assets include non-performing loans and other non-performing exposures. Accounting write-off does not imply Bank's waiver of its legal and contractual rights, or of the collection of these receivables, but accounting write-off is done from Bank's balance sheet items, whereas these receivables are further kept under off-balance sheet records and the Bank continues with the collection of receivables already started. The Bank performs accounting write-off of balance sheet assets with low collectability in the event when the calculated impairment of such receivables that the Bank credited to the allowance for impairment amounts to 100% of its gross carrying value, i.e. if the receivables are fully indirectly written off. Accounting write-off is performed at least quarterly. In 2023, the Bank performed accounting write-off of receivables for NPLs in the total amount of RSD 33,981 thousand (2022: RSD 410,924 thousand). ,

Receivables collected under bankruptcy procedures

The Bank reports receivables under a bankruptcy proceeding by submitting a registration form in writing to the competent court. The Bank is required to register receivables in the original currency of receivables in accordance with the Law on Bankruptcy. On the day when the bankruptcy proceedings commence, creditors' receivables from the debtor that are not due will be deemed due. Foreign currency receivables are calculated in the RSD countervalue at the official middle exchange rate of the National Bank of Serbia on the date of the bankruptcy commencement, and they are recorded in RSD in the books of account. After the commencement of the bankruptcy proceeding, receivables in the functional currency (RSD) and receivables from indexed placements are stated in the books of account in the original currency and/or RSD. After the bankruptcy trustee has determined a final list of recognised receivables, a receivable to the client in the balance sheet items is reduced to the amount from the list of recognised receivables, and a potential difference is carried forward to off-balance sheet records.

As regards the Guidelines on Disclosure of Bank's Data and Information on Assets Quality ("Guidelines"), the required qualitative and quantitative information will be disclosed within data prepared and presented in accordance with the Decision on Disclosure of Data and Information by Banks ("Official Gazette of RS" no. 125/2014. 4/2015 and 103/2016).

Loan Restructuring

In 2023, the Bank amended the terms and conditions for the repayment of receivables in accordance with the National of Bank of Serbia's Decision on Classification of Balance Sheet Assets and Off-balance Sheet Items ("Official Gazette of the RS", 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, 114/2017, 103/2018 and 8/2019).

In accordance with the amended NBS' Decision on Classification of Balance Sheet Assets and Off-Balance Sheet Items dated 29 June 2016, days past due in collection of receivables are calculated from the last contracted maturity date for materially significant amount of receivables.

Restructuring entails approval of concessions on repayment of receivables due to borrower's financial difficulties, which would not otherwise be allowed, regardless of whether a certain amount of receivables has already matured, whether the receivable has been impaired or defaulted in accordance with the decision governing capital adequacy of banks, in at least one of the following ways:

- modification of the original terms of the receivable, particularly if the subsequently agreed terms of repayment are more favourable than the original terms (interest rate reduction, write-off of a portion of the principal outstanding, entailing derecognition of that portion in the balance sheet assets, write-off of a portion of the accrued interest, write-off of a portion of the receivable, a change in the maturity date of the principal and/or interest, etc.) or than the terms that would be approved to another borrower with the same or similar risk level.
- refinancing of receivables, where a new receivable is originated from the loan approved to settle a portion of or the entire amount of the borrower's liability to the Bank or another legal entity to which the receivable due from the borrower has been assigned.

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Restructured receivables due from corporate customers are:

- receivables restructured at the Bank level, where the Bank defines the restructuring terms;
- receivables restructured in collaboration with other creditors, either under an interbank agreement on equal terms of restructuring or under the Law on Consensual Financial Restructuring of Companies with the participation of an institutional mediator;
- receivables due from debtors where, in the previous bankruptcy procedure, a pre-packed reorganization plan was proposed and adopted; and
- receivables due from debtors where, in the bankruptcy procedure, a bankruptcy debtor reorganization plan was proposed and adopted

Restructured receivables from retail customers are receivables due from borrowers that the Bank assessed, based on the creditworthiness, as being able to settle the loan repayment liabilities to the Bank in a timely manner in the forthcoming period if certain repayment concessions are granted by the Bank.

Upon undertaking restructuring measures, the Bank is required to estimate whether the placement restructuring approved to a debtor is sustainable and economically justified for both the Bank and the debtor and to determine the restructuring schedule and regularly monitor its implementation and effects.

On a regular basis, at least semi-annually, the Bank monitors the implementation of the loan restructuring schedule through the Report on the Rescheduled Receivables at the Client Level.

The Bank may cease to treat a receivable as restructured if at the end of the trial period the following criteria are met:

- the restructured receivable is not classified as non-performing;
- the borrower repaid a materially significant portion of the debt through regular payments of principal and/or interest during at least half of the trial period;
- The borrower is not over 30 days past due in any liability towards the Bank.

The probation period is a minimum two-year period that starts from the moment when the restructured receivable is classified as performing.

A material portion of the total amount of debt is the amount of at least 6% of the principal of the receivables with changed repayment terms based on a housing loan or receivables used to refinance the bank's receivable under that loan, or 8% of the principal of the receivables in case of other receivables.

The table below provides the number of customers and placements restructured in 2023, as well as their gross exposure as of 31 December 2022.

Balance as of 31 December 2023	**No. of customers**	**No. of restructured loans**
181,972	42	47

The table below provides the number of customers and placements restructured in 2022, as well as their gross exposure as of 31 December 2022.

Balance as of 31 December 2022	**No. of customers**	**No. of restructured loans**
137,097	25	26

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Loan Restructuring (Continued)

Breakdown of the total sum of restructured and impaired loans as of 31 December 2023

(In RSD thousand)

Category	31 December 2023			
	Gross exposure	Net exposure	No. of customers	No. of loan facilities
Stage 1	-	-	-	-
Stage 2	51,158	50,955	15	15
Stage 3	344,657	249,339	71	82
Total	**395,815**	**300,294**	**86**	**97**

Breakdown of the total sum of restructured and impaired loans as of 31 December 2022

(In RSD thousand)

Category	31 December 2022			
	Gross exposure	Net exposure	No. of customers	No. of loan facilities
Stage 1	-	-	-	-
Stage 2	146,356	145,963	19	21
Stage 3	228,574	186,880	50	56
Total	**374,930**	**332,843**	**69**	**77**

Fair Value of Assets and Liabilities

The fair value stated in the financial statements is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an independent transaction.

Fair value is calculated using the market information available as of the reporting date.

Whenever possible, the Bank measures the fair vale using the market prices available on an active market for a specific instrument. A market is deemed active if the quoted prices are easily and regularly available and reflect actual common market transactions performed under market conditions.

The fair value of a current liquid instrument presented at its nominal value approximates its carrying value. This applies to cash and cash equivalents, as well as receivables and liabilities without a determined maturity or without a fixed interest rate. For other receivables and liabilities, expected future cash flows are discounted to their net present values using market interest rates.

Quoted market prices are used to determine the fair values of trading securities. The fair value of other securities is calculated as the net present value of expected future cash flows using the interest rates applied to similar securities.

In determining the fair value of municipal bonds issued by local self-government units in the Republic of Serbia, the applicable discount rate is increased by the issuer risk/premium at the time of the municipal bond issue or at a more recent date if such an input is available. The Bank applies an approach based on the initially assessed value of the risk premium to the calculated credit spread, which is determined as the cost of risk.

Given that there is no sufficiently developed secondary loan market, where the fair value of these financial instruments could be determined, it is necessary to use lower input levels than Levels 1 and 2, i.e. Level 3 inputs. The observation unit is a single loan, or a loan facility, and the fair value is determined using the income approach or converting future cash flows (income) of a specific loan using the discounted cash flow method.

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Fair Value of Assets and Liabilities (Continued)

Disbursement of new loans to the retail and corporate customers in 2023 was in line with the market conditions (departures per months in certain product categories, taking into account maturity, currency and placement type were within the range of +/-1 p.p.). Given the foregoing, the fair values determined for loans disbursed in 2023 are equal to their carrying values.

Loans disbursed before 2023 were subject to discounting using the interest rates available on the website of the National Bank of Serbia. These interest rates are taken from the Report on Interest Rates of Banks on Loans to Retail and Non-financial Customers by Type, Maturity and Purpose – newly approved placements. The Bank used inputs for December 2023.

Assessment 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 (unadjusted) on active markets for identical assets or liabilities accessible to market participants on the fair value measurement date;
- 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, interest rates, correlations, etc.). Indirectly identifiable inputs are used for instrument measurement based on a quoted market price on active markets for similar instruments; indicated prices for the same or similar instruments on markets that are deemed less active or other assessment techniques, where all significant inputs are directly or indirectly observable from market data;
- Level 3: its parameters are not publicly available for the given asset or liability.

Financial assets measured at fair value (in RSD thousand)

31 December 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities				13,713,114
• Financial assets at FVTPL	14,737	-	-	14,737
• Securities at FVTOCI	-	13,698,377	-	13,698,377

31 December 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Securities				12,084,609
• Financial assets at FVTPL	13,522	-	-	13,522
• Securities at FVTOCI	-	12,071,087	-	12,071,087

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Financial assets and liabilities not measured at fair value

31 December 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Cash and cash equivalents	-	16,729,593	-	16,729,593
Receivables under derivatives	-	-	5,195	5,195
Loans and receivables due from banks and other financial institutions	-	-	13,924,349	13,924,349
Loans and receivables due from customers	-	-	79,414,312	79,414,312
Other assets	-	-	931,807	931,807
Financial liabilities				
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	8,259,225	8,259,225
Deposits and other liabilities due to other customers	-	-	92,066,727	92,066,727
Other liabilities	-	-	1.381,421	1,381,421

31 December 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Cash and cash equivalents	-	21,728,051	-	21,728,051
Receivables under derivatives	-	-	11,752	11,752
Loans and receivables due from banks and other financial institutions	-	-	4,066,855	4,066,855
Loans and receivables due from customers	-	-	71,279,991	71,279,991
Other assets	-	-	557,713	557,713
Financial liabilities				
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	8,212,864	8,212,864
Deposits and other liabilities due to other customers	-	-	81,057,405	81,057,405
Other liabilities	-	-	891,494	891,494

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

Assessment of Financial Instruments (Continued)

Breakdown of financial assets and liabilities at fair value – comparison of their carrying and fair values calculated for the purpose of being disclosed in Notes to the Financial Statements (in RSD thousand)

31 December 2023	FVTPL	FVTOCI	Other amortisation cost	Total amount in books	Total fair value
Financial assets					
Cash and balances held with the central bank	-	-	16,729,593	16,729,593	16,729,593
Receivables under derivatives	-	-	5,195	5,195	5,195
Securities	14,737	13,698,377	-	13,713,114	13,713,114
Loans and receivables due from banks and other financial institutions	-	-	13,924,349	13,924,349	13,924,349
Loans and receivables due from customers	-	-	78,324,435	78,324,435	79,414,312
Other assets	-	-	931,807	931,807	931,807
Financial liabilities					
Liabilities arising from derivatives			-	-	-
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	8,259,225	8,259,225	8,259,225
Deposits and other liabilities due to other customers	-	-	92,066,727	92,066,727	92,066,727
Other liabilities	-	-	1.381,421	1.381,421	1.381,421

31 December 2022	FVTPL	FVTOCI	Other amortisation cost	Total amount in books	Total fair value
Financial assets					
Cash and balances held with the central bank	-	-	21,728,051	21,728,051	21,728,051
Receivables under derivatives	-	-	11,752	11,7521	11,752
Securities	13,522	12,071,087	-	12,084,609	12,084,609
Loans and receivables due from banks and other financial institutions	-	-	4,066,855	4,066,855	4,066,855
Loans and receivables due from customers	-	-	71,193,873	71,193,873	71,279,991
Other assets	-	-	557,713	557,713	557,713
Financial liabilities					
Liabilities arising from derivatives			1,573	1,573	1,573
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	8,212,864	8,212,864	8,212,864
Deposits and other liabilities due to other customers	-	-	81,057,821	81,057,821	81,057,405
Other liabilities	-	-	891,494	891,494	891,494

30. RISK MANAGEMENT (Continued)

30.1 Credit Risk (Continued)

The Bank manages capital and capital adequacy ratios in order to maintain the required level of capital to support the development of the Bank and its business activities.

The capital adequacy ratio represents the ratio of Bank's capital to its risk-weighted assets. Bank's risk-weighted assets equal the sum of its credit-risk weighted assets and the capital requirement for the foreign exchange and operational risks multiplied by the reciprocal value of the capital adequacy ratio.

Bank's capital is comprised of the core capital and supplementary capital net of a sum of deductible items. The Bank is thereby required to maintain a minimum amount of capital of no less than EUR 10,000,000 in the RSD countervalue during the ordinary course of business at all times.

The Bank calculates the capital requirement for credit risk using the standardized approach, by multiplying the total credit risk-weighted assets by 8%. Bank's credit risk-weighted assets comprise a sum of the gross carrying values of Bank's balance sheet assets less impairment allowances and the gross carrying values of Bank's off-balance sheet items less provisions, multiplied by conversion factors.

The Bank calculates the capital requirement for foreign exchange risk by multiplying a sum of the total net open foreign currency position and the absolute value of the net open position in gold by 8%. The total net open foreign currency position represents the absolute value of the higher of either the total long or total short foreign currency positions.

The Bank calculates the capital requirement for operational risk by applying the basic indicator approach equal to the three-year average exposure indicator multiplied by the capital requirement rate of 15%.

Taking into account that the Bank does not reach the prescribed limits, it is not obliged, in addition to the capital requirements for credit, foreign exchange and operational risks, to calculate and ensure the coverage of capital requirements in connection with other market risks arising from the items recorded in the trading book.

As of 31 December 2023, the Bank's capital and capital adequacy were calculated in accordance with relevant decisions of the National Bank of Serbia, which comply with the implementation of Basel III standard.

Bank's capital adequacy ratios as of 31 December 2023 were as follows:

- Bank's capital adequacy ratio - 26.98%;
- Bank's Tier 1 capital adequacy ratio - 26.98%:
- Bank's common equity Tier 1 capital adequacy ratio 25.47%,

which were higher than their minimum values prescribed under the National Bank of Serbia's Decision on Capital Adequacy for Banks:

- 8% for capital adequacy ratio of banks:
- 6% for Tier 1 capital adequacy ratio of banks;
- 4.5% for common equity Tier 1 capital adequacy ratio of banks**.**

30. RISK MANAGEMENT (Continued)

30.2 Capital and Capital Adequacy (Continued)

In RSD thousand

No.	Item	31 December 2023	31 December 2022
1	**CAPITAL**	**21,475,618**	**20,552,618**
1.1	**TIER 1 CAPITAL**	**21,474,278**	**20,551,278**
1.1.1	**Common equity Tier 1 capital**	**20,274,278**	**19,351,278**
1.1.1.1	**Common equity Tier 1 capital instruments and relevant share premium**	**17,161,329**	**17,161,329**
1.1.1.1.1	Paid in common equity Tier 1 capital instruments	9,887,600	9,887,600
1.1.1.1.2	Share premium associated with common equity Tier 1 capital instruments	7,273,729	7,273,729
1.1.1.2	(-) Loss	**-**	**-**
1.1.1.3	Revaluation reserves and other unrealized gains/losses	**(270,302)**	**(499,012)**
1.1.1.4	Reserves from profit, other reserves and reserves for general banking risks	**5,113,022**	**3,827,958**
1.1.1.5	(+/-) Regulatory adjustments of the value of common equity Tier 1 capital elements	**(13,905)**	**(12,291)**
1.1.1.6	(-) Goodwill decreased by related deferred tax liabilities	**-**	**-**
1.1.1.7	(-) Other intangible assets decreased by related deferred tax liabilities	**(1,619,806)**	**(1,016,170)**
1.1.1.8	(-)Deferred tax assets dependable on Bank's future profitability, except for those arising from temporary differences less related deferred tax liabilities	**(53,076)**	**(51,106)**
1.1.1.9	(-)The required reserve for estimated losses on Bank's balance sheet assets and off-balance sheet items deductible from Bank's common equity Tier 1 capital	**-**	**-**
1.1.1.10	(-) Gross amount of receivables from borrowers – retail customers, whose credit indebtedness before the loan approval was higher than the percentage determined in accordance with the decision of the NBS	**(42,984)**	**(59,430)**
1.1.1.11	(-)Gross amount of receivables from borrowers – retail customers, who meet the condition for applying the deductible item of common equity Tier 1 capital based on the contractual maturity criterion	**-**	**-**
1.1.2	**Additional Tier 1 capital**	**1,200,000**	**1,200,000**
1.1.2.1	Additional Tier 1 capital instruments and relevant share premium	1,200,000	1,200,000
1.1.2.1.1	Paid in additional Tier 1 capital instruments	600,000	600,000
1.1.2.1.2	Share premium associated with additional Tier 1 capital instruments	600,000	600,000
1.2	**SUPPLEMENTARY CAPITAL**	**1,340**	**1,340**
1.2.1	Supplementary capital instruments, subordinated liabilities and accompanying share premium	1,340	1,340
1.2.1.1	Paid in supplementary capital instruments	1,340	1,340
1.2.1.2	Share premium associated with supplementary capital instruments	**-**	**-**
2.	**Total risk-weighted assets:**	**79,586,823**	**68,539,985**
2.1	Risk-weighted credit risk exposures	71,543,289	62,382,259
2.2	Risk-weighted foreign exchange risk exposures	824,896	-
2.3	Risk-weighted assets for credit exposure adjustment risk	-	9,388
2.4	Risk-weighted operational risk exposures	7,218,638	6,148,338
3.	**Capital adequacy ratios:**		
3.1	Capital adequacy ratio	**26.98%**	**29.99%**
3.2	Tier 1 capital adequacy ratio	**26.98%**	**29.98%**
3.3	Common equity Tier 1 capital adequacy ratio	**25.47%**	**28.23%**

30. RISK MANAGEMENT (Continued)

30.3 Repossessed Property following Foreclosure

The Bank is actively involved in sales of repossessed property following foreclosure and may retain the foreclosed assets for a certain period of time, only in cases when a quick sale would result in significant losses.

Repossessed property following foreclosure as of 31 December 2023 and 31 December 2022:

No.	Repossessed property	Area (m^2)	Acquisition date	Execution debtor	Net book value as of 31 December 2023	Net book value as of 31 December 2022
1.	Residential building 1, Ko Voljavče-Jagodina	321	31/08/2020	Interchem HIM doo	6,810	6,810
2.	Two bedroom flat-Kragujevac	121	29/09/2020	Interchem HIM doo	10,584	10,584
3.	Business premises 1-basement, KO Jagodina	222	21/05/2021	Interchem HIM doo	12,052	12,052
4.	Business premises 2-ground floor, KO Jagodina	222	21/05/2021	Interchem HIM doo	20,101	20,101
5.	Business premises 1- attic, KO Jagodina	222	21/05/2021	Interchem HIM doo	16,053	16,053
	Total				**65,600**	**65,600**

30.4 Liquidity Risk

Liquidity risk is a risk of a potential occurrence of adverse effects on the Bank's financial performance and capital due to its inability to discharge its liabilities when these fall due. The objective of liquidity risk management is to maintain Bank's liquid assets at a level that ensures the Bank's timely settlement of its liabilities.

The Bank manages its assets and liabilities ensuring that it is able to settle its due liabilities (liquidity) at all times and permanently settle all its liabilities (solvency).

The following organizational units at the Bank are responsible for liquidity risk management:

- The Board of Directors, which adopted the Liquidity Risk Management Policy and the Contingency Business Plan (liquidity crisis plan);
- The Executive Board, which implements the adopted policy and defines the Liquidity Risk Management Procedure;
- Risk Management Department and Treasury Department, which monitor and maintain liquidity on a daily basis.
- The Asset Liability Committee (ALCO), which monitors the Bank's the liquidity risk exposure and proposes adequate measures for liquidity risk management

Liquidity risk is measured by the Risk Management Department by calculating the liquidity ratio, quick liquidity ratio and liquidity coverage ratio, as well as additional liquidity ratios, deposit concentration ratio, s GAP analysis and stress tests.

The Bank's exposure to the liquidity risk is measured by monitoring the liquidity ratio, quick liquidity ratio and liquidity coverage ratio as prescribed by the NBS' Decision on Liquidity Risk Management by Banks and the Bank's Liquidity Risk Management Procedure. The liquidity ratio is the sum of the level 1 and level 2 liquid receivables, one hand, and the sum of demand payables or payables without a contracted maturity and liabilities falling due within a month from the day of calculating this ratio. The quick liquidity ratio is the sum of level 1 liquid receivables, on one hand, and the sum of liabilities payable on demand or a without contractually defined maturity and payables with a contracted maturity falling due within a month from the ratio calculation date. The liquidity coverage ratio represents a Bank's liquidity buffer and its net liquid asset outflows, which would occur over the next 30 days from the date of calculating this ratio under assumed stress conditions.

30. RISK MANAGEMENT (Continued)

30.4 Liquidity Risk (Continued)

Realised liquidity ratios and quick liquidity ratios

	Liquidity ratio 2023	2022
31 December	2,07	1.95
Average value	2.05	1.83
Maximum value	2.47	2.33
Minimum value	1.65	1.34

	Quick liquidity ratio 2023	2022
31 December	1.43	1.70
Average value	1.49	1.56
Maximum value	1.97	1.95
Minimum value	1.20	1.12

The Bank’s liquidity was also monitored through its liquid asset ratio, which represents liquid assets relative to the total assets.

Realised liquid asset ratios

	2023	2022
31 December	33.26%	32.29%
Average value	30.65%	28.20%
Maximum value	34.26%	34.51%
Minimum value	28.38%	23.73%

Realised Indicators of coverage with liquid assets

	2023	2022
31 December	154.02%	147.70%

In 2023, the Bank monitored its liquidity risk levels based on the movements in its additional liquidity ratios specified by the Liquidity Risk Management Procedure and ratios referred to under contracts that the Bank signed with international financial institutions. The values of these ratios were within limits prescribed by the said Procedure and the contracts signed with international financial institutions.

The critical element of liquidity risk monitoring and management is monitoring the consistency of the maturities of assets and liabilities. Consistency and inconsistency of maturities of assets and liabilities are fundamental for the Bank's management. It is uncommon for banks to achieve complete maturity consistency of their assets and liabilities since transactions are often performed for indefinite periods and are different types. It is uncommon for banks to achieve complete maturity consistency of their assets and liabilities since transactions are often performed for indefinite periods and are different types.

The bank is in 2023 with the liquidity risk management procedure and the methodology for converting balance and off-balance sheet positions into cash flows, internal acts defined detailed methodological rules for the allocation of balance sheet items of assets and liabilities, as well as off-balance sheet items in the liquidity gap, defined the limit per maturity basket, then defined the responsibilities of the participants as in the preparation Liquidity gap as well as participants in providing data that are relevant for creating the gap.

30. RISK MANAGEMENT (Continued)

30.4 Liquidity Risk (Continued)

Realised Indicators of coverage with liquid assets (Continued)

According to the mentioned methodology, Liquidity Gap Limits are defined as the maximum amount of the negative value of individual and/or cumulative gap ("liquidity shortage"), which the Bank accepts as its maximum exposure to liquidity risk, after taking into account the monetization of its liquidity protection layer, i.e. "liquidity buffer". The Bank also defined the risk bearing capacity, which represents the maximum amount of additional sources of financing (renewed and new) that the Bank can obtain at a certain point in time and with a certain maturity date.
With the Methodology for converting balance sheet and off-balance sheet positions into cash flows, the bank defined that the allocation of RSD and FX mandatory reserves in maturity baskets is carried out according to a model that follows the deposit maturity plan, but also modeled outflows on current accounts, i.e. all those obligations that have been taken into account during the monthly calculation of the required reserve level. In this way, the allocation of the mandatory reserve is based on percentages that reflect the displayed maturity of deposits in the gap and other obligations that generate the mandatory reserve.

30. RISK MANAGEMENT (Continued)

30.4 Liquidity Risk (Continued)

The table below presents Bank's assets and liabilities grouped in maturity buckets from the reporting date to the contractual maturity date.

In RSD thousand

31. decembar 2023. godine	Up to 30 days	30 to 90 days	90 to 365 days	1 to 5 years	Over 5 years	Total
Cash and balances held with the central bank	6,760,211	1,658,335	7,089,950	965,312	255,785	16,729,593
Pledged financial assets	-	-	-	-	-	-
Securities	13,713,114	-	-	-	-	13,713,114
Receivables under derivatives	-	-	-	-	5,195	5,195
Loans and receivables due from banks and other financial institutions	12,632,082	32,533	167,779	116,340	975,615	13,924,349
Loans and receivables due from customers	3,647,299	6,540,738	24,447,488	32,478,920	11,209,990	78,324,435
Other assets	108,099	-	-	-	823,708	931,807
Total financial assets	**36,860,805**	**8,231,606**	**31,705,217**	**33,560,572**	**13,270,293**	**123,628,493**
Liabilities under derivatives	-	-	-	-	-	-
Deposits and other liabilities due to banks, other financial institutions and the central bank,	1,344,779	2,790,809	2,446,165	584,147	1,093,325	8,259,225
Deposits and other liabilities due to other customers	15,514,857	12,041,988	56,505,370	6,220,012	1,784,500	92,066,727
Other liabilities		308	13,507	401,927	965,679	1,381,421
Total financial liabilities	**16,859,636**	**14,833,105**	**58,965,042**	**7,206,086**	**3,843,504**	**101,707,373**
Maturity gap	**20,001,169**	**-6,601,499**	**-27,259,825**	**26,354,486**	**9,426,789**	**21,921,120**

30. RISK MANAGEMENT (Continued)

30.4 Liquidity Risk (Continued)

In RSD thousand

31 December 2022	Up to 30 days	30 to 90 days	90 to 365 days	1 to 5 years	Over 5 years	Total
Cash and balances held with the central bank	19,676,951	2,051,100	-	-	-	21,728,051
Pledged financial assets	-	-	-	-	-	-
Securities	12,084,609	-	-	-	-	12,084,609
Receivables under derivatives	11,752	-	-	-	-	11,752
Loans and receivables due from banks and other financial institutions	3,941,838	427	26,701	2,113	95,776	4,066,855
Loans and receivables due from customers	2,746,315	5,982,001	19,391,782	31,503,550	11,570,225	71,193,873
Other assets	31,267	-	-	-	526,446	557,713
Total financial assets	**38,492,732**	**8,033,528**	**19,418,483**	**31,505,663**	**12,192,447**	**109,642,853**
Liabilities under derivatives	1,573	-	-	-	-	1,573
Deposits and other liabilities due to banks, other financial institutions and the central bank,	3,429,914	2,425,428	1,323,709	1,033,813	-	8,212,864
Deposits and other liabilities due to other customers	13,741,673	9,804,912	46,402,305	8,935,846	2,173,085	81,057,821
Other liabilities	282,180	-	-	-	609,314	891,494
Total financial liabilities	**17,455,340**	**12,230,340**	**47,726,014**	**9,969,659**	**2,782,399**	**90,163,752**
Maturity gap	**21,037,392**	**(4,196,812)**	**(28,307,531)**	**21,536,004**	**9,410,048**	**19,479,101**

30. RISK MANAGEMENT (Continued)

30.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk)

30.5.1 Interest Rate Risk

Interest rate risk is a risk of a possible adverse effects on the Bank's financial performance and capital due to changes in interest rates. The Bank is exposed to interest rate risk based on items recorded in its banking book.

The objective of the Bank's interest rate risk management is to minimize adverse effects that may arise from changes in market interest rates.

The following organizational units at the Bank are responsible for interest rate risk management:

- The Board of Directors, which adopted the Interest Rate Risk Management Policy;
- The Executive Board, which implements the adopted policy and determines the Interest Rate Risk Management Procedure;
- The Asset Liability Committee (ALCO), which monitors the Bank's interest rate risk exposure and proposes adequate measures for interest rate risk management;
- The Risk Management Department, which implements the risk management policy and procedure and reports to the Bank's management on the risk exposure, and
- The Marketing Department, which monitors market interest rates on a daily basis and proposes interest rates for Bank's products.

Interest rate risk is measured by the Risk Management Department by means of repricing risk measurement, basis risk, yield curve risk and optionality risk measurements.

The following tables provide breakdowns of interest-bearing assets and liabilities grouped into maturity buckets for fixed interest rate items and repricing periods for variable interest rate items.

30. RISK MANAGEMENT (Continued)

30.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

30.5.1 Interest Rate Risk (Continued)

In RSD thousand

31 December 2023	Up to 30 days	30 to 90 days	90 to 365 days	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances held with the central bank	8,565,442	-	-	-	-	8,164,151	16,729,593
Pledged financial assets	-	-	-	-	-	-	-
Securities	-	-	-	4,665,337	9,033,040	14.738	13,713,114
Receivables under derivatives	-					5.195	5.195
Loans and receivables due from banks and other financial institutions	9,076,843	32,533	168.022	116,098	-	4,530,854	13,924,349
Loans and receivables due from customers*	35,638,754	4,738,267	19,833,908	11,571,614	5,020,261	1,521,630	78,324,435
Other assets	-	-	-	-	-	931,807	931,807
Total financial assets	**53,281,039**	**4,770,800**	**20,001,930**	**16,353,049**	**14,053,301**	**15,173,570**	**123,628,493**
Liabilities under derivatives	-	-	-	-	-	-	-
Deposits and other liabilities due to banks, other financial institutions and the central bank,	1,315,656	3,222,599	2,247,830	377,511	-	1,095,635	8,259,231
Deposits and other liabilities due to other customers	29,961,647	10,551,835	34,627,254	15,984,181	759,244	182,566	92,066,727
Other liabilities	-	-	-	-		1,381,421	1,381,421
Total financial liabilities	**31,277,303**	**13,774,434**	**36,875,084**	**16,361,692**	**759,244**	**2,659,622**	**101,707,379**
Gap individual	**22,003,736**	**(9,003,634)**	**(16,873,155)**	**(8,643)**	**13,294,057**		
Gap cumulative	**22,003,736**	**13,000,102**	**(3,873,052)**	**(3,881,695)**	**9,412,362**		

30. RISK MANAGEMENT (Continued)

30.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

30.5.1 Interest Rate Risk (Continued)

In RSD thousand

31 December 2022	Up to 30 days	30 to 90 days	90 to 365 days	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances held with the central bank	14,049,215	-	-	-	-	7,678,836	21,728,051
Pledged financial assets	-	-	-	-	-	-	-
Securities	12.071,087	-	-	-	-	13.522	12,084,609
Receivables under derivatives	-					11.752	11.752
Loans and receivables due from banks and other financial institutions	3,514	259	27.086	1.607	-	4,034,389	4,066,855
Loans and receivables due from customers*	37,657,138	3,494,081	16,458,582	11,251,303	1,372,514	960,255	71,193,873
Other assets	-	-	-	-	-	557,713	557,713
Total financial assets	**63,780,954**	**3,494,340**	**16,485,668**	**11,252,910**	**1,372,514**	**13,256,467**	**109,642,853**
Liabilities under derivatives	-	-	-	-	-	1,573	1,573
Deposits and other liabilities due to banks, other financial institutions and the central bank,	1,500,460	2,386,351	1,307,743	1,021,123	-	1,997,186	8,212,864
Deposits and other liabilities due to other customers	22,591,270	8,528,889	27,853,577	19,569,000	2.168.235	346,851	81,057,821
Other liabilities	-	-	-	-		891,494	891,494
Total financial liabilities	**24,091,730**	**10,915,240**	**29,161,320**	**20,590,123**	**2.168.235**	**3,237,104**	**90,163,752**
Gap individual	**39,689,224**	**(7,420,900)**	**(12,675,652)**	**(9,337,213)**	**(795,721)**		
Gap cumulative	**39,689,224**	**32,268,324**	**19,592,672**	**10,255,459**	**9,459,738**		

**The (net) amount of NPLs is stated as a non-interest-bearing amount under Loans and receivables due from customers*

30. RISK MANAGEMENT (Continued)

30.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

30.5.1 Interest Rate Risk (Continued)

The table below provides interest rate sensitivity, which is measured against the impact of a parallel shift of the yield curve by 200 basis points on Bank's capital and income.

In RSD thousand

	2023		2022	
	Capital impact	Income impact	Capital impact	Income impact
As of 31 December	1,263,651	187,193	(1,023,699)	33,761
Average value	138,497	(79,657)	(797,761)	48,738
Maximum value	1,340,638	187,193	(689,205)	59,560
Minimum value	(375,280)	(238,622)	(1,023,699)	33,761

30.5.2 Foreign Exchange Risk

Foreign exchange risk is a risk of a potential occurrence of adverse effects on the Bank's financial performance and capital due to fluctuations in foreign exchange rates. The Bank is exposed to foreign exchange risk based on items stated in both the banking book and the trading book.

The Bank manages foreign exchange risk to minimize losses arising from changes in foreign exchange rates.

The following organizational units at the Bank are responsible for the foreign exchange risk management:

- The Board of Directors, which adopted the Market Risk Management Policy;
- The Executive Board, which implements the adopted policy and determines the Foreign Exchange Risk Management Procedure;
- The Asset Liability Committee (ALCO), which monitors the Bank's interest rate risk exposure and proposes adequate measures for interest rate risk management,
- The Risk Management Department and Treasury Department, which monitor and manage the currency structure of sources of assets and placements on a daily basis.

The foreign exchange risk is measured by the Risk Management Department using the foreign exchange ratio, as a ratio between the net open foreign currency position and Bank's capital, in accordance with the NBS' Decision on Capital Adequacy of Banks and Decision on Reporting Requirements for Banks and the Bank's Foreign Exchange Risk Management Procedure.

Realised foreign exchange risk ratios

	2023	2022
As of 31 December	3,84%	0.80%
Average value	1,30%	2.19%
Maximum value	4,41%	7.02%
Minimum value	0,13%	0.13%

In 2023, the Bank's foreign exchange risk measured by the foreign exchange risk ratio was in a low-risk range. The average value of the foreign exchange risk ratio was 1.30%.

The following tables provide open net foreign exchange positions individually by currency as of 31 December 2023 and 2022.

30. RISK MANAGEMENT (Continued)

30.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

30.5.2 Foreign Exchange Risk (Continued)

Breakdown of assets and liabilities by currency

In RSD thousand

As of 31 December 2023	EUR	USD	CHF	Ostalo	Total	RSD	Total
Cash and balances held with the central bank	6,517,156	68,919	76,721	45,249	6,708,045	10,021,548	16,729,593
Pledged financial assets	-	-	-	-	-	-	-
Securities	-	-	-	-	-	13,713,114	13,713,114
Receivables under derivatives	-	-			-	5,195	5,195
Loans and receivables due from banks and other financial institutions	3,084,010	888,899	955,581	69,505	4,997,995	8,926,354	13,924,349
Loans and receivables due from customers	46,459,707	-	-	-	46,459,707	31,864,728	78,324,435
Other assets	61,516	133	(2345)	(481)	58,823	872,984	931,807
Total financial assets	**56,122,389**	**957,951**	**1,029,957**	**114,273**	**58,224,570**	**65,403,923**	**123,628,493**
Liabilities under derivatives	-	-	-	-	-	-	-
Deposits and other liabilities due to banks, other financial institutions and the central bank,	4,069,385	53,401	19,600	-	4,142,386	4,116,839	8,259,225
Deposits and other liabilities due to other customers	46,507,827	934,191	1,007,182	82,052	48,531,252	43,535,475	92,066,727
Other liabilities	993,785	-	-	-	993,785	387,636	1,381,421
Total financial liabilities	**51,570,997**	**987,592**	**1,026,782**	**82,052**	**53,667,423**	**48,039,950**	**101,707,373**
Net foreign currency position	**4,551,392**	**-29,641**	**3,175**	**32,221**	**4,557,147**	**17,363,973**	**21,921,120**

30. RISK MANAGEMENT (Continued)

30.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

30.5.2 Foreign Exchange Risk (Continued)

In RSD thousand

As of 31 December 2022	EUR	USD	CHF	Other	Total	RSD	Total
Cash and balances held with the central bank	6,326,412	52,182	73,660	35,293	6,487,547	15,240,504	21,728,051
Pledged financial assets	-	-	-	-	-	-	-
Securities	-	-	-	-	-	12,084,609	12,084,609
Receivables under derivatives	-	-			-	11,752	11,752
Loans and receivables due from banks and other financial institutions	1,651,520	343,059	885,703	98,066	2,978,348	1,088,507	4,066,855
Loans and receivables due from customers	45,585,794	-	-	-	45,585,794	25,608,079	71,193,873
Other assets	36,600	156	11	45	36,812	520,901	557,713
Total financial assets	**53,600,326**	**395,397**	**959,374**	**133,404**	**55,088,501**	**54,554,352**	**109,642,853**
Liabilities under derivatives	-	1,573	-	-	1,573	-	1,573
Deposits and other liabilities due to banks, other financial institutions and the central bank,	4,990,466	100,270	266	12	5,091,014	3,121,850	8,212,864
Deposits and other liabilities due to other customers	43,731,159	843,191	951,226	115,616	45,641,192	35,416,629	81,057,821
Other liabilities	580,579	-	-	-	580,579	310,915	891,494
T							
otal financial liabilities	**49,302,204**	**945,034**	**951,492**	**115,628**	**51,314,358**	**38,849,394**	**90,163,752**
Net foreign currency position	**4,298,122**	**(549,637)**	**7,882**	**17,776**	**3,775,716**	**15,704,960**	**19,479,101**

30. RISK MANAGEMENT (Continued)

30.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

30.5.2 Foreign Exchange Risk (Continued)

The impact of changes in exchange rates by 15% on the Bank's net foreign currency position as of 31 December 2023 and 31 December 2022 is provided below. Foreign currency clause items are presented under the EUR item for RSD placements and EUR-indexed liabilities, i.e. under the USD item for RSD placements and USD-indexed liabilities.

(In RSD thousand)

31 December 2023	EUR	EUR 15%	EUR -15%	USD	USD 15%	USD -15%	CHF	CHF 15%	CHF -15%
Financial assets	56,122,389	64,540,747	47,704,031	957,951	1,101,644	814,258	1,029,957	1,184,451	875,463
Financial liabilities	51,570,997	59,306,647	43,835,347	987,592	1,135,731	839,453	1,026,782	1,180,799	872,765
Net currency position	**4,551,392**	**5,234,100**	**3,868,684**	**-29,641**	**-34,087**	**-25,195**	**3,175**	**3,562**	**2,698**

(In RSD thousand)

31 December 2022	EUR	EUR +15%	EUR -15%	USD	USD +15%	USD -15%	CHF	CHF +15%	CHF -15%
Financial assets	53,689,787	61,743,255	45,636,319	395,502	454,827	336,177	959,373	1,103,279	815,467
Financial liabilities	49,504,937	56,930,678	42,079,196	919,065	1,056,925	781,205	951,360	1,094,064	808,656
Net currency position	**4,184,850**	**4,812,578**	**3,557,123**	**-523,563**	**-602,097**	**-445,029**	**8,013**	**9,215**	**6,811**

30.5.3 Security Price Risk

Security price risk is a risk of the occurrence of adverse effects on the Bank's financial performance and capital due to changes in prices of securities within the Bank's portfolio.

The Bank manages security price risk to minimize adverse effects that may occur due to changes in prices of securities in the Bank's portfolio.

The following organizational units at the Bank are responsible for security price risk management:

- The Board of Directors, which adopted the Security Portfolio Management Policy and Market Risk Management Policy;
- The Executive Board, which implements the adopted policy;
- The Asset Liability Committee (ALCO), which monitors the Bank's security price risk exposure and proposes adequate measures for its management, and
- The Treasury Department, which manages the securities portfolio on a daily basis, and the Risk Management Department, which monitors the value trends in trading book items and reports to the Bank's management.

According to the relevant sources of market information, the Risk Management Department actively monitors the values of securities in Bank's possession and supervises their compliance with the internally prescribed limits.

30. RISK MANAGEMENT (Continued)

30.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

30.5.3 Security Price Risk (Continued)

Value of the Bank's portfolio

In RSD thousand

	Market value as of 31 December	
	2023.	**2022**
Securities at fair value through profit or loss (FVTPL)	**14,737**	**13,522**
Bank shares	-	-
Corporate shares	14,737	13,522
Securities at fair value through other comprehensive income (FVTOCI)	**13,698,377**	**12,071,087**
RSD bonds issued by the Republic of Serbia	13,698,377	12,071,087

30.6 Operational Risk

Operational Risk Exposure

Operational risk is the risk of a potential occurrence of adverse effects on the Bank's financial result and capital due to negligence and omissions in employees' performance, inadequate internal procedures and processes, inadequate management of the information and other systems in the Bank or unforeseen external events. Operational risk excludes reputational risk and strategic risk, but it includes legal risk.

The following organizational units at the Bank are responsible for operational risk management:

- The Board of Directors, which adopted the Operational Risk Management Policy;
- The Executive Board, which implements the adopted policy and determines the Operational Risk Management Procedure;
- The Asset Liability Committee (ALCO), which monitors the Bank's operational risk exposure and proposes adequate measures for its management;
- The Risk Management Department, which monitors and collects information on operational risk events and reports to the management on the Bank's operational risk exposure;
- Operational risk exposure is measured by the Risk Management Department through identification of operational risk, the database maintenance and analysis in accordance with the Operational Risk Management Procedure.

The Bank's exposure to operational risk is measured by monitoring the number of events of the same type during a calendar year and the financial effect of each of these events.

	2023	2022
Number of events	139	128
Gross loss (EUR)	2,609,358	2,291,630
Net loss (EUR)	238,118	3,731

In 2023, 139 operational risk events were recorded, i.e. 11 events more than in 2022. A large number of events related to cashier shortages or surpluses, which successfully resolved (57 events of cashier shortages and 47 events of cashier surpluses). The remaining 35 events pertained to instances of technical problems, a failure to fully comply with procedures for approval of placements, errors in the preparation of contract annexes, incorrect account numbers during payment, accounting errors, lack of documentation, operational errors, external fraud, internal fraud, etc.
The Bank assesses outsourcing risk based on contracts concluded with third parties, which clearly specify rights and obligations of the contracting parties.

The Bank also identifies and assesses operational risks upon each introduction of new products, processes and systems or new business activities.

30. RISK MANAGEMENT (Continued)

30.6 Operational Risk (Continued)

30.7 Inadequate Information System Management Risk

The objective of inappropriate information system management risk is to minimize negative effects that may occur due to the Bank's information system exposure to public networks, malicious internal attacks, hardware failures, sabotage and maintenance of these exposures within the prescribed limits.

Pursuant to the National Bank of Serbia’s Decision on Minimum Information System Management Standards for Financial Institutions (“Official Gazette of RS”, No. 23/2013, 113/2013, 2/2017, 88/2019 and 37/2021), the Bank undertook a number of activities in order to comply with the said Decision. In this regard, the Information System Development Strategy, the Business Continuity Strategy, Outsourcing Exit Strategies, the Information System Security Policy and the Information System Management Policy were adopted.

Based on organisational and process changes, various procedures and instructions were complied with the NBS’ Decision on Minimum Information System Management Standards for Financial Institutions.

The Bank has completed the PCI DSS recertification process, which has confirmed adequate level of data protection of credit card activities. The process of harmonization with the requirements of the PCI DSS standard means not only procedural improvements, but also improvements in the protection of the information system, which consequently provides a higher level of protection of both credit card activities and business processes of the Bank in general.

The Bank's information system has functionalities to support business processes and provides timely, accurate and complete information relevant to making business decisions and risk management.

The Bank is continuously working on improving its information system. In this regard, it regularly updates the existing Information System Development Strategy and Information System Management Policy.

In order to ensure quality information system management, the Bank regularly holds meetings of the Information System Management Committee, which has the following roles and responsibilities:

- Analyses and monitors the application and adequate implementation of the adopted Information System Development Strategy, Information System Management Policy and Information System Security Policy, as well as implementation of related systems of internal controls;
- In terms of compliance with the achievement of Bank's business goals, it analyses and approves important information system projects / project initiatives based on the reasonableness of the investment;
- Monitors the progress of major IS projects;
- Defines the priorities of the IS project portfolio;
- Analyses and approves priorities of important IS activities;
- Supervises information system functionality and security as a whole;
- Coordinates, supervises and proposes for adoption a data classification in the information system;
- Considers and proposes for adoption reports on information system risks;
- Considers how to handle high level risks which are the result of incidents or changes in the information system;
- At least quarterly reports to the Bank’s Executive Board on the state of the information system, identified irregularities and suggest methods for rectifying such irregularities, i.e. improving policies and procedures for information system management and implementation of internal controls.

Risk identification, measurement and assessment are regularly performed by the risk owner (owner of an affected business or technical process), the information system risk coordinator and the Information System Risk Management Forum, according to the Bank's information system risk management procedure.

The information system management framework consists of the adopted Information System Development Strategy and Information System Management Policy as well as information system incident management processes, information system change management, portfolio management, information system development projects and programs defined by appropriate procedures and other Bank’s corporate bylaws.

30. RISK MANAGEMENT (Continued)

30.7 Inadequate Information System Management Risk (Continued)

The following organizational units at the Bank are responsible for the information system management risk:

- Management Board, which adopted the Information System Development Strategy, Information System Security Policy and Business Continuity Strategy;
- The Executive Board, which implements adopted strategies and policies and establishes procedures and guidelines;
- The Information System Management Committee that monitors the operation and development of the information system and makes appropriate decisions and proposes appropriate measures to the Executive Board of the Bank;
- IT Risk Management Forum that makes decisions on the management of further actions to mitigate the risks in question, monitors the implementation and effectiveness of measures and considers the risk quantification proposed by the Information Security Department. The Forum reports to the Information System Management Committee, which further reports to the Executive Board on a quarterly basis on its performance.
- Information Technology Division, which plans, proposes and executes all activities related to the Bank's information system and reports to the Information Technology Committee;
- The director of the Information Security Department conducts an assessment of the security risk of the information system in the Bank and submits a report to the IS Risk Management Forum.

30.8 Exposure Risk

The Bank manages the exposure risk in order to minimize negative effects that may arise from the concentration of the Bank’s exposure to a single entity or a group of related entities and Bank’s related parties and to maintain such exposures within prescribed limits.

The following organizational units at the Bank are responsible for exposure risk management:

- The Board of Directors, which decides on the Bank’s exposures to a single entity or a group of related entities in excess of 10% of the Bank’s capital and on exposures to Bank’s related parties;
- The Executive Board, which defines the Exposure Risk Management Procedure, decides on the Bank’s exposures to a single entity or a group of related entities up to 10% of the Bank’s capital and on exposures to Bank’s related parties in accordance with the Board of Directors’ Decision on Authorising the Bank’s Executive Board to Execute Legal Transactions with a Related Party;
- The ALCO, which monitors the Bank’s exposures to a single entity, a group of related entities and Bank’s related parties and proposes adequate measures for exposure risk management;
- The Risk Management Department, which reports to the management on the Bank’s exposures to a single entity, a group of related entities and Bank’s related parties.

Exposure risks are measured by the Risk Management Department through the preparation of reports stipulated under relevant NBS’ decisions and Bank’s procedures.

(In RSD thousand)

	2023		2022	
	Exposure amount	Equity interest	Exposure amount	Equity interest
Bank’s related parties	3,288,650	15.31%	3,363,316	16.36%
Large exposures	6,680,059	31.10%	7,074,854	34.43%

In 2023, the Bank’s exposures to a single entity/a group of related entities and Bank’s related parties were within the prescribed limits. For all exposures within the medium exposure risk level range, i.e. above 10% of the Bank capital, a prior approval of the Board of Directors was obtained.

The Bank monitors its concentration ratio for 20 largest gross exposures. The concentration ratio for 20 gross largest exposures represents the Bank’s balance sheet assets and off-balance sheet items (excluding exposures covered with prime collaterals) that are subject to classification for 20 largest business groups other than banks and Bank capital. The Bank’s goal is to maintain this ratio at levels below 250%.

30. RISK MANAGEMENT (Continued)

30.8 Net Exposures to Bank's Related Parties and Large Exposures

As of 31 December 2023, the Bank's balance sheet assets and off-balance sheet items subject to classification for 20 largest business groups, other than banks, amounted to RSD 24,437,167 thousand (2022: RSD 22,390,657 thousand). The concentration ratio for 20 largest gross exposures as of 31 December 2023 amounted to e 106.72% (2022: 103.90%).

30.9 Risk of Investments in Entities Not Belonging to Financial Sector and in Fixed Assets

Investments in other entities are investments whereby the Bank acquires equity interests or share in entities that do not belong to the financial sector. Such investments are not associated with acquisition of shares for further sales within six months from their acquisition date.

The following organizational units at the Bank are responsible for investment risk management:

- The Board of Directors, which makes decisions on individual investments in Bank's fixed assets in excess of EUR 250 thousand in the RSD equivalent;
- The Executive Board, which adopted the Investment Risk Procedure and makes decisions on investments in Bank's fixed assets that do not exceed EUR 250 thousand in the RSD equivalent;
- The ALCO, which monitors bank's investment risks and proposes adequate measures for the investment risk management; and
- IT Division, Technical and Administrative Operations Unit and Information Security Unit, which are in charge of acquisition of fixed assets.

The Bank's investment risks are measured by the Risk Management Department and Financial Management and Budgeting Department.

Investments in Entities Not Belonging to Financial Sector, Fixed Assets and Investment Property relative in relation to Bank Capital

	31 December 2023	31 December 2022
Investments in non-FS entities	0.00%	0.00%
Total investments in non-FS entities, fixed assets and investment property	10.19%	8.42%

In 2023, Bank's investments were within the low risk level range.

30.10 Country Risk

Country risk is the risk relating to the country of origin of the entities/persons the Bank is exposed to, i.e., a risk of negative effects on the Bank's financial performance and capital due to the Bank's inability to collect receivables due from non-residents for reasons resulting from political, economic and social circumstances prevailing in the country of origin of such entities/persons.

The following organizational units at the Bank are responsible for country risk management:

- The Board of Directors, which adopted the country risk management policy;
- The Executive Board, which implements the adopted policy and defines the country risk management procedure;
- ALCO, which monitors the Bank's exposure to the country risk and proposes adequate measures for this risk management;
- Payment Operations Department, which is involved in account opening and closing and money transfers with correspondent banks.

Country risk is measured by the Risk Management Department, where the monthly identification of the country risk is made upon preparation of the monthly report on the Bank's risk exposure.

The Bank has a system in place for classification of countries per country risk level based on the risk categories assigned to countries by the largest international credit rating agencies (Moody's. Standard & Poor's and Fitch).

30. RISK MANAGEMENT (Continued)

30.10 Country Risk (Continued)

In 2023, the Bank had exposure toward clients operating in the countries, which, according to the rating of the international credit rating agencies and in line with the Bank's relevant procedure, were classified as low-risk and medium-risk countries.

The Bank's exposure to the low-risk countries is not limited. As of 31 December 2023, such countries were Germany, Austria, United States of America and Czech Republic. As of 31 December 2023, the medium-risk countries were Macedonia, Turkey, Romania, Bosnia, Croatia and Montenegro. The Bank's exposure to these medium-risk countries was significantly lower that the internally prescribed limits during 2023.

List of countries to which the Bank was exposed as of 31 December 2023:

Country	Risk level	Limit	Interest in Bank's equity
Germany	Low	No limit	15.95%
Austria	Low	No limit	3.24%
United States of America	Low	No limit	0.43%
Czech Republic	Low	No limit	0.05%
Belgium	Low	No limit	0.00%
Macedonia	Medium	100% of regulatory capital	19.28%
Turkey	Medium	100% of regulatory capital	25.27%
Romania	Medium	20% of regulatory capital	0.97%
Bosnia	Medium	40% of regulatory capital	1.61%
Croatia	Medium	10% of regulatory capital	0.01%
Montenegro	Medium	40% of regulatory capital	0.02%
Albania	Medium	25% of regulatory capital	0.00%
Italy	Medium	10% of regulatory capital	0.00%

30.11 Environmental and Social Risks

The Bank manages environmental and social risks in order to identify, assess and control risks that may jeopardise natural and social environments in accordance with the Environmental and Social Risk Management Policy and Procedure.

The following organizational units at the Bank are responsible for environmental and social risk management:

- The Board of Directors, which defines and at least annually reviews the environmental and social risk policy and assesses the need to amend this policy;
- The Executive Board, which implements the adopted policy and defines procedures for environmental and social risk management;
- Credit Committees, which decide on the loan approval in accordance with the available information and opinion of the Credit Division on the risk of impact on the natural and social environment;
- Risk Management Department, which monitors the loans at the portfolio level per categories of environmental and social risk through preparation and analysis of the risk reports.

Upon processing an individual client's loan request, the first step is to classify the environmental risk per the client's core business activity and the activity that is to be financed.

Environmental and social risk categories are:

- High – list excluded;
- High – category A;
- High;
- Medium; and
- Low

If the activity subject to financing is included in the exclusion list, the client's loan request is denied. If it is classified into high-risk category A, the client is required to provide the Assessment of the Impact on the Environment and the impact on the environment is further considered before a decision is made on loan approval by the competent Credit Committee.

30. RISK MANAGEMENT (Continued)

30.11 Environmental and Social Risks (Continued)

Upon check-up of the loan request analysis with the proposed decision to the competent Credit Committee, the Crediting Department checks the classification of the activity that is to be financed according to the environmental and social risk level, checks the information on the impact of the client and the client's activity subject to financing on the natural and social environment.

The Bank's loan and other contracts contain provisions and clauses regarding the protection of the natural and social environment to be observed by both the clients and the Bank.

The Bank's Credit Risk Management Department monitors the balances of loans and receivables per client industry, business activity and environmental and social risk category through preparation and analysis of the relevant risk reports.

Breakdown of corporate loans by environmental and social risk category

(In RSD thousand)

	Number of customers		Placement amount (balance and off-balance)		
Risk category	**31 December 2023**	**31 December 2022**	**31 December 2023**	**31 December 2022**	**Increase / decrease**
High – list excluded	-	-	-	-	-
High – category A	13	15	3,366,728	1,331,673	2,035,055
High	517	446	25,592,535	20,108,661	5,483,874
Medium	3,248	3,065	33,520,803	29,848,286	3,672,517
Low	2,914	2,583	45,512,282	37,288,389	8,223,893
Total	**6,692**	**6,109**	**107,992,348**	**88,577,009**	**19,415,339**

In the structure of exposures (balance sheet and off-balance sheet exposures) to customers, legal entities and entrepreneurs as of 31 December 2023, the largest share was that of the clients involved in business activities with a low environmental and social impact 42.14%, the second largest share 31.04% was that of exposures to clients performing activities classified as a medium impact category, those classified in the high-impact category had a share of 23.70% and activities with high risk category A had a share of 3.12%.

31. COMPLIANCE WITH NBS REGULATIONS

Ratio/Indicator	Values prescribed by NBS regulations	Values as of 31 December 2023	Values as of 31 December 2022
Bank's capital	Min 10,000,000 €	183,280,192€	122,147,239€
Total capital adequacy ratio	min 8%	26.98%	23.64%
Tier 1 capital ratio (T1 ratio)	Minimum 6%	26.98%	23.64%
Common equity tier 1 capital ratio (CET 1 ratio)	Minimum 4.5%	25.47%	21.66%
Foreign exchange risk ratio	max 20%	3,84%	0.73%
Liquidity ratio	Min 1	2.07	1.93
Quick liquidity ratio	Min 0.7	1.43	1.66
Asset coverage ratio	100%	154.02%	149.86%
Concentration ratio per the Bank's exposure to certain types of products*	Max 30%	2.56%	7.31%
Total exposure to the entities related to the Bank	-	15.31%	16.36%
Exposure to a single entity/a group of related entities	max 25%	15.34%	12.65%
Sum of all large Bank's exposures	max 400%	31.10%	34.43%
Investments in non-FS entities	max 10%	0.00%	0.00%
Total investments in non-FS entities and the Bank's fixed assets	max 60%	10.19%	8.42%

32. RECONCILIATION OF OUTSTANDING BALANCES OF RECEIVABLES AND PAYABLES WITH COUNTERPARTIES

Pursuant to Article 22 of the Law on Accounting ("Official Gazette of the RS", no. 79/2019 and 44/2021 – second law), the Bank reconciled its balances of receivables and payables with its counterparties as of 31 October 2023. The total balance of receivables sent to be reconciled amount to RSD 16,230,754 thousand, while the payables amount to RSD 35,944,475 thousand. Out of the total amount of receivables requested to be reconciled, the amount of RSD 318,324 thousand, i.e. 2%, remained unreconciled. Out of the total amount of payables requested to be reconciled, the amount of RSD 430,689 thousand, i.e. 1%, remained unreconciled.

33. EVENTS AFTER THE REPORTING PERIOD

There were no significant events subsequent to the reporting date, which would require adjustments and disclosures in the notes to the accompanying financial statements of the Bank as of and for the year ended 31 December 2023.

34. EXCHANGE RATES

The official middle exchange rates for certain major currencies determined in the Interbank Foreign Exchange Market, and used for translation of the statement of financial position components denominated in foreign currencies into RSD were as follows:

In RSD

	31 December 2023	31 December 2022
USD	105.8671	110,1515
EUR	117.1737	117.3224
CHF	125.5343	119,2543

In Belgrade
March 21rd 2024

Aleksandar Mijailovic	Dusica Eric	Aziz Arslan
Head of the Financial Management and Planning Division	Member of the Executive Board	Chairman of the Executive Board

AKCIONARSKO DRUŠTVO HALKBANK BEOGRAD

ANNUAL OPERATING REPORT

2023

PEOPLE

PEOPLE FIRST AND FOREMOST

The content

HALKBANK a.d. Belgrade (hereinafter: the Bank or HALKBANK) is obliged to compile a non-financial report once a year, in accordance with the Law on Accounting, which is incorporated into the Operating Report.
This means that the Annual Operating Report includes a non-financial report which contaings information necessary to understand the development, business results and position of the legal entity, as well as the results of its activities related to minimum environmental protection, social and personnel issues, respect for human rights, corruption and bribery issues, including:
1) brief description of the business model of the legal entity;
2) a description of the legal entity's policies regarding these issues, including the basic analysis procedures being conducted;
3) results of these measures;
4) the underlying risks associated with those matters relating to the business of the legal entity, including, where relevant and necessary, its business relationships, products or services that may cause negative results in those areas, and the way in which the legal entity manages the business risks;
5) non-financial key performance indicators important for a particular business..

I DEVELOPMENT, ORGANISATIONAl STRUCTURE AND BUSINESS ACTIVITIES

1. ESTABLISHMENT

HALKBANK Turkiye was founded in Türkiye in 1933 and has been building a growing network of branches since then. HALKBANK Turkiye aims to efficiently provide all banking services, create added value for its customers, shareholders and employees, as well as to contribute to the development of the banking sector and capital markets, but also gain a respectable place in the banking industry. Today, HALKBANK Turkiye operates successfully in Türkiye, North Macedonia, Serbia and the Netherlands.

HALKBANK has been operating in the Republic of Serbia since 2015 when HALKBANK Turkiye (Türkiye Halk Bankası A.Ş.) became the major owner of Čačanska banka (operating since 1956).

The Bank was registered with the Serbian Business Registers Agency under Decision no. BD 54244 dated 13th September 2005.

The Bank has been operating under the name of HALKBANK a.d. Beograd since 22nd October 2015 when the change of its legal name was registered in the Serbian Business Registers Agency under Decision no. BD 89155/2015.

2. ORGANISATION OF OPERATIONS

HALKBANK is a universal bank which offers all types of banking products and services to corporate clients, entrepreneurs and retail clients. The Bank encourages and finances the growth and development of the domestic economy, but is also a safe place for its clients' savings deposits. . The Bank's primary goal is to create products that will completely satisfy all customers' expectations.

HALKBANK is registered in the Republic of Serbia for performance of payment operations and credit and deposit operations in the country and abroad and it operates in compliance with the Law on Banks.

HALKBANK is successfully expanding its business network and client base. Today, the Bank's products and services are provided through a business network of 38 branches, 5 sub-branches and 1 counter. As of December 31, 2023, the Bank has 10 branches in Belgrade, 3 branches in Čačak, branches in Ivanjica, Gornji Milanovac, Valjevo, Kraljevo, Novi Pazar, Aranđelovac, Užice, Požega, Prijepolje, Kragujevac, Smederevo, Kruševac, Šabac, Pančevo, Sremska Mitrovica, Novi Sad, Stara Pazova, Zrenjanin, Subotica, Niš, Leskovac, Vranje, Pirot, Jagodina, Paraćin as well as 5 sub-branches - in Topola, Vrnjačka Banja, Tutin, Sjenica and Preševo. In 2023, the bank opened three new branches in Prijepolje, the Vojvode Stepe Street in Belgrade and Stara Pazova, as well as one sub-branch in Sjenica.

3. BASIC PERFORMANCE RATIOS

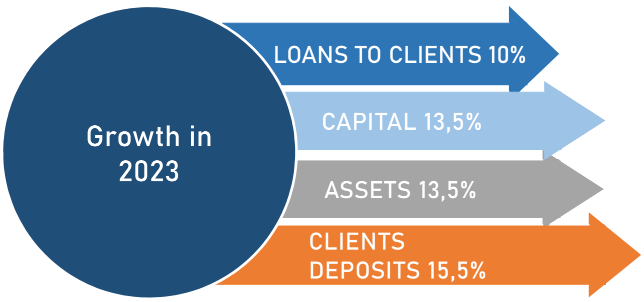
(in RSD thousand)

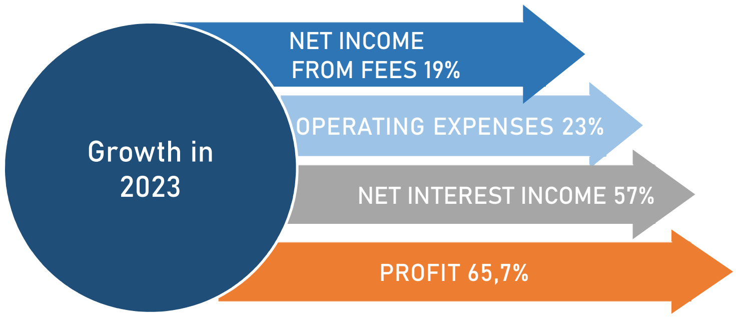
Income Statement**	2022.	2023.	Plan 2023	Plan realisation
Net interest income	2.958.785	4.655.559	4.778.577	97,4%
Net fee and commission income	1.575.463	1.879.984	2.175.012	86,4%
Net income/(losses) on impairment of financial assets	(154.391)	(521.767)	(340.029)	153,4%
Operating expenses	3.054.758	3.756.937	4.247.001	88,5%
Net profit before tax	1.412.915	2.377.374	2.406.424	98,8%
Profit tax	(131.142)	(251.109)	(294.184)	85,4%
Profit from deferred taxes	2.748	2.326	0	-
Net profit after tax	1.284.521	2.128.591	2.112.241	100,8%

Balance Sheet	31.12.2022.	31.12.2023.	Plan 2023	Plan realisation
Loans to clients*	70.909.114	77.910.768	93.080.561	83,7%
Deposits from clients*	75.653.127	87.255.941	90.707.442	96,2%
Capital	21.628.332	24.525.652	23.101.983	106,2%
Total assets	112.660.659	127.730.381	135.503.768	94,3%

Key Performance Indicators (KPI)	31.12.2022.	31.12.2023.	Plan 2023
Costs to Income Ratio (CIR)**	66,28%	56,61%	60,75%
Net Interest Income to OPEX	96,86%	123,92%	112,52%
Non-interest income to Operating costs Ratio	54,02%	52,72%	52,10%
Capital Adequacy Ratio (CAR)***	29,99%	26,98	21,46%
ROA	1,26%	1,87%	1,73%
ROE	7,82%	9,17%	9,57%
NIM	3,68%	5,43%	5,16%

All financial projections for 2023 are made in euros and their realization is monitored in euros. The planned values shown in this report were converted into dinars using the RSD/EUR exchange rate on the reporting date for the balance sheet positions, and at the average exchange rate in the period for the income statement positions.
*The differences between the positions "Loans to clients" and "Deposits from clients" in relation to the official form of the Balance Sheet are explained in points 3.1 and 3.2
**For the purposes of calculating the CIR indicator on the income side, in addition to Net income from interest and fees, income from the positions 'Other business income' and 'Other income' are also included.
*** Capital adequacy indicator - determined in accordance with the Decision on the temporary measure of the NBS. The capital adequacy indicator according to the standard calculation was 25,98% on 12/31/2023.





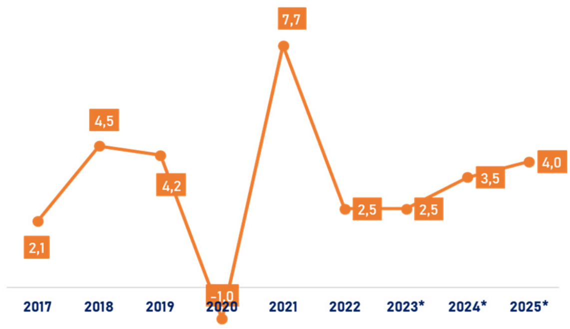
II FINANCIAL POSITION AND OPERATING RESULTS

1. MACROECONOMIC ENVIRONMENT AND BANKING SECTOR

Economic activity

The gross domestic product in 2021 and 2022 amounted to EUR 53.345 million and EUR 60.427 million, respectively, with an annual real growth rate of 7,7% and 2,5%, respectively. Measured by the real rate of growth of the gross domestic product, the economy of Serbia achieved a growth in economic activity of 0,7% in the first, 1,7% in the second, 3,6% in the third and 3,8% in the fourth quarter of 2023, which clearly shows the acceleration of economic activity in the second half of the year. Nevertheless, although the current NBS projection indicates a GDP growth of 2% to 3%, according to the RZS assessment, it is realistic to expect the achieved rate to be at the level of around 2.5%. The reason is the worse performance of the production sector of our most important trade partners, and especially the state of technical recession in which Germany is. Despite this, a return to pre-crisis economic growth rates of around 4,5% is expected in the medium term.

Real GDP growth rate (%)

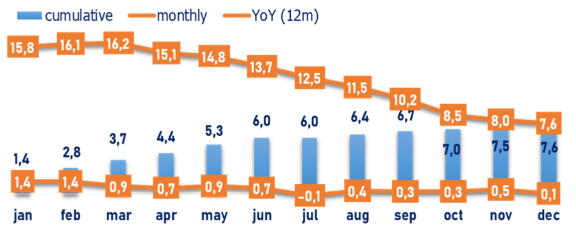


Source: NBS; * NBS projection

Inflation

In December 2023, the year-on-year increase in consumer prices amounted to 7,6%, which is significantly above the target limit of the NBS (3,0% ± 1,5 p.p.), the monthly increase in consumer prices in December was 0,1%. During the year, the highest price growth was recorded by products and services from the housing, water, electricity group. energy, gas and other fuels (11,6%) mostly due to the increase in electricity and gas prices, followed by restaurants and hotels (9,7%), apartment equipment and ongoing maintenance (9,4%), while products from the food group and soft drinks recorded a price increase of 8,4%.

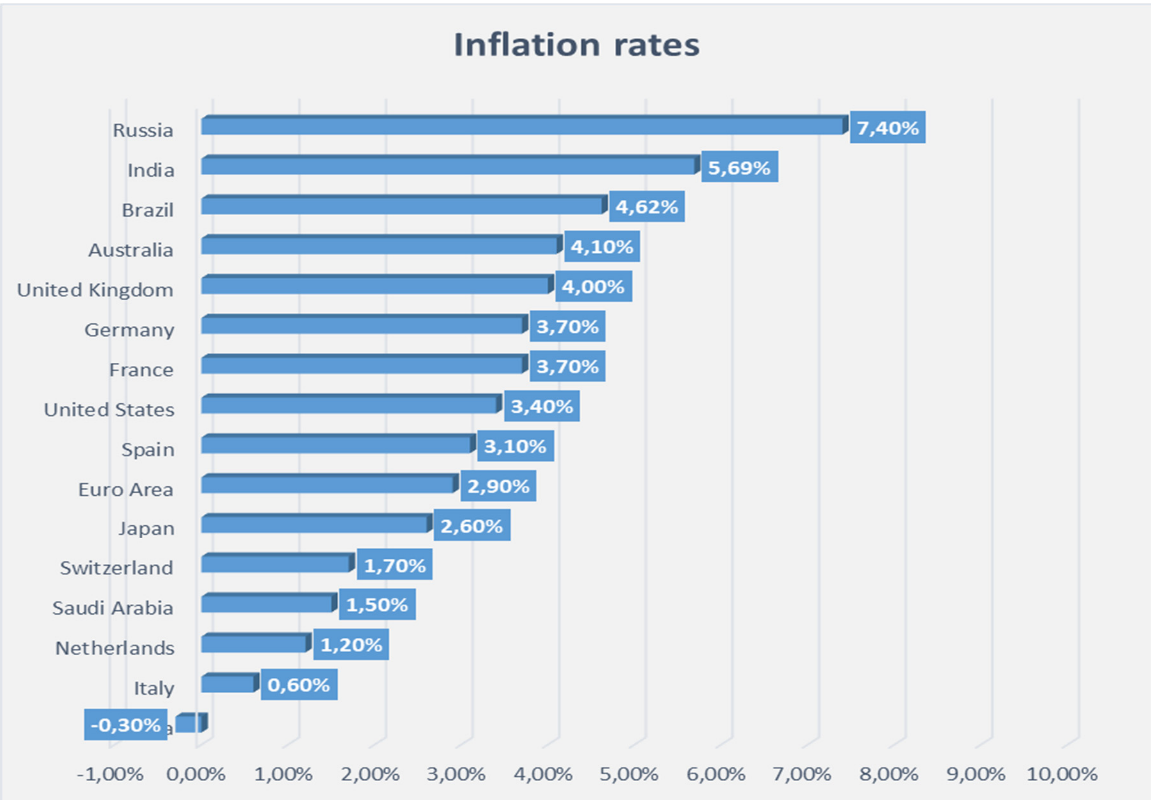
Consumer prices trends in Serbia during 2023



The National Bank of Serbia uses monetary policy measures to reduce price increases and bring inflation back within the inflation target, at the same time taking care not to jeopardize aggregate domestic demand, while the state limits the prices of some food products and energy products and bans the export of certain agricultural products.

According to the NBS projection, inflation peaked in the first quarter of 2023 and has been on the decline since April. During 2024, inflation is expected to continue to decline throughout the entire period with a return to the target range in the middle of the year. According to the results of the Ipsos survey in December 2023, inflation expectations of the financial sector one year ahead are on the decline (Ipsos November 5,7%, Bloomberg December 4,5%), while expectations two and three years ahead are within the target range NBS.

Overview of inflation rates in the world's largest economies in 2023



Source: https://tradingeconomics.com/

Labor market

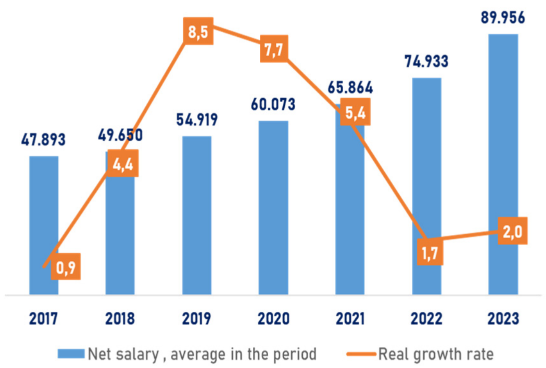
Thanks to preserved macroeconomic stability, as well as economic growth, the labor market remains largely resistant to the extremely negative impact of geopolitical events. They continued in 2023 positive trends in the labor market, which are primarily reflected in the growth of employment and earnings in the private sector.

The total number of employees in 2023 was 2,360,588, which represents an increase of 2.2% compared to the previous year. In the third quarter of 2023, the unemployment rate of the population aged 15 and over was

9.0%, namely 8.5% for men and 9.6% for women. The lowest value was recorded in the Belgrade region (6.4%), followed by the region of Šumadija and Western Serbia with an unemployment rate of 8,8%, a slightly higher rate was recorded in the region of Vojvodina (10,1%), as well as in the region of South and Eastern Serbia (11,4%).

The average net salary continued to grow in 2023 (January-November period) and amounted to RSD 89.956 (EUR 767). Compared to the same period of the previous year, the nominal growth of wages was 14.8%, while the real growth was 2%. Real growth represents the growth of earnings when we exclude the effect of inflation.

Average monthly net salary and real growth rates



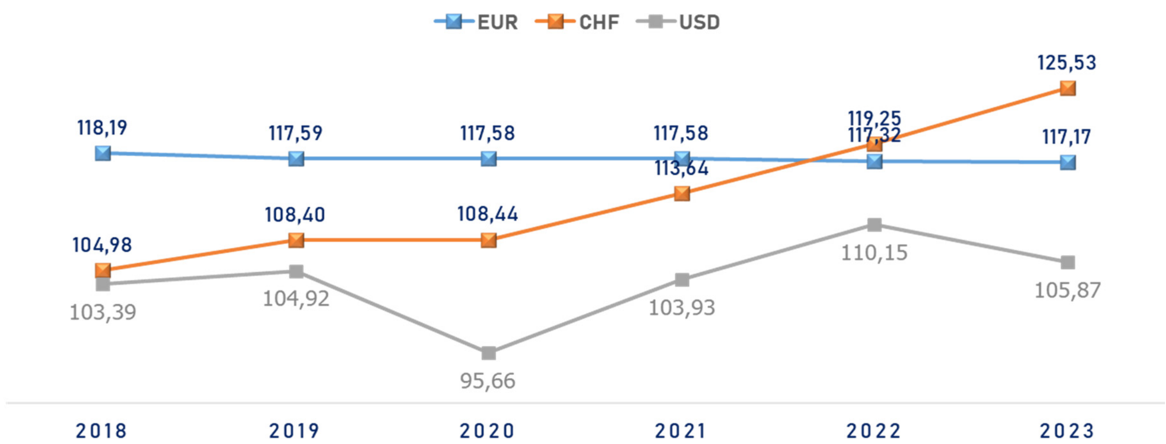
Source: Ministry of Finance

Exchange rate

Gross foreign exchange reserves of the National Bank of Serbia at the end of December 2023 amounted to EUR 24.909,1 million, which is the highest level of gross foreign exchange reserves at the end of the month, and at the same time at the end of the year since the data has been monitored in this way (since 2000). During December, gross foreign exchange reserves increased by 746,0 million euros, while compared to the end of the previous year they increased by 5.493,4 million euros.

During 2023, the dinar had a stable relationship with the euro, and during that period it strengthened by 0,22% compared to the euro. When it comes to the US dollar, in that case the dinar records greater oscillations and ends the year by 3,89% stronger compared to the exchange rate at the end of 2022. In the same period, the Swiss franc recorded a growth of 5,27% compared to the Serbian dinar.

FX trends



Source: NBS

Interest rates

When it comes to monetary policy, the previous year was marked by high interest rates. World central banks continued to implement restrictive monetary policy in order to return inflation to the target limits.

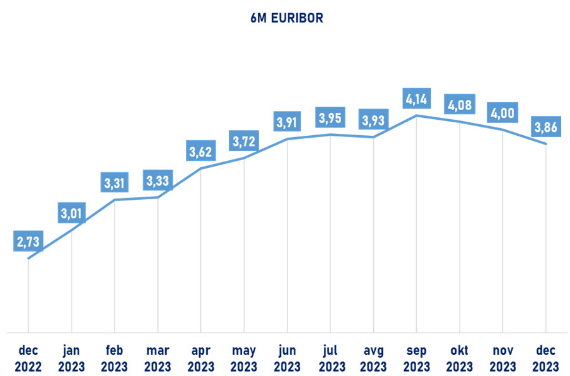
During 2023, the NBS Executive Board increased the reference interest rate six times, the last time in September, by 0,25 p.p. when the rate reached the level of 6,5%.

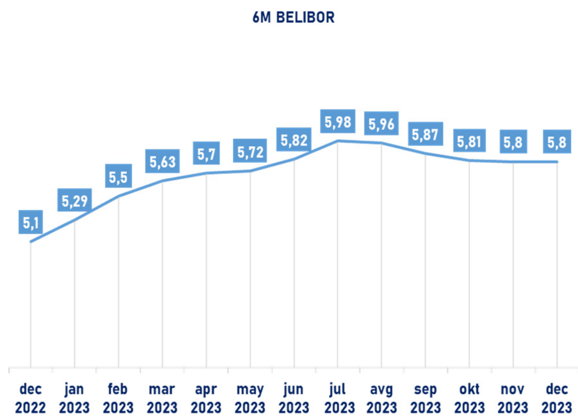
The European Central Bank also last increased the benchmark interest rate by 0,25 p.p. in September. setting it at the level of 4,5%. The US Fed has not changed benchmark interest rates since July, when it raised them by 0,25 p.p. on the new one from 5,25% to 5,5%.

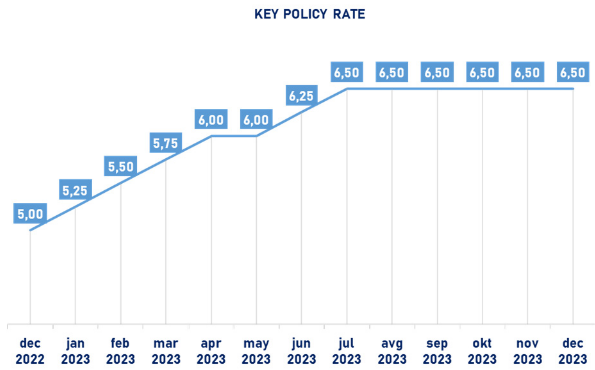
We can expect that the reference interest rates of central banks will remain at a high level in the first half of 2024, after which their gradual reduction is forecast.

According to NBS data, the interest rate on newly approved household loans in dinars in December 2023 was 12,50%, while the interest rate on newly approved loans to the economy in the same month was at the level of 8,33%. The interest rate on newly approved loans to households in foreign currency and dinar loans indexed in foreign currencies in September 2023 amounted to 6,30%, while on newly approved loans to the economy it was at the level of 7,07%.

Interest rate fluctuations in financial markets







Credit rating

S&P – In October 2023, the rating agency Standard and Poor's maintained Serbia's credit rating at the BB+ level, despite expressed uncertainties from the international environment. The agency points out that uncertainties from the international environment are still significant, but that Serbia manages to amortize external challenges with favorable domestic trends and adequate economic policies. The agency states that Serbia's stable prospects for a further increase in credit rating take into account the fact that the domestic economy continues to grow, even though economic activity is slowing down in the euro zone countries that are our most important trading partners, such as Germany and Italy. In its report, the Standard and Poor's agency emphasizes the credibility and continuity of Serbia's monetary and overall economic policy, the resilience of our economy and the preserved stability of the banking sector.

Moody's – In September 2023, the Moody's agency maintained Serbia's credit rating at the Ba2 level, as well as stable prospects for a further rating increase. The report also states that the preservation of Serbia's credit rating is the result of good prospects for the domestic economy, which is supported by a dynamic manufacturing industry, a favorable investment climate and an educated workforce, all of which together contribute to a high and widespread inflow of foreign direct investments. The Agency also highlights the predictable institutional environment and political stability, which favors the continuity of economic policy.

Credit rating of the Republic of Serbia, Türkiye, neighboring countries and Eurozone countries according to the rating agency Moody's

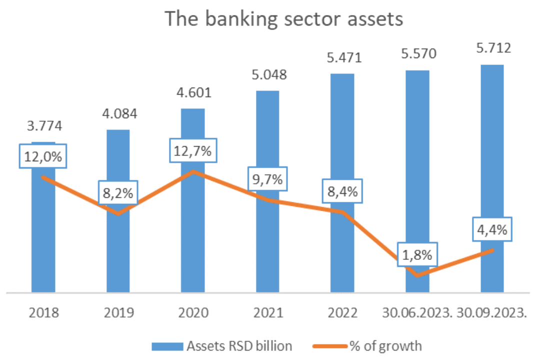
Country/Year	2018	2019	2020	2021	2022	2023	Current Outlook
Germany	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa	Stable
France	Aa2	Aa2	Aa2	Aa2	Aa2	Aa2	Stable
Bulgaria	Baa2	Baa2	Baa1	Baa1	Baa1	Baa1	Stable
Romania	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3	Stable
Croatia	Ba2	Ba2	Ba1	Ba1	Baa2	Baa2	Positive
Serbia	Ba3	Ba3	Ba3	Ba2	Ba2	Ba2	Stable
Montenegro	B1	B1	B1	B1	B1	B1	Stable
Turkiye	Ba3	B1	B2	B2	B3	B3	Positive
Bosnia and Herzegovina	B3	B3	B3	B3	B3	B3	Stable

Source: https://tradingeconomics.com

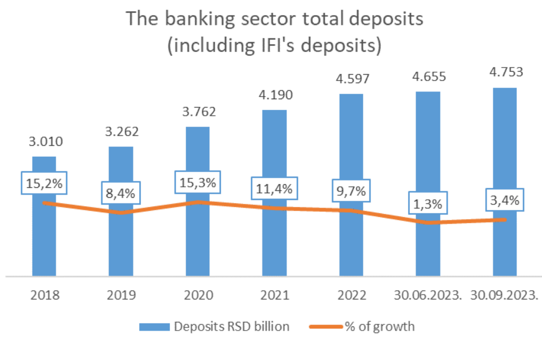
Banking sector

In September 2023, 20 banks with an organizational network of 1.349 business units were operating on the banking market of Serbia. The total number of employees in the banking sector is 21.873. In April 2023, RBA Bank was merged with Raiffeisen Bank, and from September Expobank changed its name to Adriatic Bank.

The total balance sheet of the banking sector of Serbia at the end of the third quarter of 2023 was EUR 48.736 million, which is an increase of 4,51% compared to the end of 2022. In the same period, the total deposits of clients and financial institutions recorded a growth of 3,51% and reached the level of EUR 40.558 million, the capital of banks increased by 8,93% and amounted to EUR 6.698 million.



Source: HALKBANK's analysis of the banking sector



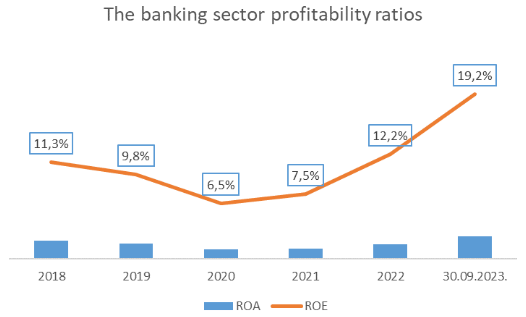
Source: HALKBANK's analysis of the banking sector

The first 10 banks had a share of 91,88% in the total balance sheet, 92,19% in total deposits, and 93,03% in loans. Banca Intesa remained the leading bank in terms of total assets and deposits with a share in the total assets of the banking sector of 14,97% and a share in total deposits of 14,96%. OTP Banka, Raiffeisen Bank, Unicredit Banka and NLB Komercijalna Banka also have a market share of over 10% in total assets. During the first nine months of 2023, HALKBANK recorded an increase in market share in the total assets of the banking sector as well as in total deposits and loans. HALKBANK's share in the total balance sheet assets of the banking sector is 2,12% and the Bank ranks 11th in terms of balance sheet assets.

In terms of total deposits, the Bank is also in 11th place in the banking sector with a share of 2%, in terms of loans, the Bank is in 11th place with a share of 2,42%.

As of September 30, 2023. the banking sector achieved a pre-tax profit of EUR 925,6 million, which is 85,68% more than in the same period last year. Nineteen banks operated with a positive result with a total profit of EUR 926,1 million, while one bank operated with a loss in the total amount of EUR 516 thousand. According to the realized profit before taxation in the first nine months of 2023 of EUR 14.944 thousand, HALKBANK took 11th place.

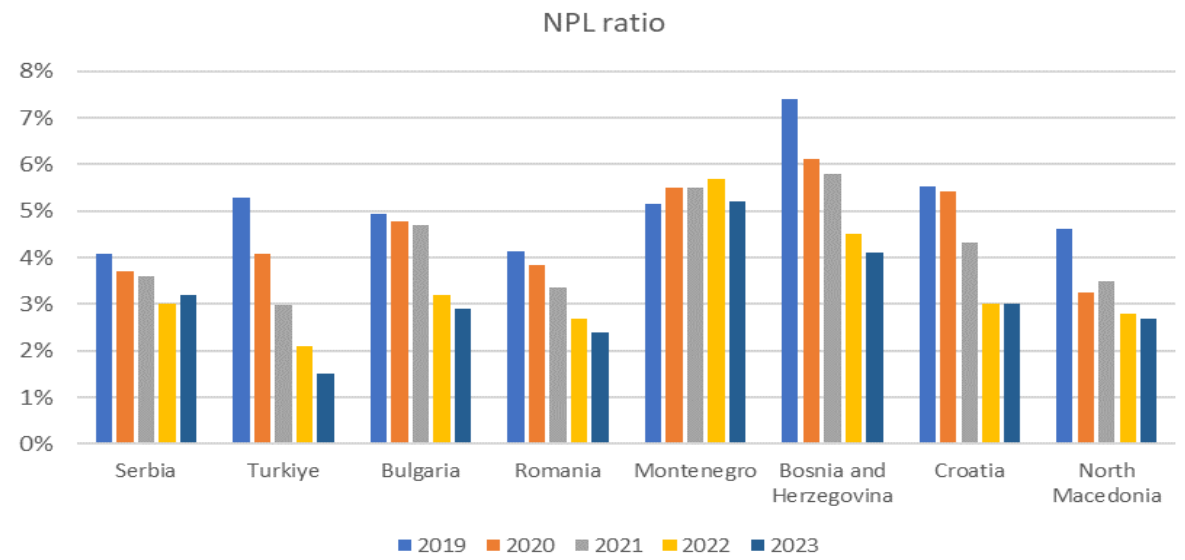
The increased profitability of the banking sector during the first nine months of 2023 was accompanied by an increase in profitability indicators compared to the same period of the previous year. At the end of the period, the return on equity (ROE) was 17,04% (9,26% at the end of Q3 2022) while the return on assets (ROA) was 2,30% (1,33% at the end of Q3 2022) . When calculating the indicator, the projected result after taxation was taken.



Source: HALKBANK's analysis of the banking sector

Problem loans (NPL ratio) amounted to 3,2% at the end of September 2023, while the coverage of these placements with value adjustments is 58,7%. At the end of the first nine months of 2023, HALKBANK had a share of NPLs in total loans of 1,48% and a NPL coverage ratio of 61,45%.

The banking sector of Serbia is adequately capitalized with an average capital adequacy ratio of 22,3%, which is significantly above the prescribed minimum of 8%.



Source: https://www.ceicdata.com

2. ACHIEVEMENT OF BASIC OPERATING TARGET

The bank sees its goals through the realization of the goals set in the Business Policy for 2023. The goals were realized through the activities listed below.

1. In the business policy for 2023, the Bank plans to expand its business network by opening up to five new business units. In 2023, the bank opened four new business units, namely a branch in Prijepolje, a branch in Belgrade in Vojvode Stepe Street, a branch in Stara Pazova and a sub-branch in Sjenica. With the new branches, the bank currently operates with 43 branches, at the end of the previous year we had 39 branches.

2. Faster growth of key balance sheet positions is planned than the growth expected for the banking sector, in order to increase market share in the sector. In the period of high interest rates, high market competition and bank mergers, HALKBANK managed to maintain its market position in all key balance sheet positions.

3. In 2023, the bank achieved a positive financial result in the amount of RSD 2.128.591 thousand, which represents a growth of 65.71% compared to the same period of the previous year. The achieved values of the most important indicators related to this business objective are shown in the following table:

(RSD thousand)

Indicators	31.12.2023.	Plan 2023	Plan realis.
Net interest income	4.655.559	4.778.577	97,43%
Net fee income	1.879.984	2.175.012	86,44%
Operating costs	3.756.937	4.247.001	88,46%
Profit	2.128.521	2.112.241	100,77%

4. When it comes to the implementation project of the new "Core Banking" system, a project called Halk Fusion, further activities continued. During Q4 2023, another dress rehearsal was performed - "Dress rehearsal # 3" as well as the second simulation of the first working day of ORC2 - "Operational Readiness Check". New iterations of the performance test were performed. End user trainings were held.

During the year, a retest of bugs and a final test was carried out with a special emphasis on Digital Origination application, where intensive work was done on solving bugs. We prepared and carried out the migration and ORC3 simulation on the first working day, as well as the finalization of user roles in applications, parameterization, testing and finalization of document templates. It is planned to change the internal acts, as well as other activities related to the release of the new system for production. After informing the National Bank of Serbia about the date of transition to the new system (end of January 2024), it is planned to inform clients about the exact dates and times about the (un)availability of the Bank's services during the migration period (February 15-18). Go live is planned for February 19, 2024.

5. The expansion of the network of POS terminals and ATMs continued. Realized investments during 2023 amounted to EUR 1.650 thousand, i.e. 41% of the planned budget. At the end of 2023, the bank had a network of 108 ATMs (98 at the end of 2022) and 5.329 POS terminals (4.332 at the end of 2022).

6. As of December 31, 2023, the bank achieved a capital adequacy ratio of 26,98% (it is planned to maintain this ratio at a level above 18%), which is significantly higher than the regulatory limits. The indicator was calculated with the application of the provisions of the Decision on temporary measures of the National Bank of Serbia, according to which, when calculating the value of the indicator, the amount of unrealized

losses/gains based on changes in the value of debt instruments that are valued at fair value through other results in accordance with IFRS 9, to which it was applied is excluded reduction factor of 70%.
The adoption of the aforementioned Decision was initiated by the observed decrease in regulatory capital at the level of the banking sector in the period from September 30, 2021 to March 31, 2022, where the key reason was identified as a significant increase in accumulated unrealized losses based on the decrease in the fair value of the debt securities portfolio from values that are valued at fair value through other results in accordance with IFRS, due to the increase in market interest rates.

According to the Business Policy for 2023, it is planned to maintain the daily liquidity indicator at a level above 1,60, as well as a narrower liquidity indicator at a level above 1,30. The mentioned goals were realized, bearing in mind the fact that on December 31, 2023. the value of the daily liquidity indicator was 2,07, and the narrower liquidity indicator was 1,43.

3. BALANCE SHEET

3.1 Assets

As of December 31, 2023, the Bank's total assets amounted to 127.730.381 thousand RSD and accounted increase of 13,38% compared to the end of 2022, or by 15.069.722 thousand RSD.

Regardless of the decline in the position of Cash and funds with the central bank by 23%, i.e. 4.998.458 thousand RSD, which is primarily caused by investment in reverse repo transactions with the National Bank of Serbia (8.008.616 thousand RSD) as well as investment in other forms of interest-bearing assets, such as placing loans to clients and investing in government securities, total assets increased primarily as a result of the growth of the client deposit base.

(in RSD thousand)

ASSETS	31.12.2022	31.12.2023.	Plan 2023	% of change
Cash, cash equivalents and assets held with the central bank	21.728.051	16.729.593	18.938.199	-23,00%
Financial assets*	12.096.361	13.718.309	10.230.553	13,41%
Loans to banks and other financial organizations**	4.066.778	13.923.701	4.686.948	242,38%
Loans to clients**	70.909.114	77.910.768	93.080.561	9,87%
Intangible assets, property, plant and equipment and investment property	2.745.689	3.807.201	7.772.835	38,66%
Other assets***	1.114.666	1.640.809	794.672	47,20%
Total assets	112.660.659	127.730.381	**135.503.768**	13,38%

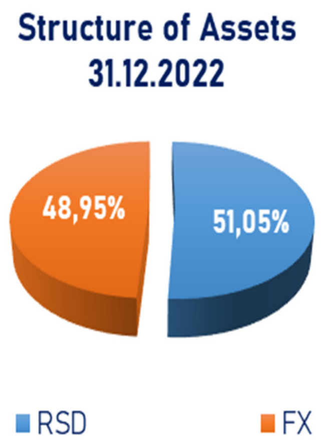
* The position "Financial assets" consists of pledged financial assets, receivables from derivatives and securities from official Balance sheet.

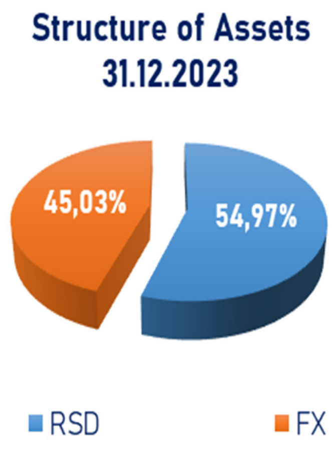
** The positions of „Loans to clients“ and „Loans to banks and other financial organizations“ differ from the positions „Loans and receivables from clients“ and „Loans and receivables from banks and other financial organizations“ presented in the official Balance sheet form for the amount of claims for accrued interest, fees and accrued interest receivable and accrued income for EIR compensation, shown in the „Other assets“ position. Position „Other assets“ includes position „Deferred tax assets“ from official Balance sheet form.

*** The position „Other assets "includes position „Deferred tax assets“ from official Balance sheet form.

The biggest change in absolute amount compared to the end of the previous year is the position of loans to banks and other financial institutions with an increase of RSD 9.856.923 thousand. A significant change in the absolute amount was also recorded in loans to clients, which increased by 7.001.654 thousand RSD, whereby loans in the Corporate, SME and AGRO segment increased by 4.801.401 thousand RSD, and loans in the Retail segment by 2.251.133 thousand RSD while maintaining the portfolio of housing loans and stable growth of cash loans.

The following graphs present the currency structure of assets as at 31.12.2022. and 31.12.2023.





3.1.1 Loans to clients

In accordance with the strategy of the HALKBANK, the main focus is on achieving maximum customer satisfaction, development of innovative products and services, improvement and digitalization of processes with a constant emphasis on raising business efficiency.

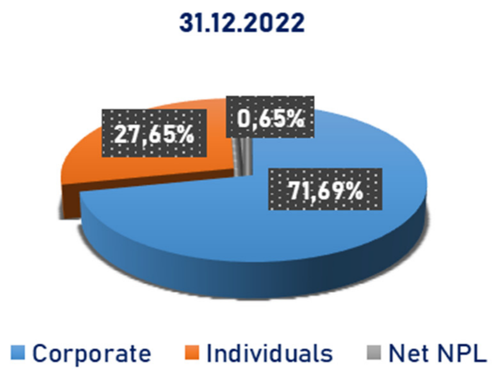
The structure of position Loans to clients as of December 31, 2022 and December 31, 2023 is given in the following table:

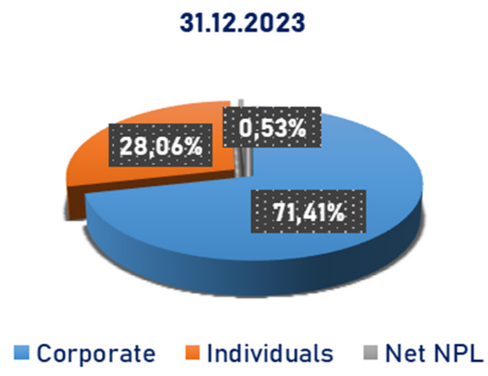
(in thousand RSD)

	31.12.2022.	31.12.2023.	Plan 2023	% of change
Loans to clients - net	**70.909.114**	**77.910.768**	**93.080.561**	**9,87%**
Corporate clients without NPL	50.836.424	55.637.825	67.526.982	9,44%
Retail clients without NPL	19.609.618	21.860.751	24.569.320	11,48%
NPL (net)*	463.072	412.192	984.259	-10,99%

** NPL position refers to net receivables from problematic customers, without receivables for interest and fee*

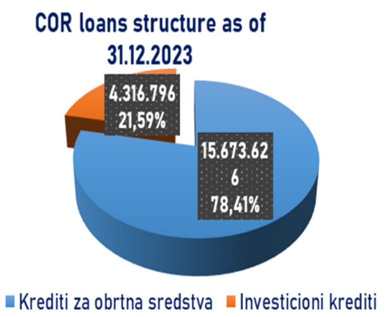
The Bank's net loan portfolio in 2023 increased by 9,87%, i.e. RSD 7.001.654 thousand. Compared to the end of 2023, net non-performing loans decreased by 10,99% and are still significantly below the budgeted amount, regardless of the current macroeconomic environment and interest rate growth.





Gross loans – Corporate

Gross corporate loans, including gross NPL, as of December 31, 2023. amount to RSD 57.071.518 thousand and recorded a growth of 10,39% compared to the end of 2022. The following graphs show the structure of these loans as of December 31, 2023:



The most important activities of Corporate and SME Marketing Division during 2023 were as follows:

- Bank realized EUR 338 million in Corporate, SME and Agro segments through standard loan products, as well as certain programs and actions. The focus was on the standard loan products, credit lines in cooperation with SEF foundation, FRK investment loans campaign in cooperation with the National Bank of Serbia, as well as lending to Agro clients.

- In 2023, the Bank was also selected at the Public tender of the Ministry of Economy of the Republic of Serbia for the participation of commercial banks and leasing companies in the realization of the Program of Support for Small Businesses for the Procurement of Equipment. This year 8 banks and 3 leasing companies are participating in the Program. The regulation provides the amount of EUR 11,9 million in grants. Bearing in mind the above, the total potential for investments amounts to at least EUR 47,6 million, of which the credit potential is 70% of that amount, ie EUR 33,3 million.

- The bank obtained approval from the NBS and is preparing to introduce the loan product "Project financing" into its offer for the business client segment. Project financing is the financing of legal entities for special purposes (so-called SPV) for the purpose of development, construction or refinancing of previous investments in development and construction, where the source of loan repayment is inflow based on the sale, lease and/or exploitation of the financed project.

The expected positive effects on the Bank's operations in the event of the introduction of a new product into the Bank's offer are as follows:

- the offer in the business client segment will become more competitive on the market
- diversification of the existing loan portfolio
- increasing the volume and number of housing loans
- increase in the bank's loan portfolio covered by solid collateral
- transformation from short-term to long-term exposures
- better risk control.

- The Bank signed an agreement with the Ministry of Agriculture regarding subsidized loans for working capital and agricultural equipment. This is the sixth consecutive year of the Bank's participation in the program through which significant results have been achieved through lending to Agro clients. In addition, the Bank has started the cooperation with Ministry of agriculture, forestry and water management, regarding the World Bank-funded Competitive Agriculture Project, for grants approval in agriculture. Targeted group are commerical and market oriented agriculture households which are not fulfilling criteria for using Europe Union funds.

Gross loans – Retail

Gross retail loans, including gross NPL, as of December 31, 2023 amounted to 22.250.727 thousand RSD with the following structure:

(in RSD thousand)

Loand type	31.12.2022.	31.12.2023.	% of change
Cash loans	9.598.973	12.020.091	25,22%
Housing loans	9.285.051	9.209.163	-0,82%
Consumer loans	517.722	365.963	-29,32%
Allowed overdraft	149.856	168.463	12,42%
Other	402.622	487.047	20,97%
Total	**19.954.224**	**22.250.727**	**11,51%**

During 2023, the retail marketing and alternative distribution channels sector carried out the following activities with the aim of launching new products and services, increasing the portfolio and profitability:

- The retail loan portfolio grew by around EUR 4,2 million in Q4, ie EUR 19,5 million since the beginning of the year, which is a relative growth of 11,9%. Growth resulted exclusively from cash loans. In parallel with the further growth of the portfolio, there was also an increase in interest income, but in a significantly higher percentage, considering the trend of interest rate growth, Interest income from retail clients increased by 47% in 2023 compared to the previous year.

- In addition, the number of clients, placements and credit clients, salary and pension recipients, the number of users of approved loans, the number of issued credit cards, and the further growth of electronic banking users continued to grow. In this respect, the growth of income from fees for monthly maintenance of accounts, ie current account packages, continued, and this was solely due to the increase in the number of clients, given that the price of current account packages did not change.

- In order to further increase the number of new clients receiving salaries and pensions, the bank continued with the "New Clients" campaign by offering clients an advantage of 12 months without account maintenance fees after transferring salary/pension to an account in HALKBANK, and that the GOLD account package for employed persons, that is, the STANDARD package for pensioners. Young and unemployed students, up to the age of 26, are offered the SILVER package, without maintaining an account until receiving their first salary.

- A campaign was launched with the aim of further increasing the number of salary-receiving clients, where, at the suggestion of the branches, certain employers (clients of the Bank) were placed on the benefit list for a period of 3, 6 or 12 months, in which their employees who transfer their salaries have the benefit of not paying account maintenance fees, as well as almost all tariffs for transactions carried out via electronic services.

- The campaign for approval of loans and credit cards "HALK PACKAGE Tailored for you" for employed natural persons continued. The campaign contains 4 products:
    - cash loan/loan for refinancing
    - current account package – Silver or Gold
    - allowed overdraft on the current account
    - credit card – Mastercard World

- Taking into account market trends and client requests, the Bank harmonized its offer and offered cash loans with a fixed interest rate in the observed period.

- The offer of cash loans for pensioners has also continued.

- In the previous period, the bank continued to expand the network of partners with whom it concludes agreements on arrangement loans, where it offered potential partners various forms of cooperation in which sellers of certain types of goods can offer their clients the sale of their goods on credit, with favorable interest rates, whereby they compensate the Bank for the interest difference up to market conditions.

- In addition, great importance and attention is devoted to the further growth of the deposit base, so in the fourth quarter of 2023 it continued with a favorable offer for term deposits of natural persons. In this period, EUR 25 million of new deposits, EUR 15,6 million of time deposits and EUR 9,4 million of avis deposits of households were collected, mostly in EUR currency, which the Bank set as the most important goal.

3.2 Equity and Liabilities

Total liabilities of the Bank as of December 31, 2023 is 127.730.381 thousand RSD and has the following structure:

(in RSD thousand)

EQUITY AND LIABILITIES	31.12.2022.	31.12.2023.	Plan 2023	% of change
Deposits from banks and other financial organizations**	4.947.709	6.466.198	12.726.118	30,69%
Deposits from other clients**	75.653.127	87.255.941	90.707.442	15,34%
Funds borrowed***	6.225.876	4.765.760	6.342.244	-23,45%
Other liabilities****	4.205.615	4.716.830	2.625.980	12,16%
Total liabilities	91.032.327	103.204.729	112.401.784	13,37%
Share capital	18.362.669	18.362.669	18.340.044	0,00%
Profit of the current year	1.284.521	2.128.591	2.110.884	65,71%
Undistributed profit from previous years	542	0	0	-100,00%
Reserves	1.980.600	4.034.392	2.651.055	103,70%
Total capital	21.628.332	24.525.652	23.101.983	13,40%
Total liabilities	112.660.659	127.730.381	135.503.767	13,38%

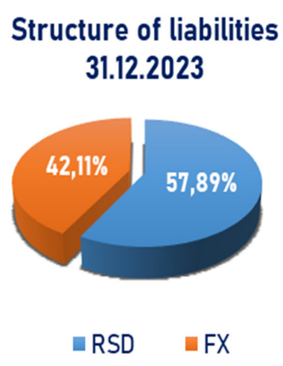
* Revaluation reserves, as part of the Bank's total reserves, were increased as a result of the decrease in interest rates on the market of debt securities issued by the Republic of Serbia, which led to an increase in the fair value of the mentioned securities in the Bank's books. In addition, by the decision of the Bank's Assembly dated April 27, 2023, the Bank's profit from previous years in the amount of RSD 1.285.063 thousand was allocated to the position of profit reserve.

** The positions "Deposits drom other clients" and "Deposits from banks and other financial organizations" differ from the positions "Deposits and other liabilities due to customers" and "Deposits and other liabilities to banks, other financial institutions and the central bank" presented in the official form of the Balance Sheet, for the amount of liabilities based on interest and fees, accrued liabilities for accrued interest and other financial liabilities to clients, which are presented in the position "Other liabilities".

*** The position "Received loans" shown in the overview is shown without accrued liabilities for accrued interest and accrued expenses for liabilities stated at amortized value using the effective interest rate, which are part of the total amount of loans received from customers and banks shown in the Bank's financial statements , which are shown in the overview under the position "Other liabilities". This position includes received loans recorded on account 508 regardless of the creditor's sectoral structure.

**** The position "Other liabilities" additionally contains the position "Provisions" from the official form of the Balance Sheet.

The following graphs present the currency structure of liabilities as at December 31, 2022 and December 31, 2023:



3.2.1 Deposits from banks, other financial organizations and central bank

The structure of deposits from banks, other financial organizations and central bank and comparative analysis as of December 31, 2022 and December 31, 2023 is presented in the following table:

(in RSD thousand)

Deposits from banks and other financial organizations	31.12.2022.	31.12.2023.	% of change
Transaction deposits	163.875	204.509	24,80%
Other deposits	4.783.834	6.261.689	30,89%
Total	4.947.709	6.466.198	30,69%

3.2.2 Deposits from clients

The structure of deposits from clients and comparative analysis by segments as of December 31, 2022 and December 31, 2023 is presented in the following tables and graphs:

(in RSD thousand)

Deposits from clients	31.12.2022.	31.12.2023.	Plan 2023	% of change
Transaction deposits	35.378.567	40.413.662	44.905.297	14,23%
Other deposits	40.274.560	46.842.279	45.802.145	16,31%
Total	75.653.127	87.255.941	90.707.442	15,34%

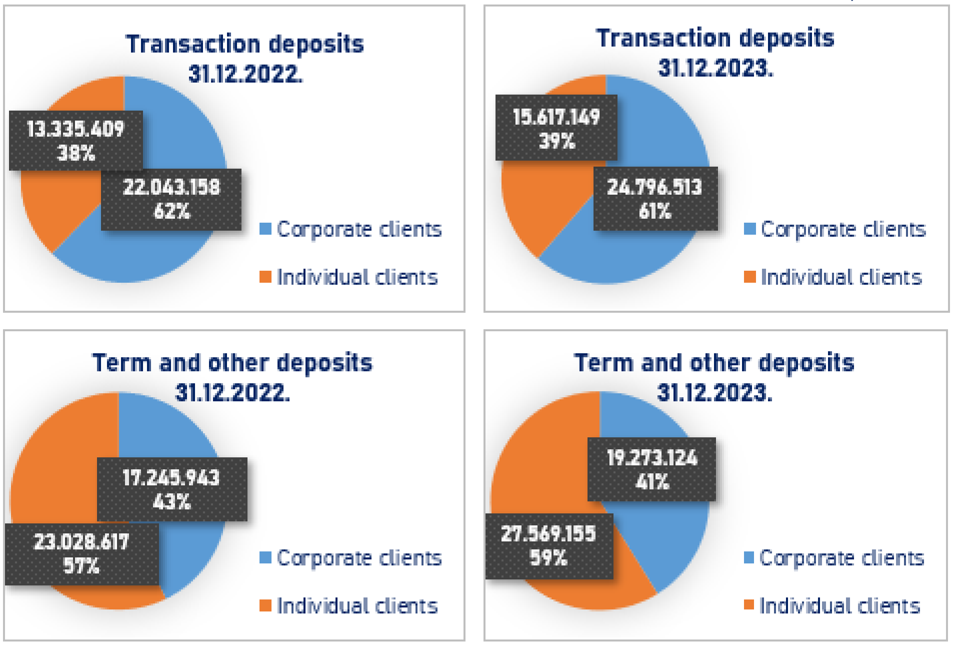
During the year, there was a significant growth of the deposit base of both transactional and term deposits. Corporate deposits recorded a growth of 12,17% compared to the end of the previous year, while retail deposits grew by 18,76% in the same period.

(in RSD thousand)

Deposits from clients	31.12.2022	31.12.2023	Plan 2023	% of change
Corporate clients	39.289.101	44.069.637	50.126.323	12,17%
Retail clients	36.364.026	43.186.304	40.581.119	18,76%
Total	75.653.127	87.255.941	90.707.442	15,34%

The structure deposits from clients is presented in the following graphs::

(in RSD thousand)



Funds borrowed

(in RSD thousand)

Borrowed loans in foreign currency	31.12.2022.	31.12.2023	% of change
- EIB	3.767.574	3.177.590	-15,66%
- Demir-Halk Bank (Nederland) N.V.	821.257	292.934	-64,33%
- Revolving kredit FRK- EAR	1.291.979	1.000.354	-22,57%
- GGF	345.066	275.704	-20,10%
- Erste bank	0	19.178	
Total	6.225.876	4.765.760	-23,45%

During 2023, the bank repaid the principal of long-term loans from international financial institutions in the amount of EUR 14.617 thousand. In the same period, the Bank withdrew funds from international financial institutions in the amount of EUR 2.224 thousand.

3.2.3 Equity

The equity of the Bank as of December 31, 2023 is amounted to RSD 24.525.652 thousand and comprised of the following :

(in RSD thousand)

Equity	31.12.2022.	31.12.2023.	% of change
Share capital – ordinary shares	9.887.600	9.887.600	0,00%
Share capital – preference cumulative shares	1.340	1.340	0,00%
Share capital - preference non-cumulative shares	600.000	600.000	0,00%
Share premium	7.873.729	7.873.729	0,00%
Revaluation reserves**	-1.847.358	-1.078.630	-41,61%
Reserves from profit	3.827.958	5.113.022	33,57%
Undistributed profit from previous years	542	0	-100,00%
Profit of the current year	1.284.521	2.128.591	65,71%
Total	21.628.332	24.525.652	13,40%

* The increase in revaluation reserves, i.e. the decrease in unrealized losses, is a consequence of the decrease in interest rates on the market of debt securities, compared to the end of the year issued by the Republic of Serbia, which led to an increase in the fair value of the mentioned securities in the Bank's books.
** By the decision of the Bank's Assembly dated April 27, 2023, the Bank's profit from previous years in the amount of RSD 1.285.063 thousand was allocated to the position of profit reserve.

The information about the number of shareholders and the basic information of shares is presented in the following table:

Information on shares	31.12.2022	31.12.2023
Number of shareholders	1	1
Number of shares	1.048.894	1.048.894
Nominal value per share in RSD	10.000	10.000
Net book value per share in RSD	20.620,13	23.382,39

The National Bank of Serbia, bearing in mind that in the previous period a decrease in regulatory capital was observed at the level of the banking sector, in order to preserve and strengthen the stability of the banking sector of the Republic of Serbia, adopted a Decision on a temporary measure related to the calculation of the bank's regulatory capital.

The decision foresees a temporary measure related to the calculation of the bank's capital, in accordance with which the bank can exclude from the calculation of the basic share capital the amount of the temporary regulatory adjustment, i.e. the amount of unrealized losses/gains based on the change in the value of debt instruments that are valued at fair value through other results in accordance with IFRS 9 to which a reduction factor of 0,70 was applied.

The temporary measure refers to debt securities whose issuers are the Republic of Serbia, an autonomous province or a local self-government unit of the Republic of Serbia, and which are valued at fair value through other results in accordance with IFRS 9.

4. OFF-BALANCE SHEET ITEMS

The bank realizes a continuous growth of the portfolio of guarantees and letters of credit. In 2023 this position (which also includes assumed irrevocable obligations) recorded a growth rate of 27,78% compared to the end of 2022. Structure of off-balance sheet positions as of December 31, 2022 and December 31, 2023 is given in the following table:

(in RSD thousand)

Off-balance sheet items	31.12.2022.	31.12.2023.	% of change
Contingent liabilities (guarantees, avals, acceptances and irrevocable liabilities)	24.324.703	31.082.766	27,78%
Operations for and on behalf of third parties	234.678	225.797	-3,78%
Derivatives (SWAP)	4.097.585	2.940.683	-28,23%
Other off-balance sheet items	116.639.915	127.897.768	9,65%
Total	**145.296.881**	**162.147.014**	**11,60%**

The following table compares the structure of the item guarantees, avals, acceptances and irrevocable liabilities as of December 31, 2022 and December 31, 2023:

(in RSD thousand)

Contingent liabilities (guarantees, avals, acceptances and irrevocable liabilities)	31.12.2022.	31.12.2023.	% of change
Performance guarantees	15.355.621	19.135.073	24,61%
Payment guarantees	6.159.579	7.151.927	16,11%
Unused limits which cannot be revoked	2.131.882	3.670.831	72,19%
Issued foreign currency letters of credit with Banks' confirmation	469.290	673.749	43,57%
Issued uncovered letters of credit	208.331	451.186	116,57%
Total	**24.324.703**	**31.082.766**	**27,78%**

In the following table, position "Other off-balance sheet items" is presented.

(in RSD thousand)

Other off-balance sheet items	31.12.2022.	31.12.2023.	% of change
Received fixed assets (buildings, cars, land etc.) as collateral in favor of the Bank	72.954.657	79.962.715	9,61%
Commitments for framework loans and facilities	13.369.034	21.099.135	57,82%
Calculated suspended interest	5.231.256	5.315.478	1,61%
Financial assets pledged as collateral	0	0	-
Other off-balance sheet items	25.084.968	21.520.440	-14,21%
Total	**116.639.915**	**127.897.768**	**9,65%**

5. INCOME STATEMENT FOR THE PERIOD

The Income Statement for the period from January 1st to December 31, 2023 is presented in compliance with the Law on Accounting, IFRS and NBS regulations.

The Bank realized a profit of RSD 2.128.591 thousand at the end of the 2023.

(in RSD thousand)

Income Statement	31.12.2022.	31.12.2023.	Plan 2023	Absolute change	% of change
Interest income	3.846.270	6.388.000	6.310.348	2.541.730	66,08%
Interest expense	-887.485	-1.732.441	-1.531.771	-844.956	95,21%
Net interest income	**2.958.785**	**4.655.559**	**4.778.577**	**1.696.774**	**57,35%**
Fee and commission income	2.147.386	2.622.764	**2.976.893**	475.378	22,14%
Fee and commission expense	-571.923	-742.780	**-801.882**	-170.857	29,87%
Net fee and commission income	**1.575.463**	**1.879.984**	**2.175.011**	**304.521**	**19,33%**
Net trading income	12.958	19.949	**2.345**	6,991	43,34%
Other operating income	74.858	100.586	**37.520**	25,728	36,21%
Net income/(losses) on impairment of financial assets	-154.391	-521.767	**-340.029**	-367.376	237,95%
Total net operating income	**4.467.673**	**6.134.311**	**6.653.424**	**1.666.638**	**37,30%**
Salaries, salary compensation and other personal expenses	-1.478.613	-1.849.014	**-2.165.397**	-370.401	25,05%
Depreciation costs	-522.341	-631.000	**-735.986**	-108.659	20,80%
Other expenses	-1.053.804	-1.276.923	**-1.345.617**	-223.119	21,17%
Total operating expenses	**-3.054.758**	**-3.756.937**	**-4.247.000**	**-702.179**	**22,99%**
NET PROFIT BEFORE TAX	**1.412.915**	**2.377.374**	**2.406.425**	**964.459**	**68,26%**
PROFIT TAX	-131.142	-251.109	**-294.184**	-119.967	91,48%
PROFIT FROM DEFERRED TAXES	2.748	2.326	**0**	-422	-
NET PROFIT BEFORE TAX	**1.284.521**	**2.128.591**	**2.112.241**	**844.070**	**65,71%**

In 2023, the bank increased its net interest income by 57,35%, i.e. 1.696.774 thousand RSD, compared to the result from 2022, primarily thanks to the growth of interest rates, but also the growth of the loan portfolio. Interest rates on the interbank market had a positive trend in the first three quarters of 2023, while in the last quarter that trend was suspended and interest rates are stagnating at a high level, or recording a modest decline. At the end of the year, 6M Euribor was at the level of 3,86%, while 6M Belibor was 5,80%. The bank achieved significant interest income by placing funds in reverse repo transactions with the NBS (RSD

249.738 thousand in 2023 compared to RSD 11.753 thousand last year) as well as from excess liquid funds on the account with the NBS (RSD 100.442 thousand in 2023 compared to RSD 62.347 thousand in 2022). The net interest margin increased from 3,68% as of December 31, 2022, to 5,43% as of December 31, 2023.

Net income from fees and commissions increased by 19,33%, i.e. by RSD 304.521 thousand. The biggest contribution to this increase was the growth of income from payment cards (an increase of RSD 202.472 thousand, i.e. 45,25%) as well as the growth of income from payment transaction fees (an increase of RSD 110.880 thousand, i.e. 9,82%), based on SWAP transaction (increase of RSD 74.192 thousand) and based on guarantees (increase of RSD 71.272 thousand).

In September 2023, the National Bank of Serbia made a decision to limit the interest rates on housing loans for debtors who are beneficiaries of the first housing loan with a variable interest rate, if the contracted amount does not exceed EUR 200,000. For these nominal debtors, the interest rate is temporarily limited for the next 15 months, starting with the October installment. For housing loans that were approved by July 30, 2022, the nominal interest rate cannot be higher than 4,08%. For housing loans that were approved in the period from July 31, 2022 to September 12, 2023 (the day before the Decision of the National Bank of Serbia entered into force), and whose initial interest rate is higher than 4,08%, the new interest rate is the rate from the initial repayment plan. For housing loans with a variable interest rate, approved starting from September 13, 2023, the fixed part of the interest (bank margin) cannot be higher than 1,1%, while for loans with a fixed interest rate, the interest rate cannot be higher than 5,03%. The bank will not have the right to demand from the debtor the difference in interest due to the application of this decision.

On November 30, 2023, the Bank booked a loss from modification in the amount of RSD 146.158 thousand.

Total operating expenses are higher by 22,99%, i.e. by RSD 702.179 thousand compared to the previous year. The largest participation in the total operating costs is recorded by the salaries of employees with 49,2%, followed by depreciation with 9,99%%, depreciation costs related to MRS 6,81%, the premium paid to the Deposit Insurance Agency 5,87%.

The increase in operating expenses in the current year compared to the previous year is mostly influenced by the increase in other expenses, which are higher for RSD 71.857 thousand mostly due to the donation for the earthquake in Turkiye in the amount of RSD 58.233 thousand, reservation costs for court cases, which are higher for RSD 48.425 thousand compared to the previous year, an increase in electricity costs by 43,5%, rental costs that increased by 18,72%, as well as equipment maintenance costs that increased by 67,35%. The cost of employee salaries recorded a growth of 25,05%, that is, RSD 370.401 thousand, which is largely the result of an increase in the number of employees, as well as the adjustment of salaries to inflation. Provisions for the 13th and 14th salary, which in 2023 amounted to RSD 243.451 thousand, are part of the employee salary costs. Since the beginning of the Halk Fusion project, the salary costs of the employees working on the implementation of the new Core banking system have been capitalized in proportion to the time spent on the project. Capitalized salary costs in 2023 amount to RSD 351.045 thousand, while in 2022 they amounted to RSD 238.295 thousand.

Certain savings were achieved on the basis of legal services costs, official travel costs, audit costs and consulting services.

The structure of interest income is presented in the following table:

(in RSD thousand)

Interest income	31.12.2022.	31.12.2023.	% of change
Corporate clients	2.109.496	3.715.539	76,13%
Retail clients	1.150.808	1.687.874	46,67%
Securities	495.877	523.594	5,59%
Other	90.089	460.993	411,71%
Total	**3.846.270**	**6.388.000**	**66,08%**

The growth of other interest income was caused by interest income on excess liquid assets deposited with the NBS, income from the required reserve and primarily investment in reverse repo transactions with the NBS.

The structure of fee and commission income is presented in the following table:

(in RSD thousand)

Fee and commission income	31.12.2022.	31.12.2023.	% of change
Fees from payment operations	1.129.300	1.240.180	9,82%
- Corporate Segment	*806.534*	*889.359*	*10,27%*
- Banking Segment	*72.493*	*86.110*	*18,78%*
- Retail Segment	*54.730*	*56.615*	*3,44%*
- Packages maintenance fees	*195.543*	*208.096*	*6,42%*
Fees from guarantees	273.490	344.762	26,06%
Fees from FX changes	235.595	247.095	4,88%
Fees from payment cards	447.412	649.884	45,25%
- Merchant service charges	*271.537*	*399.378*	*47,08%*
- Interchange fees	*94.703*	*146.953*	*55,17%*
- Payment cards and other	*81.172*	*103.553*	*27,57%*
Other fees	61.589	140.843	128,68%
Total	**2.147.386**	**2.622.764**	**22,14%**

The structure of interest expense is presented in the following table:

(in RSD thousand)

Interest expense	**31.12.2022**	**31.12.2023**	% of change
Deposits – corporate	318.723	684.688	114,82%
Deposits – retail	286.922	586.141	104,29%
Banks deposits	190.632	222.154	16,54%
Borrowings IFI's	76.808	219.755	186,11%
IFRS 16	14.400	19.703	36,83%
Total	**887.485**	**1.732.441**	**95,21%**

The structure of fee and commission expense is presented in the following table:

(in RSD thousand)

Fee and commission expenses	31.12.2022	31.12.2023	% of change
Payment operations	219.625	236.479	7,67%
Fees from payment cards	322.076	472.412	46,68%
Credit bureau	13.754	17.985	30,76%
Other fees	16.468	15.904	-3,43%
Total	**571.923**	**742.780**	**29,87%**

6. CASH FLOWS

Cash flows from operating activities during the 2022 and 2023 are presented in the table below:

(in RSD thousand)

Cash inflows from operating activities	I - XII 2022	I – XII 2023	Change
Interest	3.947.637	6.351.345	2.403.708
Fees	2.153.924	2.633.664	479.740
Other operating income	10.901	14.207	3.306
Dividend and share in profit	519	1.169	650
Total cash inflows	6.112.981	9.000.385	2.887.404
Cash outflows from operating activities			
Interest	794.632	1.467.825	673.193
Fees	570.108	740.451	170.343
Salaries	1.376.237	1.780.684	404.447
Tax and contribution	56.204	74.008	17.804
Other operating expenses	1.013.164	1.221.552	208.388
Total cash outflows	3.810.345	5.284.520	1.474.175
Net cash inflows from operating activities before increase/decrease in financial assets or financial liabilities	2.302.636	3.715.865	1.413.229

Cash inflows from business activities (before the increase or decrease of financial assets or financial liabilities) in 2023 are higher by RSD 2.887.404 thousand compared to 2022.

Cash outflows from business activities (before increase or decrease of financial assets or financial liabilities) in 2023 increased by RSD 1.474.175 thousand compared to 2022.

The net inflow of cash from business activities before the increase or decrease of financial assets or financial liabilities in 2023 amounts to RSD 3.715.865 thousand, which is an increase of RSD 1.413.229 thousand compared to the same period in 2022.

7. INVESTMENT PLAN

During 2023, total investments in fixed assets (including the right of use in accordance with IFRS 16 to which the amount of RSD 656.560 thousand), investment real estate and intangible assets refers to RSD 1.701.695 thousand.

Changes at these balance sheet items are presented in the following table: (in RSD thousand)

Investments*	Građevinski objekti	Oprema	Investicione nekretnine	Nematerijalna ulaganja	Zakupi u obuhvatu IFRS 16	Total	Plan 2023
Balance 31.12.2022.	196.602	768.558	132.687	1.016.170	631.670	2.745.687	2.742.216
Estimated balance on 31.12.2022. (budget)	205.314	601.747	126.474	854.928	640.111	2.428.574	2.846.600
Total increase:	0	294.809	0	750.327	656.560	1.701.696	5.665.290
IT	0	70.036	0	750.327	0	820.363	1.401.925
Adaption of business premises	0	95.685	0	0	0	95.685	3.907.157
Other	0	129.088	0	0	0	129.088	98.426
IFRS 16 – rents (building and cars)	0	0	0	0	656.560	656.560	257.782
Revaluation	0	0	0	0	0	0	0
Reclassfication	0	0	0	0	0	0	0
Total decrease:	9.518	216.676	11.486	146.691	255.811	640.182	735.504
Depreciation	9.518	216.249	3.834	145.589	0	375.189	498.110
Depreciation – IFRS 16	0	0	0	0	255.811	255.811	237.394
Sell	0	0	7.652	0	0	7.652	0
Other							
Disposal and retirement	0	427	0	1.102	0	1.529	0
FX effects							3.064
Balance 31.12.2023.	187.084	846.691	121.201	1.619.806	1.032.419	3.807.201	7.672.002

** Presented in net amount as oposed to the way it was presented in the Notes to the Financial statements*

The Bank's investments in 2023 were related to the acquisition of software and equipment for the new Core project, the acquisition of cash deposit machines, POS terminals and ATMs in order to expand their network, investments in the development of projects related to business with payment cards, and have for the purpose of digitalization and improvement of the quality of services provided to clients, investments in IT equipment, both in the renewal of existing outdated equipment and in the procurement of equipment for new employees, investments in security equipment and other equipment necessary for the smooth operation of branches, as well as investments in development of existing and acquisition of new software solutions and acquisition of licenses for the same. Part of the funds was allocated for the renovation of the branch in Subotica, which will be located at a new address from December 2023, as well as for the adaptation of business premises for four new branches that were opened in 2023. Given that the process of implementing the new core system continued in 2023, part of the salary costs of the employees working on this project were capitalized in accordance with IAS 38.

8. COMPLIANCE OF OPERATIONS WITH THE NBS REGULATIONS AND IFI AGREEMENTS

Business compliance with NBS regulations

As of December 31, 2023, all the operating ratios of the Bank were within the limits prescribed by the Law on Banks and NBS regulations.   .

Ratio	The values prescribed by the NBS regulations	Values at December 31, 2023
Regulatory Capital - NBS temporary measure*	Min 10.000.000 €	183.280.192 €
Regulatory Capital – regular calculation	Min 10.000.000 €	176.381.654 €
Capital adequacy ratio - NBS temporary measure*	Min 8% (SREP 15,15%)	26,98%
Capital adequacy ratio – regular calculation	Min 8% (SREP 15,15%)	25,98%
Foreign exchange risk ratio	Max 20%	3,84%
Liquidity ratio	Min 1	2,07
Narrow liquidity ratio	Min 0,7	1,43
Liquidity coverage ratio	Min 100%	154,02%
Exposure to one person or group of related persons	Max 25%	15,34%
Sum of large exposures	Max 400%	31,10%
Investment in non-financial sector	Max 10%	10,19%
Bank's investments into non-financial sector, fixed assets and investment property	Max 60%	10,19%

** The National Bank of Serbia on June 29, 2022, adopted the Decision on a temporary measure related to the calculation of the bank's capital, in accordance with which the bank can exclude from the calculation of the core capital the amount of the temporary regulatory adjustment, i.e. the amount of unrealized losses/gains based on changes in the value of debt instruments that are valued at fair value through other results in accordance with IFRS 9 to which a reduction factor of 0,70 was applied.*

Respecting the above mentioned, on December 31, 2023 the Bank achieved a capital adequacy ratio of 26,98% (29,99% on December 31, 2022), which is significantly higher than the regulatory limits.

By the Decision on the Minimum Requirement for Capital and Eligible Liabilities of a Bank, National Bank of Serbia (IO NBS no. 30, April 07th 2022) defines ratio of Capital and Eligible Liabilities to total liabilities for the Bank equal to 7,30%, which was previously at level of 6,36%. As per the last available calculation from December 31, 2023, the ratio of the Capital and Eligible Liabilities to total liabilities of the Bank was 19,87%, which is significantly above the defined limit. Based on the portfolio structure, it is expected that defined ratio will be on the similar level with the next calculation.

Compliance with the covenants from the agreements concluded with the international financial institutions (IFIs)

Pursuant to the defined limits in the agreements concluded with the international financial institutions (IFIs) - Green for Growth Fund (GGF), and European Fund for Southeast Europe (EFSE) the Bank is required to comply with agreed financial covenants until the final repayment of the loans. As of December 31, 2023, the Bank is aligned with all indicators.

III RISK MANAGEMENT ADEQUACY

The Bank's targets in risk management are identification, measuring, mitigating and monitoring all types of risks and thus minimizing the Bank's exposure to such risks.

Credit Risk

The Bank measures and monitors the credit risk level through assessing the clients' solvency and controlling the loan portfolio through the calculation of impairment provisions pursuant to the IFRS rules.

Structure of gross risk-weighted assets in terms of classification categories

(in RSD thousand)

Classification category	Classified amount as of 31.12.22	% of the share in gross classified assets		Classified amount as at 31.12.23	% of the share in gross classified assets	
A	44.788.492	39,49%	74,30%	58.576.569	42,38%	75,77%
B	39.483.716	34,81%		46.153.468	33,39%	
V	23.262.854	20,51%	20,51%	25.138.769	18,19%	18,19%
G	2.874.911	2,53%	5,19%	4.907.639	3,55%	6,04%
D	3.012.171	2,66%		3.435.574	2,49%	
Total	113.422.144	100,00%		138.212.019		100%

The total assets that are classified increased as of December 31, 2023 compared to the December 31, 2022 by 21,9%.

The structure of the Bank's portfolio changed in terms of an increase in the share of placements classified in categories A and B by 1,47 p.p., while the share of placements classified in category V decreased by 2,32 p.p. The share of placements in categories G and D also increased by 0,85 p.p.

Portfolio quality as of December 31, 2023 is at low risk level.

Collection and coverage of NPLs

Gross NPL based on the methodology of reporting to the National Bank of Serbia is shown in the following table:

(in RSD thousand)

	31.12.2022.	31.12.2023.	Change
NPL portfolio	946.974	1.160.764	213.790

NPL as of December 31, 2023 increased by RSD 213.790 thousand compared to December 31, 2022.

The increase in NPL is largely due to the entry into the default client SDK CONSTRUCTION DOO in the amount of RSD 84.160 thousand.

New exposures that became the NPL during the 2023, amounts to RSD 403.945 thousand, out of which 68% (RSD 276.007 thousand) relates to Corporate and SME clients, and 24% (RSD 97.901 thousand) to retail customers, 5% (RSD 20.948 thousand) to entrepreneurs and 2% (RSD 9.089 thousand) to agricultural clients.
From the beginning of 2023, the Bank collected RSD 426.419 thousand on the basis of NPLs.

Share of gross NPLs in total gross Bank's loans

Ratio	31.12.2022.	31.12.2023.	Change
Share of NPLs in total loans	1,32%	1,46%	0,14p.p.

NPL coverage

Pokazatelj	31.12.2022.	31.12.2023.
Ratio of NPL coverage with Impairment provisions for loans	79,49%	89,94%
Ratio of NPL coverage with NPL Impairment provisions	49,96%	63,58%

In Risk appetite framework, the Bank defined the optimal (target) level for distressed assets (NPE) and non-performing loans (NPL) at a level that is less than 5% and 3%, respectively as well as the NPL coverage ratio which is calculated as a ratio of NPL impairments and non-performing loans (NPL) at the level above than 50%.

On December 31, 2023, the Bank complies with the defined limits of these indicators.

Liquidity ratio

The realized value of the Liquidity coverage ratio (LCR) on 31.12.2023. is 154,02%, which is in line with the defined limits established by the Bank's internal acts.

The risk appetite framework defines the optimally acceptable value of the mentioned ratio as a minimum of 120%, and the defined exposure limit is as a minimum of 105%.

In accordance with the Liquidity Risk Management Procedure, the determined value is in the low risk zone (p>120%).

In line with Liquidity Contingency Plan, the value of the relevant indicator below 110% indicates a potential liquidity crisis of the Bank (an indicator for early detection of a liquidity crisis).

During 2023, the value of the indicator was in the range of 132,43% to 161,48%, which is significantly above the coefficient prescribed by the regulator's decision, but significantly below the average of the banking sector 182,98% (latest available data).

Liquidity Ratio and Narrow Liquidity Ratio prescribed by NBS in the period from January 1st to December 31, of 2023

	Liquidity Ratio	Narrow Liquidity Ratio
Value as of December 29, 2023	2,07	1,43
Average	2,05	1,49
Maximum	2,47	1,97
Minimum	1,65	1,20
Daily NBS limit	Minimum 0.8	Minimum 0.5
NBS limit on monthly level	Minimum 1	Minimum 0.7

Liquidity ratios of the Bank during 2023 were in accordance with the prescribed limits by the Decision on liquidity risk management by banks.
At the same time, the indicator values at the end of September are above the level of the optimally acceptable level of risk defined by the Bank's Risk Appetite Framework.
In order to manage liquidity risk adequately, the Bank monitors internally established indicators of structural liquidity, besides the limits prescribed by the NBS.

Additional liquidity ratios in the period from 01.01.-31.12.2023 – internally established

	Min.	Max.	Average	Limit
Liquid assets ratio	28,38%	34,26%	30,65%	Min 25,00%
Net loans to total deposits ratio	83,13%	91,41%	89,16%	Max 200,00%
Customers' deposits to total deposits ratio	92,29%	94,15%	93,35%	Min 75,00%
Deposit concentration ratio	13,90%	14,59%	14,28%	Max 30,00%

The Bank was within internally prescribed liquidity limits during 2023.

Foreign exchange risk

FX Risk ratio in the period from 01.01. – 31.12.2023.

Value as of December 31th, 2023	3,84%
Average	1,31%
Maximum	4,41%
Minimum	0,13%
Limit NBS	Max. 20%

Foreign currency risk measured by FX Risk ratio was located in the low risk category during 2023.

Interest rate risk

The impact of changes in interest rates on the economic value of the Bank is monitored through total net weighted position of the banking book.

Total net weighted position of the Bank as of December 31, 2023

(in RSD thousand)

Total net weighted position	1.263.651
Equity	21.475.618
Total net weighted position and equity ratio	5,88%
Internally prescribed maximum	+/-10%

Operational risk

In the period from January 1st to December 31, 2023, 139 operational risk events were reported to the operational risk database. Out of a total of 139 operational risk events, 57 related to cash shortage, 47 to cash surplus, two to internal fraud, two to external fraud and 31 to other operational risk events.
Operational risk events are classified by line of business and type of event.
In relation to the line of business in this period, out of a total of 139 reported events, 112 related to Calculations and Payments, 13 to Commercial Banking and 14 to Business with Citizens. In relation to the type of event, 133 reported events related to execution, delivery and process management, two to external fraud, two to internal fraud, one to customers, products and business practices and one to damage to fixed assets.

Number of events	139
Cash shortage	57
Cash surplus	47
External frauds	2
Internal frauds	2
Other	31
Net loss in 000 RSD	27.901
Net loss in EUR	238.118

The Bank performs also risk assessment of Outsourcing processes, based on the contract concluded with third parties, which have clearly defined rights and obligations of the parties. When introducing new products, processes and systems or new business activities, the Bank also performs assessment and identification of operational risk.

Exposure risk

The Bank's exposure* to persons related to the Bank and its large exposures
as of December 31, 2023

	(in 000 RSD)	% of equity	Limit NBS
Persons related to the Bank	3.288.650	15,31%	-
Large exposures	6.680.059	31,10%	Max 400%

* The Bank's exposure refers to exposure after applying credit risk mitigation techniques and deductions, in line with NBS Decision on Risk management.

Concentration risk

The Bank monitors the concentration risk through a concentration ratio that was defined as the ratio of the 20 largest gross exposures at the level of the client or the group of related parties reduced by exposures covered with cash deposits and total regulatory capital.

The policy of credit risk management has determined that the concentration ratio should be maintained at a level below 250%.

	31.12.2022.	31.12.2023.	Preference (target) value
Concentration ratio of 20 largest clients/groups of related parties	103,90%	106,72%	Max 250% of regulatory capital

As of December 31, 2023, the concentration ratio is within an internally defined limit.

Additionally, in order to manage the concentration risk, by the Procedure for the Credit Risk Management at the portfolio level, exposure limits (balance sheet assets and off-balance sheet items) have been established to specific geographical areas and to a specific sector / business activity, which provide diversification of the portfolio. As of December 31, 2023, in the mining and processing industry, the largest exposure of the Bank is 21,49% and in retail 18,48%, which is significantly below the internally defined limit of 60% and 25% respectively. The exposure of the Bank in relation to geographical areas is monitored through the participation of exposures to clients from individual geographical areas in the total classified gross balance sheet assets and off-balance items. The Bank's largest exposure is to clients belonging to the region of Belgrade 38,69% and region of Central and Western Serbia and amounts to 36,94%, which is significantly below the internally defined limit of 50% and 70% respectively.

The Bank's exposure to certain types of products is monitored in accordance with the NBS Decision on concentration risk management, based on the Bank's exposure to certain types of products. Exposures of the Bank to retail loans with a contractual maturity of more than 2.920 days may not exceed 30% of the Bank's capital determined in accordance with the decision regulating the bank's capital adequacy increased by the amount of all bank liabilities in dinars with a remaining maturity of more than 1.825 days. The calculation of the capital amount referred to in the preceding paragraph shall not be subject to the regulatory adjustments and deductions from capital prescribed by the NBS decision regulating the bank's capital adequacy, except for deductions for the loss of the current year and earlier years and for unrealized losses. As of December 31, 2023, concentration risk ratio in retail segment calculated as previously described is 2,56%, which is significantly below the defined limit.

Investment Risk

The Bank did not have investments in non-financial sector as of December 31, 2023. Total investments in entities that are not in financial sector and in fixed assets and investment property were in the category of low risk (below 45% of capital).

Bank's investments into non-financial sector, fixed assets and investment property as of December 31, 2023

	Investments into non-financial sectors	Investments into fixed assets and investment property	Total
Amount (000 RSD)	0	2.187.395	2.187.395
Share in equity	0%	10,19%	10,19%
Limit NBS	Max 10%	-	Max 60%

Country risk - The risk relating to the country of origin of the person to whom the Bank is exposed

Bank establishes a system of country classification regarding the level of country risk and is committed to a system of risk classification by applying categories assigned by international rating agencies (Moody's, Standard&Poors and Fitch).

During 2023, the Bank had exposures to clients, which operate in countries that are classified as low-risk and medium-risk countries, according to the Classification of official international credit rating agencies and the Bank Procedure.

Bank's exposure towards countries, which are in the category of low risk, is without limits. The country from this category as of December 31, 2023 were Germany, Austria, USA and Czech Republic. Countries in the category of medium risk were Macedonia, Türkiye, Romania, Bosnia, Croatia and Montenegro. Exposure to countries in the category of medium risk was significantly below adopted internal limits during observed period.

Review of countries of clients whose exposure is involved in country risk
as of December 31, 2023

Country	Risk category	Limit	Share in Bank's capital
Germany	low	without limit	16,18%
Austria	low	without limit	3,29%
USA	low	without limit	0,43%
Czech Republic	low	without limit	0,05%
Belgium	low	without limit	0,00%
Macedonia	medium	100% regulatory capital	19,56%
Türkiye	medium	100% regulatory capital	25,64%
Romania	medium	20% regulatory capital	0,99%
Bosnia	medium	40% regulatory capital	1,64%
Croatia	medium	10% regulatory capital	0,01%
Greece	medium	10% regulatory capital	0,00%
Montenegro	medium	40% regulatory capital	0,02%
Albania	medium	25% regulatory capital	0,00%
Italy	medium	10% regulatory capital	0,00%

IV SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

After the end of the business year, there were no events that have a material impact on the financial statements for the period ending December 31, 2023.

V PROJECTED FUTURE DEVELOPMENT

The bank's business policy and strategy define the basic business goals and main guidelines for the Bank's development on the Serbian market. The Bank's development is fully supported by the Bank's shareholder, HALKBANK Turkiye, through continuous recapitalizations, all in accordance with business needs and set goals.

One of the main goals is to expand the business network of branches, while increasing the market share in Belgrade and other regions where the Bank currently does not have branches. According to the Bank's strategy, key balance positions are planned to grow faster than the expected growth of the banking sector, which will lead to an increase in the Bank's market share in the total assets, loans and deposits of the Serbian banking sector.

VI RESEARCH AND DEVELOPTMENT ACTIVITIES

The bank conducts regular research on financial markets, analyzes the financial needs of clients and conducts research on the level of satisfaction of users of financial services.

The marketing sector continuously develops new products and services of the Bank and strives to, based on the information and conclusions obtained through market research and client needs, develop and offer to the market modified existing products, as well as completely new products and services.

VII INFORMATION ON REDEMPTION OF SHARES

There was no redemption of own shares during 2023.

VIII EXISTENCE OF AFFILIATES

HALKBANK is successfully expanding its business network and client base. Today, the Bank's products and services are provided through a business network of 38 branches, 5 sub-branches and 1 counter. As of December 31, 2023, the Bank has 9 branches in Belgrade, 3 branches in Čačak, branches in Ivanjica, Gornji Milanovac, Valjevo, Kraljevo, Novi Pazar, Aranđelovac, Užice, Požega, Prijepolje, Kragujevac, Smederevo, Mladenovac, Kruševac, Šabac, Pančevo, Sremska Mitrovica, Novi Sad, Stara Pazova, Zrenjanin, Subotica, Niš, Leskovac, Vranje, Pirot, Jagodina, Paraćin as well as 5 sub-branches - in Topola, Vrnjačka Banja, Tutin, Sjenica and Preševo. In 2023, the bank opened three new branches in Prijepolje, the Vojvode Stepe street in Belgrade and Stara Pazova, as well as one sub-branch in Sjenica.

IX CORPORATE GOVERNANCE RULES

Corporate governance rules of the Bank are regulated in the following by-laws:

- Statute of the Bank;
- Foundation Agreement;
- Corporate Governance Code;
- Business Code of Supervisory Board Members;
- Code of Conduct and Ethical Principles;
- Anti-corruption Policy and
- General Operating Conditions.


Subotica
Zrenjanin
Novi Sad
Sr. Mitrovica
Stara Pazova
Pančevo
Šabac
Head Office
Belgrade
Branches:
Zemun
Novi Beograd
Beograd
New Mill
Crveni krst
Corporate Branch
Makedonska
Bulevar
Vojvode Stepe
Smederevo
Mladenovac
Aranđelovac
Topola
Valjevo
Branches:
Čačak
Pivarska
Nemanjina
G. Milanovac
Kragujevac
Jagodina
Užice
Čačak
Paraćin
Požega
Kraljevo
Kruševac
Vrnjačka Banja
Aleksinac
Ivanjica
Niš
Prijepolje
Novi Pazar
Sjenica
Tutin
Pirot
Leskovac
Priština
Vranje
Preševo
Prizren

NON-FINANCIAL REPORT

2023

I. PROFILE OF THE BANK

1. Vision and Mission Statement

Our vision is to be one of the most respected and chosen Leading Banks in the country.

Our mission is to be a bank that:

- by understanding the needs and expectations of clients, through the best channels offers the most appropriate solutions, a bank that provides banking services to all clients in the fastest and most efficient way through efficient alternative distribution channels or through its branches;
- is focused on the real sector together with a strong presence in the retail field, has high technology, innovative products and services, one that is aware of social responsibility and corporate values, with high quality standards, which provides productive activities and long-term profitability;
- one that puts people first and that pays attention to customer satisfaction at the highest level.

2. Corporate values

Trust - You can be sure that your money is in good hands

Respect - We value your hard work and respect the capital you have acquired.

Honesty - Our business is transparent, and our priority is to fully protect your interests.

Quality - Our products and services are created in accordance with your requirements and expectations.

Simplicity - Our procedures are affordable and simple.

Speed - The processing of your requests is done in the shortest possible time.

Efficiency - It is in our and your interest to come up with quick solutions with simple procedures.

Development – The Bank follows world standards and business trends in order to constantly improve and adapt its products and services to market requirements.

Professionalism - We have carefully selected associates and colleagues and assembled a team of top professionals who are trained and ready to meet all your requirements.

Discipline - We diligently and conscientiously fulfill all our obligations to meet your and our professional needs.

3. Membership

HALKBANK is a member of many associations, with which it cooperates and thus improves the business environment and economic development, including:

Turkish-Serbian bisuness association
Association of Serbian Banks
CFO Association of Serbia
Membership in accounting and tax committees at ABS
Membership in FIC Serbia boards

4. Prizes and awards

The employees of HALKBANK achieved the best results within the support program for start-up companies using start-up loans, implemented in cooperation with the Serbian Foundation for Entrepreneurship, and on the occasion of which the SEF representatives presented the employees with awards for their efforts and achieved results.

5. Communication strategy

The communication strategy during 2023 was mostly focused on the communication oriented to retail and all that in order to promote the package of the Bank's products and services, as well as innovations from the domain of digital services (digital wallets). In accordance with the mission and vision, HALKBANK takes care of the ways of communication with clients, as well as with narrow and wider public. Various communication channels were used to inform the public: continuously social media and web page of the Bank, periodically printed and digital media, as well as advertising over TV with national and local frequency outdoor advertising - like city lights, bus stations, advertising in the public transport in Belgrade, Novi Sad and Niš, printed and LED billboards across Serbia.

The Bank attended various events where communication with potential and existing clients was achieved - the Belgrade Car Show, agricultural fairs in Novi Sad, Kragujevac and Stara Pazova, participation in the "Career Days" employment fair at the Faculty of Economics in Belgrade and others.

In 2023, the Bank was one of the sponsors of the Serbia Epic Races cycling cup, the Serbian Days of Insurance conference and the Republic of Türkiye Day celebration. The Bank also organized a sports challenge in cooperation with NonStop Fitness centers, with a focus on the promotion of the Garmin Pay service, which during 2022 our Bank was the first to implement, both for users of Visa and Mastercard® payment cards.

In the 2023, cooperation with the Serbian Foundation for Entrepreneurship (SEF) on the loan project for maintaining liquidity and working capital continued. The focus is on young companies and agricultural farms.

Continuing the process of digitization and improvement of contactless payment services via mobile phones and smart watches, the Bank introduced Swatch Pay, Xiaomi Pay and Fidesmo Pay services in 2023.

HALKBANK has continued cooperation with the Ministry of Agriculture, Forestry and Water Management, with the help of whom, it joined the Serbia Competitive Agriculture Project (SCAP - Serbia Competitive Agriculture Project) started in cooperation with the World Bank in 2020, which will last until December 31, 2024.

II KEY EVENTS IN THE PREVIOUS YEAR

JANUARY

In January the new campaign has began – HALK PACKAGE tailored for you „4in1“, which offers clients the possibility of taking a cash loan/loan for refinancing with a fixed interest rate, with a current account package, without monthly maintenance costs for up to 6 months, allowed overdraft on the current account and a credit card for up to 6 months without a monthly membership fee.

HALKBANK can proudly say that in January it was the first and only bank in Serbia, that has united digital wallets and provided its customers the possibility of contactless payments with Mastercard® and Visa payment cards, via Apple Pay, Google Pay and Garmin Pay digital wallets.

FEBRUARY

Client our bank was the first in Serbia to obtain the right to grant funds in the amount of 320,000.00 RSD, based on a start-up loan realized in cooperation with the Serbian Foundation for Entrepreneurship - SEF.

MARCH

During March, the Bank was one of the sponsors of the Serbia Epic Races cycling cup, which was organized from March 24th to April 23rd throughout Serbia and represents the qualifications for the Olympic Games to be held in Paris in 2024.

APRIL

In April, the newly established branch in Prijepolje started operating. In order to start a good cooperation with clients from that region, a special welcome loan offer has been made.

HALKBANK has signed a new cooperation Agreement and launched an agricultural loan campaign with subsidies from the Ministry of Agriculture, Forestry and Water Management.

MAY

In May, a new branch started operating, at another location in Belgrade, in Vojvode Stepe Street.

JUNE

During June, the SwatchPAY! service was introduced, a new solution for contactless payments, which is enabled for all Mastercard® payment card users who own a Swatch watch with SwatchPAY! technology.
In June, the Bank organized a sports challenge in cooperation with NonStop Fitness centers, with a focus on the promotion of the Garmin Pay service, which in 2022 our Bank was the first to implement for users of Visa and Mastercard® payment cards.

In June, the HALKBANK & Visa prize contest was launched for all users of HALKBANK Visa payment cards, who had the right to participate in the award contest by leaving a creative comment on the Bank's Instagram profile under the post related to the contest. The prize competition, promotion and drawing of winners took place through the bank's profiles on the Instagram social network.

JULY

In July, the promotion of the current account Package campaign began, with benefits intended for all generations - employees, youth (from 18 to 26 years old) and pensioners.

For all users of HALKBANK Mastercard® payment cards who own a Xiaomi smart device, the Xiaomi Pay service is enabled.

AUGUST

In order to further develop the business network, in August, a branch in Stara Pazova has started operating. Clients are provided with a special welcome loan offer.

In August, the Bank was selected as a reliable partner to participate in the Small Business Support Program for the purchase of equipment, which, in cooperation with the Ministry of Economy and the Development Agency of Serbia, supports the development of the domestic economy by lending to micro and small legal entities, entrepreneurs and cooperatives.

SEPTEMBER

In order to further develop the business network, in September a branch in Sjenica has started operating.

OCTOBER

In October, a prize contest was launched in cooperation with the Mastercard card organization for all users of HALKBANK Mastercard® World credit cards who achieve the minimum set spending, and who could win a Swatch watch that supports SwatchPAY! technology. The second part of the prize contest meant that clients who win a Swatch watch, add the HALKBANK Mastercard® World credit card to the digital wallet - SwatchPAY! and achieve the minimum set spending, within the set time limit, they can win cash back. The goal of the prize contest was sales incentive, as well as promotion of the new SwatchPAY! service.

Employees of HALKBANK achieved the best results within the support program for start-up companies using start-up loans, implemented in cooperation with the

Serbian Foundation for Entrepreneurship, and on the occasion of which SEF representatives presented the employees with awards for their efforts and achieved results.

DECEMBER

In December, HALKBANK employees participated in a humanitarian basketball tournament called "Aj ti za 3" organized by the "SOS Children's Villages of Serbia" Foundation and the Comtrade company, and in this way showed humanity and contributed to the organization, which has used the entire amount of the participation fees, for support programs for children and vulnerable families.

In December, a campaign was launched for users of HALKBANK Mastercard World credit cards, which was created in cooperation with Mastercard and Gigatron. Users of HALKBANK Mastercard World credit cards have received a digital voucher in their email, with which they can get a discount at the checkout in any Gigatron store. The goal of the campaign was sales promotion and promotion of the Bank.

III KEY STAKEHOLDERS AND MATERIAL TOPICS

KEY STAKEHOLDERS		
STAKEHOLDER GROUP	STAKEHOLDER GROUP	STAKEHOLDER GROUP
CUSTOMERS	Branches	Timely, accessible and reliable information about products and services
Natural persons	Bank website	Continuous improvement of support
Small and Medium-Sized Enterprises	Call centre	Responsible advertising
Big Corporate Clients	Print and digital media	Flexible products and services
	Meetings	
SHAREHOLDERS AND INVESTORS	General meetings	Transparent management
Majority	Annual reports	Business results
	Bank website	
EMPLOYEES	Official Executive Board decisions	Opportunities for development and improvement
Bank Executive Board and Management	Meetings	Internal communication improvement
Business Network employee	Trainings	Employee satisfaction
Other employees	Intranet	
Union		

STATE-OWNED INSTITUTIONS	Annual reports	Transparent management
Regulatory Bodies	Meetings and consultations	Business results
Ministries and Government Institutions	Conferences	Regulatory compliance
LOCAL COMMUNITY	Annual reports	Investment in local community development
Local Self-Government	Meetings and consultations	Partneship projects
	Donations and sponsorship procedures	
BUSINESS COMMUNITY	Annual reports	Partneship projects
Business Associations	Meetings and consultations	Supplier selection transparency
Suppliers	Involvement in business association work groups and boards	
Business Partners		
MEDIA	Press conferences	Timely and open comunication
National	Press releases	Business results
Local	Print and digital media	Investing in Local community
CIVIL SECTOR	Meetings and consultations	Partneship projects
Non-governmental organisations	Donations and sponsorship procedures	Investing in community
Non-profit organisations	Annual reports	Promotion od Corporate Social Responsibility
		Volunteering promotion

Material topics

Material topics are defined in accordance with the GRI guidelines and represent issues of importance to our stakeholders in the context of the Bank's impact on the environment in which it operates.

- Safety and health at work, training and education, equal opportunities for promotion and rewards
- Compliance with business standards, laws and regulations
- Responsible resource management, respect for the principles of "green procurement", recycling, energy management
- Responsible financing
- Marketing and communication with clients
- Contribution to the local community through continuous development of products and services available to all clients, donations and support for youth employment through the program "moja prva plata".

IV CORPORATE MANAGEMENT

HALKBANK, like all its employees, adheres to the highest standards of corporate governance, which is the foundation of responsible and sustainable business. The Bank is fully committed to complying with all legal provisions and regulatory frameworks relevant to our operations, which together with our management and control system ensures that the interests of all stakeholders are fully protected.

The Supervisory Board strives to continuously improve management processes in order to ensure business coherence, transparency and accountability in decision-making, as well as to ensure a healthy corporate culture.

The Supervisory Board of the Bank has adopted a Corporate Governance Code whose main goal is to present in a transparent and efficient manner the corporate governance system established in the Bank and the introduction of good business practices in the field of corporate governance, which should balance the influence of its holders , all in order to ensure the long - term business development of the Bank.

In its operations, the Bank, through internal acts and the work process, ensures the avoidance of conflicts of interest between members of management bodies and persons related to them, taking into account the law and good corporate governance practice. The Code of Business Conduct and Ethical Principles consolidates general and specific rules and guidelines for ethical business conduct and conduct, while a number of other individual policies strengthen the system of governance and internal controls.

Management structure, mandate and composition of management bodies

The bodies of the Bank are: the Assembly, the Supervisory Board and the Executive Board.

The Assembly consists of the Bank's shareholders, i.e. Türkiye Halk Bankası A.Ş., Barbaros Mahallesi, Sebboy Sk. No.4,3 4746 Atasehir, Istanbul Turkey, indentification number 862070 (hereinafter: shareholder) who, as the only one shareholder, performs the functions of the Bank’s Assembly according to applicable regulations, Foundation Decision and Statute. Assembly is the highest body since the most important issues related to the Bank's operations are decided at its sessions. Assembly adopts the Business policy and strategy of the Bank, defining operation targets of the Bank for the period of minimum three years, adopts the financial reports of the Bank and adopts the decision on use and distribution of profits i.e. covering of losses, decides on capital increasing, on investments of capital in other bank or other legal entity, decides the amount on investment in fixed assets, adopts the Statute and amendments and supplements to the Foundation Decision and the Statute of the Bank and decides on other issues in accordance with the law and Statute. One of the important issues within the scope of the Bank's Assembly is the appointment and dismissal of the President and members of the Supervisory Board in accordance with regulations.

The Shareholders' Assembly may have regular or extraordinary meetings. A regular meeting is held minimum on a yearly basis within the deadline in accordance with the law.

The Supervisory Board shall inform National Bank of Serbia of the date and agenda of the Bank's Assembly meeting within the timeframe stipulated for notifying shareholders.

Issues related to the Assembly - composition, compentence, regular and extraordinary session, conference session, quorum, repeated session, President of the Assembly, shareholders' day and invitation to the session are regulated by the Statute of the Bank. Unless otherwise stipulated by the Law on Bank, provisions of the Llaw on companies relating to the assembly of a joint-stock company shall apply to the procedure of convening, notification and proceedings in meetings of the Bank's assembly.

The manner of work and other issues of importance for the work of the Assembly shall be regulated by the Rules of Procedure of the Assembly.

The governing bodies of the Bank are the Supervisory Board and the Executive Board.

Supervisory board

The members of the Supervisory Board have a good business reputation, rich experience in the field of finance and appropriate qualifications in accordance with the regulations of the National Bank of Serbia.

The term of office of the members of the Supervisory Board is four years with the possibility of re-election. At the end of 2023, the Supervisory Board of the Bank consisted of 7 (seven) members, including the President, of which two were independent members with active knowledge of the Serbian language and residing in the territory of the Republic of Serbia.

The Supervisory Board of the Bank meets at least once every three months, and more often if necessary. One of the most important duties of the Supervisory Board is to provide strategic direction to the Bank's management, harmonization of operations with laws, regulations and acts of the National Bank of Serbia, as well as internal acts of the Bank and the Group's guidelines, in achieving long-term goals.

During 2023, 11 sessions of the Supervisory Board were held. The subject of consideration and decision-making at these sessions, in the context of strategic and business decisions, were: regular monitoring of financial and business performance of the Bank, risk management, internal system control, business compliance and internal audit, reviewing and/or adopting a strategy and policy for risk management, giving prior approval for the Bank's exposure to any individual or group of related parties that exceeds 10% of the Bank's capital, i.e. for increasing this exposure to more than 20% of the Bank's capital, deciding on placements, reviewing decisions on approved exposures, adoption of the Bank's general business conditions, i.e. its amendments and supplements, as well as other important issues within the compentence of the Supervisory Board.

Issues related to Supervisory Board – composition, appointment and dismissal, mandate, meetings, quorum, compentence and other issues are regulated by the Law on Banks, Statute of the Banke and relevant decisions of the National Bank of Serbia.

The manner of work and other issues of imporatnce for the work of the Supevisory Board are more detailed regulated by the Rules of Procedure of the Supervisory Board.

Executive Board

The members of the Executive Board of the Bank are dismissed and appointed by the Supervisory Board for a period of 2 years with the possibility of re-electionin accordance with the adopted amendments to the Statute, from June 14th , 2023,. The Executive Board consists of 3 members, including the President.

The Executive Board of the Bank organizes and supervises business acitivites of the Bank on a daily basis and is responsible for implementation and efficient functioning of the system of internal controls in the Bank. The Executive Board shall: carry out decisions of the Bank's Shareholders' Assembly and the Supervisory Board, proposes to the Supervisory Board the Business Policy and Strategy of the Bank, as well as the Risk Management Strategy and Policy and Capital Management Strategy of the Bank, implement the Business Policy and Strategy of the Bank by enacting relevant business decisions, analyse the risk management system and at least on a quarterly basis report to the Supervisory Board of the level of risk exposure and risk management, inform the Supervisory Board of all activities which are not in compliance with regulations and other enactments of the Bank and perform all other duties within its compentence.

One of the basic competencies of the Executive Board is to supervise the day-to-day business activities of the Bank and to ensure that the overall organization of the Bank adequately supports the implementation of the business strategy and the achievement of the Bank's planned business objectives.

During 2023, the Executive Board of the Bank held a total of 55 sessions – of which two were written.

Issues related to the Executive Board – composition and quorum, appointment and dismissal, mandate, compentence and other issues are regulated by the Law on Banks, Statute of the Banke and relevant decisions of the National Bank of Serbia.

The manner of work and other issues of imporatnce for the work of the Supevisory Board are more detailed regulated by the Rules of Procedure of the Supervisory Board.

In order to improve operations and more adequate supervision, the Bank has other committees in accordance with applicable regulations: the Business Monitoring Committee (Audit Committee), the Credit Committee and the Assets and Liabilities Management Committee.

These committees ensure that the Bank operates in accordance with applicable regulations and are committed to reviewing issues in the field of risk management and internal control systems, business compliance and prevention of money laundering and terrorist financing, adequacy and efficiency of the Bank's procedures and security systems, all types of placements, as well as other issues important for the work of the Bank, each board within its scope.

The Audit Committee shall assist the Bank's Supervisory Board in supervising the activities of the Bank's Executive Board and Bank's employees. The Audit Committee consists of minimun three members, at least two of which are members of the Bank's Supervisory Board who have the appropriate expirience in the field fo finance. At least one memember must be person independent of the Bank.

The Credit Committee of the Bank performs the following activities: makes decisions on approving all types of dinar and foreign currency loans, quarantees, bill quarantees, letters of credit and other wararanties, as well as othter placement of the Bank, and performs other activities in accordance with the Bank's acts, law and regulations and performs other activities by order of the Supervosory Board.

The Assets and Liabilities Management Committee monitors the Bank's exposure to risks resulting from the structure of its balance sheet obligations and receivables and off-balance sheet items, on the basis of the received information proposes measures at its meetings for managing interest rate risk and liquidity risk in the manner that it makes concrete conclusions and/or decisions, or clear guidelines to organisational units of the Bank and its employees that should ensure appropriate management of the above mentioned risks and perform other activities established by the Bank's acts.

SUPERVISORY BOARD
1. Osman ARSLAN, President 2. Hasan TUNCAY, Member 3. Hamdi COŞGUN, Member 4. Güvenç USTA, Member 5. Caner GÖKBULUT, Member 6. Dr Jasmina BOGIĆEVIĆ, Independent Member 7. Vesna VUKOVIĆ, Independent Member

The Assets and Liabilities Management Committee members are appointed by the Supervisory Board from the Executive Board members and the Bank employees.

Issues related to the Audit Committee, Credit Committee and Assets and Liabilities Management Committee – composition and quorum, appointment and dismissal, mandate, compentence and other issues are regulated by the Law on Banks, Statute of the Banke and relevant decisions of the National Bank of Serbia.

The manner of work and other issues of importance for the work of the Audit Committee, Credit Committee and Assets and Liabilities Management Committee are more detailed regulated by the Rules of Procedure on the work of each of the mentioned committees.

EXECUTIVE BOARD
1. Aziz Arslan, President 2. Hasan Cömert, Member 3. Dušica Erić, Member

CREDIT COMMITTEE
Members of the Credit Committee are elected in accordance with the Decision on establishing Credit Committee and appointement members of the Credit Committee

AUDIT COMMITTEE
1. Hasan TUNCAY, President 2. Hamdi COŞGUN, Member 3. Dr Jasmina BOGIĆEVIĆ, Member

ASSETS AND LIABILITY MANAGEMENT COMMITTEE
Members of the Assets and Liability Management Committee are appointment in accordance with the Decision on establishing and appointment President and Members of the Assets and Liability Management Committee Members of the Assets na Liability Management Committee are the following: 1. The President of the Executive Board, president 2. Members of the Executive Board, members 3. The Head of the Credit Division, member 4. The Head of the Treasury Division, member 5. The Head of the Financial Management and Budgeting Division, member 6. The Head of the Corporate and SME Marketing Division, member 7. The Head of the Retail Marketing Division, member

Code of Business Conduct

The Code of Business Conduct and Ethical Principles is a set of principles and working rules that employees of the Bank should adhere to its work and serve as a reminder of certain standards they need to meet. The purpose of this Code is to establish general ethical principles and norms of professional banking behavior in order to prevent all disputes and conflicts that may arise between employees, clients and the Bank, but also contribute to the success and reputation of the Bank.

The Code is based on the vision, mission and corporate values of the bank: trust, discipline, efficiency, honesty, quality and professionalism. The Code of Business Conduct directs us to act responsibly, respectfully and sustainably in all aspects of business, protect and further strengthen our good reputation and build trust among our stakeholders.

Activities by which the Bank supports the goals of sustainable development of the United Nation

1 NO POVERTY	- Providing financial services to vulnerable groups through the development of special products, market presence and adjustment of branches - Contribution to the local community	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	- Contribution to the local community - Accessibility of branches and sub-branches - Product development and improvement and digital services
2 ZERO HUNGER	- Contribution to the local community	10 REDUCED INEQUALITIES	- A wide range of bank products available to everyone
3 GOOD HEALTH AND WELL-BEING	- Implementation of safety measures at work - Voluntary health insurance program - Free systematic examinations for employees - Working conditions adapted to epidemiological measures	11 SUSTAINABLE CITIES AND COMMUNITIES	- Contribution to the local community - Donations
4 QUALITY EDUCATION	- Training program for employees - Possibility of youth employment through the program "Moja prva plata"	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	- Providing clear and transparent product information. - Respect for the principle of "green procurement"
5 GENDER EQUALITY	- The employment policy and procedure gives employment opportunities to anyone who meets the criteria	13 CLIMATE ACTION	- Recycling - Waste management - Energy management
6 CLEAN WATER AND SANITATION	- Responsible treatment of the environment	14 LIFE BELOW WATER	- Responsible treatment of the environment
7 AFFORDABLE AND CLEAN ENERGY	- Loans intended for households for energy efficiency - Waste, energy and recycling management	15 LIFE ON LAND	- Responsible treatment of the environment
8 DECENT WORK AND ECONOMIC GROWTH	- Contribution to the social product - Contribution to the local community - A wide range of bank products available to everyone	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	- Compliance of business with relevant legal and other regulations, business standards, procedures on prevention of money laundering and terrorist financing
		17 PARTNERSHIPS FOR THE GOALS	- Cooperation with EIB, SEF, GGF, EFSE, ITL, DHB, FRK

V ALTERNATIVE DISTRIBUTION CHANNELS

The beginning of the year was marked by the final activities on the project of introducing Visa and Mastercard digital wallets payment systems. HALKBANK is the first bank on the market to offer the possibility of using Apple Pay, Google Pay and Garmin Pay digital wallets for both Mastercard and Visa cards.

Likewise, HALKBANK is the only bank on the market that offers its clients the possibility, apart from manually adding Mastercard and Visa cards to the digital wallets, to add cards via the SmartHALK m-Banking solution for both Google Pay and Apple Pay. This service provides clients with easy integration and a seamless experience.

As a confirmation of quality, exceptional commitment and speed of implementation, HALKBANK was awarded by Visa as the 'Best in Class Wallet Enabler '.

The beginning of the year was also marked by projects within the card acceptance scope, where HALKBANK took part in the prestigious "Better Way" program, from the very beginning. The aforementioned program, organized by the Republic of Serbia, card companies and partners, involves popularizing the use of non-cash payments as a more efficient, reliable and practical method of payment, compared to cash, with a special offer for accepting payments at POS terminals intended for entrepreneurs, micro and small businesses.

Due to the growing tendency of contactless payments, a project was started to implement contactless functionality for cash withdrawals on the Bank's ATM acceptance network, which will greatly improve and facilitate its usage. The project is in the final stage and it is expected that the solution will be available to clients in early 2024. In parallel, in continuity, the growth of the ATM network continued, including strategically important new locations, but also new devices of the latest generation and top quality were procured.

During the second quarter of 2023, the implementation of digital wallets gained a new dimension, because HALKBANK was the first to enable its customers to make payments with analog Swatch watches that support Swatch Pay technology. In cooperation with the company Mastercard and the representative for Swatch in the Republic of Serbia, the company Absolut Time, and with the aim of promoting the aforementioned functionality, a campaign was organized in the last quarter, when users of Mastercard World credit cards, were awarded with 50 Swatch watches that support Swatch Pay.

In addition, during the second quarter of 2023, in order to promote digital wallets, together with companies Visa and Garmin, and the Bank's client Non Stop Fitness, a competition was organized in which the winners were awarded Garmin watches that support Garmin Pay payment, as well as cash of RSD 10,000, which was made available to the winners in an account opened in the Bank.

The award campaign for the Exit music festival ticket packages was also organized with the Visa company, which was met with great interest from the Bank's clients, Visa payment card users.

In May 2023, we started a Visa incentive campaign for employees that lasted for 6 months. The bank's employees showed great interest in participating in the campaign, which resulted in the issuance and delivery of close to 6,000 Visa payment cards. After the end of the successful campaign, in October 2023, an awards ceremony was organized where colleagues, who achieved the best results, were presented with awards.

At the same time, a project was launched for deposit machines, which will enable more flexible business operations for our clients, as well as unburdening of the tellers. In addition, there is the possibility to place the mentioned machines in the client's premises as well as in external locations as shopping centers and large markets, which will further bring the Bank closer to the clients. The completion of the project is expected after the migration to the new core system.

Recognizing the opportunity to stand out on the market as a Bank that supports the most innovative forms of payment, in the third and fourth quarter of 2023 we continued with innovations in the field of digital wallets and enable payment with Xiaomi devices that support Xiaomi Pay, as well as Zepp / Amazifit devices that support Zepp Pay. We are the only bank on the market that also supports 'wearable' payments, which allows our customers to pay for example with a ring, using the Fidesmo Pay digital wallet.

In the third quarter, discussions began with the company Visa on the subject of the Visa Business premium product, which we plan to include in the Bank's offer.

Since we have developed and implemented a modern solution for accepting payment cards in the merchants' online stores, in order to better present and use this service, in September we started cooperation with the company ChipCard as an aggregator, which resulted in a rapid increase in the number of users of this service.

At the same time, a project was launched to include the latest generation Android POS devices in the Bank's offer. Android POS enables better user experience, faster performance and easy integration.

At the beginning of 2023, we entrusted the activity of providing the so-called "PIN by SMS" service to Comtrade System Integration d.o.o. As the aforementioned project was successfully implemented, and with the aim of increasing operational efficiency and with the tendency to increase the scope of cooperation, in the third quarter the migration project of Bulk SMS and Viber services was also launched, since this company is one of the largest service providers for Bulk SMS and Viber services, both for financial institutions and for companies engaged in other activities.

In accordance with the mandate of the National Bank of Serbia, in October we started a project that will enable the issuance of Dina cards with contactless technology.

At the end of the year, we launched a project for parcel machines that will provide the Bank with the opportunity to expand cooperation, gain new clients and increase turnover.

In December, we started a campaign with the companies Gigatron and Mastercard, within which Mastercard World credit card users were provided with the vouchers, in the value of RSD 3,000, which can be used at Gigatron sales points for all products, even already discounted. The campaign lasts until the end of January 2024.

In the course of 2023, we started the project of introducing eMenica. This functionality will enable clients to register and manage bills of exchange through their eBanking application (OfficeBanking), which will have a positive impact on the user experience.

The previous year was marked by activities related to the integration of digital services with the new information system, as well as the testing of all services as part of the Fusion project. In addition to this large project, we have optimized certain digital services so that the services are more stable and clients have a better user experience.

VI COMPLIANCE AND AML DEPARTMENT

The Compliance and AML Department was established in accordance with the Law on Banks. The Head of the Department is appointed by the Supervisory Board of the Bank and reports directly to him.

The part of the Department that prevents money laundering and terrorism financing is independent of other business activities of the Bank. The member of the Executive Board who is responsible for the implementation of the Law on Prevention of Money Laundering and Terrorism Financing (hereinafter: the Law) is appointed by the Supervisory Board of the Bank. The Authorized Person and his Deputy shall be appointed by the Executive Board of the Bank in accordance with the Law. Authorized persons of the Bank report directly to the Executive Board and are independent in their work.

Within the Department, there is also a function related to the protection of personal data and the application of the Personal Data Protection Law.

The main goal of the Department is to support the establishment of an appropriate system of internal controls at the Bank level, which allows it to operate in accordance with the set of ethical values contained in the Code of Conduct and ethical principles and in accordance with applicable laws, regulations and internal acts and international best practice.

In order to preserve independence in the work of the Department, the Head and Authorized persons periodically report to the Bank's Audit Committee, the Supervisory Board and the Executive Board on the activities of the Department and issues related to compliance risk and money laundering and terrorism financing risk.

The scope of work of the Department is as follows:

- Controls the compliance of operations with relevant legal and other regulations and takes care of the application of binding provisions on the prevention of money laundering and terrorism financing;
- Monitors regulations, informs the competent organizational units of the Bank on innovations and changes in regulations and controls their implementation in procedures, instructions and other acts of the Bank;
- Controls the compliance of procedures and instructions with laws and other regulations, business standards, procedures on prevention of money laundering and terrorism financing, as well as with other acts regulating the Bank's operations;
- Prepares, updates and harmonizes internal acts of the Department;
- Prepares the Operational Annual Plan for Monitoring the Compliance of the Bank's Operations;
- Prepares regular reports on performed controls of compliance with operations;
- Prepares annual reports on performed controls of compliance with identified and assessed main compliance risks and risk management plan;
- Reports to the Executive Board and the Audit Committee on the determined results of compliance control in accordance with the Compliance Monitoring Program and the Procedure, and reports on deficiencies related to the identified compliance with legal regulations and internal acts regularly to the Executive Board and the Audit Committee at least once a year Supervisory Board of the Bank;

- Prepares annual reports on the performed internal control and measures taken in connection with the implementation of the Law on Prevention of Money Laundering and Terrorism Financing;
- Prepares an annual assessment of the bank's exposure to the risk of money laundering and terrorism financing in accordance with the Decision on Guidelines for the Application of the Law on Prevention of Money Laundering and Terrorist Financing for Obligors overseen by the National Bank of Serbia;
- Prepares an annual risk analysis of money laundering and terrorism financing;
- Preparation of six-monthly reports for the National Bank of Serbia on the activities undertaken by the Bank in the field of prevention of money laundering and terrorism financing;
- Ensures proper and timely submission of data to the Anti-Money Laundering Administration in accordance with legal regulations;
- Obtains, controls, analyzes and forms reports to Anti-Money Laundering Administration on cash transactions in the amount of EUR 15.000 and more in dinar equivalent at the middle exchange rate of the NBS in accordance with regulatory regulations;
- Analyzes clients and transactions on their accounts, makes official notes and reports suspicious clients and transactions to the Anti-Money Laundering Administration;
- Forms and submits data upon requests of the Anti-Money Laundering Administration, the Financial Investigation Unit and the Anti-Corruption Agency;
- Acts on the orders of the competent authority to suspend transactions or monitor the financial operations of the party;
- Develops the annual Plan and training program for employees in order to implement regulations in the field of prevention of money laundering and terrorism financing and implements its implementation;
- Manages risks arising from omissions or non-compliance with laws, business standards, anti-money laundering and anti-terrorism financing procedures, as well as non-compliance with other acts, which ensure the Bank's operations;
- Actively cooperates with all organizational units of the Bank as well as the National Bank of Serbia, the Anti-Money Laundering Administration and the Association of Serbian Banks in obtaining views and opinions for the application of certain regulations and resolving disputes in their application;
- Monitors the implementation of the provisions of the Law governing the protection of personal data, other laws and internal regulations relating to the protection of personal data, including issues of division of responsibilities, awareness raising and training of employees in processing operations, as well as control;
- Takes all other measures for the protection of personal data in accordance with the Law, especially taking into account the legality, expediency and proportionality of the processing of personal data;
- Cooperates with the Commissioner for Information of Public Importance and Personal Data Protection, is a contact point for cooperation with the Commissioner and consults with him on issues related to processing,

including informing and obtaining opinions on the obligation to assess the impact on protection of personal data;

- Performs other tasks ordered by the Bank's management.

In addition to the above activities, in the field of compliance risk management, the Bank pays special attention to the fight against corruption, according to which it applies the principle of zero tolerance.

The Bank bases its activities on the prevention of behaviors that may lead to corruption.

The Bank has adopted the Anti-Corruption Policy and the Code of Business Conduct and ethical principles according to which any type of corrupt behavior is strictly prohibited.

The Bank's internal acts regulating the area of anti-corruption are available to all employees through the Bank's internal portal, and it is the obligation of all employees to be regularly informed about newly adopted documents.

Raising employee awareness and targeted training are an extremely important part of the corruption risk management system. As one of the ways of risk mitigation in this area, the Compliance and Anti Money Laundering Deraptment conducts regular training of employees.

Training in the field of business compliance "Corruption Prevention Policy" was organized by the Department in December 2022, in the form of a presentation that was delivered to all employees of the Bank via e-mail. The training covered general topics related to corruption and business ethics. The result of the training is to familiarise employees with zero tolerance, risks, ways of recognizing, ways of reporting and escalating cases related to this risk, relevant acts that need to be known and contact persons for any question in this area.

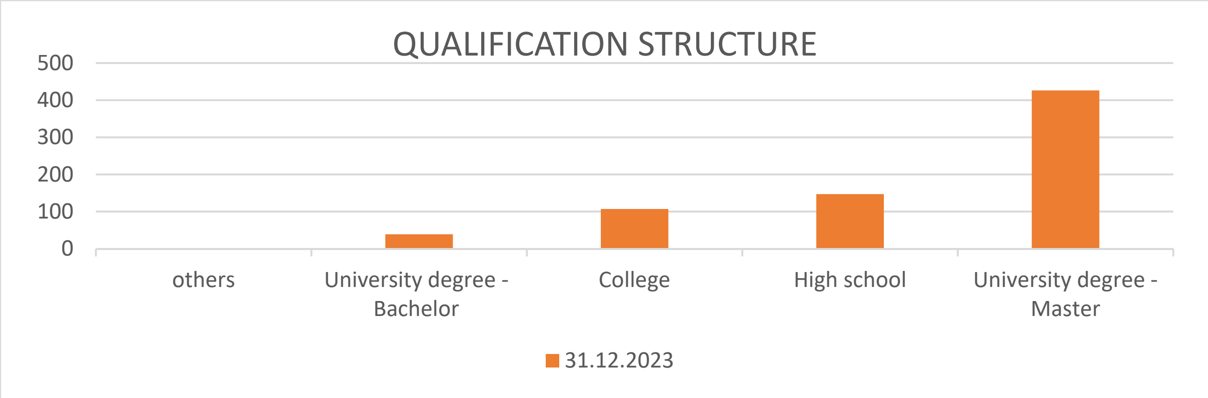
VII HUMAN RESOURCES

In 2023, the Bank did not face major obstacles in attracting new and retaining existing employees. Employee turnover was at a lower level compared to previous years. At the end of 2023, the bank had 721 employees compared to the end of 2022, when the number of employees was 657 employees, which represents an increase of 11,5%. The following table provides an overview of the structure of new employees in 2023, as well as the total number of employees in the Head Office and the business network.

Number of employees	31.12.2022.	new employees	31.12.2023.
Headquarter	306	20	326
Branches	351	44	395
Total	**657**	**64**	**721**

The Bank's strategy, both in the selection and recruitment process itself and in supporting employees to improve their formal education, the Bank has managed to retain a high number of employees with completed higher education.

The following chart shows the qualification structure of colleagues:



The age and qualification structure of employees at the end of 2023 is shown in the table below:

Godine starosti (Age) / Stručna sprema (Qualification)	Do 30 godina (Up to 30 years)	31-40 godina (31-40 years)	41-50 godina (41-50 years)	51-60 godina (51-60 years)	Preko 60 godina (Above 60 years)	**Ukupno (Total)**	
I-NK (Elementary School)				2		2	(0,28%)
II-PK						0	(0,00%)
III-KV, SSS						0	(0,00%)
IV-SSS (High School)	37	29	48	26	7	147	(20,39%)
V-VKV						0	(0,00%)
VI/1-VŠS (College degree)	13	32	45	14	3	107	(14,84%)
VII/1-VS (University degree)	60	170	197	27	7	461	(63,94%)
VII/2 - Magistar, spec (Master)		1	1	2		4	(0,55%)
VIII – Doktor nauka (PhD)						0	(0,00%)
Ukupno (Total)	110 (15,26%)	232 (32,18%)	291 (40,36%)	71 (9,85%)	17 (2,36%)	721 (100,00%)	(100,00%)

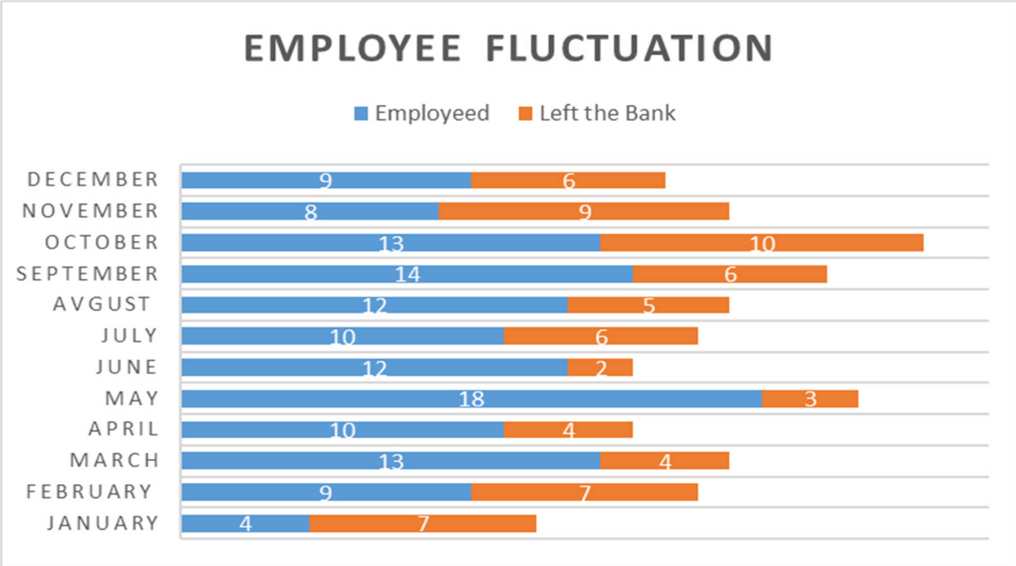
In the qualification structure of employees at the end of 2023, the participation of employees with higher education was 63,9%, while the participation of those under 30 was 15,26% and those over 50 was 12,21%.

In the course of 2023, employee salary costs amounted to 13.518 thousand euros, that is about 2,6 million euros more than in 2022, which is adequate for the increase in the number of employees as well as the increase in salaries for existing employees.

Work in the Bank

During 2023, the Bank had a quiet period in terms of employee turnover, employees from key positions did not leave the Bank, the trend of leaving the IT sector, which is still the fastest growing industry on the labor market, stopped.

In accordance with the business plans, the number of employees in 2023 was higher by 8.8% compared to 2022 (721 employees in 2023 compared to 657 employees in 2022). The business plan for 2024 predicts 802 employees, i.e. a growth of 11%, i.e. an approximate growth trend.



The average age of HALKBANK employees in 2023 was 41,31 years, of which 89 employees are under 30 years old, 481 are under 50 years old, while 87 are over 50 years old. Compared to the previous year, the differences are not significant: in the group under 30 years of age in 2022, there were 89 employees, 481 under 50, and 87 over 50.

In accordance with modern trends in the field of providing financial services, in the total number of employees, women predominate in relation to the number of men employed in the Bank – 67,96% of women and 32,04% of men.

The tables and graphs below represent the structure of employees at the end of 2023 by various categories:

Age structure		
Year	2022	2023
Up to 30 years old	89 (13.55%)	110 (15.26%)
31 – 50 years old	481 (73.21%)	523 (72.54%)
Above 50 years old	87 (13.24%)	88 (12.24%)

Gender/type of position structure				
Type of position	Male 2022	Female 2022	Male 2023	Female 2023
Total	215(32,72%)	442(67,28%)	237 (32,87%)	484(67,12%)
Managerial position	53(49,07%)	55(50,93%)	53(47,74%)	58(52,25%)
Operational position	162 (29,50%)	387(70,50%)	184(30,16%)	426 (69,83%)

Age / type of position structure			
Type of position	Up to 30 years	31-50 years	over 50 years
Total	101 (14%)	527 (73,09%)	93(12,89%)
Managerial position	1 (0,99%)	88 (16,69%)	28 (30,10%)
Operational position	100 (99%)	439 (83,30%)	65 (69,89%)

Total number and turnover rate of employees:
› Retirement: 2023 – 6, compared to 2022 –2
› Hired: 2023 – 132 compared to 2022 – 152; 2021–135
› Termination of employment: 2023 – 63, compared to 2022 – 82; 2021 - 86;

Staff selection

During 2023, the Bank expanded its network of branches and sub-branches by 3 branches and 1 sub-branch, which is the total number of 43 branches/sub-branches/counters in several cities throughout Serbia. New branches were opened in Prijepolje, Stara Pazova and Vojvode Stepe Street in Belgrade, with a total of 17 new employees. A new sub-branch was opened in Sjenica with 5 new employees.

HALKBANK took part in the state program "My First Salary" for the second time. In 2023, 9 young candidates gained their work experience in the Bank through the mentioned program, of which 4 candidates continued to work in the Bank by establishing an employment relationship. Considering the good experience in the Program, the Bank has applied for participation in the mentioned program and success is expected as in previous years.

Training and development of employees

Internal trainings

During 2023, HALKBANK continued with continuous training of its employees. Internal trainings are organized throughout the year and cover the areas of Money Laundering Prevention, Code of Business Conduct, Compliance of the Bank's Operations, Cashier Operations.
A large number of internal trainings were held on the topic of introducing the new Core system in the Bank, where all employees participated.

External, in-house trainings, specialist seminars and certifications

The Bank enables its employees to take professional certificates, which are important both for the employee and for the Bank itself. In 2023, the Bank provided its employees with ACCA (Association of Chartered Certified Accountants), CIA (Certified Internal Auditor) and certificates that are necessary for colleagues from the IT sector.

New compared to the previous year are the Turkish language classes held in cooperation with the Turkish Cultural Center. About 40 employees have passed the initial level and the plan for 2024 is to continue with the advanced Turkish language course.

Employee rights

Employees of the Bank are guaranteed the right to association, without discrimination based on membership in associations or trade unions.

The rights of all employees are regulated by the Labor Regulations, which are fully in accordance with the Labor Law.

The employee has the right to healthy and safe work. HALKBANK complies with all legal regulations related to safety and health at work, organizes first aid training, regular ophthalmological examination for all employees who work at a computer for more than 4 hours a day.

In the course of 2023, there were no deaths related to accidents at work, nor occupational diseases that would result in a longer absence from work.

Compensations (monetary compensations) and other benefits

Within the framework of employee benefits, during 2023, cooperation with Wiener Stadtische osiguranje continued in the area of mandatory insurance coverage, as well as cooperation with Milenijum osiguranje in the domain of additional health insurance. All employees are covered by additional health insurance policies.

All employees of the Bank are insured in case of surgery and/or serious illness, in case of injury and/or current or permanent incapacity for work and in case of accidents in accordance with the insurance policy paid by the Bank.

During 2023, the Bank had certain funds that it used for the preventive health care of its employees. A workshop for Mental Health was held for a month, i.e. 4 sessions, to which all employees of the Bank had access.

Complaints mechanisms

HALKBANK employees have the opportunity to send their appeal requests to competent colleagues in accordance with internal policies and procedures related to – the Law on the Prevention of Abuse at Work, the Law on the Protection of Whistleblowers, the Rulebook on Internal Whistleblower Procedures.

Employees have the freedom to address their manager or the Human Resources and Organization Department and present any type of request or complaint, which is resolved in accordance with the Bank's capabilities.

During the year 2023, not a single complaint related to the violation of human rights was submitted through the aforementioned procedures, nor were there any complaints from our employees, that is, established cases related to discrimination based on race, gender, religion, etc.

Achieved in 2023:

- Work on preventive health protection of employees
- Improvement of working conditions, mostly in terms of financial conditions and then also the working environment, considering that the extension of the Head Office provided a larger working space for the employees.
- Opening of the Training Center, which contributed to a better organization of training and employee training

Goals for 2024:

- Improvement of the benefits package for employees
- Supporting projects in the form of various partnerships with Faculties, student associations
- Work on improving the mental and physical health of employees by introducing various types of workshops/support programs

VIII RESPONSIBILITY TOWARDS CLIENTS

Customer support

The bank is committed to social responsibility, primarily through support to the development of entrepreneurship and the strengthening of the entrepreneurial spirit in Serbia, as well as through a strategic orientation towards the development and support of the Small and Medium Enterprises segment. In this regard, HALKBANK was one of the first banks in the market to start cooperation with international financial institutions through numerous guarantee schemes and credit lines through which it provided its clients with easier access to financial resources, as well as financing in difficult economic conditions. This strategic orientation was also confirmed through cooperation with the Serbian Entrepreneurship Foundation (SEF), established by the German Development Bank KfW and the Serbian Chamber of Commerce. It is a non-profit, non-governmental organization founded to achieve socially useful goals such as facilitating access to financial products for start-up clients, SME clients, entrepreneurs and registered agricultural farms, through cooperation with financial institutions.

In 2023, the bank cooperated with SEF through two guarantee lines, Covid-19 and Start-up. The Covid-19 guarantee line is designed to support small and medium-sized companies, entrepreneurs and AGRO clients whose businesses are directly or indirectly affected by the Covid-19 pandemic. Support to clients was reflected in easier access to financial resources, in order to ensure business continuity in crisis conditions and thus preserve employment. On the other hand, the Start-up guarantee line provides support to SME clients, entrepreneurs and AGRO clients who are beginners in business and for whom access to financial resources on the market is very difficult. In this way, the Bank, in cooperation with the SEF foundation, provides true support to the development of entrepreneurship, self-employment, innovative business solutions, technological progress, and overall economic growth.

Customer care

HALKBANK, guided by the slogan People first and foremost, always puts clients first and in the focus of all its activities. As clients satisfaction is the foundation of our business success, the Bank within the Corporate Communications and Quality Management Department is continuously working to improve the quality of service we provide to clients.

The quality management system is incorporated in the procedures Quality Management and Complaints of the Clients.

Respecting the quality management procedure, we strive for client satisfaction, trust and loyalty. One of our main goals is performance consistency - we want every branch or employee who serves the client to provide the same service. With regular branch visits, we want to ensure the speed of service, process efficiency as well as the kindness of employees and a friendly attitude towards customers. In order to provide the best possible services to clients, we try to make our branches accessible and in accordance with the most modern market standards. In the previous year, we opened three new branches and relocated one existing one. Through continuous research and monitoring, we strive to achieve better, faster and simpler processes without unnecessary steps.

Listening clients needs through suggestions, praise, questions and complaints, the Bank is always available to clients with maximum commitment. Quick and efficient resolving of complaints as well as prevention of complaints are aimed at raising the quality of services provided by the Bank to clients. The resolving of complaints process includes a number of activities, including cooperation with managers in the relevant organizational units of the Bank, depending on the nature of the complaint, in order to assess the complaint, analyze it, gather information and evidence and find solution. The Bank's response is always clear, complete and understandable to the client. The Corporate Communications and Quality Management Department also cooperates with the National Bank of Serbia in order to provide clients with transparent and timely information. In the total number of complaints Bank received during the previous year, there were no complaints regarding non-compliance with regulations in the field of marketing communications, as well as complaints that have a systemically significant risk to the Bank's operations. Through regular reporting and monitoring of complaints through the application Monitoring operational risk and clients complaints, the Bank aims to constantly improve and enhance its products and services, as well as quality.

IX LOCAL COMMUNITY

The foundations of HALKBANK's socially responsible business are primarily in building and maintaining good relations with clients and employees, and therefore with the entire community. The motto "People First" is not just a sentence, but part of our corporate culture. We are proud of the relationships we build with our clients, because their satisfaction is a reflection of the Bank's efforts to achieve the best results. Establishing good relationships with clients, and therefore with the local and global community, is of great importance to us, because creating these connections leads to building a better environment for joint growth and development.

The goal of HALKBANK is to positively influence the community that surrounds it, even during unforeseen, crisis geo-political situations. The Bank constantly contributes to the local community through the implementation of socially responsible projects, participates and on a daily basis contributes to the development of sports and recreation at the national level and strives to help those who need help the most. For the Bank's success as a stable and safe institution, apart from quality operations, it is equally important to take care of the community, without which no undertaking would be possible.

Contribution to culture

The bank made a donation to the Turkish cultural center, the Yunus Emre Institute, with the aim of contributing to a better acquaintance with the Turkish culture and language in Serbia.

Development of sport

Sponsorship of the Serbia Epic Races cycling cup, which was organized from March 24th to April 23rd throughout Serbia and represents the qualifications for the Olympic Games to be held in Paris in 2024. With this gesture, the Bank, as a socially responsible company, continued the practice of helping and supporting the social community.

Celebrating the day of the Republic of Turkey

Sponsorship in the celebration of the Republic of Türkiye Day held on October 27, 2023.

Serbian Insurance Days

Sponsorship in the organization of the conference "Serbian Insurance Days 2023", which took place from November 28th to December 1, 2023.

Support for education

HALKBANK donated computer equipment to an organization called Club of Young Artists "54" in Vranje, which organizes creative and educational workshops for children in primary schools in Serbia.

Aid to the people of the Republic of Turkey

In March 2023, the bank donated 10 million Turkish liras (approximately 500 thousand euros) to the Ministry of the Interior of the Republic of Turkey as aid for remediation of the consequences of the devastating earthquake that struck that country. Bank employees also participated in the collection of humanitarian aid for the people of the Republic of Turkey by donating humanitarian funds.

Environmental protection

In 2023, HALKBANK, as a socially responsible company, implemented already established practice and measures in the field of environmental protection and thus mitigated the negative effects on the environment.

The fulfillment of the goals set, resulted in not having any penalties for non-compliance with environmental laws and regulations.

Procurement and supplier relationship

Procurement performed in the Bank is conducted in written form, in the spirit of good business in order to ensure the quality of procurement while respecting ethical principles and professional standards.

Integrity, honesty, independence, objectivity, impartiality, political neutrality, prevention of conflicts of interest, confidentiality of information, competence and professional conduct are expected of employees participating in the procurement process.

The procurement process is defined by the Procedure which determines the authorizations in approval and verification depending on the value of the procurement. Limits have also been set for the selection of suppliers depending on the value of the procurement, and for all procurements over EUR 5.000, the Procurement Commission has significant role.

The Bank strives to be guided by the principles of "green procurement" at every opportunity, and to that end it procures and installs equipment with the highest energy efficiency, leases vehicles with the latest generation engines, uses exclusively PEFC (FSC) paper and uses ecological supplies for cleaining.

We build and nurture a professional relationship and encourage mutual cooperation with suppliers, equally valuing benefits and ethics. We strive to be a fair and honest partner and we firmly believe that a relationship based on trust and integrity will be sustainable and beneficial for all. We place the same demand on our suppliers, whom we expect to adhere to ethical standards, employment practices, environmental protection and occupational safety.

An agreement on cooperation in the implementation of prescribed measures for the safety and health of employees is signed with suppliers with whom the Bank shares work space.

Environmental management system

The Bank uses resources responsibly and conscientiously, invests in sustainable development and thus strives to repay debt to society and communities. In order to protect the environment, it takes into account various aspects and continuously monitors key initiatives aimed at reducing the negative impact on the environment, such as:
- Rational consumption of energy and water
- Prevention of waste material generation
- Safe disposal of waste material
- Recycling

In that sense, the Bank concluded a contract on the implementation of the energy and natural resources management system, which will significantly contribute to energy savings in the coming period.

Conservation of natural resources

Indirect energy consumption refers to electricity used during the Bank's business activities, while direct energy consumption refers to the combustion of natural gas for heating purposes.

In 2023, electricity consumption was 1,085 MWh.

Energy management

By investing and installing modern electronic equipment, the Bank contributes to the application of clean technologies and technologies that save electricity and emit less noise.

Reducing energy consumption and implementing energy management programs is the ultimate goal that the Bank implements by performing the following activities:

- Installation of energy efficient lamps and bulbs (LED lamps and bulbs) in all new and renovated business premises;
- Installation of MOBOTIX cameras, alarm system and improvement of access control system that saves energy and IT resources for many years;
- Replacement of exisisting equipment with new, more energy efficient equipment;
- Installation of energy efficient air conditioners in all new and renovated business premises;
- Gradual replacement of outdoor advertising with a new type of advertising that has LED lighting;
- Leasing of environmentally friendly vehicles with the latest generation engines;
- The use of video and telephone conferencing to reduce business travel and fuel consumption;
- Lease a printer with an advanced printing system to reduce energy, paper and toner consumption.
- Implementation of an application solution for managing invoices in accordance with the Law on electronic invoicing, which reduces paper consumption;
- Implementation of an application solution for document management in order to create electronic and digitized documents.

Activities related to the structure, construction and maintenance of electrical installations, safety measures and responsibilities of employees as well as control of electricity consumption are defined in the Procedure for electrical installations and control of electricity consumption.

Waste management

In waste management, the Bank acts in accordance with positive legal regulations and implements an integrated waste management system, which includes:

- Waste prevention
- Reduction of waste and its hazardous characteristics
- Planning and control of waste management activities and processes
- Transport and disposal of waste
- Education of employees regarding waste management

All activities, systems and obligations of the Bank related to waste management are defined in the Waste Management Plan, which includes measures for waste management within the collection, transport, storage, treatment and disposal of waste.

The Bank has established a waste management system based on the following principles:

1. Reduction of waste at source
2. Reuse
3. Recycling
4. The principle of sustainable development
5. Principle of the waste management hierarchy
6. The precautionary principle
7. The principle of proximity and regional approach to waste management
8. The principle of choosing the most optimal option for the environment
9. The „polluter pays" principle
10. Principle of responsibility

By applying the stated principles in environmental protection and waste management, the Bank also achieves economic benefits which are manifested in the reduction of costs of storage, handling, transport, treatment and final disposal of waste materials.

Waste recycling

The Bank has concluded an agreement with an authorized operator for the transport, disposal and treatment of hazardous waste, as well as an agreement on the takeover of secondary raw materials of paper origin. Toner recycling is managed by a company that leases multifunctional devices to the bank.

In 2023, the Bank handed over 3.369 kg of hazardous electronic and electrical waste for destruction and recycling and 460 kg of paper.

GOALS FOR 2024:

In the implementation of business policy in the field of environmental protection, the Bank's goals for 2024 are:

- further improvement of the documentation management system in order to gradually switch to electronic business;
- replacement of existing technical protection systems, video surveillance systems and installation of MOBOTIX cameras
- conducting training of employees in order to inform about the legal regulations related to environmental protection.
- continuation of activities on replacement of fluorescent lighting with LED lamps and light bulbs
- support to institutions and bodies of local self-governments in the creation and implementation of environmental policy, improvement of energy efficiency, preservation of natural resources and improvement of environmental financing.

X RISK MANAGEMENT

This chapter explains the risks, ie risk management mechanisms related to environmental issues, social and personnel issues, respect for human rights, corruption, in order to eliminate them completely.

Environmental risk management

The Bank recognizes that its operations can have direct or indirect impact on the environment and the community in which it operates. The bank's objective is to responsibly manage the environmental and social risks (hereinafter: E&S) associated with its operations in order to minimize E&S impacts and to enhance long-term returns to the Bank's shareholders.

Although the Bank's activity is classified in low E&S risk category, it is obliged to ensure that during its activities it will not take any actions that may jeopardise cultural and historical locations, natural resources, flora and fauna, or cause involuntary resettlement.

E&S risk in the Bank is regulated by the Policy and Procedure for Environmental and Social Risk Management and is managed in two ways:

- Directly through management E&S risks arising from the Bank's basic activity
- Through management E&S risk encountered by the Bank's clients

The following bodies are responsible for managing E&S risk in the Bank:

- Supervisory Board that establishes and at least once a year reviews E&S Risk Management Policy and identifies the need for any amendments,
- Executive Board that implements the adopted policy and establishes the E&S Risk Management Procedure,
- Credit Committee that monitors the Bank's exposure to E&S risk and proposes certain measures to be taken,
- Credit Division in charge of identification of E&S risk on the level of individual transaction or client to which certain credit products are granted,
- The Risk Management Department that is responsible for operational implementation of this Policy through monitoring and reporting of risk exposure to the bank's management and relevant authorities.

Key employees in charge of managing E&S risk as well as continuity in carrying out environmental and social risk management policy are: president of the Executive Board and the member of the Executive Board in charge of risk management, director of Credit Division, employees in Corporate and SME Credit Department, Credit Analysis Department, Credit Monitoring Department, employees in Collection Unit and employees in Risk Management Department.

The Bank is particularly cautious to invest only in the projects that do not cause any environmental and social harm. Environmental and social (E&S) protection includes, besides ecological aspects, the issues of a local community and employee protection.

The aim of managing E&S risk is identification, assessment and control of the risks that may cause E&S harm and it is carried out in accordance with the E&S Risk Management Policy and the E&S Risk Management Procedure.

When processing individual clients' applications, E&S risk is classified for the basic activity of the client and the activity which is subject to financing.

There are the following E&S risk categories:

- High – Exclusion List;
- High – Category A;
- High;
- Medium and
- Low

Environmental risk

Overview of the Bank's exposures by environmental and social risk categories

(in RSD thousand)

Risk category	Number of clients		Amount of placements (balance and off-balance)		Increase/ decrease
	31.12.2022.	**31.12.2023**	**31.12.2022.**	**31.12.2023**	
High – Exclusion List	-	-	-	-	-
High – Category A	15	13	1.331.673	3.366.728	2.035.055
High	446	517	20.108.661	25.592.535	5.483.874
Medium	3.065	3.248	29.848.286	33.520.803	3.672.517
Low	2.583	2.914	37.288.389	45.512.282	8.223.893
Total	**6.109**	**6.692**	**88.577.009**	**107.992.348**	**19.415.339**

** For the purpose of analysis of environmental risk, the Bank includes only relevant part of portfolio.*

In the structure of exposures (balance sheet and off-balance sheet exposures) to clients, legal entities and entrepreneurs, as of December 31, 2023, the largest share was held by clients with activities with low environmental and social impact 42.14%, then exposures to clients with activities with medium impact participate with 31,04% activities with high impact participate 23,70% and activities with high risk category A participate with 3,12%.

Social and personnel issues, respect for human rights and prevention of corruption

As for the risks related to social and personnel issues as well as respect for human rights, the Bank has completely eliminated these risks through the introduction of policies, procedures and instructions, as well as through the obligation of all employees to implement them.

Current policies, procedures and instructions are:

Code of Business Conduct and Ethical Principles

All employees of the Bank are obliged to adhere to all principles and working rules defined by the Code of Business Conduct and Ethical Principles. In this way, all disputes and conflicts that may arise between employees, clients and the Bank are avoided, but also contribute to the success and reputation of the Bank.

Anti-Corruption policy

The Bank is obliged not to show tolerance for corruption in all its operations and to operate in accordance with laws and regulations, international laws, ethical and business principles for the prevention of corruption. The policy applies to all employees, as well as to the Board of Directors. The policy also defines the way of its implementation, procedures in case of bribery and corruption, obligations of training and informing all employees, clearly defines possible risks so that this policy could not be violated or disregarded in any case (gifts, donations).

Whistleblowing rulebook

The Whistleblowing rulebook regulates the whistleblowing process at the Bank in accordance with the provisions of the Law and the Rulebook. Whistleblowing is the disclosure of information related to violations of regulations, human rights violations, exercise of public authority contrary to the purpose for which it was entrusted, threats to life, public health, safety, environment, as well as to prevent large-scale damage. All employees are familiar with the Rulebook.

Decision on the prevention of harassment at work

All employees of the Bank must be familiarised with the Decision on the prevention of harassment at work. The Rulebook prescribes the rules of conduct of employer and employees, ie other persons engaged by the Bank, in relation to the prevention and protection against harassment at work and in relation to work, ie sexual harassment.

The Labour rulebook regulates the rights, obligations and responsibilities arising from the work contract. The rulebook applies to all employees employed by the Bank.

An effective employee appraisal system is one of the key tools for achieving the bank's organizational goals, therefore **the Employee Appraisal System Procedure** precisely defines activities related to employee performance management and as such it is applied in all organizational parts of the Bank.

Establishment and termination of employment and keeping records of employees - which describes the process of establishment (selection), termination of employment, as well as induction training where the new employee is introduced to the rules, procedures of the bank and basic activities of all sectors in the bank.

Employee training procedure - this procedure defines the identification of needs and launching initiatives for training, training planning and type of training, evaluation of training to ensure that bank employees develop the required skills and knowledge to perform their jobs and activities.

HALKBANK A.D. BEOGRAD

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Aleksandar Mijailović

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