PROCREDIT BANK AD 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 PROCREDIT BANK AD BELGRADE

Opinion

We have audited the financial statements of PROCREDIT BANK 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.

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 has been prepared in accordance with the applicable provisions of the Law on Accounting.

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INDEPENDENT AUDITOR'S REPORT

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

Other Information (Continued)

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

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

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 PROCREDIT BANK 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, 11 March 2024

Ksenija Ristic Kostic
Certified Auditor

Društvo za reviziju BDO d.o.o. Beograd

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2023

In RSD thousand

	Note	2023	2022
Interest income	5.1, 7	8,203,007	4,880,925
Interest expenses	5.1, 7	(2,502,512)	(956,226)
Net interest income	7	**5,700,495**	**3,924,699**
Fee and commission income	5.2, 8	2,512,011	2,247,186
Fee and commission expenses	5.2, 8	(616,142)	(560,822)
Net fee and commission income	8	**1,895,869**	**1,686,364**
Net (losses)/ gains from changes in fair value of financial instruments	5.3, 9	(9,227)	155,715
Net foreign exchange gains/(losses) and effects of contracted foreign currency clause	4, 10	45,151	(96,668)
Net losses from impairment of financial assets not measured at fair value through profit or loss	5.3, 11	(930,148)	(808,225)
Net gains from derecognition of financial instruments measured at amortised cost	12	11,318	-
Other operating income	13	112,693	111,116
TOTAL NET OPERATING INCOME		**6,826,151**	**4,973,001**
Salaries, compensations and other personal expenses	14	(1,332,114)	(1,096,846)
Amortisation and depreciation expense	15	(172,293)	(197,019)
Other income	16	89,097	216,625
Other expenses	17	(2,804,274)	(2,488,309)
PROFIT BEFORE TAX		**2,606,567**	**1,407,452**
Income taxes	5.17, 18	(272,600)	(175,962)
PROFIT FOR THE YEAR		**2,333,967**	**1,231,490**

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

In Belgrade, 8 March 2024

Ivan Smiljkovic
Executive Board Member

ProCredit Bank a.d. Beograd 4

Igor Anic
Executive Board Chairman

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

	Note	2023	2022
			In RSD thousand
PROFIT FOR THE YEAR		**2,333,967**	**1,231,490**
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss:			
Increase in revaluation reserves from intangible assets and property, plant and equipment	38	1,195	147,765
Net gains from changes in value of equity instruments measured at fair value through other comprehensive income	38	113	284
Items that will or may be subsequently reclassified to profit or loss:			
Net gains/(losses) from changes in value of debt instruments measured at fair value through other comprehensive income	38	217,500	(383,466)
Deferred taxes related to items of other comprehensive income	18	(196)	(22,208)
Total other comprehensive income/(loss)		**218,612**	**(257,625)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,552,579**	**973,865**

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In Belgrade, 8 March 2024

Ivan Smiljkovic
Executive Board Member

Igor Anic
Executive Board Chairman

BALANCE SHEET
AS OF 31 DECEMBER 2023

	Note	31 December 2023	31 December 2022
			In RSD thousand
ASSETS			
Cash and balances with Central Bank	5.7, 20	29,917,809	19,814,215
Derivatives	5.3, 21	1,898	5,642
Securities	5.3, 22	5,203,368	6,741,979
Loans and placements to banks and other financial institutions	5.3, 23	19,696,333	11,611,839
Loans and placements to customers	5.3, 24	103,654,790	106,913,139
Investments in subsidiaries	5.8, 25	127,752	127,752
Intangible assets	5.11, 26	390,354	329,363
Property, plant and equipment	5.9, 27	2,217,268	2,022,577
Investment property	5.10, 28	136,123	140,515
Non-current assets held for sale	5.20, 29	47,370	47,370
Other assets	30	1,322,652	978,869
TOTAL ASSETS		**162,715,717**	**148,733,260**
LIABILITIES AND EQUITY			
Liabilities			
Derivatives	5.3, 31	1,095	581
Deposits and other liabilities due to banks, other financial institutions and Central Bank	5.4, 32	23,957,643	34,137,851
Deposits and other liabilities due to other customers	5.4, 33	117,056,212	94,219,102
Provisions	5.14, 34	387,230	378,583
Current tax liabilities	5.17, 35	119,666	64,913
Deferred tax liabilities	5.17, 36	61,438	67,284
Other liabilities	37	1,518,556	1,165,648
Total liabilities		**143,101,840**	**130,033,962**
Equity			
Share capital	5.18, 38	6,439,757	6,439,757
Retained earnings	5.18, 38	10,878,233	10,182,266
Reserves	5.18, 38	2,295,887	2,077,275
Total equity		**19,613,877**	**18,699,298**
TOTAL LIABILITIES AND EQUITY		**162,715,717**	**148,733,260**

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

In Belgrade, 8 March 2024

Ivan Smiljkovic
Executive Board Member

ProCredit Bank a.d. Beograd
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Igor Anic
Executive Board Chairman

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

In RSD thousand

	Share capital	Share premium	Reserves from profit	Revaluation reserves	Retained earnings	Total equity
Balance as of 1 January 2022	**3,663,012**	**2,776,745**	**1,643,864**	**691,036**	**8,950,776**	**17,725,433**
Gain on property valuation	-	-	-	147,765	-	147,765
Net gains from changes in value of equity instruments measured at fair value through other comprehensive income	-	-	-	284	-	284
Net losses from changes in value of debt instruments measured at fair value through other comprehensive income	-	-	-	(383,466)	-	(383,466)
Deferred tax expense related to items of other comprehensive income	-	-	-	(22,208)	-	(22,208)
Profit for the year	-	-	-	-	1,231,490	1,231,490
Balance as of 31 December 2022	**3,663,012**	**2,776,745**	**1,643,864**	**433,411**	**10,182,266**	**18,699,298**
Opening balance as of 1 January 2023	**3,663,012**	**2,776,745**	**1,643,864**	**433,411**	**10,182,266**	**18,699,298**
Gain on property valuation	-	-	-	1,195	-	1,195
Net gains from changes in value of equity instruments measured at fair value through other comprehensive income	-	-	-	113	-	113
Net gains from changes in value of debt instruments measured at fair value through other comprehensive income	-	-	-	217,500	-	217,500
Deferred tax expense related to items of other comprehensive income	-	-	-	(196)	-	(196)
Profit for the year	-	-	-	-	2,333,967	2,333,967
Dividends declared	-	-	-	-	(1,638,000)	(1,638,000)
Balance as of 31 December 2023	**3,663,012**	**2,776,745**	**1,643,864**	**652,023**	**10,878,233**	**19,613,877**

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

In Belgrade, 8 March 2024

ProCredit Bank a.d. Beograd

Ivan Smiljkovic
Executive Board Member

Igor Anic
Executive Board Chairman

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2023

	2023	2022
		In RSD thousand
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flows from operating activities	**11,383,862**	**7,665,077**
Interest receipts	8,260,757	4,945,529
Fee and commission receipts	2,508,651	2,284,710
Receipts from other operating activities	614,454	434,838
Cash used in operating activities	**(8,210,042)**	**(5,243,888)**
Interest paid	(2,212,982)	(901,996)
Fee and commission paid	(614,934)	(556,968)
Salaries, compensations and other personal expenses	(1,349,173)	(1,093,711)
Taxes, contributions and other duties paid	(699,510)	(334,249)
Payments for other operating expenses	(3,333,443)	(2,356,964)
Net cash flows from operating activities before an increase/decrease in financial assets and liabilities	**3,173,820**	**2,421,189**
Decrease in financial assets and increase in financial liabilities	**18,256,712**	**6,661,023**
Decrease in loans and placements to banks, other financial institutions, central banks and customers	-	5,961,260
Decrease in receivables for securities and other financial assets not intended for investment	44,119	45,432
Increase in deposits and other financial liabilities to banks and other financial institutions, central bank and customers	18,212,593	654,331
Increase in financial assets and decrease in financial liabilities	**7,284,162**	**-**
Increase in loans and advances to banks, other financial institutions, central bank and customers	7,284,162	-
Net cash generated from operating activities before income tax	**14,146,370**	**9,082,212**
Income taxes paid	(158,977)	(75,004)
Dividends paid	(1,392,300)	-
Net cash flows from operating activities	***12,595,093***	***9,007,208***
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash flows from investing activities	**1,722,753**	**21,325**
Proceeds from investment securities	1,700,000	-
Proceeds from the sale of intangible assets, property, plant and equipment	22,753	21,325
Cash used in investing activities	**(82,013)**	**(221,712)**
Purchases of intangible assets, property, plant and equipment	(82,013)	(221,712)
Net cash from/(used in) investing activities	***1,640,740***	***(200,387)***
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash flows from financing activities	**1,812,181**	**6,538,695**
Proceeds from granted loans	1,812,181	6,538,695
Cash used in financing activities	**(7,530,016)**	**(15,037,064)**
Repayment of subordinated liabilities	-	(1,891,870)
Repayment of borrowings	(7,498,378)	(13,105,643)
Other outflows from financing activities	(40,638)	(39,551)
Net cash used in financing activities	***(5,717,835)***	***(8,498,369)***
TOTAL CASH INFLOWS	**33,175,508**	**20,886,120**
TOTAL CASH OUTFLOWS	**(24,657,510)**	**(20,577,668)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**8,517,998**	**308,452**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	12,616,603	12,318,139
FOREIGN EXCHANGE LOSSES, NET	(18,916)	(9,988)
CASH AND CASH EQUIVALENTS AT THE YEAR END (Note 44)	**21,115,685**	**12,616,603**

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

In Belgrade, 8 March 2024

Ivan Smiljkovic
Executive Board Member

Igor Anic
Executive Board Chairman

PROCREDIT BANK A.D. BELGRADE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

Contents

1. CORPORATE INFORMATION

ProCredit Bank a.d. Belgrade (hereinafter: the “Bank”) was established based on the Contract on Incorporation of Micro Finance Bank a.d. Belgrade concluded on 31 March 2001 among five founders - foreign financial institutions.

The Bank obtained an operational licence according to the Decision no. G. 538 passed by the National Bank of Yugoslavia on 5 April 2001. The Bank acquired the status of a legal entity after being registered with the court register of the Commercial Court in Belgrade under the number V Fi-3571- 01, dated 9 April 2001 (registration folder 3-135-00).

Pursuant to the Law on Banks, the Contract on Incorporation and Articles of Association, the Bank is registered for performing the following activities:

- Accepting all types of cash deposits;
- Granting and taking all types of loans;
- Foreign exchange operations, foreign currency operations and exchange transactions;
- Issuing securities and payment cards;
- Custody and management of assets and securities;
- Purchase and sale of securities;
- Issuing sureties, guarantees and other types of warranties;
- Payments transactions;
- Securities brokerage; and
- Purchase and collection of receivables, and provision of other financial services.

According to the Decision of the National Bank of Yugoslavia no. 85/2001 of 10 April 2001, the Bank was granted a license for performing payment transactions and foreign credit transactions (the “significant authorisation“).

In 2003, Micro Finance Bank a.d. Belgrade changed its name to ProCredit Bank a.d. Belgrade, which was registered with the Commercial Court’s registry in Belgrade on 12 September 2003 under the number XVI-Fi-8824/03.

The Bank is a member of the ProCredit Group. ProCredit Holding AG & CO KGaA, Frankfurt, Germany owns 100% of the Bank's capital and it is the ultimate parent company of the Group.

The Bank performs its operations at its Head Office in Belgrade, situated at 17 Milutina Milankovica street, and in six branches located in Belgrade, Novi Sad, Kragujevac, Nis, Subotica and Pancevo.

The Bank founded ProCredit Leasing d.o.o. Belgrade, which was registered with the Serbian Business Registers Agency in Belgrade under registration no. 1973/2005 on 17 February 2005. The Bank has 100% of in ProCredit Leasing d.o.o. Belgrade.

Pursuant to the Law on Bankruptcy and Liquidation of Banks and Insurance Companies, the General Meeting of ProCredit Leasing d.o.o. passed a Decision on 1 January 2018 on Terminating Operations and Initiating a Liquidation Procedure, which was submitted to the National Bank of Serbia, as the official regulator, within the legal deadline, which consented to the initiation of the liquidation procedure. The liquidation process of ProCredit Leasing d.o.o. Belgrade commenced on 30 April 2018 and has not been finalised yet.

Since the Bank meets the requirements disclosed in Article 8 of the National Bank of Serbia’s Decision on the Supervision of the Banking Group on a Consolidated Basis, the Bank does not compile consolidated financial statements as of and for the year ended 31 December 2023.

As of 31 December 2023 the Bank had 431 employees (31 December 2022: 404 employees).

The Bank’s tax identification number is 100000215.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

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

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

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 revalued value;
- financial assets measured at fair value through other comprehensive income; and
- derivative financial instruments stated at fair value.

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

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

The Bank's financial statements are stated in thousands of Dinars, unless otherwise stated. The Dinar (RSD) is the functional and official reporting currency in the Republic of Serbia. All transactions in currencies that are not functional currency are considered transactions in foreign currency.

In the preparation of these financial statements, the Bank adhered to the accounting policies described in Note 5.

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(a) from 1 January 2023, where applicable.

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

(a) New and Amended IFRS Accounting 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.

  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.

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

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

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

  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 companies should account for deferred tax related to assets and liabilities arising from a single transaction, such as leases and decommissioning obligations. The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement, having considered the applicable tax law, whether such deductions are attributable for tax purposes to the liability or to the related asset component.

  Under the amendments of IAS 12, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

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

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

  In December 2021, the 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.

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

(b) New and Amended IFRS Accounting Standards that are Not Yet Effective and Have Not Been Early Adopted by the Bank

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

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

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

3. ESTIMATES AND JUDGEMENTS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements for the next financial year. Estimates and judgments are subject to a regular review and are based on the historical cost principle and other factors, including expectations of future events, which are deemed reasonable under the given circumstances. Actual amounts may differ from these estimates.

Estimates and assumptions that have a risk of causing material adjustments to the carrying values of assets and liabilities in the next financial year are addressed below.

Measurement of Expected Credit Losses (ECLs)

The Bank reviews its loan portfolios in order to assess impairment at least once a month. The methodology includes recognition of expected credit losses (ECL) at any time so that the amount of ECLs recognised at each reporting date reflects changes in the amount of credit risk of financial instruments.

Impairment allowances are based on ECLs related to the probability of default in the following 12-month period unless a significant increase in credit risk ensues. The necessity to make an allowance for impairment over the useful life occurs when a significant increase in credit risk is detected from the date of recognition of the exposure. The objective of the impairment request is to recognise ECLs on all financial instruments, taking into account all reasonable and available data, including those related to future periods. This model is future-oriented and changes the model of incurred losses for the recognition of credit losses, in the sense that it is no longer necessary for an unforeseen event (trigger) to take place in order for credit losses to be recognised.

Measurement of ECL is based on all reasonable and reliable data available without unnecessary costs, whereby historical and current data as well as data envisaged for the future period are also included. The average applied PD rates per level are disclosed in Note 6.1.1 - Classification of Loan Receivables and Credit Risk Provisions.

Impairment losses on individually significant loans are based on an assessment of discounted future cash flows of individual loans, taking into account repayments and the realisation of assets that serve as collaterals for said loans.

Provisions

Provisions are, largely, a matter of judgment, especially when it comes to litigations. The Bank estimates the probability of occurrence of an unfavourable event resulting from a past event, and if it is estimated that the event will occur with a probability greater than 50%, the Bank makes a provision in the total amount of the liability.

Fair Value of Financial Assets and Liabilities

The fair value of investments quoted on active markets is based on the current prices of supply (financial assets) or demand (financial liabilities). If a market for a financial asset is not active, the Bank determines the fair value using valuation techniques, which include recent transactions between independent parties, an analysis of discounted cash flows and other techniques used by market participants.

Valuation models reflect current market conditions on the measurement date and they do not necessarily reflect market conditions before or after the measurement date. At each reporting date, the Bank's management reviews the models to ensure that they properly reflect current market conditions, including relative market liquidity and interest margins.

3. ESTIMATES AND JUDGEMENTS (Continued)

Useful Lives of Intangible Assets and Property, Plant and Equipment

Determination of useful lives of intangible assets and property, plant and equipment (fixed assets) is based on experience with similar assets, technological development and changes affected by a large number of economic or industry factors.

The adequacy of a certain useful life is reviewed annually, or when there is an indication that there has been a significant change in the underlying factors representing the basis for the use of the useful life.

Assessment changes may result in significant changes in the present value of non-current assets and amounts that are recorded in the income statements of certain periods.

Impairment of Non-financial Assets

At each reporting date, the Bank's management reviews the carrying amounts of the Bank's intangible assets and property, plant and equipment disclosed 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 amount, the existing value of the asset is reduced to its recoverable amount.

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

Classification of Financial Assets

The Bank assesses the business model within which assets are held.

Additionally, the Bank assesses if contractual cash flows of financial assets are solely payments of principal and interest (Note 5.3).

Leases

The incremental borrowing rate used as the discount rate in the measurement of the present value of lease payments is determined by analysing internal sources of information on borrowings and it is adjusted to reflect contractual lease terms and the type of a leased asset.

The incremental borrowing rate is determined based on the financing costs of a liability of a similar duration and a similar collateral as the one envisaged by the lease contract.

Retirement Benefits

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

Were the discount rate used to differ by 1.0% percentage point (higher/lower) from management's estimates, the provision for retirement benefits would be by an estimated RSD 1,166 thousand lower or RSD 1,411 thousand higher than the provision stated in the Bank's financial statements for the year ended 31 December 2023.

4. FUNCTIONAL AND PRESENTATION CURRENCY

The items included in the Bank's financial statements are valued by using currency of the Bank's primary economic environment (functional currency). The financial statements are presented in dinars (RSD), which is the functional and presentation currency.

Transactions denominated in foreign currency are translated into Dinars at the official middle exchange rate of the National Bank of Serbia prevailing at the transaction date.

Monetary assets and liabilities denominated in foreign currency at the balance sheet date, as well as those incorporating a currency clause, are translated into Dinars at the official median exchange rates published by the National Bank of Serbia, prevailing at the reporting date.

Foreign exchange gains or losses arising upon the translation of balance sheet items denominated in foreign currencies and transactions in foreign currencies are credited or charged as appropriate, to the income statement, as foreign exchange gains or losses and effects of the contracted currency clause (Note 10).

Exchange rates of major currencies used in the translation of balance sheet items denominated in foreign currencies, established by the National Bank of Serbia, were as follows:

In RSD	**31/12/2023**	**31/12/2022**
USD	105.8671	110.1515
EUR	117.1737	117.3224
CHF	125.5343	119.2543
CNY	14.9175	15.8441
GBP	135.0550	132.7026

5. MATERIAL ACCOUNTING POLICIES

5.1. Interest Income and Expense

Interest income and expenses for all interest-bearing financial instruments, except those classified at FVTPL, are recognised as interest income and interest expense in the income statement by applying the effective interest rate method.

The effective interest method is used for calculating the costs of the repayment of financial assets or financial liabilities, and the costs of allocation of interest income or interest expense over a certain period. The effective interest rate is a rate that accurately discounts the estimated future payments or receipts through the expected life of the financial instrument or, when appropriate, over the shorter period, to the net carrying amount of the financial asset or financial liability.

When the effective interest rate is calculated, the Bank assesses cash flows taking into account all contracted terms of the financial instrument (e.g. advance payment option), but it does not take into consideration future credit losses. The calculation includes all fees and commissions paid or received between two contracting parties, which are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees under granted loans are accrued and amortised as interest income on a straight-line basis over the term of the loan. The straight-line accrual of fees is not materially different from the application of the effective interest rate method.

5.2. Fee and Commission Income and Expense

Fee and commission income and expenses are recognised on an accrual basis at the moment of service provision.

Other fees and commissions are mainly generated based on payment transactions, issuance of guarantees and letters of credit, and other services.

5.3. Financial Assets and Liabilities

Classification

The Bank classifies financial assets into one of the following categories: financial assets that are measured at amortised cost, financial assets at fair value through other comprehensive income financial assets at fair value through profit or loss. The Bank classifies a financial asset depending on a business model used to manage financial assets and characteristics of the contracted cash flows. The Bank's management classifies financial investments upon initial recognition.

The Bank classifies its financial liabilities as liabilities measured at amortised cost or liabilities at FVTPL.

Initial Recognition

All financial instruments are initially recognised at fair value including any directly attributable incremental costs of acquisition or issue for all financial assets or liabilities that are not carried at FVTPL. Financial assets and financial liabilities are recognised in the Bank’s balance sheet on the date upon which the Bank becomes counterparty to the contractual provisions of a specific financial instrument.

Purchase or sale of financial assets is recognised by applying calculation on the date of settlement, i.e. the date when the asset is delivered to the other party.

5. MATERIAL ACCOUNTING POLICIES (Continued)

5.3. Financial Assets and Liabilities (Continued)

Subsequent Measurement

Financial assets and financial liabilities at amortised cost are measured at amortised cost upon initial recognition by applying the effective interest rate method.

Financial assets measured at FVOCI, financial assets measured at FVTPL and financial liabilities measured at FVTPL are carried at fair value upon initial recognition.

The fair value of financial assets that are listed on the stock exchange is determined based on effective selling prices. If a market of a financial asset (and a market of securities not quoted on the stock exchange) is not active, the Bank determines the fair value by applying valuation techniques.

These include the use of recent transactions between independent parties, reference to other instruments that are substantially the same, a discounted cash flow analysis, and the pricing model option by maximally using market information.

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows of the given financial asset have expired or when the Bank transfers the financial asset via a transaction in which basically all the risks and rewards of ownership over the asset are transferred to the buyer or in which it neither transfers nor retains risks and rewards arising from ownership, but it does not retain control over the financial asset.

Upon the derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of received commissions and any potential cumulative income or expenses that were previously recognised within other comprehensive income is recognised in the income statement.

The Bank derecognises a financial liability when the contractual obligation has been is fulfilled, cancelled or expired.

Impairment of Financial Assets

The objective of the impairment request is to recognise ECLs on all financial instruments, taking into account all reasonable and available data, including those related to future periods.

Thus, the necessity of providing for expected losses over the useful life occurs when significant credit risk is detected from the date of the exposure detection.

Stages in the IFRS 9 expected loss model for impairment of financial assets correspond to the following Bank categories:

- Stage 1
- Stage 2
- Stage 3

A regular assessment of objective evidence of impairment is applicable to all balance and off- balance credit exposures regardless of their size.

The Bank recognises provisions for ECLs (Expected Credit Losses) which reflect changes in the credit quality from the initial recognition of financial assets measured at amortised cost (AC) and at FVOCI, including loans, debt securities, financial guarantee agreements and commitments for approved credit facilities.

5. MATERIAL ACCOUNTING POLICIES (Continued)

5.3. Financial Assets and Liabilities (Continued)

Impairment of Financial Assets (Continued)

Expected credit losses are defined as the probability-weighted estimate of credit losses that takes into account the time value of money. Subsequent to the initial recognition of financial assets included in the impairment policy, the Bank records a loss provision (impairment for a financial asset) that equals 12-month ECLs arising from events that might cause the default status in the next 12 months.

Subsequently, for financial assets for which a significant increase in credit risk from initial recognition has been determined, a provision for loss (impairment for a financial asset) is recognised as equal to ECLs over the useful life of the financial asset, which arise from events that might cause the default status during the expected life of the financial asset.

Measurement of Expected Credit Losses

The measurement of ECLs is the objective (impartial) probability-weighted average estimate of credit losses that reflects the time value of money, which is determined by evaluating a number of possible outcomes. Credit loss is the difference between the cash flows that the Bank claims under the agreement and the cash flows that the Bank expects to receive (i.e., a cash shortfall) discounted by the initial effective interest rate of a particular financial instrument.

When measuring ECLs, the information on past events, current conditions and reasonable and substantiated estimates of the future situations are considered. The credit conversion factors (CCF) are applied for undrawn funds and financial guarantees in the calculation of ECLs.

ECLs are calculated for the maximum agreed period of credit risk exposure based on a specific financial instrument.

When a loan is uncollectible, it is impaired through the loan impairment account. Such loans are impaired after all necessary procedures have been completed and the amount of loss determined.

If, in the coming period, the amount of the impairment loss decreases, and the decrease can be objectively related to an event occurring after the impairment has been recognised (such as improvement of the borrower's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account and recognized in income statement.

Business Model

The Bank's business model for loans and receivables from customers is based on the "hold to collect" model (hold financial assets to collect their contractual cash flows):

- The Bank's approach to banking is both simple and traditional;
- There is a clearly defined target group (SMEs);
- The Bank offers simple credit services, including loans, overdrafts, credit facilities; credit cards and documentary business facilities, and
- There is no compensation system based on bonus performance at any level.

5. MATERIAL ACCOUNTING POLICIES (Continued)

5.3. Financial Assets and Liabilities (Continued)

Business Model (Continued)

The business model includes key activities of simple and traditional banking, whereby the Bank specialises in satisfying the needs of SMEs, including their owners and business partners. At the same time, the Bank offers banking services to private individuals in the form of simple and easily accessible deposit facilities, thus promoting the development of a savings culture and contributing to the greater economic stability of private households.

The Bank does not offer complex financial products or asset management services, but it is rather focused on transparent and simple products sought after by small- and medium-sized enterprises and private households. Its primary source of income is interest accrued on the loan portfolio. Interest rates are transparently determined and competitive in terms of the market.

The sale of portfolios does not necessarily change the business model i.e., if sales are not frequent (even if they are materially significant in terms of value) or their value is immaterial either at individual or total level (even if they are frequent). These types of sales may be:

- Regular sale for the following reasons:
    - Increased credit risk (non-performing/defaulted exposures), and
    - Other reasons - when annual sales are less than 5% of the total average annual loan portfolio, the portfolio is considered materially insignificant and does not conflict with the business model - “hold to collect” model.
- Irregular sales - as a result of a change in the business strategy:
    - Sale of a financial asset as it no longer fulfils the credit conditions provided in the Bank’s Business Strategy.

The business model is assessed on an *ad hoc* basis if there are significant changes in the business activity and/or strategy.

SPPI Test

The SPPI (*Solely Payment of Principal and Interest)* criterion is fulfilled if the contracted terms of the financial asset initiate cash flows on the indicated dates, which are solely payments of the principal and interest on the outstanding principal amount.

The principal is defined as the fair value of a financial asset during initial recording. It has been accepted that the principal can change over time if there are repayments of the principal.

Interest rate should contain only the following elements:

- Time value of money;
- Credit risk related to the outstanding principal amount;
- Other basic lending risks and costs – liquidity risk, administrative costs; and
- Profit margin.

Measuring financial assets at amortised cost is adequate only for simple cash flows with low variability, such as simple credit products, receivables and debt securities. Contracted cash flows that fulfil the SPPI criterion are in line with basic lending arrangements, i.e. Bank’s products.

5. MATERIAL ACCOUNTING POLICIES (Continued)

5.3. Financial Assets and Liabilities (Continued)

SPPI Test (Continued)

The Bank performs a SPPI test at least in the following circumstances:

- Initial test;
- When introducing new loan facilities, the Bank should include an SPPI test as part of the New Risk Approval (NRA);
- When introducing a new agreement model;
- When introducing a new individual agreement;
- When introducing new provisions which are not confirmed or documented to fulfil the SPPI criterion; and
- When the Bank decides to exercise a contractual right, which may include an interest rate increase due to the deterioration of the macroeconomic market situation. The Bank should provide evidence and document that the changes which arise from exercising the said right meet the SPPI criterion.

Reclassifications

Financial assets are reclassified only in case when the business model for managing financial assets is changed. Reclassification is performed in line with the principles defined by IFRS. Financial liabilities are not reclassified.

5.3.1. Financial Assets Measured at Amortised Cost

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments, which are not traded on an active market.

Financial assets at amortised cost are recognised when assets are transferred to the borrower. After the initial recognition, and based on the business model solely aimed at collecting contracted cash flows and the characteristics of contracted cash flows for the purpose of solely collecting interest and principal, subsequent measurements are performed at amortised cost using the effective interest rate, less the allowance for impairment. Amortised cost is calculated by taking into account all costs of the loan approval as well as all discounts and premiums with regard to the settlement of liabilities.

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

Financial assets are measured at FVOCI when the following conditions are met:

- The business model defines that a financial asset is to be held to collect agreed cash flows and sales, and
- Contractual cash flows are exclusively related to the collection of the principal and interest.

After the initial recognition, financial assets measured at FVOCI are carried at fair value.

Unrealised gains and losses on financial assets at FVOCI are recorded under revaluation reserves, until the financial asset is sold, collected or realised in some other manner, or until it is impaired.

When financial assets classified as financial assets at FVOCI are disposed or impaired, accumulated fair value adjustments recognised within equity are recorded in the income statement.

5. MATERIAL ACCOUNTING POLICIES (Continued)

5.3. Financial Assets and Liabilities (Continued)

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

Financial assets that have not fulfilled the criterion to be measured at amortised cost or at FVOCI are classified as financial assets measured at FVTPL.

Derivative financial instruments are also classified as instruments measured at FVTPL unless they have been designated as hedging instruments. Gains and losses that arise from fair value changes of derivatives are included in net gains from changes in the fair value of financial instruments.

5.4. Financial Liabilities

Deposits, borrowings and subordinated liabilities are the main sources of the Bank's financing, and are initially measured at fair value, including any directly attributable transaction costs.

Deposits, borrowings and subordinated liabilities are subsequently carried at amortised cost.

All differences between cash inflows, less transaction costs and the redemption value, are recognised in the income statement and deferred over the useful life of the financial instrument using the effective interest rate method.

5.5. Off-setting of Financial Instruments

Financial assets and liabilities are offset, and the difference between their sums is recognised in the balance sheet when there is a legal right to offset the recognised amounts and the intention to perform settlement on a net basis, or to simultaneously realise both the asset and the liability.

5.6. Sale and Repurchase Agreements

Securities purchased under a repurchase agreement (‘reverse repos’) are recognised as Loans and receivables from banks and other financial institutions.

Repo transactions are included in the position Loans and receivables from banks and other financial institutions if their maturity is less than three months from the date of purchase. The difference between the sale price and the repurchase price is treated as interest and accrued over the contract term.

5.7. Cash and Balances with Central Bank

Cash and balances with central bank are carried at amortised cost in the balance sheet and comprise balances with maturities of less than three months from the date of acquisition, including cash in the gyro account, cash in the vault and cash on hand, both in RSD and foreign currencies, the required reserve held with the National Bank of Serbia, and deposited surpluses of liquid assets with the National Bank of Serbia.

5.8. Investments in Subsidiaries

Investments in subsidiaries are initially recognised at cost. Investments in subsidiaries are subsequently measured at cost, less any accumulated impairment loss.

5. MATERIAL ACCOUNTING POLICIES (Continued)

5.9. Property Plant and Equipment

Property, plant and equipment comprise property, equipment, other fixed assets and construction in progress.

All fixed assets, except for property, are stated under historical cost convention less accumulated depreciation and total impairment losses. Historical cost includes expenses that are directly attributable to the acquisition of these items.

Property is initially recognised at cost. Subsequent to the initial recognition, property is measured at cost using the revaluation model (fair value).

Subsequent to the initial recognition of property, the recording at revalued cost, which represents its fair value on the date of revaluation, is reduced by the total subsequent accumulated depreciation. Revaluation is conducted every 5 years in order to ensure that the carrying amount does not significantly differ from the value that would be achieved if the fair value as of the balance sheet date were used. The valuation of property may be conducted by authorised appraisers only.

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

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

Depreciation is calculated on the revalued amount of the property, i.e. the cost of other fixed assets on a straight-line basis, using depreciation rates which are set to make their full depreciation over the estimated useful life. Calculation of depreciation commences in the following month after these assets have been put in use.

Applied annual depreciation rates are as follows:

Description	% for 2023	% for 2022
Commercial buildings	2.50%	2.50%
Computer equipment	20%	20%
Furniture	10%	10%
Safes	15.50%	15.50%
ATMs	14.30%	14.30%
Leasehold improvement	Based on the lease term of business premises	Based on the lease term of business premises
Right to use assets	Based on the duration of a specific right to use an asset	Based on the duration of a specific right to use an asset

Depreciation method, useful life and residual value are estimated at the end of each reporting period and adjusted as necessary.

Gains and losses arising from the disposal of assets are determined by comparing a cash inflow with the carrying amount, and are recognised in the income statement within other operating income/other expenses.

5. MATERIAL ACCOUNTING POLICIES (Continued)

5.10. Investment Property

Investment property is property held by the owner or a lessee in order to generate rental income or increase the value of equity or both, and it is not held a) to be used for manufacturing or the procurement of goods or services or for administrative purposes; or b) to be sold in the ordinary course of business.

Investment property is recognised as assets when it is probable that the Bank will have future economic benefits from these assets and when their cost can be reliably measured.

Investment property is initially measured at cost. The measurement of investment property after initial recognition is done according to the cost model. After the initial recognition, investment property is stated at historical cost, less accumulated depreciation and total impairment losses.

Subsequent costs are included in the presented amount of investment property only when it is probable that the future economic benefits will flow to the Bank and when its value can be reliably measured. All other repairs and maintenance are charged to the income statement during the financial period in which they arise.

Depreciation is calculated on the cost of investment property on a straight-line basis, using depreciation rates, which are set to make their full depreciation over the estimated useful life. Calculation of depreciation commences in the following month after these assets have been put in use.

Investment property is depreciated using the straight-line method and the annual rate that the Bank applies during the depreciation of commercial buildings.

5.11. Intangible Assets

Intangible assets acquired through purchase are carried at cost, less allowance for impairment and any potential accumulated impairment losses. Intangible assets include software, licenses and other intangible assets under construction.

Acquired computer software licences are capitalised in the amount of the costs incurred to acquire and put the software into use. These costs are amortised over their estimated useful lives and the period for which the licences have been granted.

Costs associated with developing or maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with the identifiable and unique software products controlled by the Bank, which will probably generate economic benefits exceeding the costs longer than one year, are recognised as intangible assets.

Amortisation is calculated on the cost of an intangible asset on a straight-line basis, using amortisation rates, which are set to make their full amortisation over the estimated useful life. Calculation of amortisation of intangible assets commences in the following month after these assets have been put in use.

The estimated useful life of intangible assets is five years, the amortisation rate is 20% except for assets whose useful life is determined based on a contract, when the amortisation is done within the contracted terms.

Intangible assets also include non-amortisable software under construction since it is not in use yet.

5. MATERIAL ACCOUNTING POLICIES (Continued)

5.12. Impairment of Non-financial Assets

Assets that are subject to depreciation/amortisation are reviewed for impairment when some events or changed circumstances indicate that the carrying value might not be recoverable.

An impairment loss is recognised in the amount by which the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount represents amount higher than an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels at which separate identifiable cash flows (cash generating units) can be determined.

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

5.13. Leases

When concluding a lease agreement, the Bank assesses whether it includes lease components.

An agreement is a lease agreement that includes lease elements if it cedes the right of control of using certain property during a given period in exchange for compensation, which:

1. May be identified;
2. The lessee acquires all economic benefits from the use of the identified asset; and
3. The lessee has the right to control the use of the identified asset.

The Bank appears as a lessee in lease agreements. If the value of a new identified asset in the agreement is not above EUR 5,000 or a short-term lease is in question (the lease term does not exceed 12 months), the Bank uses the possibility of the exemption for short-term leases and low-value leases, and does not recognise such agreements as leases in line with IFRS 16. Additionally, IT equipment rental agreements are not classified as leases as the value of individual new assets listed in the agreement are below EUR 5,000. The Bank assesses the term of the lease in line with its business plans in future periods for agreements that do not include an explicit lease term.

For lease agreements where lease period is not explicitly stated, the Bank evaluates the lease period in accordance with its business plans in future periods.

The Bank recognises lease agreements in the balance sheet as assets (right-to-use assets) and liabilities (lease liability). The initial value of the right-to-use identified lease assets is equal to the present value of future lease liabilities plus direct lease costs.

The Bank states the cost of depreciation and interest expense in the income statement, which comprise the total cost of lease. Depreciation is recognised in the income statement according to the straight-line method from the time of recognition until the end of the lease period.

For low-value lease assets and short-term leases the Bank recognises the cost of use of these assets in the period when the service was provided.

Costs included in the initial recognition of lease liabilities are fixed or indexed payments (instalments), the cost of early termination if the Bank assesses that it will terminate a lease agreement prior to its expiry, the cost of exercising the agreement renewal option if the Bank estimates it will implement this option. Tax expenses, insurance and other administrative costs are not lease components and are directly charged to income statement of the period in which they are incurred.

5. MATERIAL ACCOUNTING POLICIES (Continued)

5.13. Leases (Continued)

The modification of lease agreements is a change in the contracted lease terms and conditions (e.g. an increase/a decrease in the lease scope, a change in the lease term or price, etc.). Modification may be in the form of a separate lease agreement or an amendment to an existing lease agreement. Amendments to an existing lease agreement shall be treated as a new lease in case of a significant change in the lease scope or price. If the modification is not in the form of a separate lease, the Bank will again estimate the value of the agreement with its amended terms and make a correction to the existing agreement by recognising gains or losses in the income statement.

Incremental Borrowing Rate

Based on available data, in order to determine the incremental borrowing rate, the Bank used the interest rates that apply to government bonds closest to the period of lease agreement conclusion, i.e. the period of the first adoption increased by the Bank's credit risk, with a maturity equal or closest to the lease term.

In line with the aforementioned, the Bank assesses its incremental borrowing rate as a yield rate achieved from the first issuance of treasury bonds of the Republic of Serbia, increased by the Bank's credit risk which is 1%.

Accounting Treatment

The Bank records the right to use identified lease assets under Property, plant and equipment. The initial value of the right to use assets is equal to the present value of future lease liabilities discounted by the incremental borrowing rate.

Lease liabilities are reported under Other liabilities line item.

The Bank records interest expense and amortisation/depreciation charges, which constitute the total lease cost, in the income statement.

For low-value assets and short-term leases, the Bank recognises the cost of using these assets in the period when the service was provided.

5.14. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions for legal claims in court disputes are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation (Note 34).

When there is a larger number of similar liabilities, the probability that a cash outflow will be required to settle a liability is determined by considering the type of liabilities as a whole. Provisions for legal risks are recognised in the full amount if the probability of cash outflows is higher than the probability that a cash outflow will not occur.

Provisions are measured at the present value of expected expenses required to settle the liability, using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks incidental to the liability. An increase in the provision due to lapse of time is recognised as the provision cost.

5. MATERIAL ACCOUNTING POLICIES (Continued)

5.14. Provisions, Contingent Liabilities and Contingent Assets (Continued)

Provisions (Continued)

As regards the provision for litigations, the Bank uses the average interest rate for the Bank loans in EUR and RSD (depending on the currency of calculation) as a discount rate, from its current price list in accordance with the average provision amount per dispute and the average estimated duration of a lawsuit. The discount is not performed for those disputes that are expected to be completed in the next accounting period.

Contingent Liabilities and Contingent Assets

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

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

5.15. Financial Guarantees

Financial guarantees are agreements that require that the issuer make payments in order to reimburse the holder for a loss incurred because a borrower has failed to make payments on time, and in accordance with the debt instrument terms. Financial guarantees are issued to banks, financial institutions and other bodies on behalf of customers for the purpose of collateralising loans, overdrafts and other banking services.

Financial guarantees are initially recognised within the off-balance sheet items at fair value on the date of the guarantee issuance. The guarantee liability is subsequently carried at a value higher than the initial measurement, adjusted for depreciation that is calculated for the purpose of recognising fee and commission income in the income statement generated on a straight-line basis over the guarantee term and the calculation of provision in line with IFRS 9.

5.16. Employee Benefits

(a) Payroll Taxes and Contributions for Social Security

Employee benefits include liabilities arising from salaries defined under the employee contract and payroll contributions. The Bank and employees pay mandatory contributions to state pension funds. These liabilities include contributions on behalf of employees and the employer in the amounts calculated using the statutory rates. Once the contributions are paid, the Bank is no longer obliged to pay them.

Contributions are recognised as employee benefit expenses when they become due. Overpaid contributions are recognised as an asset in the amount that can be refunded or in the amount by which the future payment of liabilities is reduced.

(b) Other Employee Benefits

Pursuant to the Labour Law of the Republic of Serbia, the Bank is obligated to pay retirement benefits to its employees when they retire. The entitlement to these benefits is usually conditioned by the employee’s obligation to stay at the company until the retirement age limit and the fulfilment of the minimum prescribed service. The expected costs of these benefits are accumulated over the period of employment.

5. MATERIAL ACCOUNTING POLICIES (Continued)

5.16. Employee Benefits (Continued)

(b) Other Employee Benefits (Continued)

The defined pension liability is estimated annually by independent, certified actuaries using the projected credit unit method.

The present value of the liability based on the defined benefits is determined by discounting the expected future cash outflows using the interest rates of high-quality bonds that are denominated in the currency in which the retirement benefits will be paid and whose maturities approximate the maturities of the related retirement benefits.

Actuarial gains and losses, if they are material, are credited or charged to equity, whereas costs of the current work and past work and interest are charged or credited to the income statement.

5.17. Income Taxes

Current Income Tax

Income tax is an amount calculated at the rate of 15% (2022: 15%) on the profit before tax, after deducting the effects of permanent differences that reduce the prescribed tax rate to the effective tax rate.

The total amount of income tax liabilities is determined by applying the statutory tax rate on the tax base stated in the tax balance sheet. Estimated monthly instalments are calculated by the Bank and paid in advance on a monthly basis.

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

Deferred Income Tax

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is measured against the income tax rate (15%) and the law that are effective until the balance sheet date, which are expected to be applied in the period in which the deferred tax assets will be realised or the deferred tax liabilities settled.

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

The principal temporary differences arise from depreciation of property, revaluation of certain financial assets and liabilities, including derivative agreements, provisions for retirement benefits and other post-retirement employee benefits, and carry forwards of tax credits.

Deferred income tax related to re-measurement of the fair value of investments in securities at FVOCI, which are directly charged or credited to equity, is also directly charged or credited to equity and subsequently recognised with deferred profit or loss in the income statement.

5. MATERIAL ACCOUNTING POLICIES (Continued)

5.17. Income Taxes (Continued)

Deferred Income Tax (Continued)

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

Current and deferred taxes are recognised as income or expense and are included in net profit for the period other than those amounts that are recorded directly in equity in the current or other accounting period (Note 18).

Indirect Taxes and Contributions

Taxes and contributions that do not rely upon the operating result include property taxes, value added tax, payroll contributions on behalf of the employer, and other taxes and contributions payable in accordance with national and local tax regulations. These taxes and contributions are disclosed within Other expenses (Note 17).

5.18. Equity

The Bank’s equity includes share capital, share premium, revaluation reserves, reserves of fair value and accumulated profit (Note 38).

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

5.19. Repossessed Property (Acquired following the Foreclosure on Loans)

Repossessed assets following the foreclosure on impaired loans are included in Other Assets unless otherwise stated. Such assets are held temporarily for the purpose of liquidation and carried at the cost lower than the cost or market value less the costs to sell.

Gains or losses on disposal of these assets are included under Other operating income/Other expenses.

5.20. Non-current Assets Held for Sale

In accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”, the Bank classifies non-current assets as held for sale if the carrying amounts thereof can be recovered principally through a sale transaction rather than through continuing use. For this to be the case the assets must be available for immediate sale in their present condition and the sale must be highly probable.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, there is an expectation that a sales transaction will be realised within a period of one year from the date of classification of the asset as held for sale.

5. MATERIAL ACCOUNTING POLICIES (Continued)

5.20. Non-current Assets Held for Sale (Continued)

Events or circumstances out of the Bank's control may cause extension of the sale completion period to a period of over one year, which does not prevent assets from being still classified as assets held for sale.

Non-current asset held for sale is initially measured at the lower of:

- the carrying value; or
- fair value less costs to sell.

The Bank does not depreciate non-current assets classified as assets held for sale.

5.21. Related Party Disclosures

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

Relations between the Bank and its related parties are regulated at contractual basis. Outstanding balances of receivables and liabilities at the reporting date, as well as transactions occurred during the reporting periods with related parties are disclosed separately in notes to the financial statements (Note 43).

6. RISK MANAGEMENT

The Bank is exposed to various types of risks in its operations. The objective of risk management process is to establish an adequate system for identifying, measuring, assessing and monitoring the risks to which the Bank is exposed in its operations, as well as an appropriate response in order to pre-empt possible adverse effects on the Bank's capital or financial result.

The Executive Board of the Bank defines risk management policies and procedures, which are consistent with the common strategy and risk management policy adopted at the level of ProCredit Group, as well as with the laws and by-laws applicable in the territory of the Republic of Serbia.

The Board of Directors of the Bank approves the risk management strategy and policies, as well as the capital management strategy. The Board of Directors of the Bank reviews and evaluates said strategies and policies, as well as the adequacy and efficiency of the risk management process in the Bank.

The Executive Board implements the risk management strategy and policy in accordance with decisions passed by the Board of Directors. In addition, the Executive Board approves risk management procedures.

The risk management process is organised through a system of risk management committees, which regularly meet according to a pre-determined schedule stipulated by the operating procedures for these committees, and mandatorily attended by the members of the Bank's Executive Board. The committees are:

- Credit Risk Committee;
- Asset-Liability Committee (ALCO); and
- Operational Risk Committee.

Identifying, measuring, analysing, and reporting on the risk exposure is entrusted to a separate organisational unit of the Bank - Risk Management Department.

6. RISK MANAGEMENT (Continued)

Types of Risk

The Bank is especially exposed to the following risks, which are inherent to its activities:

6.1. Credit risk;
6.2. Market risks:
  6.2.1. Interest rate risk,
  6.2.2. Foreign exchange risk, and
  6.2.3. Fair value of financial assets and liabilities;
6.3. Liquidity risk;
6.4. Bank’s risk exposure to one related party or a group of related parties;
6.5. Risk of investment in other legal entities and fixed assets;
6.6. Country risk;
6.7. Operational risk, including inadequate IT risk management and inadequate management of other technologies important for the Bank’s operations; and
6.8. Capital management.

6.1. Credit Risk

In its ordinary course of business, the Bank is exposed to credit risk, which can be defined as the likelihood that a borrower will not settle their obligations to the Bank in the contracted amount and on the due date. The credit risk exposure primarily results from lending to customers.

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

- Evaluates the creditworthiness of each borrower based on their total indebtedness under loans, guarantees, and other credit products;
- Analyses risks arising from the very investment that is the subject of lending;
- Determines borrowing limits of customers based on a risk assessment;
- Increases its credit exposure only to creditworthy clients and obtains appropriate collaterals; and
- Has clearly defined loan approval policies, processes and procedures, an adequate organisational structure for credit risk management with a clear division of duties regarding the customer relations and evaluation of customers’ creditworthiness.

In order to control credit risks, the Bank has adopted a prudential credit policy. Those customers to whom the loans are extended are carefully and thoroughly assessed. Decisions on granting loans to clients are made based on the borrower’s repayment capacity and the corresponding collateral.

The decision on credit exposure is based on the following four criteria:

a) **Reliability, reputation and stability of client’s operations**: results of a client profile analysis and how well the client mitigates operational risk, management risk, organisational risk, market risk and political and legal risk. It also includes the client’s credit history with the Bank and other financial institutions, and a breakdown of used services offered by the Bank; decisions made by the client in the past and client’s legal history. For exposures which require the results of the classification of risk, such results are also taken into account.
b) **Customer’s ability to pay/liquidity**: the results of an evaluation conducted by Bank’s competent employees on customer’s ability to repay the loan.
c) **Pledge/collateral**: structure and value that meets the Bank’s requirements.
d) **Business potential**: the client’s needs as a supplement to the request that is being processed and potential future collaboration with the Bank.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions

The Bank has developed procedures for classification of loans and other receivables in line with the assessed level of collectability.

Internal Provisioning Policy

The Bank calculates an impairment of loans (provisions) on a monthly basis for customers for which provisions are formed at the portfolio level (group provisions) and for individual provisions – impairment losses that are established for an individual client.

The central element of the IFRS 9 impairment approach for the Bank is the expected credit loss (ECL) model for impairment recognition and measurement. This model requires the timely identification of ECLs in order to ensure that the amount of identified ECLs reflects changes in the credit risk of financial instruments on each reporting date.

As such, this model is based on the forward-looking approach and replaces the incurred loss model used to identify credit losses by identifying credit losses that have not been exclusively triggered yet by loss driven events.

The objective of the impairment model is to identify ECLs during the lifetime of a financial instrument considering all realistic and supporting information, including the forward-looking.

Therefore, the necessity to make a provision for ECLs over the loan useful life occurs when a significant credit risk increase has been identified since the exposure occurrence date.

The methodology for determining a significant increase in credit risk is based on comprehensive forward-looking information and historical information.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Internal Provisioning Policy (Continued)

This model has three stages, which are based on changes in the credit risk exposure occurred since the date of initial recognition.

Stage 1 (12-month ECLs)	**Stage 2** (Lifetime ECLs)	**Stage 3** (Lifetime ECLs)
Usually newly disbursed exposures Exposures without any signs of a significant increase in credit risk	Significant increase in credit risk PAR 30-90 Multiple restructurings Watch restructurings Standard restructurings	PAR 90 Impaired restructured exposures Court proceedings Bankruptcy Credit fraud Risk classification 8 Other indicators
Loan portfolio management process		
Performing portfolio without a significant increase in credit risk since the initial recognition.	Loan portfolio with an increased credit risk since the initial recognition. It may be subject to intense monitoring depending on the risk level.	Loan portfolio where NPL management is applied, i.e. debt collection procedures.

A significant credit risk increase is typically identified during an analysis/monitoring of the client's financial position or by detecting any ad-hoc cases that indicate a risk increase. Both events trigger an update of customer's risk classification. On the other hand, historical data are taken into account considering that exposures are transferred to Stage 2 and Stage 3 depending on the days in default as a criterion.

This method involves a comprehensive analysis of various sources of information, including an analysis of the borrower's financial position, historical data, restructuring information and an analysis of expected macroeconomic movements (through a risk classification).

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Internal Provisioning Policy (Continued)

Stage 1

Stage 1 includes financial assets that have not experienced a significant increase in credit risk since the initial recognition as well as those assets that show low credit risk at the reporting date or those assets for which there are no triggers indicating a need for allocation to Stage 2 or Stage 3.

Assets are allocated to Stage 1 after the initial recognition, except for POCI assets treated and reported separately within Stage 3. For assets in Stage 1 an expected credit loss arising from a possible default within a 12-month period from the reporting date (12-month ECL) is recognised as expense. For exposures with a residual maturity of less than 12 months, the applied PD reflects the residual maturity.

Credit exposures are not considered to have a low credit risk solely due to the collateral value, nor do loan agreements have low credit risk solely because they have a lower default risk than other credit services.

All exposures in this stage comprise a portfolio that does not indicate increased credit risk.

Stage 2

Stage 2 includes financial assets that have experienced a significant increase in credit risk since the initial recognition, but for which there is no objective evidence of impairment. This assessment is based on adequate and verifiable information. An allowance for impairment is determined in the amount equal to lifetime expected credit losses (not impaired).

Significantly increased credit risk is determined based on quantitative and qualitative information:

- Based on a comparison of the remaining lifetime PDs at the reporting date with their remaining lifetime PDs at the date of occurrence. Loss parameters are based on an internal risk classification system for exposures that can be rated.
- Significantly increased credit risk occurs if the difference in PDs is above the defined threshold, when the assets will be transferred from Stage 1 to Stage 2. Otherwise, the transfer from Stage 2 to Stage 1 is possible if credit risk is significantly reduced.

- When one of the following events occurs:
  - A customer is overdue more than 30 days, but less than 91 days
  - A customer is classified as Standard or Watch restructuring
  - A customer has risk classification of 6
  - A customer has risk classification of 7

The lifetime ECL has to be determined once it has been transferred to Stage 2.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Internal Provisioning Policy (Continued)

Stage 3

Stage 3 includes all exposures that are impaired at the reporting date. The calculation of the allowance for impairment is based on lifetime ECLs taking into account 100% of PD (lifetime ECL credit impaired).

The Stage 3 default credit exposures (default status) include all exposures where at least one of the following events has occurred:

- Impaired restructuring;
- The Bank has initiated a lawsuit against a client;
- Bankruptcy proceedings have been initiated;
- A client is overdue more than 90 days;
- Credit fraud;
- All clients with small or medium credit exposures with the risk classification 8;
- Impaired credit exposure (POCI) occurred on the initial recognition;[1]
- RC 8 for PI and VS clients;
- Qualitative and quantitative indicators based on which the Bank has determined that the client will not repay its liabilities (UTP) in full, without activating the collateral (defined in document 2.4 Internal classification and provisions); and
- Other signs of impairment.

The lifetime ECL has to be determined once it has been transferred to Stage 3.

Contamination Principle

There is no direct contamination between credit services of the same client/group of related parties for the purpose of classification per stages and the formation of a provision. The contamination is applied to the client status (restructured or non-restructured) and functions at the client level through risk classification. In this regard, the contamination principle is applied to all balance sheet credit exposures and all off- balance sheet exposures to clients.

Non-financial guarantees, such as a performance bond, are treated separately because of their nature, therefore losses incurred or expected losses from this type of service do not contaminate parallel services. If a client uses multiple parallel credit services (loan instalments, an overdraft, a revolving credit, credit cards, etc.), the highest default category and the worst restructuring category will determine the client’s risk classification.

In addition, signs of impairment of client’s balance sheet credit exposure are a trigger for re-reviewing all client’s balance and off-balance sheet exposures.

The contamination principle does not apply to the Bank’s receivables generated by non- lending transactions, such as account maintenance fees, other fees and commissions, etc.

[1] Standard for classification and measurement of financial assets - loans issued to clients

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Allowance for Impairment and Provision for Credit Exposures

Balance sheet credit exposure – the gross carrying amount of the sum of all disbursed loans, the withdrawn portion of an overdraft, credit facilities and credit cards of customers or a group of related parties that are in repayment on the reporting date. These are typically calculated as matured and undue principal + accrued interest + accrued default interest – non-amortised fee for the loan disbursement.

Exposures obtained in this manner, including the effect of full and partial prepayments, is the basis for the calculation of allowances for impairment (EAD).

Off-balance sheet exposure – a sum of all Bank's receivables to clients or groups of related parties on the reporting date in the following categories:

a) Bank guarantees
   - Warranties and guarantees

b) Letters of credit

c) Borrowings, including contingent liabilities such as: the unused portion of the overdraft, credit facilities, credit card limits, approved but undisbursed loan tranches or other credit products. Borrowings may be:

   - Revocable and they include liabilities which meet at least the following criteria:
     - may be cancelled at any time and for any reason by the Bank without a prior notification and unconditionally (the Bank has full authority over making decisions and is not obliged to take into consideration any terms/conditions, for example, a cancellation period or penalties prior to the loan cancellation);
     - borrowing/loan agreement envisages an immediate enforceable cancellation due to the deteriorated financial position of the borrower, in which case the Bank has to actively monitor the borrower's financial position; moreover, the Bank's internal control system should promptly identify the deterioration of the borrower's creditworthiness;
   - Irrevocable and they include all borrowings that do not meet the aforesaid criteria.

The Credit Conversion Factors (CCF) that are based on the characteristics of financial services and, if applicable, on empirical data, are used to determine provisions for off-balance sheet exposures. The CCFs based on empirical data were implemented for certain financial services, while regulatory factors were applied to the rest of financial services.

Type of credit product	Credit conversion factor
Credit facility - revolving	35.54%
Undisbursed credit tranches (undrawn amounts of approved loans)	0.00%
Overdraft	66.98%
Credit cards	9.87%
Payment guarantees	100.00%
Performance guarantees	20.00%

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Allowance for Impairment and Provision for Credit Exposures (Continued)

Expected Credit Loss (ECL) - an objective and probability-weighted amount, calculated as a difference between cash flows in line with contracted terms and cash flows that the Bank expects to receive. ECL is based on reasonable and substantiated information available without unnecessary expenses or effort on the date of reporting on past events, current conditions and a forecast of future economic conditions.

ECL is calculated based on the following parameters: exposure at default (EAD), probability of default (PD) and loss given default (LGD) and it is discounted on the present value.

Macroeconomic time series are used to calculate PiT forecasts of several parameters, and data are obtained from the IMF database - World Economic Outlook Database, Economist Intelligence Unit (EIU) Database, European Central Bank Database, NBS, Bank of International Settlements (BIS), Federal Reserve Bank of St Louis and the Statistical Office of the Republic of Serbia.

A total of 60 macroeconomic variables were analysed, of which the following 18 variables related to the Republic of Serbia were shortlisted for the development of statistical models:

- GDP growth;
- industrial production index (2022=100);
- total receivables in the banking sector in the country;
- growth rate of dinar deposits of companies;
- growth rate of dinar deposits of entrepreneurs;
- growth rate of dinar household deposits;
- growth rate of company deposits in foreign currencies;
- growth rate of household deposits in foreign currencies;
- growth rate of total deposits in foreign currencies;
- growth rate of total long-term deposits;
- growth rate of total deposits;
- change (first difference) of monetary aggregate M2;
- change (first difference) in the balance of current payments (percentage of GDP);
- change (first difference) in the growth rate of total export;
- change (first difference) of the growth rate of total import;
- change (first difference) of total government revenues (percentage of GDP);
- growth rate of gross domestic product (GDP);
- growth rate of the number of building permits issued; and
- growth rate of the nominal spot price of oil.

After further analysis of these variables, the following variables were selected for use in the final models:

- GDP growth;
- growth rate of dinar deposits of entrepreneurs;
- growth rate of dinar household deposits; and
- change (first difference) of monetary aggregate M2.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Allowance for Impairment and Provision for Credit Exposures (Continued)

These values are a direct reflection of the development of the business cycle and, as such, provide a valid potential input for PiT models. Final PiT parameters are weighted average forecast values based on various scenarios of macroeconomic factors in the future (forward-looking). In that regard, basic, optimistic and pessimistic scenarios are generated for each macroeconomic factor.

- The basic scenario is based on current forecasts from available sources or based on ARIMA (autoregressive integrated moving average) analysis of time series if no forecasts from data sources are available for a specific variable.

- Pessimistic and optimistic scenarios:
  - Based on a historical distribution of changes in macroeconomic variables.
  - Scenarios are formed based on the distribution from the 25th and 75th percentile, except for the pessimistic scenario of BDP growth rate, where the 10th percentile is used.
  - Depending on the variable value, a higher (or lower) quintile can be interpreted as a pessimistic or an optimistic scenario.

Pessimistic, basic and optimistic scenarios have the following weights: 0.4, 0.5 and 0.1, respectively.

The Bank assesses impairment at individual and group levels.

Individual impairment assessment (known as **individual assessment**) – is an individual assessment of impairment losses for individually significant exposures, which is based on pre-defined quantitative and qualitative signs of impairment. Individually significant exposures are credit exposures whose sum of the balance sheet and off-balance sheet exposures exceed EUR 250,000 at the reporting date.

The assessment is based on an estimate of expected future cash flows of credit exposures, discounted at the original effective interest rate of credit exposures in order to calculate the net present value (NPV) of expected future cash flows derived from credit exposures. The level of placement impairment is determined by comparing the present value of expected future cash flows with gross carrying amounts.

An estimate of future cash flows is based on the following assumptions:

a) Regular cash repayments by a client include the assumption that the client, either a related party and/or guarantor, will be able to repay the loan from regular operating income.

b) Cash flows from the collection through collaterals include the assumption that the client, either a related party and/or guarantor, will not be able to repay the loan in full without initiating repayment through collaterals. A collateral collection does not necessarily entail the initiation of a civil proceeding after the Bank assumes the collaterals. This assumption includes the sale of collaterals regardless of which party exercise the right to the collateral.

Various probability-weighted scenarios have been introduced to calculate expected losses. An individual assessment is conducted at least quarterly.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Allowance for Impairment and Provision for Credit Exposures (Continued)

In case of a **group impairment assessment**, financial assets are firstly classified according to portfolio quality indicators into impairment stages. The impairment stage differs according to the degree of increase in credit risk from the moment of initial recognition. In accordance with IFRS 9, an appropriate loan loss provision (LLP) rate depends on the segment of the portfolio in which client exposure is classified (Stage 3, Stage 2 and Stage 1).

In 2023 and 2022 there were no credit-impaired financial assets, whose contractual terms and conditions were considerably modified to result in the derecognition of the original asset and the recognition of a new financial asset (POCI). In order to calculate an allowance for impairment, these assets would remain in Stage 3 for their entire lifetime, i.e. calculation of lifetime ECLs is required.

Impairment Indicators

A regular assessment of objective evidence of impairment is applied to all balance and off-balance sheet exposures regardless of their amount. Therefore, the following indicators are treated as the impairment indicators:

- Impaired restructuring;
- The Bank has initiated a legal proceeding;
- Bankruptcy proceedings have been initiated;
- Maturity overdue for more than 90 days;
- Credit fraud;
- All clients with small or medium credit exposures with the risk classification 8;
- Impaired credit exposure (POCI) occurred on the initial recognition;
- RC 8 for PI and VS clients;
- Qualitative and quantitative indicators based on which the Bank has determined that the client will not repay its liabilities (UTP) in full, without activating the collateral (defined in document 2.4 Internal classification and provisions); and
- Other signs of impairment.

A regular assessment of objective evidence on off-balance sheet exposures is applied regardless of their amount. The following indictors are the signs of impairment:

- In bank guarantees – if a bank guarantee is presented for payment by the bank and if the client cannot directly settle the payment; and
- In letters of credit – letters of credit are presented to the bank for payment purposes or they are protested if a client cannot directly settle the payment.

In case of individually insignificant credit exposures showing the signs of impairment, an individual impairment test is not usually conducted as operational costs do not justify a comprehensive impairment test for each of these clients. Provisions are calculated using an LGD weight determined in case of forming a group provision. The Bank can only conduct an impairment test in exceptional cases for individually insignificant credit exposures by performing an individual impairment assessment.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Write-off Policy

In principle, the Bank only writes off credit exposures for which it does not expect any further recovery. During write-off, the gross carrying value of the asset is reduced at the same time as the corresponding allowance for impairment. For all credit exposures at the time of their write-off, the provision is 100%.

Modification of Financial Assets

Modifications are defined as any change in the loan agreement terms, whereby the change affects the gross carrying amount. This impact is measured by assessing the difference between the present value of future expected cash flows after the modification and the initial cash flow prior to the modification.

The type of modification is determined by testing the net present value, i.e. by comparing the present value of discounted expected cash flows after the modification in relation to the present value of the discounted initial cash flows of loans prior to the modification. The results may lead to significant or insignificant modifications based on a significance threshold of 10%.

A classification, either significant or insignificant, will determine an accounting treatment which will then be applied to modified agreements.

Modifications below 1% are not even recognised as insignificant.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality

The table below presents an overview of the exposure to credit risk as of 31 December 2023 and 2022, indicating the Bank's maximum exposure to credit risk before collaterals.

In addition to credit exposures based on loans to banks and loans to clients, the table also includes: placements to the National Bank of Serbia (NBS) based on repo transactions, the NBS treasury bills, financial assets at FVOCI and off-balance sheet items that may generate credit risk for the Bank (broken down according to the items constituting the position).

Balance sheet items exposed to credit risk	**Net exposure 31 December 2023**	**Net exposure 31 December 2022**
Loans and placements for business purposes	64,509,260	69,177,093
Loans and placements for improving housing conditions and housing loans	6,130,110	6,146,747
Agricultural loans and placements	31,381,001	30,352,087
Consumer loans and placements	1,634,419	1,237,212
Loans and placements to customers	**103,654,790**	**106,913,139**
Loans and placements to banks and other financial institutions	**19,696,333**	**11,611,839**
Cash and balances with Central Bank	**29,917,809**	**19,814,215**
Securities	**5,203,368**	**6,741,979**
Other assets*	**1,021,771**	**624,101**
Total balance sheet items exposed to credit risk	**159,494,071**	**145,705,273**
Off-balance sheet items exposed to credit risk**	**20,820,222**	**20,213,290**
Balance as of (balance and off-balance sheet items)	**180,314,293**	**165,918,563**

* *The structure of total other assets is disclosed in Note 30.*

** *The structure of gross exposure of all off-balance sheet items is disclosed in Note 39.2; whereas the table above presents the amount of net exposure (a difference between gross and net exposure equals the provision for contingent liabilities in off-balance sheet items).*

The table above presents a total credit risk exposure scenario as of 31 December 2023 and 2022, respectively.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

The Bank further analyses a credit exposure by loans and receivables from customers since the remaining stated financial assets do not carry a significant credit risk, as it can be seen from the structure of items.

The Bank's management deems that such an exposure structure adequately illustrates the existence of credit risk exposure control:

- 57.48% of the total exposure is related to loans and receivables from customers (31 December 2022: 64.44%), which reflects the Bank's core activity.
- Unlike the table breakdown that shows total balance sheet and off-balance sheet receivables for which impairment has been calculated, observed through the share of only balance sheet receivables (which implies the balance sheet item Loans and placements to customers) 91.29% of total balance sheet placements is classified under the most favourable risk category according to the Bank's internal classification, which reflects a high degree of receivables' collectability (31 December 2022: 91.93%).
- 57.42% of the gross exposure of all loans and placements to customers is collateralised with clients' deposits or mortgages on immovable property (31 December 2022: 53.24%).

The following tables present the quality of **loans and placements to customers** classified according to impairment stages:

31 December 2023	Gross exposure	Allowance for impairment	Net exposure
Stage 1	95,440,788	(814,815)	94,625,973
Stage 2	7,161,758	(233,246)	6,928,512
Stage 3	3,814,129	(1,713,824)	2,100,305
Total	**106,416,675**	**(2,761,885)**	**103,654,790**

31 December 2022	Gross exposure	Allowance for impairment	Net exposure
Stage 1	98,897,645	(611,903)	98,285,742
Stage 2	7,191,283	(178,433)	7,012,850
Stage 3	2,857,306	(1,242,759)	1,614,547
Total	**108,946,234**	**(2,033,095)**	**106,913,139**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

The following tables present **loans and placements to banks and other financial institutions** classified according to impairment stages:

31 December 2023	Gross exposure	Allowance for impairment	Net exposure
Stage 1	19,696,413	(80)	19,696,333
Stage 2	-	-	-
Stage 3	-	-	-
Total	**19,696,413**	**(80)**	**19,696,333**

31 December 2022	Gross exposure	Allowance for impairment	Net exposure
Stage 1	11,611,943	(104)	11,611,839
Stage 2	-	-	-
Stage 3	-	-	-
Total	**11,611,943**	**(104)**	**11,611,839**

The following tables present **off-balance sheet items** classified according to impairment stages:

31 December 2023	Gross exposure	Allowance for impairment	Net exposure
Stage 1	19,103,522	(68,664)	19,034,858
Stage 2	1,769,391	(17,909)	1,751,482
Stage 3	85,211	(51,329)	33,882
Total	**20,958,124**	**(137,902)**	**20,820,222**

31 December 2022	Gross exposure	Allowance for impairment	Net exposure
Stage 1	18,668,679	(30,444)	18,638,235
Stage 2	1,551,446	(11,071)	1,540,375
Stage 3	86,379	(51,699)	34,680
Total	**20,306,504**	**(93,214)**	**20,213,290**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

U The following table provides movements in the **allowance for impairment** of **loans and placements to customers** in 2023 and 2022 according to the impairment stages:

Movements in IFRS provisions in 2023	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance – 1 January 2023	**611,903**	**178,433**	**1,242,759**	**2,033,095**
Transfer to Stage 1	45,482	(45,482)	-	**-**
Transfer to Stage 2	(107,522)	155,664	(48,142)	**-**
Transfer to Stage 3	(2,083)	(158,639)	160,722	**-**
Changes in provisions due to credit risk changes	21,771	126,420	690,127	**838,318**
Impairment attributable to new loans*	281,708	-	-	**281,708**
Decrease due to collection	(35,063)	(23,150)	(123,197)	**(181,410)**
Write-offs - transfer to off-balance sheet items	-	-	(208,445)	**(208,445)**
FX differences and unwinding	(1,381)	-	-	**(1,381)**
Balance as of 31 December 2023	**814,815**	**233,246**	**1,713,824**	**2,761,885**

* *Newly approved placements are classified per stage as of 31 December 2023, not at the time of the initial approval and/or purchase*

Movements in IFRS provisions in 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance – 1 January 2022	**453,452**	**76,543**	**1,141,232**	**1,671,227**
Transfer to Stage 1	26,777	(26,665)	(112)	**-**
Transfer to Stage 2	(55,951)	67,558	(11,607)	**-**
Transfer to Stage 3	(20,454)	(112,870)	133,324	**-**
Changes in provisions due to credit risk changes	89,902	196,498	559,019	**845,419**
Impairment attributable to new loans*	135,235	-	-	**135,235**
Decrease due to collection	(14,746)	(22,631)	(120,459)	**(157,836)**
Write-offs - transfer to off-balance sheet items	-	-	(458,638)	**(458,638)**
FX differences and unwinding	(2,312)	-	-	**(2,312)**
Balance as of 31 December 2022	**611,903**	**178,433**	**1,242,759**	**2,033,095**

* *Newly approved placements are classified per stage as of 31 December 2022, not at the time of the initial approval and/or purchase.*

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

The following table provides movements in the **allowance for impairment** of **loans and placements to banks and other financial institutions** in 2023 and 2022 according to the impairment stages:

Movements in IFRS provisions in 2023	Stage 1	Stage 2	Stage 3	Total
Opening balance – 1 January 2023	**104**	**-**	**-**	**104**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	-	-	-	**-**
Transfer to Stage 3	-	-	-	**-**
Changes in provisions due to measurement changes	-	-	-	**-**
Impairment attributable to new loans*	1,076	-	-	**1,076**
Decrease due to collection	(1,054)	-	-	**(1,054)**
Decrease	(46)	-	-	**(46)**
FX differences	-	-	-	**-**
Balance as of 31 December 2023	**80**	**-**	**-**	**80**

* *Newly approved placements are classified per stage as of 31 December 2023, not at the time of the initial approval and/or purchase*

Movements in IFRS provisions in 2022	Stage 1	Stage 2	Stage 3	Total
Opening balance – 1 January 2022	**153**	**-**	**-**	**153**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	-	-	-	**-**
Transfer to Stage 3	-	-	-	**-**
Changes in provisions due to measurement changes	-	-	-	**-**
Impairment attributable to new loans*	331	-	-	**331**
Decrease due to collection	(277)	-	-	**(277)**
Decrease	(103)	-	-	**(103)**
FX differences	-	-	-	**-**
Balance as of 31 December 2022	**104**	**-**	**-**	**104**

* *Newly approved placements are classified per stage as of 31 December 2022, not at the time of the initial approval and/or purchase.*

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

The following table provides movements in the **gross exposures of loans and placements to customers** through stages in 2023 and 2022:

Movements in gross exposures of loans and placements to customers in 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance – 1 January 2023	**98,897,645**	**7,191,283**	**2,857,306**	**108.946.234**
Transfer to Stage 1	4,964,221	(4,964,221)	-	**-**
Transfer to Stage 2	(11,440,915)	11,647,605	(206,690)	**-**
Transfer to Stage 3	(264,307)	(1,651,972)	1,916,279	**-**
Changes in the exposure level of existing placements	(22,663,455)	(3,226,726)	(305,378)	**(26.195.559)**
New placements	35,822,532	-	-	**35.822.532**
Collection	(9,874,933)	(1,834,211)	(238,943)	**(11.948.087)**
Write-offs - transfer to off-balance sheet items	-	-	(208,445)	**(208.445)**
Balance as of 31 December 2023	**95,440,788**	**7,161,758**	**3,814,129**	**106.416.675**

Movements in gross exposures of loans and placements to customers in 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance – 1 January 2022	**113,262,925**	**2,131,872**	**2,476,975**	**117,871,772**
Transfer to Stage 1	1,252,588	(1,241,082)	(11,506)	**-**
Transfer to Stage 2	(10,056,122)	10,215,221	(159,099)	**-**
Transfer to Stage 3	(173,675)	(1,857,334)	2,031,009	**-**
Changes in the exposure level of existing placements	(25,481,335)	(1,219,289)	(647,199)	**(27,347,823)**
New placements	28,738,114	-	-	**28,738,114**
Collection	(8,644,850)	(838,105)	(374,236)	**(9,857,191)**
Write-offs - transfer to off-balance sheet items	-	-	(458,638)	**(458,638)**
Balance as of 31 December 2022	**98,897,645**	**7,191,283**	**2,857,306**	**108,946,234**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

The following table provides the average 12-month probability of default per **gross loan portfolio segment** as of 31 December 2023 and 2022:

	One-year PD	Stage 1	Stage 2	Stage 3	Total 31 December 2023
Risk class 1-5*	0.15%-4.55%	81,873,454	5,017,616	-	86,891,070
Risk class 6-7*	22.25%-43.90%	552	1,821,015	-	1,821,567
Risk class 8*	100%	-	-	3,110,554	3,110,554
PI and VS (DPD 0-15)	3.09%-3.56%	13,525,439	255,661	-	13,781,100
PI and VS (DPD 16-30)	43.34%-54.11%	7,573	28,187	-	35,760
PI and VS (DPD 31-90)	99%	-	39,279	-	39,279
Other	1.03%-3.56%	33,770	-	-	33,770
PI and VS 100% and other	100%	-	-	703,575	703,575
Total		**95,440,788**	**7,161,758**	**3,814,129**	**106,416,675**

* *Risk class is assigned to businesses with small and medium credit exposures over EUR 50 thousand (principal+off-balance sheet).*

	One-year PD	Stage 1	Stage 2	Stage 3	Total 31 December 2022
Risk class 1-5	0.05%-5.20%	85,793,370	4,934,456	-	90,727,826
Risk class 6-7	16.84%-54.61%	23,617	2,007,199	-	2,030,816
Risk class 8	100%	-	-	2,256,062	2,256,062
No rating*	2.75%-33.55%	13,080,658	249,628	-	13,330,286
No rating*	100%	-	-	601,244	601,244
Total		**98,897,645**	**7,191,283**	**2,857,306**	**108,946,234**

* *Risk class is assigned to businesses with small and medium credit exposures over EUR 50 thousand (principal+off-balance sheet). All other exposures have no rating.*

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

The following table provides the average 12-month probability of default on gross exposure of **off-balance sheet items** as of 31 December 2023 and 2022:

	One-year PD	Stage 1	Stage 2	Stage 3	Total 31 December 2023
Risk class 1-5*	0.15%-4.55%	17,775,120	1,595,822	-	19,370,942
Risk class 6-7*	22.25%-43.90%	-	167,494	-	167,494
Risk class 8*	100%	-	-	3,892	3,892
PI and VS (DPD 0-15)	3.09%-3.56%	1,294,162	5,824	-	1,299,986
PI and VS (DPD 16-30)	43.34%-54.11%	-	-	-	-
PI and VS (DPD 31-90)	99%	-	251	-	251
Other	0.13-0.41%	34,240	-	-	34,240
PI and VS 100% and other	100%	-	-	81,319	81,319
Total		**19,103,522**	**1,769,391**	**85,211**	**20,958,124**

* *Risk class is assigned to businesses with small and medium credit exposures over EUR 50 thousand (principal+off-balance sheet).*

	One-year PD	Stage 1	Stage 2	Stage 3	Total 31 December 2022
Risk class 1-5	0.05%-5.20%	17,257,737	1,319,576	-	18,577,313
Risk class 6-7	16.84%-54.61%	10,324	112,713	-	123,037
Risk class 8	100%	-	-	84,176	84,176
No rating*	2.75%-33.55%	1,400,618	119,157	-	1,519,775
No rating*	100%	-	-	2,203	2,203
Total		**18,668,679**	**1,551,446**	**86,379**	**20,306,504**

* *Risk class is assigned to businesses with small and medium credit exposures over EUR 50 thousand (principal+off-balance sheet). All other exposures have no rating.*

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

Analyses of **loans and placements to customers** per days in default and impairment stage as of 31 December 2023 and 2022 are presented in the tables below:

	Loan portfolio			Gross exposure
	Stage 1	Stage 2	Stage 3	31 December 2023
Undue receivables	**93,650,962**	**6,307,719**	**383,830**	**100,342,511**
Overdue receivables	**1,789,826**	**854,039**	**3,430,299**	**6,074,164**
01-30 days	1,789,826	659,860	77,914	2,527,600
31-60 days	-	128,917	16,884	145,801
61-90 days	-	65,262	157,162	222,424
>90 days	-	-	3,178,339	3,178,339
Total	**95,440,788**	**7,161,758**	**3,814,129**	**106,416,675**

	Loan portfolio			Gross exposure
	Stage 1	Stage 2	Stage 1	31 December 2022
Undue receivables	**97,129,127**	**6,151,119**	**503,445**	**103,783,691**
Overdue receivables	**1,768,518**	**1,040,164**	**2,353,861**	**5,162,543**
01-30 days	1,768,518	786,164	294,171	2,848,853
31-60 days	-	90,372	302,364	392,736
61-90 days	-	163,628	6,104	169,732
>90 days	-	-	1,751,222	1,751,222
Total	**98,897,645**	**7,191,283**	**2,857,306**	**108,946,234**

Loans and placements to banks and other financial institutions in the gross amount of RSD 19,696,413 thousand as of 31 December 2023 (31 December 2022: RSD 11,611,943 thousand) completely relate to undue receivables classified in Stage 1.

Out of the afore-mentioned amount, the largest portion is related to the funds held with the National Bank of Serbia in the amount of RSD 15,011,562 thousand (31 December 2022: RSD 8,003,690 thousand) arising from repo transactions. The credit rating agency Fitch assigned the BB+ credit rating and Moody's assigned Ba2 to the Republic of Serbia.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

Analyses of **off-balance sheet items** per days in default and impairment stage as of 31 December 2023 and 2022 are presented in the tables below:

	Loan portfolio			Gross
	Stage 1	**Stage 2**	**Stage 3**	**31 December 2023**
Undue receivables	**18,983,459**	**1,769,096**	**84,673**	**20,837,228**
Overdue receivables	**120,063**	**295**	**538**	**120,896**
01-30 days	120,063	44	-	120,107
31-60 days	-	251	220	471
61-90 days	-	-	-	-
>90 days	-	-	318	318
Total	**19,103,522**	**1,769,391**	**85,211**	**20,958,124**

	Loan portfolio			Gross
	Stage 1	**Stage 2**	**Stage 3**	**31 December 2022**
Undue receivables	**18,538,892**	**1,545,032**	**54,963**	**20,138,887**
Overdue receivables	**129,787**	**6,414**	**31,416**	**167,617**
01-30 days	129,787	6,414	-	136,201
31-60 days	-	-	201	201
61-90 days	-	-	-	-
>90 days	-	-	31,215	31,215
Total	**18,668,679**	**1,551,446**	**86,379**	**20,306,504**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

Analyses of **allowance for impairment on loans and placements to customers** per days in default and impairment stage as of 31 December 2023 and 2022 are presented in the tables below:

	Allowance for impairment			Total
	Stage 1	**Stage 2**	**Stage 3**	**31 December 2023**
Undue receivables	**791,717**	**182,282**	**131,827**	**1,105,826**
Overdue receivables	**23,098**	**50,964**	**1,581,997**	**1,656,059**
01-30 days	23,098	25,252	27,547	75,897
31-60 days	-	18,548	8,225	26,773
61-90 days	-	7,164	131,008	138,172
>90 days	-	-	1,415,217	1,415,217
Total	**814,815**	**233,246**	**1,713,824**	**2,761,885**

	Allowance for impairment			Total
	Stage 1	**Stage 2**	**Stage 3**	**31 December 2022**
Undue receivables	**597,981**	**128,153**	**166,270**	**892,404**
Overdue receivables	**13,922**	**50,280**	**1,076,489**	**1,140,691**
01-30 days	13,922	29,017	95,469	138,408
31-60 days	-	7,341	199,514	206,855
61-90 days	-	13,922	2,470	16,392
>90 days	-	-	779,036	779,036
Total	**611,903**	**178,433**	**1,242,759**	**2,033,095**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.3 Analysis of Impaired Loans

The following tables present the Bank's *impaired loan portfolio* with the corresponding allowance for impairment as of 31 December 2023 and 2022:

31 December 2023	Gross exposure	Allowance for impairment	Net exposure
Individually impaired	1,583,528	(1,119,222)	464,306
Group-based impaired	2,230,601	(594,602)	1,635,999
Total	**3,814,129**	**(1,713,824)**	**2,100,305**

31 December 2022	Gross exposure	Allowance for impairment	Net exposure
Individually impaired	1,894,083	(714,009)	1,180,074
Group-based impaired	963,223	(528,750)	434,473
Total	**2,857,306**	**(1,242,759)**	**1,614,547**

Restructured Receivables

Restructuring measures include concessions granted to a client who has or will have difficulty in meeting financial obligations. Concessions are granted to the debtor based on an agreement between the Bank and the client. Concessions may result in losses for the Bank and relate to any of the following procedures:

- Amendments to previous contractual terms that the debtor is deemed unable to meet due to financial difficulties that result in insufficient debt service capacity and that would not have been approved if the client had not had financial difficulties; and
- Full or partial refinancing of the debt contract, which would not have been approved if the client had no financial difficulties.

The criteria based on which the classification of restructured credit exposures is performed are explained below:

Standard restructured credit exposures are defined as credit exposures which at the moment of their restructuring meet the following criteria:

- Are rated as *Distressed Restructuring* with *Diminished financial Obligation* (DO) <=1%;
- Based on the performed assessment (including additional indicators for Unlikeliness to Pay), it was concluded that the client will be able to fulfil the obligation in full without foreclosure; and
- Are not already in default status (Level 3)/not-performing category based on any default/not-performing indicator.

The terms of the Restructured Credit Exposure Standard reflect the current economic reality and, in general, the client's satisfactory ability to repay. They aim to reduce credit risk after credit exposure restructuring, and create a basis for later returning the client's credit exposure to the regular loan portfolio.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.3 Analysis of Impaired Loans (Continued)

Restructured Receivables (Continued)

Watch (controlled) restructured credit exposures are credit exposures that:

- were reclassified from non-performing to performing credit exposures after successful recovery. Such exposures remain in this category for the duration of the trial period, until they are reclassified to the category of non-restructured exposures.

Impaired restructured credit exposures are defined as those credit exposures that at the time of restructuring indicate serious repayment issues which will probably have an impact on credit exposure's default risk.

These credit exposures meet any of the following criteria at the time of restructuring:

- Exposure is already in default / non-performing status due to any default indicator (Level 3)/non-performing status;
- Based on the performed assessment (including additional indicators of Unlikeliness to Pay), it is unlikely that the liability will be paid in full without the realization of collateral, due to serious repayment problems faced by the client; and
- The restructuring measure applied results in Diminished financial Obligation (DO) >1%.

The following tables present the classification of **restructured credit exposures**:

31 December 2023	**Gross exposure**	**Allowance for impairment**	**Net exposure**
Standard restructuring	866,242	(469,100)	397,142
Watch restructuring	206,835	(46,665)	160,170
Impaired restructured	309,023	(31,610)	277,413
Total	**1,382,100**	**(547,375)**	**834,725**

31 December 2022	**Gross exposure**	**Allowance for impairment**	**Net exposure**
Standard restructuring	882,852	(440,285)	442,567
Watch restructuring	323	(32)	291
Impaired restructured	280,655	(22,493)	258,162
Total	**1,163,830**	**(462,810)**	**701,020**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.4 Analysis of Collaterals

Collaterals used by the Bank include deposits, mortgage on commercial and residential buildings, pledge on movable property, warranties of legal entities and private individuals, guarantees issued by other banks, etc. Determining the fair value of a collateral is in accordance with the applicable Bank's policy for assessing the value of a pledge (collateral).

An overview of the Bank's *loans and placements to customers*, according to the type of collateral and impairment stage, whereby collateral is disclosed up to the gross amount of receivable as of 31 December 2023 and 2022, is provided in the following tables:

	Stage 1	Stage 2	Stage 3	Gross exposure 31 December 2023
Secured by deposit	824,578	122,281	-	946,859
Secured by guarantee	12,132,407	1,447,079	619,409	14,198,895
Secured by mortgage	54,451,288	3,752,406	1,953,703	60,157,397
Unsecured	28,032,515	1,839,992	1,241,017	31,113,524
Total	**95,440,788**	**7,161,758**	**3,814,129**	**106,416,675**

	Stage 1	Stage 2	Stage 3	Gross exposure 31 December 2022
Secured by deposit	1,242,729	101,769	759	1,345,257
Secured by guarantee	13,783,643	1,860,079	198,912	15,842,634
Secured by mortgage	52,667,417	2,421,297	1,563,837	56,652,551
Unsecured	31,203,856	2,808,138	1,093,798	35,105,792
Total	**98,897,645**	**7,191,283**	**2,857,306**	**108,946,234**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.4 Analysis of Collaterals (Continued)

An overview of the Bank's *loans and placement to customers* according to the collateral type, whereby collateral is disclosed up to the gross amount of receivable, as of 31 December 2023 and 2022, is provided in the following table:

	Gross exposure 31 December 2023	Gross exposure 31 December 2022
Business purpose loans	**66,382,398**	**70,478,579**
Secured by deposit	820,346	1,180,947
Secured by mortgage	33,655,444	30,840,318
Secured by guarantee	11,708,405	13,635,608
Unsecured	20,198,203	24,821,706
Home improvement and housing loans	**6,291,356**	**6,291,632**
Secured by deposit	35,017	38,648
Secured by mortgage	5,482,948	5,802,756
Unsecured	773,391	450,228
Agricultural loans	**31,927,861**	**30,779,770**
Secured by deposit	75,158	98,165
Secured by mortgage	20,928,791	19,907,013
Secured by guarantee	2,490,490	2,207,026
Unsecured	8,433,422	8,567,566
Consumer loans	**1,709,512**	**1,290,594**
Secured by deposit	16,338	27,497
Secured by mortgage	90,214	102,464
Unsecured	1,602,960	1,160,633
Development Fund	**105,548**	**105,659**
Unsecured	105,548	105,659
Total	**106,416,675**	**108,946,234**

An overview of ratio of the gross balance of housing loans to collateral value (LTV ratio) as of 31 December 2023 and 2022 is provided in the table below:

Housing LTV	31 December 2023	Housing LTV	31 December 2022
<50%	2.956.688	<50%	2,683,659
51%-70%	1.752.288	51%-70%	1,610,844
71%-90%	808.616	71%-90%	1,233,348
91%-100%	40.686	91%-100%	47,493
>100%	56.903	>100%	29,135
Total	**5.615.181**	**Total**	**5,604,479**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.5 Structure and Diversification of Loan Portfolio

Breakdown of the Bank's loans and placements to customers per industry sector as of 31 December 2023 and 2022 is presented below:

	Loans to customers 31 December 2023	Loans to customers 31 December 2022
Agricultural	31,462,416	30,455,712
Industrial and other manufacturing	25,160,300	29,223,796
Trade	18,616,185	20,266,097
Construction	7,278,191	6,585,666
Other services	5,849,305	5,947,848
Private individuals	7,667,724	7,265,490
Transport	3,310,342	3,260,233
Tourism	4,294,937	3,893,454
Other	15,390	14,843
Total	**103,654,790**	**106,913,139**

The geographical distribution of the Bank's loans and placements to customers as of 31 December 2023 and 2022 is presented below:

	31 December 2023		31 December 2022	
	Loans to customers	Share (%)	Loans to customers	Share (%)
Belgrade region	44,474,301	42.91%	45,638,783	42.69%
Central region	9,453,753	9.12%	10,564,476	9.88%
Southern region	12,132,326	11.70%	12,689,814	11.87%
Northern region	37,594,410	36.27%	38,020,066	35.56%
Total	**103,654,790**	**100.00%**	**106,913,139**	**100.00%**

The structure of the loan portfolio is constantly monitored through meetings of the Credit Risk Committee in order to identify any form of concentration risk.

Events which may have an impact on a large segment of the portfolio, whether in terms of geographic region or industry, may result in the Bank establishing limits for certain client groups that belong to these segments exposed to this common risk factor.

6. RISK MANAGEMENT (Continued)

6.2. Market Risk

6.2.1 Interest Rate Risk

The Bank is exposed to changes in market interest rates, which have an effect on its financial position and its cash flows. As a result of these changes the interest margin may either increase or decrease. Interest rates are based on market interest rates and are regularly adjusted by the Bank. Interest rate risk management is an activity whose goal is to optimise the net interest income, while maintaining market interest rates at a constant level in accordance with the Bank's business strategy. The Assets and Liabilities Management Committee manages maturity match of assets and liabilities based on: macroeconomic analysis and forecasting, forecasting conditions for achieving liquidity, as well as by analysing and forecasting interest rate trends on the market for various segments of assets and liabilities.

Interest rate risk is the risk that changes in market interest rates will adversely affect the Bank's economic value, interest income and possibly the Bank's capital.

The following tables summarize the effects of potential changes in interest rates on the Bank's income for the year ended December 2023 and 2022, respectively. The effects of potential changes in interest rates are based on interest-bearing assets and liabilities in the Bank's balance sheet, as well as on the position Interest bearing assets and liabilities from the Bank's sub-balance linked to the EUR and the sub-balance linked to the RSD. In comparison to the previous reporting period, there have been no changes in the methodology used to calculate the effects of changes in interest rates on income and capital.

	Effects on income (cumulative throughout a 12-month period)					
	2% increase in interest rates			2% decrease in interest rates		
	TOTAL	EUR	RSD	TOTAL	EUR	RSD
2023	**430,775**	**503,286**	**(81,001)**	**(430,775)**	**(503,286)**	**81,001**

	Effects on income (cumulative throughout a 12-month period)					
	2% increase in interest rates			2% decrease in interest rates		
	TOTAL	EUR	RSD	TOTAL	EUR	RSD
2022	**199,386**	**275,011**	**(75,625)**	**(199,386)**	**(275,011)**	**75,625**

The duration gap between interest-bearing assets and liabilities is primarily due to the overall classification of foreign exchange mandatory reserves in non-interest-bearing assets, as well as the Bank's capital in non-interest-bearing liabilities.

The Bank carefully monitors exposure to interest rate risk. As of 31 December 2023 and 2022, the Bank did not have valid agreements on swap interest rates. On the other hand, the Bank's loan portfolio includes variable interest rate loans, linked to 3 and 6 month EURIBOR rates, which as of 31 December 2023 amounted to RSD 66,143 million, whereas the portfolio linked to 3 and 6-month Euribor as of 31 December 2022 amounted to RSD 61,119 million.

The Bank's loan portfolio also includes a variable interest rate loan portfolio, linked to the key policy rate of the NBS and Belibor, which as of 31 December 2023 amounted to RSD 12,683 million, and RSD 14,141 million as of 31 December 2022, respectively.

The Bank's exposure to interest rate risk as of 31 December 2023 and 2022 is presented in the following tables. The tables contain assets and liabilities exposed to interest rate risk by the earlier of the interest repricing date (*Repricing Date*) and the maturity date.

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.1 Interest Rate Risk (Continued)

31 December 2023	Total	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Non-interest bearing
ASSETS								
Cash and balances with Central Bank	29,917,809	-	-	-	-	-	-	29,917,809
Financial assets measured at FVOCI	5,203,368	1,192,254	-	-	-	3,851,094	1,819	158,201
Loans and placements to banks and other financial institutions	19,696,333	19,684,820	-	-	-	-	-	11,513
Loans and placements to customers	103,654,790	56,576,490	8,787,628	12,160,372	13,773,733	9,778,683	486,551	2,091,333
TOTAL ASSETS	**158,472,300**	**77,453,564**	**8,787,628**	**12,160,372**	**13,773,733**	**13,629,777**	**488,370**	**32,178,856**
Off-balance sheet items	***1,846,894***	*1,833,661*	-	-	-	*13,233*	-	-
LIABILITIES								
Deposits and other liabilities due to banks, other financial institutions and Central Bank	23,957,643	46,085	150,387	3,444,628	7,719,430	10,142,229	1,636,065	818,819
Deposits and other liabilities due to other customers	117,056,212	4,009,841	10,967,449	16,010,452	32,566,024	10,488,826	814,680	42,198,940
TOTAL LIABILITIES	**141,013,855**	**4,055,926**	**11,117,836**	**19,455,080**	**40,285,454**	**20,631,055**	**2,450,745**	**43,017,759**
Off-balance sheet items	***23,421,171***	*1,834,354*	-	-	-	*12,938*	-	*21,573,879*
Maturity mismatch		**73,397,638**	**(2,330,208)**	**(7,294,708)**	**(26,511,721)**	**(7,001,278)**	**(1,962,375)**	**(10,838,903)**
Cumulative gap		**73,397,638**	**71,067,430**	**63,772,722**	**37,261,001**	**30,259,723**	**28,297,348**	**17,458,445**

* *Loans and placements are stated on a net basis i.e., gross amounts less allowance for impairment. Off-balance sheet assets include derivatives, while off-balance sheet liabilities include derivatives, unused credit facilities and contingencies from guarantees.*

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.1 Interest Rate Risk (Continued)

31 December 2022	Total	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Non-interest bearing
ASSETS								
Cash and balances with Central Bank	19,814,215	-	-	-	-	-	-	19,814,215
Financial assets measured at FVOCI	6,741,979	-	-	1,151,036	418,442	4,555,065	1,707	615,729
Loans and placements to banks and other financial institutions	11,611,839	11,607,342	-	-	-	-	-	4,497
Loans and placements to customers	106,913,139	57,072,982	8,746,263	12,393,420	15,462,211	11,871,241	754,633	612,389
TOTAL ASSETS	**145,081,172**	**68,680,324**	**8,746,263**	**13,544,456**	**15,880,653**	**16,426,306**	**756,340**	**21,046,830**
Off-balance sheet items	***3,569,142***	*2,461,763*	*942,152*	-	*165,227*	-	-	-
LIABILITIES								
Deposits and other liabilities due to banks, other financial institutions and Central Bank	34,137,851	-	3,934,230	5,012,704	8,696,889	13,462,054	2,100,614	931,360
Deposits and other liabilities due to other customers	94,219,102	3,265,379	6,998,279	9,971,754	19,222,386	14,617,743	1,273,193	38,870,368
TOTAL LIABILITIES	**128,356,953**	**3,265,379**	**10,932,509**	**14,984,458**	**27,919,275**	**28,079,797**	**3,373,807**	**39,801,728**
Off-balance sheet items	***24,242,965***	*2,461,946*	*938,579*	-	*167,275*	-	-	*20,675,165*
Maturity mismatch		**65,414,945**	**(2,186,246)**	**(1,440,002)**	**(12,038,622)**	**(11,653,491)**	**(2,617,467)**	**(18,754,898)**
Cumulative gap		**65,414,945**	**63,228,699**	**61,788,697**	**49,750,075**	**38,096,584**	**35,479,117**	**16,724,219**

* *Loans and placements are stated on a net basis i.e., gross amounts less allowance for impairment. Off-balance sheet assets include derivatives, while off-balance sheet liabilities include derivatives, unused credit facilities and contingencies from guarantees.*

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.1 Interest Rate Risk (Continued)

The following tables present the impact of changes to interest rates on the Bank's net income and net impact on the economic value of the Bank's net assets by applying the standard scenario. The standard scenario implies parallel movement of the yield curve by 100bps and 200 bps.

Sensitivity of the Bank's net income on changes in interest rates	100bp upward shock	100bp downward shock	200bp upward shock	200bp downward shock
2023				
As of 31 December 2023	215,387	(215,387)	430,775	(430,775)
Period average	18,998	(18,998)	37,996	(37,996)
Period maximum	(109,766)	109,766	(219,532)	219,532
Period minimum	215,387	(215,387)	430,775	(430,775)
2022				
As of 31 December 2022	99,978	(99,978)	199,956	(199,956)
Period average	25,083	(25,083)	50,166	(50,166)
Period maximum	105,060	(105,060)	210,120	(210,120)
Period minimum	(38,254)	38,254	(76,508)	76,508

Sensitivity of the Bank's net assets (equity) on changes in interest rates	100bp upward shock	100bp downward shock	200bp upward shock	200bp downward shock
2023				
As of 31 December 2023	120,937	(120,937)	241,874	(241,874)
Period average	(162,389)	162,389	(324,778)	324,778
Period maximum	(666,693)	666,693	(1,333,387)	1,333,387
Period minimum	120,937	(120,937)	241,874	(241,874)
2022				
As of 31 December 2022	26,553	(26,553)	53,106	(53,106)
Period average	(200,744)	200,744	(401,489)	401,489
Period maximum	(369,298)	369,298	(738,596)	738,596
Period minimum	26,553	263,149	53,106	(53,106)

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.2 Foreign Exchange Risk - Risk from Changes in Currency Exchange Rates

Foreign exchange risk arises from the potential adverse effects of changes in the foreign exchange rates on the Bank's financial results or its capital.

The Bank manages foreign exchange risk through careful planning and evaluation of the open foreign exchange position, and its compliance with the limits prescribed by the National Bank of Serbia (the limit on the open foreign exchange position is 20% of the regulatory capital). It also manages this risk by observing the limits prescribed by the National Bank of Serbia, as well as limitations set up by the internal policies prescribed by the Board of Directors and the Assets and Liabilities Management Committee (open foreign exchange position limit of 10% of capital in total).

The Bank actively manages foreign currency risk by adjusting the foreign currency structure of its assets and liabilities. The Bank maintains its foreign exchange position by approving loans with foreign currency clauses (loans indexed in EUR) and concluding agreements on foreign exchange swaps.

The following table presents the potential effects in case of an increase or decrease in exchange rates by 1,500 basis points on profit or loss and the Bank's equity as of 31 December 2023 and 31 December 2022, respectively.

In comparison to the previous reporting period, there have been no changes in the methodology used to calculate the potential effects of changes in foreign exchange rates.

	Balance of open FX position based on balance sheet items		Effect of RSD depreciation by 15%		Effect of RSD appreciation by 15%	
	2023	2022	2023	2022	2023	2022
USD	(9,651)	18,317	(1,448)	2,748	1,448	(2,748)
EUR	(399,677)	410,463	(59,952)	61,569	59,952	(61,569)
CHF	(3,171)	(1,550)	(476)	(233)	476	233
GBP	(15,595)	(59,017)	(2,339)	(8,853)	2,339	8,853
Other currencies	7,736	7,622	1,160	1,143	(1,160)	(1,143)

During 2023, a foreign exchange risk indicator ranged within the internal and regulatory limit:

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.2 Foreign Exchange Risk - Risk from Changes in Currency Exchange Rates (Continued)

The following table presents the summarised exposure to foreign exchange risk as of 31 December 2023. The table includes assets and liabilities at their carrying values per currency.

31 December 2023	EUR (including indexing)	USD	Other currencies	RSD	Total
Cash and balances with Central Bank	17,605,597	383,343	42,600	11,886,269	29,917,809
Derivatives	-	-	-	1,898	1,898
Securities	1,819	-	-	5,201,549	5,203,368
Loans and placements to banks and other financial institutions	3,507,781	809,379	367,540	15,011,633	19,696,333
Loans and placements to customers	79,878,687	-	-	23,776,103	103,654,790
Investments in subsidiaries	-	-	-	127,752	127,752
Intangible assets	-	-	-	390,354	390,354
Property, plant and equipment	-	-	-	2,217,268	2,217,268
Investment property	-	-	-	136,123	136,123
Non-current assets held for sale	-	-	-	47,370	47,370
Other assets	45,986	9,494	-	1,267,172	1,322,652
TOTAL ASSETS	**101,039,870**	**1,202,216**	**410,140**	**60,063,491**	**162,715,717**
Derivatives	-	-	-	1,095	1,095
Deposits and other liabilities due to banks, other financial institutions and Central Bank	22,842,983	33,267	3,218	1,078,175	23,957,643
Deposits and other liabilities due to other customers	76,859,727	2,654,561	408,695	37,133,229	117,056,212
Provisions	-	-	-	387,230	387,230
Current tax liabilities	-	-	-	119,666	119,666
Deferred tax liabilities	-	-	-	61,437	61,437
Other liabilities	592,637	19,412	9,257	897,251	1,518,557
Equity	-	-	-	19,613,877	19,613,877
TOTAL LIABILITIES AND EQUITY	**100,295,347**	**2,707,240**	**421,170**	**59,291,960**	**162,715,717**
Net spot line position	**744,523**	**(1,505,024)**	**(11,030)**		
Net forward position	**(1,144,200)**	**1,495,373**	**-**		
Open FX position	**(399,677)**	**(9,651)**	**(11,030)**		

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.2 Foreign Exchange Risk - Risk from Changes in Currency Exchange Rates (Continued)

The following table presents the summarised exposure to foreign exchange risk as of 31 December 2022. The table includes assets and liabilities at their carrying values per currency.

31 December 2022	EUR (including indexing)	USD	Other currencies	RSD	Total
Cash and balances with Central Bank	10,050,053	87,253	65,110	9,611,799	19,814,215
Derivatives	-	-	-	5,642	5,642
Securities	1,707	-	-	6,740,272	6,741,979
Loans and placements to banks and other financial institutions	2,016,313	1,268,603	264,401	8,062,522	11,611,839
Loans and placements to customers	87,135,250	-	-	19,777,889	106,913,139
Investments in subsidiaries	-	-	-	127,752	127,752
Intangible assets	-	-	-	329,363	329,363
Property, plant and equipment	-	-	-	2,022,577	2,022,577
Investment property	-	-	-	140,515	140,515
Non-current assets held for sale	-	-	-	47,370	47,370
Other assets	894,299	11,648	-	72,922	978,869
TOTAL ASSETS	**100,097,622**	**1,367,504**	**329,511**	**46,938,623**	**148,733,260**
Derivatives	-	-	-	581	581
Deposits and other liabilities due to banks, other financial institutions and Central Bank	32,913,892	28,252	2,706	1,193,001	34,137,851
Deposits and other liabilities due to other customers	62,706,380	2,753,151	369,420	28,390,151	94,219,102
Provisions	-	-	-	378,583	378,583
Current tax liabilities	-	-	-	64,913	64,913
Deferred tax liabilities	-	-	-	67,284	67,284
Other liabilities	576,170	21,784	10,330	557,364	1,165,648
Equity	-	-	-	18,699,298	18,699,298
TOTAL LIABILITIES AND EQUITY	**96,196,442**	**2,803,187**	**382,456**	**49,351,175**	**148,733,260**
Net spot position	**3,901,180**	**(1,435,683)**	**(52,945)**		
Net forward position	**(3,490,717)**	**1,454,000**	**-**		
Open FX position	**410,463**	**18,317**	**(52,945)**		

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.3 Fair Value of Financial Assets and Liabilities

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

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

The fair value of financial assets and financial liabilities traded in an active market is based on market prices. For all other financial instruments, the Bank determines fair value using the valuation techniques.

The following tables present *the values of financial assets and liabilities based on the fair value hierarchy* as of 31 December 2023 and 2022:

31 December 2023	Carrying value	Fair value	Level 1	Level 2	Level 3
Derivatives	1,898	1,898	-	-	1,898
Securities	5,203,368	5,203,368	5,203,368	-	-
Financial assets	**5,205,266**	**5,205,266**	**5,203,368**		**1,898**
Derivatives	1,095	1,095	-	-	1,095
Financial liabilities	**1,095**	**1,095**	**-**	**-**	**1,095**

31 December 2022	Carrying value	Fair value	Level 1	Level 2	Level 3
Derivatives	5,642	5,642	-	-	5,642
Securities	6,741,979	6,741,979	6,741,979	-	-
Financial assets	**6,747,621**	**6,747,621**	**6,741,979**	**-**	**5,642**
Derivatives	581	581	-	-	581
Financial liabilities	**581**	**581**	**-**	**-**	**581**

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.3 Fair Value of Financial Assets and Liabilities (Continued)

The following tables present *the carrying values and fair values of financial assets and liabilities that are not measured at fair value* as of 31 December 2023 and 2022:

31 December 2023

Financial assets	**Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Cash and balances with Central Bank:	29,917,809	29,917,809	-	29,917,809	-
- Cash	*6,017,473*	*6,017,473*	*-*	*6,017,473*	*-*
- Cash held at Central Bank	*23,900,336*	*23,900,336*	*-*	*23,900,336*	*-*
Loans and placements to banks and other financial institutions	19,696,333	19,696,333	-	-	19,696,333
Loans and placements to customers	103,654,790	102,311,244	-	-	102,311,244
Investments in subsidiaries	127,752	127,752	-	-	127,752
Total	**153,396,684**	**152,053,138**	**-**	**29,917,809**	**122,135,329**

Financial liabilities	**Carrying value**	**Fair value**	**Level 1**	**Level 2**	**Level 3**
Deposits and other liabilities due to banks, other financial institutions and Central Bank:	23,957,643	22,583,674	-	5,836,245	16,747,429
- Liabilities to financial institutions	*18,121,398*	*16,747,429*	*-*	*-*	*16,747,429*
- Deposits and other liabilities due to banks and Central Bank	*5,836,245*	*5,836,245*	*-*	*5,836,245*	*-*
Deposits and other liabilities due to other customers:	117,056,212	116,508,220	-	-	116,508,220
- Liabilities to financial institutions	*9,457,562*	*8,972,605*	*-*	*-*	*8,972,605*
- Deposits and other liabilities due to other customers	*107,598,650*	*107,535,615*	*-*	*-*	*107,535,615*
Total	**141,013,855**	**139,091,894**	**-**	**5,836,245**	**133,255,649**

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.3 Fair Value of Financial Assets and Liabilities (Continued)

31 December 2022

Financial assets	Carrying value	Fair value	Level 1	Level 2	Level 3
Cash and balances with Central Bank:	19,814,215	19,814,215	-	19,814,215	-
- Cash	*2,456,624*	*2,456,623*	-	*2,456,623*	-
- Cash held at Central Bank	*17,357,591*	*17,357,592*	-	*17,357,592*	-
Loans and placements to banks and other financial institutions	11,611,839	11,611,839	-	-	11,611,839
Loans and placements to customers	106,913,139	106,190,165	-	-	106,190,165
Investments in subsidiaries	127,752	127,752	-	-	127,752
Total	**138,466,945**	**137,743,971**	**-**	**19,814,215**	**117,929,756**

Financial liabilities	Carrying value	Fair value	Level 1	Level 2	Level 3
Deposits and other liabilities due to banks, other financial institutions and Central Bank:	34,137,851	32,776,752	-	5,899,698	26,877,054
- Liabilities to financial institutions	*28,238,154*	*26,877,054*	-	-	*26,877,054*
- Deposits and other liabilities due to banks and Central Bank	*5,899,697*	*5,899,698*	-	*5,899,698*	-
Deposits and other liabilities due to other customers:	94,219,102	93,523,952	-	-	93,523,952
- Liabilities to financial institutions	*12,441,323*	*11,627,275*	-	-	*11,627,275*
- Deposits and other liabilities due to other customers	*81,777,779*	*81,896,677*	-	-	*81,896,677*
Total	**128,356,953**	**126,300,704**	**-**	**5,899,698**	**120,401,006**

The fair value is the price that would be received for the sale of an asset or the price paid to transfer liabilities during regular transactions between market participants, on the measurement date. The fair value best reflects the current market price. The estimated fair value of financial instruments is determined by the Bank based on existing available market information, appropriate assessment methodology and the necessary judgment to interpret data in determining fair value.

Loans and Placements to Banks and Other Financial Institutions

The fair value of loans and placements to banks and other financial institutions is equal to their carrying amounts, as the maturity of these loans is up to six months considering that highly liquid, short-term financial instruments are in question.

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.3 Fair Value of Financial Assets and Liabilities (Continued)

Loans and Placements to Customers

The fair value of receivables arising from loans granted to customers is calculated based on expected cash flows using market interest rates at the balance sheet date.

Deposits and Other Liabilities due to Banks, Other Financial Institutions and Central Bank and Deposits and Other Liabilities due to Other Customers

The estimated fair value of demand deposits equals to their carrying amount.

The fair values of term deposits are calculated by discounting the cash flows on agreed dates by applying the effective interest rates for the deposits with maturity of over six months in which the current interest rates from the pricelist are not equal to the agreed interest rates for these deposits.

Borrowings include borrowing from banks and other international financial institutions. Fair value of liabilities to banks is equal to their carrying amounts, as the maturity of these loans is up to six months.

Fair value of loans from other international financial institutions is calculated for loans contracted with fixed and variable interest rates and by discounting the cash flows on agreed dates, by applying the interest rate set by ProCredit Group for Serbia (*ProCredit Group Funding Interest Rates*). The aforesaid interest rates of the Group are regularly compared with the rates in third-party transactions in order to determine their compatibility with market rates.

The fair value of financial derivatives is determined using the official median exchange rates of the National Bank of Serbia, as well as the official interest rate for the given maturity of derivatives.

The fair value of investment in the subsidiary is equal to the fair value of the net assets of the subsidiary.

6.3. Liquidity Risk

Liquidity risk arises from the Bank's inability to meet its due obligations, which can have an adverse effect on the Bank's financial result and its capital. The Bank manages this risk by providing an adequate and diverse structure of its funding base, which includes the following:

- Government securities;
- Customers' deposits with wide ranges of maturity;
- Money market deposits;
- Loans from foreign banks and international financial institutions;
- Subordinated loans; and
- Share capital.

The liquidity management policy is in place to secure sufficient assets for the timely payment of all liabilities at maturity dates and to satisfy clients' demands for new loans.

The Bank manages liquidity risk through the constant monitoring of the maturity mismatch and gap between assets and sources of funding, as well as by analysing expected cash flows in order to ensure that the Bank is able to meet its obligations at all times.

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk (Continued)

In addition, the Bank allocates funds into the mandatory reserve with the National Bank of Serbia in accordance with applicable legislation, which is a measure used as protection from sudden and significant withdrawal of deposits and other sources of funding.

The liquidity level is expressed through the liquidity ratio, the narrow liquidity ratio, as well as the liquidity coverage ratio (LCR).

A bank's liquidity ratio is the sum of the bank's Tier I + II liquid receivables, on the one hand, and the sum of the bank's demand liabilities or those without contractual maturity and the Bank's liabilities with fixed maturity within the next month from the date of the calculation of the liquidity ratio, on the other.

A bank's narrow liquidity ratio is the sum of the bank's Tier I liquid receivables, on the one hand, and the sum of the bank's demand liabilities or those without contractual maturity and the bank's liabilities with fixed maturity within the next month from the date of the calculation of the liquidity ratio, on the other.

Tier I liquid receivables consist of cash, gyro account balances, gold and other precious metals, balances held with banks with an available credit rating of selected credit rating agencies to which a credit quality rating corresponds to a step 3 or higher, or is determined in accordance with the Decision on Capital Adequacy of Banks (investment grade); deposits held with the National Bank of Serbia; cheques and other monetary receivables in the process of realisation; irrevocable credit lines approved to the bank, shares and debt securities quoted on the stock exchange; 90% of the fair value of securities denominated in RSD, without a foreign currency clause, issued by the Republic of Serbia and whose minimum maturity is three months, i.e. 90 days, which the Bank has classified according to the business model for trading and 'hold to collect and sale.

A bank's Tier II liquid receivables are all of the bank's other receivables that mature within the following month from the date of the calculation of the liquidity ratio.

A bank's demand liabilities or those without contractual maturities are obligations of the bank, namely: 40% demand deposits by banks, 20% demand deposits by other clients, 10% savings deposits, 5% guarantees and other forms of sureties, 20% approved but unused irrevocable lines of credit. All of the bank's other liabilities that mature within the following month from the date of the calculation of the liquidity ratio represent the bank's liabilities with contractual maturity.

The liquidity coverage ratio (LCR) is the relationship between the bank's liquidity buffer and net outflows of its liquid assets that would arise in the following 30-days from the date of calculating this ratio under assumed stress conditions.

The calculation of the elements of the aforesaid ratio is done in accordance with the requirements of the National Bank of Serbia's Decision on Risk Liquidity Management by Banks ("RS Official Gazette", no. 103/2016).

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk (Continued)

The Bank's liquidity ratios in 2023 and 2022 are summarized in the following table:

	31 December	Average	Maximum	Minimum
Liquidity ratio				
2023	3.55	2.77	3.55	2.36
2022	2.81	2.28	2.81	2.03
Narrow liquidity ratio				
2023	3.31	2.51	3.31	2.20
2022	2.63	2.03	2.63	1.74
LCR (%)				
2023	513	303	513	185
2022	256	172	256	144

As part of managing liquidity risks that arise from financial obligations, the Bank has liquidity reserves in the form of cash and cash equivalents, as well as debt securities issued by the state, which can be easily sold in line with liquidity needs.

The Bank also has liquidity reserves in the form of approved, but unwithdrawn credit lines and the aforementioned liquidity reserve as of 31 December 2023 amounted to RSD 1,172 million = EUR 10 million (31 December 2022: RSD 1,173 million).

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk (Continued)

The following table presents the breakdown of *total liquidity reserves* of the Bank as of **31 December 2023**, presented by the corresponding EDP parts:

	Carrying amount / fair value	Available amount
Exposure to central banks - Loans and placements to banks and other financial institutions (part 0005)	15,165,752	15,165,752
Exposure to the Republic of Serbia - Securities (part 0004); Loans and placements to customers (part 0006)	5,201,558	5,201,558
Banknotes and coins - Cash and balances with Central Bank (part 0001)	5,930,770	5,930,770
Reserves held with the National Bank of Serbia (above the required amount for the period) - Cash and balances with Central Bank (part 0001)	4,967,384	4,967,384
Stand-by-line (credit line) - Off-balance sheet items	1,171,737	1,171,737
Total	**32,437,201**	**32,437,201**

The following table presents the breakdown of *total liquidity reserves* of the Bank as of **31 December 2022**, presented by the corresponding EDP parts:

	Carrying amount / fair value	Available amount
Exposure to central banks - Loans and placements to banks and other financial institutions (part 0005)	8,083,844	8,083,844
Exposure to the Republic of Serbia - Securities (part 0004); Loans and placements to customers (part 0006)	6,740,272	6,740,272
Banknotes and coins - Cash and balances with Central Bank (part 0001)	2,455,220	2,455,220
Reserves held with the National Bank of Serbia (above the required amount for the period) - Cash and balances with Central Bank (part 0001)	2,236,854	2,236,854
Stand-by-line (credit line) - Off-balance sheet items	1,173,224	1,173,224
Total	**20,689,414**	**20,689,414**

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk (Continued)

The following tables summarize financial assets and liabilities allocated according to maturity into appropriate time buckets according to the remaining contractual maturity at the reporting date. The largest maturity mismatch in the period of one month arises from the fact that the Bank's current accounts (which form a significant portion of the deposit portfolio) are allocated to the 'up to one month' bucket.

31 December 2023	Total	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years
ASSETS							
Cash and balances with Central Bank	29,917,809	29,917,809	-	-	-	-	-
Financial assets measured at FVOCI	5,203,368	1,411,362	-	-	-	3,790,187	1,819
Loans and placements to banks and other financial institutions	19,696,333	19,696,333	-	-	-	-	-
Loans and placements to customers	103,654,790	4,130,089	7,363,519	10,045,053	21,358,320	45,656,758	15,101,051
TOTAL ASSETS	**158,472,300**	**55,155,593**	**7,363,519**	**10,045,053**	**21,358,320**	**49,446,945**	**15,102,870**
Off-balance sheet items*	***1,846,894***	*1,833,611*	-	-	-	*13,233*	-
LIABILITIES							
Deposits and other liabilities due to banks, other financial institutions and Central Bank	23,957,643	864,900	150,387	3,444,628	7,719,430	10,142,233	1,636,065
Deposits and other liabilities due to other customers	117,056,212	46,208,781	10,967,449	16,010,452	32,566,024	10,488,826	814,680
TOTAL LIABILITIES	**141,013,855**	**47,073,681**	**11,117,836**	**19,455,080**	**40,285,454**	**20,631,059**	**2,450,745**
Off-balance sheet items*	***23,421,171***	*3,991,742*	*2,594,844*	*3,032,301*	*4,043,067*	*12,938*	-
Maturity mismatch (other assets and liabilities excluded)		**8,081,912**	**(3,754,317)**	**(9,410,027)**	**(18,927,134)**	**28,815,886**	**12,652,125**
Cumulative gap (other assets and liabilities excluded)		**8,081,912**	**4,327,595**	**(5,082,432)**	**(24,009,566)**	**4,806,320**	**17,458,445**

* *Loans and placements are shown on a net basis i.e., gross amounts less allowance for impairment.*
** *Off-balance sheet assets include derivatives, while off-balance sheet liabilities include derivatives, unused credit facilities and contingencies from guarantees, which are not fully allocated by maturity buckets for these purposes in accordance with the Bank's policy.*

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk (Continued)

31 December 2022	Total	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years
ASSETS							
Cash and balances with Central Bank	19,814,215	19,814,215	-	-	-	-	-
Financial assets measured at FVOCI	6,741,979	400,341	-	1,191,515	433,158	4,715,258	1,707
Loans and placements to banks and other financial institutions	11,611,839	11,611,839	-	-	-	-	-
Loans and placements to customers	106,913,139	4,552,423	8,690,797	11,457,784	22,377,623	44,177,503	15,657,009
TOTAL ASSETS	**145,081,172**	**36,378,818**	**8,690,797**	**12,649,299**	**22,810,781**	**48,892,761**	**15,658,716**
Off-balance sheet items*	***3,569,142***	*2,461,763*	*942,152*	-	*165,227*	-	-
LIABILITIES							
Deposits and other liabilities due to banks, other financial institutions and Central Bank	34,137,851	931,355	3,934,230	5,012,704	8,696,889	13,462,059	2,100,614
Deposits and other liabilities due to other customers	94,219,102	42,135,747	6,998,279	9,971,754	19,222,386	14,617,743	1,273,193
TOTAL LIABILITIES	**128,356,953**	**43,067,102**	**10,932,509**	**14,984,458**	**27,919,275**	**28,079,802**	**3,373,807**
Off-balance sheet items*	***24,242,965***	*4,529,463*	*3,462,704*	*2,980,732*	*4,141,585*	-	-
Maturity mismatch (other assets and liabilities excluded)		**(6,688,284)**	**(2,241,712)**	**(2,335,159)**	**(5,108,494)**	**20,812,959**	**12,284,909**
Cumulative gap (other assets and liabilities excluded)		**(6,688,284)**	**(8,929,996)**	**(11,265,155)**	**(16,373,649)**	**4,439,310**	**16,724,219**

* *Loans and placements are shown on a net basis i.e., gross amounts less allowance for impairment.*

** *Off-balance sheet assets include derivatives, while off-balance sheet liabilities include derivatives, unused credit facilities and contingencies from guarantees, which are not fully allocated by maturity buckets for these purposes in accordance with the Bank's policy.*

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk (Continued)

The Bank defines gap limits per currencies (RSD and EUR, as well as in total amounts) in buckets up to 90 days, given the conservativeness of the assumptions applied in allocating time buckets as defined by the Bank's Risk Management Strategy and other respective policies, and in line with this definition, initiates measures in case a negative gap should arise.

Furthermore, the Bank's ALCO is familiar with the gaps in other buckets, which are regularly considered together with the options available in order to make the necessary timely decisions.

The following table presents the carrying amount of *non-derivative financial assets and financial liabilities* expected to be settled within **the 12-month period** following the reporting date.

	2023	2022
ASSETS		
Cash and balances with Central Bank	29,917,809	19,814,215
Financial assets measured at FVOCI	1,411,362	2,025,014
Loans and placements to banks and other financial institutions	19,696,333	11,611,839
Loans and placements to customers	42,896,981	47,078,627
LIABILITIES		
Deposits and other liabilities due to banks, other financial institutions and Central Bank	12,179,345	18,575,178
Deposits and other liabilities due to other customers	105,752,706	78,328,166

The following table presents the carrying amount of *non-derivative financial assets and financial liabilities* expected to be settled within the **period exceeding 12 months** following the reporting date.

	2023	2022
ASSETS		
Financial assets measured at FVOCI	3,792,006	4,716,965
Loans and placements to customers	60,757,809	59,834,512
LIABILITIES		
Deposits and other liabilities due to banks, other financial institutions and Central Bank	11,778,298	15,562,673
Deposits and other liabilities due to other customers	11,303,506	15,890,936

The Bank does not engage in speculative transactions - transactions of purchase or the sale of securities or currencies whose main objective is to maximise profits on the expected movement of their prices. Agreements on the sale of securities and currencies are concluded only with the aim of closing the liquidity position, i.e. reducing exposure to financial and market risks.

At the end of 2023, the Bank had exposures arising from swap and spot transactions that had no significant impact on the overall liquidity of the Bank.

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk (Continued)

The following tables present derivatives at fair value, which the Bank had as of 31 December 2023 and 2022:

31 December 2023	Total	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years
ASSETS - SWAP	**1.502**	651	-	-	-	851	-
LIABILITIES -SWAP	**1.046**	1,046	-	-	-	-	-

31 December 2022	Total	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years
ASSETS - SWAP	**3.650**	787	1,115	-	1,748	-	-
LIABILITIES -SWAP	**347**	347	-	-	-	-	-

6.4. Exposure Risks

The Bank's exposure risks are monitored at the individual entity level, as well as at the group level of related entities in accordance with the Bank's procedures and regulations of the National Bank of Serbia (NBS).

The credit risk management policy defines the assessment of the Bank's exposure to a single entity or a group of related parties and to a person related to the Bank.

The policy is a set of all activities related to identifying, measuring and assessing this risk, defining clear guidelines for finding and understanding the forms of connection, determining the responsibility of persons in charge of collecting documentation relevant for identifying forms of connection, in order to comply with defined limits and legislation.

The management of the Bank's risk exposure to a single entity, a group of related entities, as well as to a person related to the Bank is controlled during the approval process and through the usage of the Bank's placements in the Credit Risk Department, in accordance with the adopted/prescribed exposure limits in such a manner that:

- The Bank's exposure to a single entity or a group of related parties is maximum 25% of the Bank's regulatory capital; and
- The sum of all large exposures of the Bank and the Bank's exposure to entities related to the Bank does not exceed 400% of the Bank's regulatory capital.

The Bank controls its exposure risks by establishing exposure limits that enable it to diversify its loan portfolio, as well as by using material and non-material credit protection instruments, in accordance with the NBS Decision on Capital Adequacy of Banks.

As of 31 December 2023, the Bank's maximum exposure to a single entity or a group of related parties was je 10.57%, while the sum of all large exposures was 14.36% of the regulatory capital, thus significantly below the prescribed maximum.

6. RISK MANAGEMENT (Continued)

6.5. Investment Risk

Pursuant to the effective laws and by-laws, the Bank is obligated to ensure preconditions for its successful business operations under conditions of acceptable risk parameters in order to achieve its business objectives and positive financial result, as well as to preserve the equity.

The risk inherent in the Bank's investments in other legal entities and property, plant and equipment and investment property relates to the following:

(a) Investment of the Bank in a single non-financial sector entity; and
(b) The total investments of the Bank in non-financial entities and property, plant and equipment and investment property of the Bank.

In accordance with the Decision of the National Bank of Serbia, investments in non-financial sector entities, property, plant and equipment and investment property are a regulatory indicator, which the Bank must maintain at a level not exceeding 60% of its regulatory capital. The Bank's investment in a single non-financial sector entity may not exceed 10% of its regulatory capital, provided that this restriction does not apply to the acquisition of shares for resale within six months from the date of such acquisition. Risk appetites of the Bank have lower limits calibrated.

The Procedure for identifying risks in the Bank's investments enables timely and comprehensive identification of risks the Bank is exposed to, as well as the root cause analysis.

The Bank is exposed to investment risk and risk from potential fluctuations in the value of investments in other non-financial legal entities and in property, plant and equipment and investment property.

The Bank's exposure to investment risk in 2023 was within the prescribed limits, and as of 31 December 2023, the Bank's investment indicator amounted to 13.88% of the regulatory capital, which is significantly below the prescribed and internally determined indicator (31 December 2022: 12.71%).

6.6. Country Risk

Country risk is defined by the Bank as the risk related to the country of origin of the counterparty to which the Bank is exposed, i.e. the risk that the Bank will not be able to exercise rights over certain assets in another country or that the other party in a foreign country is unable to fulfil its obligation because there are restrictions on transfers and convertibility or expropriation imposed on cross-border exposure (due to political, economic or social circumstances in the counterparty's country of origin), and there is a possibility of adverse effects on the Bank's financial result and capital.

The Bank implements the internally adopted Country Risk Management Policy, as well as the Country Risk Management Rule in order to protect its operations from this risk. In order to control the country's risk, the Bank has defined the limits and triggers for the limits that are established at the local level. The level of limits defines tolerance to this risk. The trigger zone serves as an early warning signal to avoid violating the limit, but does not necessarily mean taking certain measures.

In 2023, the Bank's exposure to country risk ranged within the prescribed limits. ProCredit banks, i.e. the Group members, are generally not significantly exposed to country risk because they do not have relevant cross-border exposures. The largest part of exposures to non-residents relates to funds on nostro accounts with banks abroad.

6. RISK MANAGEMENT (Continued)

6.7. Operational Risk

Operational risk is the risk of possible adverse effects on the Bank's financial results and capital due to staff failures, inadequate internal procedures, inadequate management of information and other systems in the Bank, as well as due to unforeseen external events, including legal risk.

The Bank's Operational Risk Management Policy is fully compliant with the local regulations, as well as ProCredit Holding's Operational Risk Management Policy and the Fraud Prevention Policy.

In order to reduce the risk of operational risks and prevent fraud, all processes are precisely documented and control mechanisms are in place. The Risk Monitoring Database (RED) established at the Bank level enables continuous and systematic monitoring of all operational risks, as well as defining corrective and preventive actions in order to avoid these events in the future or reduce the possibility of their occurrence or effect on the Bank. The analysis of these events is presented at the Operational Risk Management Committee, which is the main body for operational risk management in the Bank.

The Bank conducts a risk self-assessment using the defined self-assessment questionnaire applied at the level of the Bank and the ProCredit Group on an annual basis. This assessment allows the Bank to consider the impact of each individual scenario on the Bank' losses, and the level of control implementation and the manner in which controls mitigate risk exposure.

The Bank particularly focuses on the analysis of implementing new products (activities), which includes new products, services, business processes, financial instruments, IT systems and organisational structures. Significantly adjusted material products (activities) also fall under the definition of a 'new product/activity'.

The calculation of the capital requirement for operational risk is performed by applying the basic indicator approach, in accordance with the prescribed methodology. As of 31 December 2023, the capital requirement for operational risk amounted to RSD 752,668 thousand.

6.8. Capital Management

The Bank's objectives with regard to capital management can be summarized as follows:

- Compliance with the capital requirements prescribed by the National Bank of Serbia;
- Compliance with the capital requirements of international financial institutions on the basis of long-term loan agreements; and
- Adequate capital management by the Bank's management should provide for the expected stable growth and development of the Bank, as well as a strong foundation for the development of the Bank's business opportunities.

Capital adequacy is planned in detail during the preparation of the business plan. The National Bank of Serbia is reported to on a quarterly basis regarding the achieved capital ratios.

The National Bank of Serbia requires that all banks maintain a minimum of EUR 10 million in core (Tier 1) capital, and at the same time, banks are obliged to calculate the following ratios:

1. Common equity Tier 1 capital ratio, representing a percentage ratio of a bank's common equity Tier 1 capital (basic share capital) to a bank's risk-weighted assets;
2. Tier 1 capital ratio, representing a percentage ratio of a bank's Tier 1 capital (basic capital) to a bank's risk-weighted assets; and
3. The capital adequacy ratio, representing a percentage ratio of a bank's total capital to a bank's risk-weighted assets.

6. RISK MANAGEMENT (Continued)

6.8. Capital Management (Continued)

The Bank is obliged to maintain these ratio levels above the following:

1. 4.5%, for the common equity Tier 1 capital ratio;
2. 6%, for the Tier 1 capital ratio; and
3. 8% for the (total) capital adequacy ratio.

The capital adequacy ratio of the Bank is the ratio between capital and risk-weighted assets and are the sum of the following:

- total credit risk-weighted assets; and
- capital requirements for market risks and the capital requirements for operational risk, multiplied by the reciprocal value of capital adequacy ratio defined by the Decision on Capital Adequacy of Banks of 8%.

In addition to the minimal capital adequacy ratios defined by the National Bank of Serbia, in its regular operations, the Bank implements significant buffers in terms of the aforementioned ratios, which are above those prescribed by regulations, within the framework of its risk appetite defined in the Bank's Risk Management Strategy.

The capital of a bank equals to the sum of Tier 1 capital (basic share capital) and Tier 2 capital (supplementary capital - most often subject to debt (subordinated liabilities) and cumulative preferred shares), where a bank's Tier 1 capital is the sum of common equity - Tier 1 (most often ordinary shares) and additional common equity - Tier 1 capital (most often non-cumulative preferred shares).

Capital buffers prescribed by the National Bank of Serbia are as follows:

1. The capital conservation buffer (2.5%);
2. Countercyclical capital buffer (0%);
3. Capital buffer for a systemically important bank from 0-2% (the Bank is not on the National Bank of Serbia's list of systemically significant banks; thus, it is not obliged in terms of this segment);
4. Capital buffer for a globally systemically important bank (the Bank is not a globally systemically important bank); and
5. Systemic risk buffer (3%).

	31 December 2023	31 December 2023
Common equity Tier 1 capital ratio (min. 4.5%)	18.63%	19.06%
Tier 1 capital ratio (min. 6%)	18.63%	19.06%
Capital adequacy ratio (min. 8%)	18.63%	19.06%

During 2023, the capital adequacy ratio was well above the prescribed regulatory limit of 8%.

The amount and structure of the Bank's capital always need to provide coverage of the minimum capital requirements and internal capital requirements regarding the risks that the Bank is exposed to in its operations. The Bank's regulatory capital as of 31 December 2023 amounted to RSD 16,958,742 thousand (31 December 2022: RSD 17,018,718 thousand).

The Bank's equity structure is presented in Note 38, while the capital adequacy ratio and other performance indicators of the Bank are provided in Note 42 - Compliance with the performance indicators prescribed by the National Bank of Serbia.

7. INTEREST INCOME AND EXPENSES

Interest income and expenses by type of financial instrument are presented in the following table:

	2023	2022
Interest income		
Loans and placements	7,148,308	4,541,295
Deposits and required reserves	220,088	62,989
Securities	811,196	266,471
Other placements and assets	23,415	10,170
Total	**8,203,007**	**4,880,925**
Interest expense		
Borrowings	(835,198)	(379,958)
Deposits	(1,662,074)	(570,166)
Other liabilities	(5,240)	(6,102)
Total	**(2,502,512)**	**(956,226)**
Net interest income	**5,700,495**	**3,924,699**

Interest income and expenses relate to:

	2023	2022
Interest income		
Banks and other financial institutions	827,228	145,516
Public sector	163,564	182,014
Corporate sector	4,965,037	3,129,134
Retail sector	534,459	298,281
Entrepreneurs	259,079	177,168
Farmers	1,406,119	943,779
Foreign banks	47,521	5,033
Total	**8,203,007**	**4,880,925**
Interest expenses		
Banks and other financial institutions	(189,698)	(57,380)
Public sector	(69,528)	(27,109)
Corporate sector	(564,661)	(159,503)
Retail sector	(756,851)	(212,891)
Entrepreneurs	(10,303)	(1,791)
Farmers	(138)	(13)
Foreign entities	(4,688)	(1,848)
Foreign banks	(90,886)	(83,028)
Foreign financial institutions	(810,519)	(406,563)
Interest expenses on lease liabilities - IFRS 16	(5,240)	(6,100)
Total	**(2,502,512)**	**(956,226)**
Net interest income	**5,700,495**	**3,924,699**

8. FEE AND COMMISSION INCOME AND EXPENSES

	2023	2022
Fee and commission income		
Domestic payment transactions	897,324	878,401
Banking services per credit transactions	71,688	51,586
Card transactions	738,926	544,509
Issued guarantees	186,802	172,882
Foreign payment transactions	283,254	264,334
Other banking services	46,810	43,810
Foreign currency purchase and sale	287,207	291,664
Total	**2,512,011**	**2,247,186**
Fee and commission expenses		
Loans and borrowings	(123,158)	(135,188)
Domestic payment transactions	(36,406)	(39,796)
Foreign payment transactions	(162,363)	(150,654)
Card transactions	(236,953)	(170,858)
Other commissions and fees	(11,555)	(11,221)
Foreign currency purchase and sale fees	(45,707)	(53,105)
Total	**(616,142)**	**(560,822)**
Net fee and commission income	**1,895,869**	**1,686,364**

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

	2023	2022
Gains from derivatives		
Gains from currency swaps	310,439	544,363
Gains from spot transactions	234	22
Total	**310,673**	**544,385**
Losses from derivatives		
Losses from currency swaps	(319,829)	(388,436)
Losses from spot transactions	(71)	(234)
Total	**(319,900)**	**(388,670)**
Net (losses)/gains	**(9,227)**	**155,715**

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

	2023	2022
Net foreign exchange gains	151,362	109,048
Net losses from contracted foreign currency clause	(106,211)	(205,716)
Net gains/(losses)	**45,151**	**(96,668)**

11. NET LOSSES FROM IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Net gains and losses on impaired financial assets and credit risk off-balance sheet items not measured at fair values through profit or loss include the following:

	2023	2022
Net losses arising from individual impairment	(670,531)	(518,655)
Net losses from impairment of loans	(258,184)	(260,668)
Net losses from impairment of overdrafts and credit cards	(2,032)	(1,862)
Net gains from reversal of impairment of loans and placements to banks	24	49
Net (losses)/gains from impairment of placements with the Central Bank	(5,019)	996
Net losses from impairment of other placements – discounting bills of exchange	(922)	(48)
Net losses from impairment of other receivables	(7,623)	(1,068)
Net losses from impairment of fees arising from payment transactions	(982)	(4,268)
Net losses from impairment of receivables for retail fees and commissions	(1,061)	(25,923)
Net provision for off-balance sheet items	(44,773)	(44,538)
Net gains from reversal of impairment of financial assets through other comprehensive income (FVOCI)	963	455
Net losses from impairment of receivables arising from documentary transactions	(4,904)	(11,394)
Net losses from modifications	(109,192)	-
Total net impairment losses	**(1,104,236)**	**(866,924)**
Recovery of written-off receivables	201,706	68,084
Direct write-off of unrecoverable receivables	(27,618)	(9,385)
Net gains from recovery of written-off receivables	**174,088**	**58,699**
Net impairment losses	**(930,148)**	**(808,225)**

11. NET LOSSES FROM IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

(b) Movements in the **allowance for impairment** accounts during the year were as follows:

2023	Cash and balances with Central Bank (Note 20)	Loans and placements to banks and other financial institutions (Note 23)	Loans and placement to customers (Note 24)	Other assets (Note 30)	Total
Balance as of 1 January 2023	**9,340**	**104**	**2,033,095**	**19,019**	**2,061,558**
Increases	6,493	448	2,806,333	10,841	2,824,115
Decreases	(1,474)	(472)	(1,867,717)	(3,218)	(1,872,881)
Write-off – transfer to off-balance sheet items	-	-	(208,445)	(24,653)	(233,098)
Impairment	-	-	-	21,161	21,161
FX differences	(1)	-	(1,381)	211	(1,171)
Balance of allowance for impairment as of 31 December 2023	**14,358**	**80**	**2,761,885**	**23,361**	**2,799,684**
Net impairment (losses)/gains	(5,019)	24	(938,616)	(7,623)	(951,234)
Net provision for off-balance sheet items (Note 34)	-	-	-	-	(44,773)
Net gains from reversal of impairment of FVOCI assets	-	-	-	-	963
Net gains from recovery of written-off receivables	-	-	174,088	-	174,088
Losses from the modification of financial instruments		-	(109,192)	-	(109,192)
Total net impairment losses for the period (Note 11(a))	**(5,019)**	**24**	**(873,720)**	**(7,623)**	**(930,148)**

2022	Cash and balances with Central Bank (Note 20)	Loans and placements to banks and other financial institutions (Note 23)	Loans and placement to customers (Note 24)	Other assets (Note 30)	Total
Balance as of 1 January 2022	**10,348**	**153**	**1,671,227**	**21,554**	**1,703,282**
Increases	2,810	607	2,325,030	4,294	2,332,741
Decreases	(3,806)	(656)	(1,502,212)	(3,226)	(1,509,900)
Write-off – transfer to off-balance sheet items	-	-	(458,638)	(2,336)	(460,974)
Sales	-	-	-	(4,859)	(4,859)
Impairment	-	-	-	3,990	3,990
FX differences	(12)	-	(2,312)	(398)	(2,722)
Balance of allowance for impairment as of 31 December 2022	**9,340**	**104**	**2,033,095**	**19,019**	**2,061,558**
Net impairment (losses)/gains	996	49	(822,818)	(1,068)	(822,841)
Net provision for off-balance sheet items (Note 34)	-	-	-	-	(44,538)
Net gains from reversal of impairment of FVOCI assets	-	-	-	-	455
Net gains from recovery of written-off receivables	-	-	58,699	-	58,699
Total net impairment losses for the period (Note 11(a))	**996**	**49**	**(764,119)**	**(1,068)**	**(808,225)**

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

	2023	2022
Gains on sale of placements	11,318	-
Total	**11,318**	**-**

13. OTHER OPERATING INCOME

	2023	2022
Income from fees on bills of exchange	2,989	2,500
Reimbursement of expenses from related parties	59,650	51,393
Income from collected expenses from litigations	15,874	13,941
Other operating income	170	558
Rental income from investment property	23,124	31,549
Gains on sale of repossessed property following foreclosure	4,193	10,886
Gains from government subsidies	6,693	289
Total	**112,693**	**111,116**

Reimbursement of expenses from related parties in 2023 mainly includes:

- Accommodation costs, transportation costs and other services paid by the Bank and compensated for the members of the ProCredit Group and ProCredit Holding in the amount of RSD 59,107 thousand (2022: RSD 49,672 thousand); and
- Income from the lease of office space to ProCredit Leasing in the amount of RSD 264 thousand (2022: RSD 508 thousand) and reimbursement of IT costs totalling RSD 130 thousand (2022: RSD 200 thousand).

Rental income from investment property mostly relates to the lease of a part of the business premises located at 17, Milutina Milankovica Street in the amount of RSD 21,423 thousand (2022: RSD 30,049 thousand).

14. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

	2023	2022
Net salaries and compensations	811,022	652,544
Payroll contributions	386,589	324,827
Payroll taxes	103,779	83,356
Other personal expenses - other staff benefits	25,967	30,070
Cost of hiring temporary workers	3,424	5,643
Provisions for retirement benefits (Note 34)	1,333	406
Total	**1,332,114**	**1,096,846**

15. AMORTISATION AND DEPRECIATION EXPENSE

	2023	2022
Amortisation of intangible assets (Note 26)	18,730	15,580
Depreciation of property, plant and equipment (Note 27)	113,198	141,383
Depreciation of right-of-use assets (Note 27)	35,972	35,193
Depreciation of investment property (Note 28)	4,393	4,863
Total	**172,293**	**197,019**

16. OTHER INCOME

	2023	2022
Release of provisions for litigations (Note 34)	54,306	197,722
Income from changes in property value (Note 27)	912	6,801
Gains on sale of property, plant and equipment	5,697	5,746
Gains from reversal of impairment of repossessed property following foreclosure	-	4,859
Sundry income	28,182	1,497
Total	**89,097**	**216,625**

Income from the release of provisions for litigations in 2023 relates to the decrease in the amount of individual provisions attributable to legal disputes in the total amount of RSD 54,306 thousand (2022: RSD 197,722 thousand).

17. OTHER EXPENSES

	2023	2022
Lease expenses	47,499	41,214
Marketing costs	207,177	139,789
Cost of material	50,295	40,408
Communication costs	67,729	49,361
Cost of authorisation of payment cards - Dina, Master and Visa	486,895	382,906
Insurance premiums	257,083	218,527
Consulting services	233,034	213,893
Security services	63,999	53,678
Employee insurance costs	19,359	18,461
Cost of seminars	59,895	46,806
Entertainment	17,904	15,667
Cost of licences	476,402	415,021
E-banking costs	83,875	75,278
Indirect contributions	7,936	7,362
Provisions for litigations (Note 34)	83,965	197,293
Maintenance costs	117,348	104,298
Non-production costs	120,245	93,884
Cost of debt collection agency services	3,160	1,773
Business travel expenses	18,477	13,496
Transportation services	22,753	12,485
Public charges	92,534	79,310
Shortages and damage compensation	86,233	116,247
Auditing costs	8,300	7,549
Impairment of property, plant and equipment and assets held for sale	605	723
Losses on sale of repossessed property following foreclosure	241	3,242
Attorney services	21,977	20,316
Indirect taxes	30,324	30,059
Impairment of property, plant and equipment and repossessed property following foreclosure	21,161	3,990
Other operating costs	97,869	85,273
Total	**2,804,274**	**2,488,309**

Marketing expenses include the printing of promotional materials, the development of marketing solutions, radio campaigns and broadcasting TV reports, as well as donations.

The costs of insurance include property insurance, vehicle insurance, transportation insurance and mandatory insurance premium of retail deposits, deposits of entrepreneurs and small and medium-sized legal entities, in accordance with the Law on Deposit Insurance.

Consulting services costs in 2023 relate to services stipulated by the Management Service Agreement with ProCredit Holding in the amount of RSD 209,037 thousand (2022: RSD 190,971 thousand) and other advisory services in the amount of RSD 23,997 thousand (2022: RSD 22,922 thousand).

Cost of licences include costs of one-year use of software programmes, which are not owned by the Bank and related maintenance cost (Microsoft licence, SQL, Quipu, EMC, Siron, Sophos, etc.).

17. OTHER EXPENSES (Continued)

Non-production costs include:

	2023	2022
Maintenance of business premises	27,969	24,881
Maintenance of IT equipment and software	7,321	5,134
Utility costs	57,756	46,993
Other expenses	27,199	16,876
Total	**120,245**	**93,884**

18. INCOME TAXES

(a) Components of Income Taxes

	2023	2022
Income tax	278,643	173,429
Deferred tax income	(6,043)	(4,832)
Deferred tax expenses	-	7,365
Total income tax expense	**272,600**	**175,962**

(b) Numerical Reconciliation of Income Tax and Profit for the Year before Tax Multiplied by the Statutory Income Tax Rate

	2023 rate	2023	2022 rate	2022
Profit before tax		**2,606,567**		**1,407,452**
Income tax calculated at statutory tax rate	**(15%)**	**(390,985)**	**(15%)**	**(211,118)**
Expenses not recognized for tax purposes		(17,483)		(31,940)
Income not recognized for tax purposes		129,825		69,629
Effective tax rate	*(10.69%)*	*(278,643)*	*(12.32%)*	*(173,429)*
Deferred tax income		6,043		4,832
Deferred tax expenses		-		(7,365)
Total income tax expense		**(272,600)**		**(175,962)**
Effective tax rate		***10.46%***		***12.50%***

18. INCOME TAXES (Continued)

(c) Deferred Tax Income/(Expenses)

	2023	2022
Difference between tax and carrying value of property, plant and equipment and intangible assets	2,292	(7,365)
Deferred tax income based on property revaluation	3,548	2,994
Deferred tax income from retirement benefits	203	60
Deferred tax income from the first-time adoption of IFRS 9	-	1,778
Deferred tax income/(expense) (Note 36(b))	**6,043**	**(2,533)**

As of 31 December 2023, the Bank has outstanding corporate income tax payable (Note 35) in the amount of RSD 119,666 thousand (31 December 2022: RSD 64,913 thousand).

(d) Deferred Tax Expenses related to Other Comprehensive Income

	2023	2022
Deferred tax expenses based on property revaluation	(179)	(22,165)
Deferred tax expenses based on securities valuation	(17)	(43)
Deferred tax expenses (Note 36(b))	**(196)**	**(22,208)**

19. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

The classification of financial instruments according to IFRS 9 is presented in the table below:

31 December 2023	Measured at amortised cost	Measured at FVOCI - debt instruments	Measured at FVOCI - equity instruments	Measured through profit and loss	Total
ASSETS					
Cash and balances with Central Bank (Note 20)	29,917,809	-	-	-	29,917,809
Derivatives (Note 21)	-	-	-	1,898	1,898
Securities (Note 22)	-	5,201,549	1,819		5,203,368
Loans and placements to banks and other financial institutions (Note 23)	19,696,333	-	-	-	19,696,333
Loans and placements to customers (Note 24)	103,654,790	-	-	-	103,654,790
Other assets (Note 6.1.2)	1,021,771	-	-	-	1,021,771
TOTAL ASSETS	**154,290,703**	**5,201,549**	**1,819**	**1,898**	**159,495,969**
LIABILITIES					
Derivatives (Note 31)	-	-	-	1,095	1,095
Deposits and other liabilities due to banks, other financial institutions and Central Bank (Note 32)	23,957,643	-	-	-	23,957,643
Deposits and other liabilities due to other customers (Note 33)	117,056,212	-	-	-	117,056,212
TOTAL LIABILITIES	**141,013,855**	**-**	**-**	**1,095**	**141,014,950**

19. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (Continued)

31 December 2022	Measured at amortised cost	Measured at FVOCI - debt instruments	Measured at FVOCI - equity instruments	Measured through profit and loss	Total
ASSETS					
Cash and balances with Central Bank (Note 20)	19,814,215	-	-	-	19,814,215
Derivatives (Note 21)	-	-	-	5,642	5,642
Securities (Note 22)	-	6,740,272	1,707		6,741,979
Loans and placements to banks and other financial institutions (Note 23)	11,611,839	-	-	-	11,611,839
Loans and placements to customers (Note 24)	106,913,139	-	-	-	106,913,139
Other assets (Note 6.1.2)	624,101	-	-	-	624,101
TOTAL ASSETS	**138,963,294**	**6,740,272**	**1,707**	**5,642**	**145,710,915**
LIABILITIES					
Derivatives (Note 31)	-	-	-	581	581
Deposits and other liabilities due to banks, other financial institutions and Central Bank (Note 32)	34,137,851	-	-	-	34,137,851
Deposits and other liabilities due to other customers (Note 33)	94,219,102	-	-	-	94,219,102
TOTAL LIABILITIES	**128,356,953**	**-**	**-**	**581**	**128,357,534**

20. CASH AND BALANCES WITH CENTRAL BANK

	31 December 2023	31 December 2022
Gyro account	10,419,001	6,611,375
RSD treasury	970,518	902,321
Surpluses of liquid funds deposited with the National Bank of Serbia	500,000	2,100,000
Undue interest based on required reserves with the National Bank of Serbia	3,140	2,154
Cash and balances in RSD	**11,892,659**	**9,615,850**
Treasury in foreign currency	5,046,955	1,563,643
Required reserves with the National Bank of Serbia in foreign currency	12,992,553	8,644,062
Cash and balances in foreign currency	**18,039,508**	**10,207,705**
Less: Allowance for impairment (Note 11(b))	(14,358)	(9,340)
Balance as of	**29,917,809**	**19,814,215**

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

The Bank is obliged to calculate and set aside the required dinar reserve against the average daily balance of the liabilities in RSD during the preceding calendar month applying the rate of 7% to liabilities maturing within 2 years, i.e. within 730 days, and 2% to liabilities maturing in a period of over 2 years, i.e. over 730 days from the calculation for September 2023 (until August 2023: 5% and 0%). In addition, the required dinar reserve includes 46% and 38% of the RSD equivalent of the required foreign currency reserve (until August 2023: 38% and 30%).

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

Pursuant to the Decision on Banks’ Required Reserves with the National Bank of Serbia, the Bank calculates and allocates the obligatory foreign currency reserve against the average daily balance of foreign currency liabilities from the preceding month at a rate of 23% applied to liabilities with contracted maturities of up to 2 years, i.e. within 730 days, at a rate of 16% applied to liabilities with contracted maturities of over 2 years, i.e. over 730 days (until August 2023: 20% and 13%) and at a rate of 100% applied to the average daily balance of RSD liabilities with a currency clause index.

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

The Bank is obliged to maintain the average daily balance of the required foreign currency reserve during the accounting period in the amount of the calculated required foreign currency reserve. The calculated required foreign currency reserve for the accounting period from 18 December 2023 to 17 January 2024 was in compliance with the Decision of the National Bank of Serbia.

A summary of cash and cash equivalents included in the Statement of Cash Flows is presented in Note 44.

21. DERIVATIVES

	31 December 2023	31 December 2022
Currency swaps with the National Bank of Serbia	-	2,607
Currency swaps with domestic banks	-	22
Currency swaps with foreign banks	1,898	3,013
Balance as of	**1,898**	**5,642**

Receivables arising from derivatives in the amount of RSD 1,898 thousand as of 31 December 2023 (31 December 2022: RSD 3,013 thousand) mostly relate to changes in fair value and interest differential of currency swaps with ProCredit Bank Germany.

22. SECURITIES

	31 December 2023	31 December 2022
Securities measured at FVOCI – equity securities in EUR	1,819	1,707
Securities measured at FVOCI – debt securities in RSD	5,201,549	6,740,272
Balance as of	**5,203,368**	**6,741,979**

Debt securities in RSD include government bonds of the Republic of Serbia.

23. LOANS AND PLACEMENTS TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2023	31 December 2022
Regular foreign currency accounts	4,679,211	3,539,264
Repo transactions with the National Bank of Serbia	15,011,562	8,003,690
Cash balances with the Central Registry	5,495	5,342
Loans to financial institutions	-	58,833
Short-term deposits - related banks and the National Bank of Serbia	-	3,818
Fee and commission receivable	145	1,102
Deferred loan origination fees	-	(106)
Gross loans and placements	**19,696,413**	**11,611,943**
Less: Allowance for impairment (Note 11(b))	(80)	(104)
Balance as of	**19,696,333**	**11,611,839**

In 2023, the Bank invested funds in RSD repo transactions with the National Bank of Serbia at interest rates ranging from 4.17% to 5.55% per annum (2022: 0.50% to 4.50% per annum).

Notes to the Financial Statements for the Year Ended 31 December 2023
(All amounts are expressed in RSD thousand, unless otherwise stated)

24. LOANS AND PLACEMENTS TO CUSTOMERS

	31 December 2023	31 December 2022
Loans and placements	105,623,571	108,174,970
Interest and fees receivable	1,219,335	1,079,768
Receivables from guarantee protests	49,785	51,003
Gross loans and placements	**106,892,691**	**109,305,741**
Deferred loan origination fee	(389,179)	(359,507)
Deferred expenses for loan modification	(86,837)	-
Less: Allowance for impairment (Note 11(b))	(2,761,885)	(2,033,095)
Balance as of	**103,654,790**	**106,913,139**

Breakdown of Loans and Placements to Customers per Sector

31 December 2023	Public sector	Corporate sector	Entrepre-neurs	Retail sector	Agricultural producers	Foreign entities	Total 2023
Interest and fees receivable	105,552	654.614	44,307	80,257	334,358	245	1,219,333
Protests	-	41.418	8,368	-	-	-	49,786
Short-term loans	-	15.255.052	594,797	39,641	3,750,490	-	19,639,980
Long-term loans	-	58.878.245	3,578,171	8,016,627	15,510,549	-	85,983,592
Gross loans to clients	**105,552**	**74.829.329**	**4,225,643**	**8,136,525**	**19,595,397**	**245**	**106,892,691**
Deferred loan origination fee	-	(192.021)	(14,878)	(138,887)	(130,230)	-	(476,016)
Allowance for impairment	(105,548)	(1.640.581)	(414,413)	(236,172)	(365,058)	(113)	(2,761,885)
Balance as of 31 December 2023	**4**	**72.996.727**	**3,796,352**	**7,761,466**	**19,100,109**	**132**	**103,654,790**

31 December 2022	Public sector	Corporate sector	Entrepre-neurs	Retail sector	Agricultural producers	Foreign entities	Total 2022
Interest and fees receivable	105,661	620,741	44,403	82,394	226,432	137	1,079,768
Protests	-	42,620	8,383	-	-	-	51,003
Short-term loans	-	16,048,950	523,575	145,304	3,282,225	-	20,000,054
Long-term loans	-	62,500,575	3,768,833	7,388,140	14,517,368	-	88,174,916
Gross loans to clients	**105,661**	**79,212,886**	**4,345,194**	**7,615,838**	**18,026,025**	**137**	**109,305,741**
Deferred loan origination fee	-	(194,153)	(12,462)	(41,821)	(111,071)	-	(359,507)
Allowance for impairment	(105,659)	(1,121,567)	(335,715)	(198,001)	(272,104)	(49)	(2,033,095)
Balance as of 31 December 2022	**2**	**77,897,166**	**3,997,017**	**7,376,016**	**17,642,850**	**88**	**106,913,139**

24. LOANS AND PLACEMENTS TO CUSTOMERS (Continued)

Short-term RSD loans were approved to corporate customers and entrepreneurs for a period of up to 12 months at nominal interest rates ranging from 1.50% + 3m Belibor to 3.00% + 3m Belibor per annum.

Short-term foreign-currency indexed loans were approved to corporate customers at interest rates ranging from 4.45% + 6m Euribor to 5.15% + 6m Euribor per annum.

Long-term RSD loans (maximum term 60 months) were approved to corporate customers at interest rates ranging from 1.50% + 3m Belibor to 3.00% + 3m Belibor per annum.

Long-term EUR loans were approved to corporate customers and entrepreneurs at interest rates ranging from 4.45% + 6m Euribor to 5.15% + 6m Euribor per annum.

Loans and placements to entrepreneurs are granted under the terms and conditions applicable to the SMEs segment.

Short-term RSD loans were extended to retail customers at a fixed nominal interest rate of 9.0% per annum. Interest rates on placements with variable interest rates ranged from 5.2 % + 3m Belibor to 5.5% + 3m Belibor for short-term loans, and 3.9% + 6m Euribor to 4.5% + 6m Euribor and 5.2% + 3m Belibor to 6.9 + 3m Belibor for long-term loans.
.
Short-term RSD loans were approved to registered agricultural households at nominal interest rate ranging from od 3.20% + 3m Belibor to 4.00% + 3m Belibor per annum.

Long-term RSD loans to registered agricultural producers, whose holders are retail customers, were extended at nominal interest rates ranging from 3.50% + 3m Belibor to 4.20% + 3m Belibor per annum.

25. INVESTMENTS IN SUBSIDIARIES

	31 December 2023	31 December 2022
Investment in subsidiaries in RSD - ProCredit Leasing d.o.o. Belgrade	127,752	127,752
Balance as of	**127,752**	**127,752**

The Bank is the founder and the sole owner of ProCredit Leasing d.o.o. Belgrade.

In accordance with the Bankruptcy and Liquidation of Banks and Insurance Companies Law, on 1 January 2018 the Assembly of ProCredit Leasing d.o.o. Belgrade passed the decision to cease operations and initiate voluntarily liquidation procedure. The process of liquidating of ProCredit Leasing d.o.o. Belgrade commenced on 30 April 2018 and is still ongoing.

26. INTANGIBLE ASSETS

	Intangible assets under development	Software licences	Total
Cost			
Balance as of 1 January 2022	238,379	500,186	738,565
Additions	66,787	-	66,787
Transfer (from)/to	(11,960)	11,960	-
Disposals and sales	-	(26,774)	(26,774)
Balance as of 31 December 2022	**293,206**	**485,372**	**778,578**
Accumulated amortisation			
Balance as of 1 January 2022	-	460,409	460,409
Amortisation expense (Note 15)	-	15,580	15,580
Disposals and sales	-	(26,774)	(26,774)
Balance as of 31 December 2022	**-**	**449,215**	**449,215**
Carrying value as of 1 January 2022	**238,379**	**39,777**	**278,156**
Carrying value as of 31 December 2022	**293,206**	**36,157**	**329,363**
Cost			
Balance as of 1 January 2023	293,206	485,372	778,578
Additions	79,721	-	79,721
Transfer (from)/to	(13,316)	13,316	-
Disposals and sales	-	(358)	(358)
Balance as of 31 December 2023	**359,611**	**498,330**	**857,941**
Accumulated amortisation			
Balance as of 1 January 2023	-	449,215	449,215
Amortisation expense (Note 15)	-	18,730	18,730
Disposals and sales	-	(358)	(358)
Balance as of 31 December 2023	**-**	**467,587**	**467,587**
Carrying value as of 31 December 2023	**359,611**	**30,743**	**390,354**

The major portion of intangible assets under development relates to licences for transfer to new banking application, whose activation is expected in 2024.

The Bank does not have intangible assets with indefinite useful lives.

As of 31 December 2023, the Bank has ownership over the assets and no encumbrance on them.

As of 31 December 2023, intangible assets under development were tested for impairment and there were no indications of impairment thereof.

27. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (PP&E) include:

	31 December 2023	31 December 2022
Leasehold improvements	20,080	26,926
Equipment	156,702	124,959
Other PP&E	2,627	2,192
Commercial building	1,645,108	1,660,600
Right-of-use assets	141,001	175,093
Construction in progress	251,750	32,807
Balance as of	**2,217,268**	**2,022,577**

27. PROPERTY, PLANT AND EQUIPMENT (Continued)

Movements in PP&E during 2023 and 2022 were as follows:

	Leasehold improve-ments	Equipment	Other PP&E	Commer-cial buildings	Constru-ction in progress	Right-of-use assets	Total
Cost							
1 January 2022	105,689	1,464,086	117,992	1,913,996	53,340	275,095	3,930,198
Additions	-	-	-	225,407	70,232	25,231	320,870
Revaluation (Note 38(d))	-	-	-	147,765	-	-	147,765
Reversal of impairment (Note 16)	-	-	-	6,801	-	-	6,801
Transfer (from)/to	8,480	80,918	1,367	-	(90,765)	-	-
Disposal and sales	-	(34,302)	(174)	-	-	(15,185)	(49,661)
Balance as of 31 December 2022	**114,169**	**1,510,702**	**119,185**	**2,293,969**	**32,807**	**285,141**	**4,355,973**
Accumulated depreciation							
Balance as of 1 January 2022	76,710	1,346,407	112,245	580,353	-	90,040	2,205,755
Depreciation expense (Note 15)	10,533	72,912	4,922	53,016	-	35,193	176,576
Disposal and sales	-	(33,576)	(174)	-	-	(15,185)	(48,935)
Balance as of 31 December 2022	**87,243**	**1,385,743**	**116,993**	**633,369**	**-**	**110,048**	**2,333,396**
Carrying value as of 1 January 2022	**28,979**	**117,679**	**5,747**	**1,333,643**	**53,340**	**185,055**	**1,724,443**
Carrying value as of 31 December 2022	**26,926**	**124,959**	**2,192**	**1,660,600**	**32,807**	**175,093**	**2,022,577**
Cost							
1 January 2023	114,169	1,510,702	119,185	2,293,969	32,807	285,141	4,355,973
Additions	-	-	-	-	340,522	1,880	342,402
Revaluation (Note 38(d))	-	-	-	1,195	-	-	1,195
Reversal of impairment (Note 16)	-	-	-	912	-	-	912
Transfer (from)/to	2,632	77,237	1,590	40,120	(121,579)	-	-
Disposal and sales	-	(73,998)	(4,546)	-	-	-	(78,544)
Balance as of 31 December 2023	**116,801**	**1,513,941**	**116,229**	**2,336,196**	**251,750**	**287,021**	**4,621,938**
Accumulated depreciation							
Balance as of 1 January 2023	87,243	1,385,743	116,993	633,369	-	110,048	2,333,396
Depreciation expense (Note 15)	9,478	44,846	1,155	57,719	-	35,972	149,170
Disposal and sales	-	(73,350)	(4,546)	-	-	-	(77,896)
Balance as of 31 December 2023	**96,721**	**1,357,239**	**113,602**	**691,088**	**-**	**146,020**	**2,404,670**
Carrying value as of 31 December 2023	**20,080**	**156,702**	**2,627**	**1,645,108**	**251,750**	**141,001**	**2,217,268**

External appraisals of the fair value of business premises are performed by certified appraisers every 5 years. At the end of each reporting year, internal appraisals are made to determine whether there are any departures from the carrying value at the reporting date.

27. PROPERTY, PLANT AND EQUIPMENT (Continued)

The total carrying value of commercial buildings owned by the Bank as of 31 December 2023, which the Bank uses for its own needs, amounts to RSD 1,645,108 thousand (31 December 2022: RSD 1,660,600 thousand). These buildings are measured according to the revaluation model.

Out of the previously mentioned carrying value of business premises, the most significant amount of RSD 1,024,893 thousand (31 December 2022: RSD 11,061,644 thousand) relates to the part of the Head Office building that the Bank uses for its own needs. The remaining amount of business premises relates to other buildings with the carrying value of RSD 620,215 thousand (31 December 2022: RSD 598,956 thousand).

External appraisals of the commercial buildings in Nis, Novi Sad and Cacak were carried out in December 2023. External appraisals of other buildings were performed in a period between 2019 and 2023 since valuations by external appraisers are performed every 5 years. At the end of each year, internal fair value estimates are made to confirm that the current carrying value of these buildings, based on the latest external appraisal, does not depart significantly from their current fair value.

In October 2018, it was decided that a part of the Head Office building (entrance B) should be leased. Accordingly, this part of the building was reclassified to investment property and since then that part of the building has been measured according to the cost model (Note 28). An internal appraisal of the leased part of the Head Office building was performed in December 2022, confirming it was not impaired.

The Bank has satisfactory title deed over its property and has no encumbrances on these assets.

As of 31 December 2023, the Bank has no commitments for purchase of property, plant and equipment.

28. INVESTMENT PROPERTY

Cost	
Balance as of 1 January 2022	401,124
Decrease – reclassification to property, plant and equipment	(225,407)
Balance as of 31 December 2022	**175,717**
Accumulated depreciation	
As of 1 January 2022	(30,339)
Depreciation expense (Note 15)	(4,863)
Balance as of 31 December 2022	**(35,202)**
Carrying value as of 31 December 2022	**140,515**
Cost	
Balance as of 1 January 2023	175,717
Balance as of 31 December 2023	**175,717**
Accumulated depreciation	
As of 1 January 2023	(35,201)
Depreciation expense (Note 15)	(4,393)
Balance as of 31 December 2023	**(39,594)**
Carrying value as of 31 December 2023	**136,123**

28. INVESTMENT PROPERTY (Continued)

The Bank performed an internal valuation of investment property as of 31 December 2023 and there was no indication of impairment thereof. The appraised fair value of investment property as of 31 December 2023 amounted to RSD 226,620 thousand (31 December 2022: RSD 233,098 thousand).

29. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale in the amount of RSD 47,370 thousand as of 31 December 2023 (31 December 2022: RSD 47,370 thousand) relate to the building in Novi Pazar, which was sold, but it will be derecognised only when the buyer pays out all instalments and when the ownership of the building is transferred to the buyer in accordance with the contract.

30. OTHER ASSETS

	31 December 2023	**31 December 2022**
Financial assets exposed to credit risk:		
Fees receivable from customers	5,830	4,346
Receivables from customers based on cash limits	76,397	60,409
Receivables based on payment cards	827,435	531,486
Transitional and temporary accounts	88,223	13,263
Advances paid	12,573	4,078
Prepaid taxes and contributions	8	-
Deposits for property lease	797	798
Other financial items exposed to credit risk	19,705	11,296
Other assets:		
Small inventory	1,187	1,125
Prepaid expenses	154,128	173,813
Repossessed assets following foreclosure	83,334	115,998
Other receivables	76,396	81,276
Gross other assets	**1,346,013**	**997,888**
Less: Allowance for impairment (Note 11(b)) of:		
Financial assets exposed to credit risk	(9,197)	(1,575)
Other assets	(14,164)	(17,444)
	(23,361)	**(19,019)**
Balance as of	**1,322,652**	**978,869**

Movements in repossessed assets following foreclosure during the year were as follows:

	31 December 2023	**31 December 2022**
Opening balance	115,998	146,943
Increase	15,818	10,889
Sale	(781)	(41,834)
Write-off	(47,701)	-
Balance as of	**83,334**	**115,998**

The Bank collects bad debts from movable or immovable property of a client, in accordance with court decisions. Repossessed assets are included in Other assets, unless otherwise stated.

31. DERIVATIVES

	31 December 2023	31 December 2022
Currency spots with domestic banks	49	234
Currency swaps with foreign banks	1,046	347
Balance as of	**1,095**	**581**

Liabilities arising from derivatives as of 31 December 2023 relate to currency spot transactions with domestic banks and currency swap transactions with ProCredit Bank Germany.

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

	31 December 2023	31 December 2022
Transaction deposits	308,249	418,750
Specific-purpose deposits	1,123	936
Other deposits	5,333,750	4,599,630
Deposits from banks and financial institutions (a)	1,406,084	8,476,543
Borrowings from banks and financial institutions (b)	16,715,314	20,582,867
Interest and fees payable	5,095	2,757
Undue interest	248,382	146,384
Deferred fees on borrowings	(60,354)	(90,016)
Balance as of	**23,957,643**	**34,137,851**

In 2023, the effective interest rate on foreign currency deposits from banks ranged up to 5.348% per annum.

(a) Deposits from Banks and Financial Institutions

Financial institutions	31 December 2023 In EUR	Maturity	31 December 2023 In RSD 000	31 December 2022 In RSD 000
ProCredit Bank Germany	12,000,000	2024	1,406,084	5,895,451
Banca Intesa a.d. Belgrade	-	-	-	821,256
Blue Orchard, Luxembourg	-	-	-	1,759,836
Balance as of	**12,000,000**		**1,406,084**	**8,476,543**

32. DEPOSITS AND OTHER LIABILITIES TO BANKS, OTHER FINANCIAL INSTITUTIONS AND CENTRAL BANK (Continued)

(b) Borrowings from Banks and Financial Institutions

Financial institution	Approved loans in EUR/RSD	31 December 2023 in EUR/RSD	Maturity	31 December 2023 in RSD 000	31 December 2022 in RSD 000
European Fund for South East Europe	15,000,000	9,000,000	2026	1,054,563	1,407,869
EBRD	60,000,000	17,142,857	2022-2025	2,008,692	4,022,482
EBRD	10,000,000	5,714,285	2025	669,564	1,005,621
EBRD	10,000,000	10,000,000	2027	1,171,737	-
European Investment Bank	30,000,000	16,122,271	2027-2030	1,889,106	2,279,184
Good Governance Fund	20,000,000	11,428,571	2025	1,339,128	2,011,241
Council of Europe Development Bank	10,000,000	8,000,000	2027	937,390	1,173,224
Council of Europe Development Bank	30,000,000	18,000,000	2026	2,109,127	2,815,738
Council of Europe Development Bank	10,000,000	8,000,000	2026	937,390	1,173,224
EIB	20,000,000	20,000,000	2033	2,343,474	2,346,448
EBRD	15,000,000	15,000,000	2027	1,757,605	1,759,836
Total (I)	**230,000,000**	**138,407,984**		**16,217,776**	**19,994,867**
EBRD	588,000,000	497,538,462	2026	497,538	588,000
Total (II)	**588,000,000**	**497,538,462**		**497,538**	**588,000**
Balance as of (I+II)				**16,715,314**	**20,582,867**

The Bank was granted loans by the European Bank for Reconstruction and Development at an interest rate of 6m Euribor + 1.0% per annum.

The Bank is obliged to align its operations with certain covenants defined in the loan agreements with the European Bank for Reconstruction and Development and the Good Governance Fund. As of 31 December 2023, according to the Bank's calculation, all defined covenants were reconciled.

The table below presents *cash flows from financing activities* related to borrowings from banks, funds and other customers and changes during 2023 and 2022:

	Borrowings from foreign banks and funds	Borrowings from other customers (Note 33)	Total borrowings
Balance as of 1 January 2023	**20,582,867**	**10,564,164**	**31,147,031**
Proceeds from loans and borrowings	1,812,181	-	1,812,181
Repayment of loans and borrowings	(5,679,734)	(1,809,644)	(7,489,378)
Balance as of 31 December 2023	**16,715,314**	**8,754,520**	**25,469,834**
Balance as of 1 January 2022	**22,245,074**	**15,468,905**	**37,713,979**
Proceeds from loans and borrowings	4,106,284	2,432,411	6,538,695
Repayment of loans and borrowings	(5,768,491)	(7,337,152)	(13,105,643)
Balance as of 31 December 2022	**20,582,867**	**10,564,164**	**31,147,031**

33. DEPOSITS AND OTHER LIABILITIES DUE TO OTHER CUSTOMERS

	31 December 2023	31 December 2022
Retail customers:		
- Transaction deposits	7,117,318	6,576,379
- Saving deposits	45,385,089	29,147,074
- Deposits arising from loans	843,078	1,210,936
- Special-purpose deposits	5,489	4,022
- Other financial liabilities	12,308	9,372
- Other deposits	-	1
- Undue interest	5,016	5,209
	53,368,298	**36,952,993**
Corporate customers:		
- Transaction deposits	29,519,582	28,569,030
- Deposits arising from loans	1,632,113	3,066,208
- Special-purpose deposits	828,608	311,554
- Other deposits	18,205,958	11,233,488
- Borrowings	8,754,520	10,564,164
- Other financial liabilities	41,077	55,923
- Interest payable	5,239	2,645
- Undue interest	250,950	95,569
- Callable deposits	4,449,867	3,367,528
	63,687,914	**57,266,109**
Balance as of	**117,056,212**	**94,219,102**

On retail term deposits in RSD, the Bank pays a nominal interest rate ranging from 0% up to 6% per annum, depending on the term period.

The interest rates on retail deposits in foreign currency range from 0% up to 5% per annum, depending on the term period.

On corporate term deposits in RSD, the Bank pays a nominal interest rate ranging from 0% up to 6% per annum, depending on the term period.

The interest rates on corporate deposits in foreign currency range from 0% up to 4.9% per annum, depending on the term period.

Borrowings are presented in the following table:

Financial institution	Approved amount in EUR	Balance as of 31 December 2023 In EUR	Maturity	31 December 2023 In RSD 000	31 December 2022 In RSD 000
APEKS	39,075,110	20,269,592	2022–2030	2,375,063	2,820,886
ProCredit Holding	16,000,000	10,000,000	2023–2025	1,171,737	1,877,158
Proparco, France	50,000,000	44,444,444	2027	5,207,720	5,866,120
Total	**105,075,110**	**74,714,036**		**8,754,520**	**10,564,164**

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

There are no covenants for the aforementioned borrowings from APEKS and ProCredit Holding Germany.

The Bank is obliged to align its operations with certain indicators defined by the loan agreements with the lender Proparco. As of 31 December 2023, according to the Bank's calculation, there was no non-compliance with all of the defined indicators.

Interest rates on borrowings range from 6m Euribor + 1.70% per annum.

Unused credit lines are presented in the table below:

Financial institution	Contracted amount	Currency	Unused amount as of 31 December 2023 In EUR	Unused amount as of 31 December 2023 in RSD 000	Unused amount as of 31 December 2022 In RSD 000	Maturity
ProCredit Holding	10,000,000	EUR	10,000,000	1,171,737	1,173,224	30/03/2024
EIB	20,000,000	EUR	5,000,000	585,868	1,759,836	Upon withdrawal
Total				**1,757,605**	**2,933,060**	

34. PROVISIONS

	31 December 2023	31 December 2022
Provision for retirements benefits	7,271	5,938
Provision for litigations (Note 39.1)	242,057	279,431
Provisions for off-balance sheet items (Note 39.2)	137,902	93,214
Balance as of	**387,230**	**378,583**

Movements in the provisions **during 2023** were as follows:

	Retirement benefits	Litigations	Off-balance sheet items	Total
Opening balance	**5,938**	**279,431**	**93,214**	**378,583**
Increase - charge for the year	1,333	83,965	166,778	252,076
Decrease - release of provision	-	(54,306)	(122,005)	(176,311)
Utilised amount	-	(67,033)	-	(67,033)
FX differences	-	-	(85)	(85)
Balance as of 31 December 2023	**7,271**	**242,057**	**137,902**	**387,230**

34. PROVISIONS (Continued)

Movements in the provisions **during 2022** were as follows:

	Retirement benefits	Litigations	Off-balance sheet items	Total
Opening balance	5,532	311,414	48,713	365,659
Increase - charge for the year	406	197,293	172,484	370,183
Decrease - release of provision	-	(197,722)	(127,946)	(325,668)
Utilised amount	-	(31,554)	-	(31,554)
FX differences	-	-	(37)	(37)
Balance as of 31 December 2022	**5,938**	**279,431**	**93,214**	**378,583**

Provisions for retirement benefits as of 31 December 2023 were determined in accordance with the legal regulations and general acts of the Bank, by using a discount rate of 6.50% per annum (31 December 2022: 7.52% per annum) and an average salary growth rate of 10% per annum (31 December 2022: 10% per annum), as well as an employee turnover rate 10% per annum (31 December 2022: 9% per annum).

The Bank calculates provisions for potential losses that may arise from litigations in accordance with the methodology explained in Notes 3. and 5.14.

As of 31 December 2023, 11,044 court proceedings were pending before courts against the Bank (31 December 2022: 10,616). Based on the procedure established in the Bank for the calculation of potential losses for litigations, total provisions in the amount of RSD 242,057 thousand (31 December 2022: RSD 279,431 thousand) were estimated and recognised in the Bank's books of account.

The Bank's management has approved the amount of calculated provisions for litigations and agrees with the assessment that no material losses will arise from the ongoing lawsuits other than those provided for.

35. CURRENT TAX LIABILITIES

Corporate income tax payable as of 31 December 2023 amounted to RSD 119,666 thousand (31 December 2022: RSD 64,913 thousand).

36. DEFERRED TAX LIABILITIES

(a) Deferred tax liabilities, net relate to:

	31 December 2023	31 December 2022
Difference between the depreciation for accounting and tax purposes	41,543	39,251
Deferred tax liabilities - revaluation of property	(103,892)	(107,261)
Deferred tax liabilities - valuation of financial assets	(179)	(162)
Deferred tax assets - provision for retirement benefits	1,091	888
Other	(1)	-
Balance as of	**(61,438)**	**(67,284)**

(b) Movements in net deferred tax liabilities during the year were as follows:

2023	1 January 2023	Recognised in profit and loss	Recognised in OCI	Total 31 December 2023
Difference between the depreciation for accounting and tax purposes	39,251	2,292	-	41,543
Deferred tax liabilities - revaluation of property	(107,261)	3,548	(179)	(103,892)
Deferred tax liabilities - valuation of financial assets	(162)	-	(17)	(179)
Deferred tax assets - provision for retirement benefits	888	203	-	1,091
Other	-	(1)	-	(1)
Deferred tax liabilities, net	**(67,284)**	**6,043**	**(196)**	**(61,438)**

2022	1 January 2022	Recognised in profit and loss	Recognised in OCI	Total 31 December 2022
Difference between the depreciation for accounting and tax purposes	46,616	(7,365)	-	39,251
Deferred tax liabilities - revaluation of property	(88,090)	2,994	(22,165)	(107,261)
Deferred tax liabilities - valuation of financial assets	(119)	-	(43)	(162)
Deferred tax assets - provision for retirement benefits	828	60	-	888
Deferred tax liabilities - effects of the first-time adoption of IFRS 9	(1,778)	1,778	-	-
Deferred tax liabilities, net	**(42,543)**	**(2,533)**	**(22,208)**	**(67,284)**

37. OTHER LIABILITIES

	31 December 2023	31 December 2022
Trade payables	160,974	103,368
Liabilities for remittance payments abroad	167,566	154,543
Deferred fees for issuing guarantees and letters of credit	18,745	18,008
Accrued liabilities for unused vacations	33,830	31,760
Accrued overhead costs	16,824	8,135
Deferred income from subsidised interest	275,003	137,286
VAT payable	10,273	7,762
Other taxes payable	13,202	4,870
Other accounts payable	637,302	480,308
Lease liabilities – IFRS 16 (Note 40)	148,438	182,166
Accrued fees payable	18,376	16,583
Deferred commission fee in foreign currency from loans	18,023	20,859
Balance as of	**1,518,556**	**1,165,648**

Other accounts payable include:

	31 December 2023	31 December 2022
Closed accounts	99,544	118,436
Non-allocated accounts	55,206	49,506
Liabilities to the Development Fund	3,261	3,261
Liabilities to the National Mortgage Insurance Company	416	1,036
Liabilities for received advances for the sale of property	49,220	35,685
Liabilities for property appraisal	2,713	3,077
Temporary accounts	208,441	42,264
Liabilities in calculation	215,152	221,407
Other liabilities	3,070	5,636
Liabilities arising from expenses paid for enforcement proceedings	279	-
Balance as of	**637,302**	**480,308**

38. EQUITY

The Bank's equity consists of:

	31 December 2023	31 December 2022
Share capital – ordinary shares (a)	3,663,012	3,663,012
Share premium (b)	2,776,745	2,776,745
Reserves from profit (c)	1,643,864	1,643,864
Revaluation reserves (d)	652,023	433,411
Accumulated result - retained earnings (e)	8,544,266	8,950,776
Profit for the current year	2,333,967	1,231,490
Balance as of	**19,613,877**	**18,699,298**

(a) As of 31 December 2023 and 2022, the Bank's share capital consists of 3,663,012 ordinary shares with a nominal value per share of RSD 1 thousand, which makes a total of RSD 3,663,012 thousand. In 2023, there were no changes in the share capital.

The shareholders' structure according to ownership interest and voting rights as of 31 December 2023 and 2022 is as follows:

	31 December 2023		31 December 2022	
	Number of shares	% of ownership	Number of shares	% of ownership
ProCredit Holding AG & CO, Frankfurt, Germany	3,663,012	100%	3,663,012	100%

(b) The share premium in the amount of RSD 2,776,745 thousand as of 31 December 2023 and 2022 arose as the difference between the total nominal value of shares and the dinar equivalent of the amount paid by the Bank's shareholder at the median exchange rate of the National Bank of Serbia prevailing at the date of payment. ProCredit Holding AG & CO KGaA is the ultimate owner of the Bank holding 100% interest. The shareholder has the right to manage the Bank, as well as the right to participate in the profit distribution. Holders of ordinary shares are liable for liabilities and bear the risk of the Bank's operations in proportion to the number of shares at their disposal.

In accordance with the regulations of the National Bank of Serbia, the Bank has sufficient net capital to meet the minimal requirements of the National Bank of Serbia. In accordance with the Law on Banks, the pecuniary portion of the Bank's share capital may not be less than EUR 10,000,000, calculated at the median exchange rate at the balance sheet date.

(c) Reserves from profit are established in accordance with the legislation for estimated losses.

38. EQUITY (Continued)

(d) Revaluation reserves have been created from the revaluation of property and valuation adjustments of equity and debt instruments to fair value:

	31 December 2023	31 December 2022
Revaluation reserves from property appraisals	805,186	804,170
Fair value reserve from equity instruments measured through OCI	1,012	916
Fair value reserve from debt instruments measured through OCI	(154,175)	(371,675)
Balance as of	**652,023**	**433,411**

Movements in *revaluation reserves from property appraisals* were as follows:

	31 December 2023	31 December 2022
Opening balance as of 1 January	804,170	678,570
Positive effects of revaluation	1,195	147,765
Deferred taxes	(179)	(22,165)
Balance as of	**805,186**	**804,170**

Movements in *fair value reserve from equity instruments* measured through OCI were as follows:

	31 December 2023	31 December 2022
Opening balance as of 1 January	916	675
Increase in reserve – net valuation gains	113	284
Deferred taxes	(17)	(43)
Balance as of	**1,012**	**916**

Movements in *fair value reserve from debt instruments* measured through OCI were as follows:

	31 December 2023	31 December 2022
Opening balance as of 1 January	(371,675)	11,791
Increase/(decrease) in reserve - net valuation gains/(losses)	217,500	(383,466)
Balance as of	**(154,175)**	**(371,675)**

38. EQUITY (Continued)

(e) Accumulated result represents cumulative retained earnings from previous years, which arose from the difference between income and expenses. Profit from the year is the difference between current year income and expenses less income tax, increased or decreased by deferred taxes.

	31 December 2023
Retained earnings from 2009	120,094
Retained earnings from 2011	500,000
Retained earnings from 2013	807,537
Retained earnings from 2014	1,080,758
Retained earnings from 2015	738,000
Retained earnings from 2016	1,621,259
Retained earnings from 2017	1,189,346
Retained earnings from 2018	996,082
Retained earnings from 2019	680,985
Retained earnings from 2020	666,990
Retained earnings from 2021	83,976
Effects of the first-time adoption of IFRS 9	59,239
Accumulated result	**8,544,266**
Profit for the year	2,333,967
Total retained earnings	**10,878,233**

At a meeting held on 29 August 2023, the Bank's Shareholder Assembly adopted a Decision on the Distribution of Retained Earnings approving the payment of dividends to the shareholder ProCredit Holding AG & CO KgaA in the amount of RSD 1,638,000 thousand.

39. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET ITEMS

39.1. Litigations

As of 31 December 2023, the Bank acts as a defendant in a number of court proceedings. There are 11,044 (31 December 2022: 10,616) court proceedings against the Bank. The total estimated value of claims, including costs and interest, amounts to RSD 828,752 thousand (31 December 2022: RSD 748,946 thousand).

The final outcome of the ongoing litigations is uncertain. As disclosed in Note 34, the Bank has established provisions for potential losses that may arise from these court proceedings in the total amount of RSD 242,057 thousand (31 December 2022: RSD 279,431 thousand). The Bank's management estimates that no material losses will arise from the ongoing lawsuits other than those provided for.

The Bank is involved in lawsuits filed against third parties for the purpose of collecting its receivables. For all claims against corporate and retail customers, the Bank has made an adequate provision by charging profit of the current and prior years.

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

39.2. Off-balance Sheet Items

Off-balance sheet items exposed to credit risk are presented in the table below in gross amounts:

Commitments	31 December 2023	31 December 2022
Payable guarantees:		
- in RSD	697,516	788,197
- in foreign currency	2,885,301	2,229,479
Customs guarantees	1,622,654	1,118,056
Approved unused credit facilities	10,107,668	9,935,774
	15,313,139	**14,071,506**
Performance bonds in RSD	2,700,295	2,531,741
Performance bonds in foreign currency	2,944,690	3,703,257
Total off-balance sheet items as of	**20,958,124**	**20,306,504**

The structure of approved *unused credit facilities* is as follows:

	31 December 2023	31 December 2022
Approved overdrafts on current RSD accounts	239,425	249,307
Approved loan facilities to corporate customers and entrepreneurs in RSD	1,619,664	1,610,351
Approved loans in respect of credit cards in RSD	52,055	46,118
Approved indexed revolving loans	3,844,963	4,920,222
Approved RSD revolving loans	3,794,131	2,651,088
Loans approved for project financing	291,902	191,477
Approved unused cash limits	191,008	267,211
Approved unused loan amount approved in instalments	74,520	-
Balance as of	**10,107,668**	**9,935,774**

As of 31 December 2023, the Bank recognized provisions for off-balance sheet items in the amount of RSD 137,902 thousand (31 December 2022: RSD 93,214 thousand), as follows:

	31 December 2023	31 December 2022
Payable guarantees in RSD	24,352	10,010
Payable guarantees – indexed	70,935	57,498
Unused credit facilities in RSD	15,503	9,203
Unused credit facilities – indexed	6,765	4,623
Payable guarantees – indexed – related banks	2	1
Total provisions for contingent liabilities within off-balance sheet items	**117,557**	**81,335**
Provisions for performance bonds	20,345	11,879
Total provisions for off-balance sheet items (Note 34)	**137,902**	**93,214**

40. LEASES

Identified Assets and Lease Term

As of 31 December 2023, the Bank has 12 concluded lease agreements. All lease agreements relate to the rental of commercial space. In assessing the lease term for branches, the Bank estimates early withdrawal from the agreements would carry economic consequences to its operations.

Furthermore, prior to entering into the lease, the plan was to remain in the leased property for the full term of the agreement. For this reason, when determining the term of the lease agreement for branches, the Bank opts for a period that is equal to the contracted term without deductions linked to the option of early termination of the agreement.

Apart from the lease of commercial space, the Bank has 2 lease agreements for flats for the needs of its employees, all contracted for the 12-month period. In assessing the lease term for flats, the Bank estimates that early termination of the agreements would not carry economic consequences to its operations; therefore, it treats the above mentioned in line with the contractual term of 12 months, i.e. as short-term leases.

In addition, upon the expiry of the lease, the Bank's management makes a decision on whether to extend the term of flat leases, making it uncertain as to whether the contracted term of 12 months will be extended or not.

As of 31 December 2023, the Bank has a concluded lease agreement for IT equipment; however, considering that the value of each individual asset specified by the agreement is below EUR 5,000, the Bank applies the low-value asset lease exemption and does not recognise the lease in line with IFRS 16.

40. LEASES (Continued)

Movements in lease liabilities and right-of-use assets during the year were as follows:

Lease liabilities recognised as of 1 January 2022	**190,887**
Lease liabilities paid in 2022	(39,553)
New lease agreements in 2022	25,231
Effect of discounting lease liabilities by the incremental borrowing rate - interest expense	5,983
FX differences	(382)
Total lease liabilities as of 31 December 2022	**182,166**
Lease liabilities paid in 2023	(40,639)
Contract modifications in 2023	1,880
Effect of discounting lease liabilities by the incremental borrowing rate - interest expense	5,240
FX differences	(209)
Total lease liabilities as of 31 December 2023 (Note 37)	**148,438**
Lease liabilities with maturity up to 1 year	-
Lease liabilities with maturity from 1 to 5 years	77,178
Lease liabilities with maturity over 5 years	71,260
Right-of-use assets as of 1 January 2023	**175,093**
Depreciation of right-of-use assets in 2023 - charge for the year	(35,972)
Contract modifications in 2023	1,880
Total right-of-use assets as of 31 December 2023 (Note 27)	**141,001**

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

Pursuant to the Law on Accounting, the Bank conducted the reconciliation of its receivables by sending confirmations of outstanding items to all corporate customers and entrepreneurs with the outstanding balance as of 30 November 2023.

Out of 11,219 (2022: 11,219) confirmations sent, 841 (2022: 919) were confirmed, 6 (2022: 19) were disputed, while the remaining portion has not been returned.

The total value of disputed receivables of the Bank amounts to RSD 97 thousand (2022: RSD 27 thousand).

Considering that the reconciliation with the suppliers was performed on three different dates, it is not practical to state the amount of the unreconciled liabilities to suppliers, but there were no materially significant unreconciled balances of accounts payable.

42. COMPLIANCE WITH THE PERFORMANCE INDICATORS PRESCRIBED BY THE NATIONAL BANK OF SERBIA

Performance indicators	Prescribed values	Realised 31 December 2023	Realised 31 December 2022
	EUR	EUR	EUR
Capital	10 million	145 million	145 million
Capital adequacy ratio	Min. 8%	18.63%	19.06%
Tier 1 capital adequacy ratio	Min. 6%	18.63%	19.06%
Common equity Tier 1 capital Adequacy ratio	Min. 4.5%	18.63%	19.06%
Investments in non-financial sector entities and property, plant and equipment	Max. 60%	13.88%	12.71%
Aggregate large exposure ratio – sum of all exposures	Max. 400%	14.36%	26.27%
Exposure to a single party or a group of related parties	Max. 25%	10.57%	15.74%
Liquidity ratio	Min. 1	3.55	2.81
Narrow liquidity ratio	Min. 0.5	3.31	2.63
Liquidity coverage ratio (LCR)	Min. 100%	513%	256%
Foreign exchange risk indicator	Max. 20%	2.52%	2.56%
Concentration risk indicator	Max. 50%	0.00%	0.00%

43. RELATED PARTY DISCLOSURES

The Bank is a member of the ProCredit Group, comprised of development-oriented banks operating in Eastern Europe, South America, and a bank in Germany. The parent company of the Group is ProCredit Holding, Frankfurt - the company leading the ProCredit Group. ProCredit Holding also has two academies and the software development firm Quipu.

At consolidated level, the ProCredit Group is supervised by Bundesbank and BaFin. All members of the Group are majority owned by ProCredit Holding, and in the case of ProCredit Bank Serbia, ProCredit Holding (PCH) owns 100% of the Bank's ordinary shares.

(a) Outstanding Balances of Receivables and Payables from/to Related Parties at the End of Year

	Subsidiary (ProCredit Leasing)	Other related parties	Balance as of 31/12/2023	Balance as of 31/12/2022
Loans and placements to banks and other financial institutions	**-**	**1,615,154**	**1,615,154**	**801,643**
ProCredit Bank Germany	**-**	**1,615,154**	**1,615,154**	**800,783**
Other deposits in foreign currency	-	-	-	-
Nostro accounts	-	1,615,154	1,615,154	800,783
ProCredit Finance II SPV	**-**	**-**	**-**	**860**
Investments in subsidiaries	**127,752**	**-**	**127,752**	**127,752**
ProCredit Leasing (Note 25)	127,752	-	127,752	127,752

43. RELATED PARTY DISCLOSURES (Continued)

(a) Outstanding Balances of Receivables and Payables from/to Related Parties at the End of Year (Continued)

	Parent company (PCH)	Subsidiary (ProCredit Leasing)	Other related parties	Balance as of 31/12/2023	Balance as of 31/12/2022
Other assets	**2,039**	**1**	**3,146**	**5,186**	**1,289**
ProCredit Leasing	-	1	-	1	1
ProCredit Bank Germany	-	-	377	377	400
ProCredit Bulgaria	-	-	-	-	888
ProCredit Holding	2,039	-	-	2,039	-
ProCredit Bank Kosovo	-	-	2,112	2,112	-
ProCredit Bank Romania	-	-	657	657	-
Derivatives	-	-	**1,898**	**1,898**	**3,013**
ProCredit Bank Germany (Note 21)	-	-	1,898	1,898	3,013

	Parent company (PCH)	Subsidiary (ProCredit Leasing)	Other related parties	Balance as of 31/12/2023	Balance as of 31/12/2022
Deposits and other liabilities due to banks and other financial institutions	-	**186,127**	**1,449,694**	**1,635,821**	**6,146,921**
ProCredit Bank Germany	-	-	**1,449,694**	**1,449,694**	**5,947,918**
Deposit	-	-	1,406,286	1,406,286	5,895,623
Other	-	-	43,408	43,408	52,295
ProCredit Finance II SPV	-	-	**-**	**-**	**5,845**
Deposit	-	-	-	-	5,845
ProCredit Leasing		**186,127**	-	**186,127**	**193,158**
Deposit - transaction	-	186,127	-	186,127	193,158
Deposits and other liabilities due to customers	**1,887,830**	**-**	**-**	**1,887,830**	**3,779,093**
ProCredit Holding	**1,887,830**	**-**	**-**	**1,887,830**	**3,779,093**
Deposit	703,042	-	-	703,042	1,877,158
Borrowings (Note 33)	1,171,737	-	-	1,171,737	1,877,158
Other	13,051	-	-	13,051	24,777

43. RELATED PARTY DISCLOSURES (Continued)

(a) Outstanding Balances of Receivables and Payables from/to Related Parties at the End of Year (Continued)

	Parent company (PCH)	Subsidiary (ProCredit Leasing)	Other related parties	Balance as of 31/12/2023	Balance as of 31/12/2022
Derivatives	**-**	**-**	**1,046**	**1,046**	**347**
ProCredit Bank Germany (Note 31)	-	-	1,046	1,046	347
Other liabilities	**18,023**	**-**	**53,284**	**71,307**	**50,586**
QUIPU GMBH Germany	-	-	52,598	52,598	28,418
ProCredit Bank Germany	-	-	254	254	-
ProCredit Bank Kosovo			200	200	581
ProCredit Bank North Macedonia	-	-	-	-	214
Macedonian Academy	-	-	232	232	-
German Academy	-	-	-	-	514
ProCredit Holding	18,023	-	-	18,023	20,859

(b) Income and Expenses from Related Party Transactions During the Year

	Parent company (PCH)	Subsidiary (ProCredit Leasing)	Other related parties	2023 Total	2022 Total
Interest income	**-**	**-**	**19,350**	**19,350**	**2,330**
Procredit Bank Germany	-	-	19,350	19,350	2,330
Interest expenses	**94,274**	**-**	**89,298**	**183,572**	**218,659**
ProCredit Bank Germany	-	-	89,298	89,298	74,228
ProCredit Holding	94,274	-	-	94,274	139,723
ProCredit Bank Bulgaria	-	-	-	-	4,708
Fee and commission income	**-**	**47**	**-**	**47**	**512**
SPV	-	-	-	-	470
ProCredit Leasing	-	47	-	47	42
Fee and commission expenses	**65,737**	**-**	**100,668**	**166,405**	**163,214**
ProCredit Bank Germany	-	-	100,668	100,668	91,665
ProCredit Holding	65,737	-	-	65,737	71,549

43. RELATED PARTY DISCLOSURES (Continued)

(b) Income and Expenses from Related Party Transactions During the Year (Continued)

	Parent company (PCH)	Subsidiary (ProCredit Leasing)	Other related parties	2023 Total	2022 Total
Net gains from changes in fair value of financial instruments	**-**	**-**	**-**	**-**	**126,573**
ProCredit Bank Germany	-	-	-	-	126,573
Net gains from held for trading financial assets	**-**	**-**	**28,776**	**28,776**	**-**
ProCredit Bank Germany			28,776	28,776	-
Other operating income	**3,284**	**546**	**75,722**	**79,552**	**63,347**
ProCredit Bank B&H	-	-	7,633	7,633	6,570
ProCredit Bank North Macedonia	-	-	11,839	11,839	6,587
ProCredit Bank Romania	-	-	6,138	6,138	4,043
ProCredit Holding	3,284	-	-	3,284	65
ProCredit Bank Bulgaria	-	-	14,599	14,599	6,609
ProCredit Leasing	-	546	-	546	1,722
ProCredit Bank Albania	-	-	8,927	8,927	8,514
ProCredit Bank Georgia	-	-	8,331	8,331	9,861
ProCredit Bank Kosovo	-	-	11,430	11,430	16,645
ProCredit Bank Moldova	-	-	6,825	6,825	2,731
Other expenses	**173,716**	**-**	**413,581**	**587,297**	**501,417**
German Academy	-	-	45,080	45,080	34,160
Macedonian Academy	-	-	366	366	-
ProCredit Holding	173,716	-	-	173,716	159,496
QUIPU GMBH Germany	-	-	363,911	363,911	304,920
QUIPU Shpk Kosovo	-	-	4,219	4,219	2,841
ProCredit Bank Germany	-	-	5	5	-

43. RELATED PARTY DISCLOSURES (Continued)

(c) Commitments and Contingent Liabilities

	Parent company (PCH)	Subsidiary (ProCredit Leasing)	Other related parties	Balance as of 31/12/2023	Balance as of 31/12/2022
Issued payable guarantees	**-**	**-**	**15,109**	**15,109**	**8,927**
ProCredit Bank North Macedonia	-	-	3,242	3,242	2,927
ProCredit Bank Bulgaria	-	-	11,867	11,867	6,000
Revolving loan	**1,171,737**	**-**	**-**	**1,171,737**	**1,173,224**
ProCredit Holding (Note 33)	1,171,737	-	-	1,171,737	1,173,224
Receivables for forward FX swap purchases -					
ProCredit Bank Germany	**-**	**-**	**1,495,373**	**1,495,373**	**1,376,894**
Receivables for forward FX swap sales -					
ProCredit Bank Germany	**-**	**-**	**1,495,721**	**1,495,721**	**1,378,913**

(d) Loans to Employees

In 2023, the Bank approved loans to its employees under the terms and conditions that do not differ from those available on the market.

In 2023, the Bank approved loans to employees in the amount of RSD 96,657 thousand (2022: RSD 93,404 thousand).

The outstanding balance of loans granted to employees as of 31 December 2023 amounts to RSD 275,523 thousand (31 December 2022: RSD 390,284 thousand).

During 2023, no loans were approved to members of the Board of Directors.

(e) Remuneration to the Executive Board and the Board of Directors

Members of the Executive Board receive compensations based on salaries. The gross salaries paid out to the Executive Board's members in 2023 amounted to RSD 61,900 thousand (2022: RSD 35,366 thousand).

The total gross compensation of the Board of Directors' members amounted to RSD 7,741 thousand in 2023 (2022: RSD 3,146 thousand).

44. CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS

A summary of cash and cash equivalents included in the Statement of Cash Flows is presented in the following table:

	31 December 2023	31 December 2022
In RSD:		
Gyro account	10,419,001	6,611,375
Cash on hand	970,518	902,321
Total	**11,389,519**	**7,513,696**
In foreign currency:		
Foreign currency accounts (Note 23)	4,679,211	3,539,264
Cash on hand in foreign currency	5,046,955	1,563,643
Total	**9,726,166**	**5,102,907**
Balance as of	**21,115,685**	**12,616,603**

45. IMPACT OF THE GLOBAL MACROECONOMIC INSTABILITY ON THE BANK'S OPERATIONS

Since early March 2022, there has been increased instability in global financial and commodity markets due to the escalation of the conflict in Ukraine, which is still ongoing and has been accompanied by imposing sanctions on certain Russian companies and individuals. In addition, a Middle Eastern conflict between Israel and Palestine began in 2023.

These events have resulted in multiple problems that affect the stability of the global economy - increasing inflation rates, energy instability and uncertainty in the global banking sector, which may have considerable financial effects on many entities, including those conducting their operations in the affected areas and sectors, as well as interested stakeholders (e.g. suppliers and customers, investors and lenders).

The Bank conducted an analysis of its loan portfolio in order to assess the possibility of an adverse impact of the war in Ukraine and sanctions against Russia and Belarus on the quality of its loan portfolio and business operations. Clients having material business relationships with these countries were initially identified. For the most part, these clients were able to adapt to the changing situation and adjust their business relationships accordingly, as well as to mitigate potential risks. Neither the sanctions nor indirect war effects resulted in any significant changes in the quality of the loan portfolio.

In addition to the previously mentioned analysis, since the third quarter of 2022, the Bank has been estimating the potential impact of the energy crisis on its loan portfolio, by having identified clients from energy-intensive industries along with weaker financial indicators.

It can be concluded that the Bank neither had clients that migrated to a worse cluster nor the energy crisis had significant adverse effects on the loan portfolio by the end of 2023.

Despite the limited direct exposure, due to the continuation of the conflicts and further macroeconomic instability, an additional negative impact on the global economy can be expected, especially on energy prices, fluctuations in exchange rates, interest rates, stock market activities, supply chain disruptions and increased inflationary pressures that may indirectly affect the Bank's operations.

Certainly, the Bank will continue to carefully monitor the trends and respond in a timely manner to any additional market disruptions, and if necessary, carry out additional analyses of the loan portfolio.

46. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after the reporting date that would require adjustments or disclosures in the notes to the accompanying financial statements of the Bank as of and for the year ended 31 December 2023.

In Belgrade, 8 March 2024

Ivan Smiljkovic Member of the Executive Board	Igor Anic Chairman of the Executive Board

ProCredit Bank a.d. Beograd 4

ProCredit Bank

PROCREDIT BANK A.D. BELGRADE

ANNUAL BUSINESS REPORT
FOR THE YEAR ENDED 31 DECEMBER 2023

Contents

1. Business Activities and Organisational Structure of ProCredit Bank a.d. Belgrade

ProCredit Bank a.d. Belgrade (hereinafter: the "Bank" or "ProCredit Bank") was established based on the Contract on Incorporation of Micro Finance Bank a.d. Belgrade concluded on 31 March 2001 among five founders - foreign financial institutions.

The Bank obtained an operational licence according to the Decision no. G. 538 passed by the National Bank of Yugoslavia on 5 April 2001. The Bank acquired the status of a legal entity after being registered with the court register of the Commercial Court in Belgrade under the number V Fi-3571- 01, dated 9 April 2001 (registration folder 3-135-00).

The Bank performs its operations in accordance with the Law on Banks, the Contract on Incorporation and Articles of Association and has the "significant authorisation" for performing payment transactions and foreign credit transactions.

The Bank performs its operations at its Head Office in Belgrade, situated at 17 Milutina Milankovica, and in 6 branches located in Belgrade, Novi Sad, Kragujevac, Nis, Subotica and Pancevo.

Who are the shareholders of ProCredit Bank in Serbia?

ProCredit Bank in Serbia operates as a part of the ProCredit Group, which is managed by ProCredit Holding, headquartered in Frankfurt am Main, Germany. ProCredit Bank is a member of the ProCredit Group.

ProCredit Holding AG & CO KGaA owns 100% of the Bank's capital and it is the ultimate parent company of the ProCredit Group.

Key Features of the ProCredit Group

The Procredit Group is comprised of banks and financial institutions offering banking services in developing countries in Eastern Europe and Latin America, as well as in Germany. All ProCredit banks adhere to the highest standards of responsible banking when performing their operations.

All banks in the ProCredit Group operate as "parent companies" for small and medium-sized enterprises (SMEs), farmers and individuals, while fostering a business approach based on ethical values. The following five principles guide the operations of the ProCredit institutions:

- **Transparency:** We provide transparent information to our customers, public and our employees. For example, we endeavour to ensure that our customers fully understand the terms and conditions of the agreements they conclude with us and we are engaged in delivering financial education so as to raise public awareness of the dangers of non-transparent financial offerings.

- **Open communication culture:** We communicate openly, fairly and constructively with each other. We deal with conflicts at work in a professional manner, working together to find solutions.

- **Social responsibility and tolerance:** We offer our customers sound and well-founded advice. Before granting loans to our customers, we assess their economic and financial position, their business potential and repayment capacity in order to avoid over-indebtedness and provide appropriate financial services. In addition, we are committed to treating all customers and employees with fairness and respect, regardless of their origin, colour, language, gender or religious beliefs.

  We also ensure that loan applications are evaluated based on the applicant's compliance with our ethical business practices. Loans are not granted to enterprises or individuals if they are suspected of making use of unsafe, environmentally harmful or morally objectionable forms of labour, in particular child labour.

1. Business Activities and Organisational Structure of ProCredit Bank a.d. Belgrade (Continued)

Key Features of the ProCredit Group (Continued)

- **High professional standards**: Our employees take personal responsibility for the quality of their work and constantly work on their professional development.

- **Personal integrity and commitment:** The rights and personal integrity of all ProCredit Group employees are respected to the highest degree. At the same time, dedication and honesty are expected from all employees at all times.

In our daily operations, we are not focused on a short-term profit gain, but rather on establishing and maintaining long-term partnerships with our customers.

Related Party Transactions

The Bank is a member of the ProCredit Group, comprised of development-oriented banks operating in Eastern Europe and Latin America, and a bank in Germany.

The Group's parent company, ProCredit Holding, Frankfurt – a company managing the ProCredit Group, is comprised of two academies and Quipu, a software development firm.

At consolidated level, the Group is supervised by Bundes Bank and BaFin. ProCredit Holding is a majority shareholder of all Group members, and in the case of ProCredit Bank Serbia, ProCredit Holding owns 100% of the Bank's ordinary shares.

The Bank is the founder of ProCredit Leasing d.o.o. Belgrade, which is registered with the Serbian Business Registers Agency in Belgrade under the registration no. 1973/2005 of 17 February 2005. The Bank is the sole owner of ProCredit Leasing d.o.o. Belgrade.

Pursuant to the Law on Bankruptcy and Liquidation of Banks and Insurance Companies, on 1 January 2018 the General Meeting of ProCredit Leasing d.o.o. passed a Decision on Terminating Operations and Initiating a Liquidation Procedure that was submitted to the National Bank of Serbia as the official regulator, within the legal deadline, which consented to the initiation of the liquidation procedure. The liquidation procedure of ProCredit Leasing d.o.o. Belgrade commenced on 30 April 2018 and is still ongoing.

Since the Bank meets the requirements disclosed in Article 8 of the National Bank of Serbia's Decision on the Supervision of the Banking Group on a Consolidated Basis, the Bank has not prepared the consolidated financial statements as of and for the year ended 31 December 2023.

Transactions performed among the Group members include lending, deposits, employee training and other transactions, and are subject to a transfer pricing analysis for 2023.

A detailed breakdown of related party transactions is disclosed in Note 43 to the Bank's financial statements for the year ended 31 December 2023.

2. *Analysis of Financial Statements*

ANALYSIS OF THE BALANCE SHEET

A structure of total balance sheet assets and equity and liabilities of the Bank as of **31 December 2023** and a share of individual items are as follows:

ASSETS	In RSD thousand	Share in %	LIABILITIES AND EQUITY	In RSD thousand	Share in %
Cash and balances held with Central Bank	29,917,809	18.39	Deposits and other liabilities due to banks, other financial institutions and central bank	23,957,643	14.72
Derivatives	1,898	0.00	Deposits and other liabilities due to other customers	117,056,212	71.94
Securities	5,203,368	3.20	Derivatives	1,095	0.00
Loans and placements to banks and other financial institutions	19,696,333	12.10	Provisions	387,230	0.24
Loans and placements to customers	103,654,790	63.71	Current tax liabilities	119,666	0.07
Investments in subsidiaries	127,752	0.08	Deferred tax liabilities	61,438	0.04
Intangible assets	390,354	0.24	Other liabilities	1,518,556	0.93
Property, plant and equipment	2,217,268	1.36	**Total liabilities**	**143,101,840**	**87.94**
Investment property	136,123	0.08	Share capital	6,439,757	3.96
Non-current assets held for sale and assets from discontinued operations	47,370	0.03	Retained earnings	10,878,233	6.69
Other assets	1,322,652	0.81	Reserves	2,295,887	1.41
			Total equity	**19,613,877**	**12.06**
TOTAL ASSETS	**162,715,717**	**100.00**	**TOTAL LIABILITIES AND EQUITY**	**162,715,717**	**100.00**

The Bank's total balance sheet assets as of 31 December 2023 increased by RSD 13,982,457 thousand or by 9.40% in comparison to 31 December 2022, when it amounted to RSD 148,733,260 thousand.

The largest growth was recorded in loans and placements to banks in the amount of RSD 8,084,494 thousand or by 69.62% in comparison to 31 December 2022, primarily due to increased investments in repo transactions.

On the other hand, loans and placements to customers recorded a decrease in the amount of 3,258,349 thousand or by 3.05% in comparison to the same date in 2022. As regards the structure of granted loans and placements by sector structure, corporate customers dominate with a share in the total gross loans and placements of 72.19%, i.e. RSD 74,829,329 thousand (31 December 2022: 77.42%), whereby long-term placements account for 79.42% (31 December 2022: 79.91%).

Securities also decreased in 2023 by RSD 1,538,611 thousand or 22.82%, primarily as a result of matured government bonds issued by the Ministry of Finance of the Republic of Serbia.

In the liabilities structure, there was in increase in deposits of other customers by RSD 22,837,110 thousand or 24.24% in comparison to 31 December 2022, which is mainly the result of an increase in time deposits of retail customers.

As of 31 December 2023, retail deposits accounted for 45.10% (31 December 2022: 39.22%), while corporate deposits accounted for 54.90% of the total customers' deposits (31 December 2022: 60.78%).

2. Analysis of Financial Statements (Continued)

ANALYSIS OF THE BALANCE SHEET (Continued)

Simultaneously with the increase in customer deposits, there was also a decrease in liabilities to other financial institutions in the amount of RSD 10,180,208 thousand, i.e. by 49.49% as compared to 31 December 2022, mostly due to a decrease in foreign currency deposits from related parties.

The total equity constitutes 12.05%, and share capital 3.96% of the Bank's total liabilities and equity as of 31 December 2023 (31 December 2022: 12.57% and 4.33%, respectively).

There were no changes in the shareholder structure during 2023. In addition, the Bank approved dividends to the shareholder in the amount of RSD 1,638,000 thousand, and paid dividends in the amount of RSD 1,392,300 thousand.

The Bank is solely owned by one shareholder holding a 100% stake in the total share capital. The Bank's shareholder structure as of 31 December 2023 and 2022 is as follows:

In RSD thousand	Share capital in RSD thousand	% of equity interest
ProCredit Holding AG & CO KGaA, Frankfurt, Germany	3,663,012	100.00
Total	**3,663,012**	**100.00**

A detailed structure of balance sheet items and information on the business policies of the Bank and the ProCredit Group in terms of funds placement, loan collection and an evaluation of the borrower's financial position are disclosed in Notes 20 to 40 to the Bank's financial statements for the year ended 31 December 2023.

Pursuant to Article 22 of the Law on Accounting, the Bank performed a reconciliation procedure of receivables and payables with its customers and debtors and there were no materially unreconciled receivables and payables.

2. *Analysis of Financial Statements (Continued)*

ANALYSIS OF THE INCOME STATEMENT

According to the financial statements for the year ended 31 December 2023, the Bank reported total income in the amount of RSD 10,979,320 thousand (2022: RSD 7,616,399 thousand) and total expenses in the amount of RSD 8,645,353 thousand (2022: RSD 6,384,909 thousand). The Bank realized a net profit in the current year in the amount of RSD 2,333,967 thousand (2022: RSD 1,231,490 thousand).

The structure of the Bank's income statement for the **year ended 31 December 2023** is as follows:

Description	**In RSD thousand**
Income	
Interest income	8,203,007
Fee and commission income	2,512,011
Net foreign exchange gains and effects of contracted foreign currency clause	45,151
Net gains from derecognition of financial instruments measured at amortised cost	11,318
Other operating income	112,693
Other income	89,097
Deferred tax income	6,043
Total income	**10,979,320**
Expenses	
Interest expenses	(2,502,512)
Fee and commission expenses	(616,142)
Net losses from changes in fair value of financial instruments	(9,227)
Net losses from impairment of financial assets not measured at fair value through profit or loss	(930,148)
Salaries, compensations and other personal expenses	(1,332,114)
Amortisation and depreciation expense	(172,293)
Other expenses	(2,804,274)
Income taxes	(278,643)
Total expenses	**(8,645,353)**
Net result – profit after tax	**2,333,967**

The Bank's profit after tax increased by 89.52%, mostly due to an increase in interest and fee and commission income in 2023.

Interest income accounted for 74.71% of total income in 2023 and it increased by RSD 3.322,082 thousand or 68.06% in comparison to 2022, primarily due to an increase in interest income on loans to corporate customers and entrepreneurs and depositing surplus liquid assets with the National Bank of Serbia by means of repo transactions.

Interest expenses accounted for 28.95% of total expenses in 2023 and they increased by RSD 1,546,286 thousand or 161.71% in comparison to 2022, mainly due to the increase in retail deposits. Accordingly, the largest growth was recorded in interest expenses on deposits of retail customers.

An increase in net losses from impairment of financial assets not measured at fair value through profit or loss in 2023 by RSD 121,923 thousand or 15.09% in comparison to 2022 is the result of an increase in provisions for loans and placements to customers.

A detailed breakdown of income statement items is disclosed in Notes 7 to 18 to the Bank's financial statements for the year ended 31 December 2023.

3. HR Information

The Bank had 431 employees as of 31 December 2023 (31 December 2022: 404 employees).

ProCredit Bank puts considerable effort and invests significant funds in continuous professional development of its staff. Over the last years, namely from 2014 until the end of 2023, the Bank invested approximately EUR 9 million in various professional development training programmes for its employees.

In 2023, training programs and all seminars returned to regular mode of operation, i.e. live and in the premises of the academy in Furth, as well as in the training centre on Avala. Only a small number of theoretical block schedules was held as an exception, i.e. online.

The plan is to invest approximately EUR 500,000 in 2024 in training programs. Intensive, multiannual, training programmes are organised and paid by the Bank for existing managers and for employees in whom this potential has been recognised. Apart from them, all employees interested in this form of professional development may apply for these programmes. 66 employees have successfully completed all courses at these academies, and currently 19 employees are attending courses at both academies.

Special attention is paid to the English language learning. Six-week intensive English courses are organised for all employees, taught by native speakers. In 2023, 6 four to six-week online courses were organised and a total of 11 employees attended them. The courses continue in 2024, there will be 6 courses, and they will be organised both online and as a hybrid (combination of live and online lectures).

Apart from the aforesaid training for permanent employees, in 2024 an introductory training course on banking and finance named ProCredit Onboarding Programme will be organised four times over a six-month period for university graduates and all those who are interested and have practical experience. The goal of this program is the training of new employees and the selection of the best candidates for open positions in our team.

The ProCredit Onboarding Programme is an international programme held in the English language and attended by employees from all of the countries in which ProCredit operates. This programme is an entry point for employment with the Bank and over the past ten years more than 750 young graduates from all over Serbia have attended it, out of which about 340 found employment with the Bank, whereas 110 of them have remained in the Bank and are an important part of our team today.

ProCredit Bank fosters a culture of open and direct communication at all levels. The performance of all employees is regularly evaluated on an annual basis by a team of evaluators comprised of top management members, including the members of the Executive Board. These evaluations began in 2013 and have had a significant impact on improving staff performance and on the resource management.

Apart from a thorough annual evaluation, all employees have an annual interview with their line managers, allowing for continuous feedback that stimulates two-way communication and gives employees the chance to get a broader picture of the development strategy and their own personal contribution to the Bank's success.

Gender equality is a global issue, but the Bank puts a team effort in and is committed to suppressing gender or any other discrimination in the workplace. ProCredit Bank is committed to complying with the highest ethical and legal compliance standards.

In order to empower our employees and raise their awareness of various important topics, we launched the ProCredit Talks Project. Its purpose is to cover one important topic and discuss it with experts at least once a month. There were miscellaneous topics: climate change and environmental protection, human rights and inclusion, mental health, and many others. Hence, the Bank's employees have the opportunity to learn about relevant facts and ask questions about everything they are interested in.

4. Information on Environmental Protection Investments and Corporate Social Responsibility

ProCredit Bank tends to reduce a negative impact on the environment and the social community in which it operates through its business activities and the provision of services to its customers. Doing business in a way that ensures a sustainable environmental and social approach is a key component of all institutions that are members of the ProCredit Group. In that regard, all ProCredit institutions have defined and implemented high standards of environmental and community protection in which they operate through an environmental management system.

When conducting its operations, the Bank adheres to the Group's Environmental Management Policy, which was implemented in 2011. The Group's Policy was updated in 2016 and harmonized with the requirements of the ISO 14001 Standard. Furthermore, the Policy was also updated in 2019 and additionally harmonised with the requirements of ProCredit Holding. The Policy defines the Bank's approach based on which the institution systematically and comprehensively reduces an internal and external impact on environment and the community. ProCredit Bank has fully adopted the *Environmental Management System* (EMS). The Bank has managed to reduce the negative environmental impact over the past year using this system, not only through internal measures for reducing energy consumption and resources, but also by financing energy efficiency projects, renewable energy sources and by implementing other environmental protection measures.

In order to institutionalise the EMS, the Bank established the Energy Efficiency and Environmental Protection Unit with 2 full-time employees whose tasks, among other things, include the monitoring of the Bank's compliance with the applicable environmental legislation and regular encouragement and raising awareness of employees to apply in their daily work the underlying rules and principles that guide companies towards the environmental management and protection. Over time, the team has grown in order to be able to cover a wide range of the Unit's activities.

In 2016, ProCredit Bank harmonised the EMS with the requirements of ISO 14001:2015 Standard and, thereby, was the first one to be awarded an environmental protection management certificate in the local financial sector. Having obtained this certificate, the Bank confirmed its compliance with the environmental protection legislation and a planned environmental impact reduction by involving the top management in EMS processes.

At the end of 2019, after the expiration of the original three-year certification period, the Bank successfully underwent a recertification process, which reaffirmed the Bank's compliance with the required ISO 14001 Standard. In 2020 and 2021, regular annual internal and external EMS reviews were performed and no incompatibilities with the standard were identified. In December 2022, the Bank successfully completed another recertification process in accordance with ISO standard 14001: 2015, whereas another supervisory review was successfully conducted in 2023.

A systemic and comprehensive approach to this topic at ProCredit institutions is conducted through the following three pillars:

Pillar 1 - Internal Environmental Protection System

This pillar refers to all measures taken in the Bank with the aim of improving environmental protection and reducing negative environment impact through energy and resources consumption. Measures applied by the Bank are related not only to those measures that affect employee habits, but also to the measures that refer to changes in business processes, including technical improvement of buildings and equipment used in our daily operations.

In order to track the consumption of energy and other resources, we use a special tool (iEMS tool) to manage and monitor the consumption of the following items: electric and thermal energy, gas, fuel, water, paper, paper and other waste, and greenhouse gas emissions. All forms of consumption are analysed and based on that, goals are set for reducing consumption and saving these resources by defining the Annual Environmental Plan.

4. Information on Environmental Protection Investments and Corporate Social Responsibility (Continued)

Pillar 1 - Internal Environmental Protection System (Continued)

The Bank applies the selection criteria for so-called green suppliers in its procurement procedures, based on which the Bank further seeks to reduce the negative environmental impact. In 2019, based on updated guidelines provided by ProCredit Holding, the Bank began applying sustainable development criteria for its suppliers. A screening process was introduced on existing processes. In addition, changes in procurement processes and procedures were initiated. A Bank's short-term goal is to achieve a minimum of 50% of suppliers that meet the defined sustainability criteria, while in the long run we expect cooperation with fully sustainable suppliers. With this move, the Bank further promotes sustainable development in Serbia.

In 2023, the Bank continued to strictly adhere to the standards related to the Environmental Protection System. This entails the further implementation of technical and other measures in the Bank, which will further reduce negative environmental impacts.

The Bank has set a medium-term goal to become a carbon-neutral institution. In order to do so, it will continue to invest in a reduction in energy consumption and the use of renewable energy sources and material. The Bank's vehicle fleet represents part of that goal, and in 2022 we reached the result of over 90% of electric or hybrid vehicles in the vehicle fleet. The plan for 2023 was to reach our goal of 100% eco-friendly vehicles, which has been achieved.

As regards employee education and raising awareness of environmental protection, our experts regularly attend training sessions on environmental protection, participate in conferences and numerous activities of the Bank, whose objective is to raise ecological awareness of citizens in their daily lives, both at work and in their homes.

Continuous improvement of internal performance is certainly a feature of ProCredit Bank. Through continuous monitoring of consumption, analysis of results, raising employee awareness and constant investment and commitment, the Bank strives to reduce its negative impact on the environment to the smallest possible extent on the one hand. On the other hand, it always strives to, where possible, achieve a positive impact on society and the environment in which it operates.

Pillar 2 - Environmental and Social Risk in Lending

This pillar's objective is to reduce the Bank's external impact through lending to customers. All ProCredit banks have a List of Excluded Activities, which comprises activities that the Group is unwilling to support, finance or promote, as they are not in line with our principles and have a negative impact on both the environment and the community. We apply the *Standard for Managing the Impact of Lending Activities on Environmental Protection and Social Responsibility* to the operations we support. This Standard prescribes the conditions and method for assessing environmental and social risks in lending.

In applying the environmental aspect to the loan approval process, ProCredit Bank aims to improve the overall environmental awareness of its customers.

Therefore, on the one hand, the Bank endeavours to provide the most reliable assessment of the environmental and social impact of customers' investments, and on the other hand, it estimates whether customers' business operations comply with the Bank's environmental protection principles and the effective laws and by-laws.

In addition, the Bank promotes investments in technologies and measures that are not harmful to the environment and help to reduce hazardous environmental impacts or improve environmental performance.

4. Information on Environmental Protection Investments and Corporate Social Responsibility (Continued)

Pillar 2 - Environmental and Social Risk in Lending (Continued)

In 2020, the updated *Standard for Managing the Impact of Lending Activities on Environmental Protection and Social Responsibility* was implemented, which resulted in further improvement of this risk assessment aspect at the Bank and its compliance with current challenges triggered by climate and resource risks. The responsibilities of the Unit for Customers' Operational Risk Assessment in terms of environmental and community protection and the Energy Efficiency and Environmental Protection Unit were specified in more details. The instruction for an external review of environmental and social risks was simplified and the risk assessment process for protection zone was clarified. In addition, the List of Excluded Activities was amended, representing the most important part of the changes to the Standard in 2020.

At the end of 2021, *the Standard for Managing the Impact of Lending Activities on Environmental Protection and Social Responsibility* was further updated, which additionally contributed to monitoring and analysing the activities that significantly affect the environment and social responsibility. Furthermore, the List of Excluded Activities was also updated to include explanations of existing items and new items. A new update of *the Standard for Managing the Impact of Lending Activities on Environmental Protection and Social Responsibility* and the List of Excluded Activities is expected in 2024.

The constant improvement of the process continued in 2023, as well as the assessment of our customers from the point of view of environmental and social aspects. The Bank regularly analyses its portfolio in accordance with environmental risk groups that can be classified as low, medium and high-risk levels. Certainly, considering the List of Excluded Activities, the Bank does not finance the estimated riskiest activities and, thus, makes its contribution to the preservation of the environment.

Pillar 3 - Green Financing

Green financing is a significant part of the Bank's business development. Through this type of financing, the Bank strongly encourages the green economy development in Serbia by supporting energy efficiency projects, renewable energy sources and other green measures.

The benefits of such an approach and support are multiple for the domestic economy, since energy efficiency improvement provides entrepreneurs, companies and farmers in our country with an opportunity to enhance their competitive advantage, i.e. to reduce costs and increase their productivity and product quality.

Additionally, the Bank carries out numerous activities dedicated to raising awareness of customers about the importance of investing in energy efficient solutions and renewable energy sources, while interested customers are provided with credit support, based on which they can modernize their business activities, improve living comfort and ensure significant savings.

In 2020, the Bank disbursed almost EUR 40 million of green loans and thus achieved an 8% growth of this portfolio on an annual basis.

The share of green loans in the total portfolio reached almost 16%, while the Bank's medium-term goal is for the green portfolio to reach one fifth of the total customers' exposures.

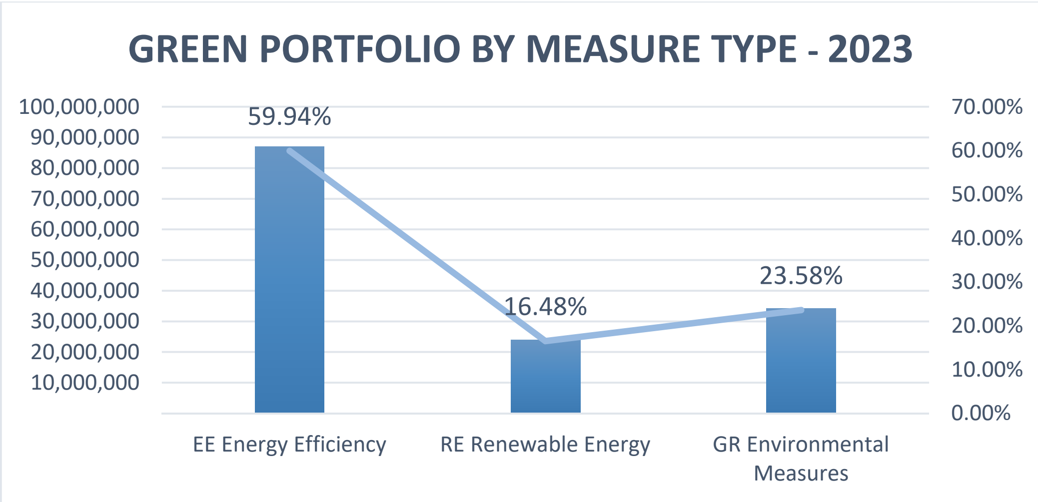
In 2021, the Bank disbursed over EUR 45 million of green loans, whereas the share of the green portfolio in the total portfolio was about 14%.

In 2022, the Bank disbursed almost EUR 42 million in the green portfolio, whereas the share of the green portfolio in the total portfolio increased to 15%.

In 2023, the Bank disbursed approximately EUR 44 million of green loans, whose share in the Bank's total portfolio accounts for about 16%.

4. Information on Environmental Protection Investments and Corporate Social Responsibility (Continued)

Pillar 3 - Green Financing (Continued)



EE - energy efficient measures; RE - renewable energy sources; GR – environmentally friendly measures (in accordance with ProCredit classification and internal procedures)

We believe that only this systemic and comprehensive approach to environmental protection demonstrates our true dedication to these values, and that, on the other hand, it can ensure sustainability in managing the Bank's environmental and community protection activities.

ProCredit Bank is a member of a wider social community and, as such, it partakes along with other participants in creating a gross domestic product, as well as in its distribution, exchange and consumption. In that regard, as one of its main goals, the Bank recognizes corporate social responsibility as a part of its ethical responsibilities in terms of support provision to children and family, youth, schooling, sports and education.

The Bank supports and encourages the development of different social segments through a wide range of activities based on its non-financial reporting and socially responsible business activities.

In order to contribute to the community, ProCredit Bank organised several fundraising events in 2023, including the donation of used, good quality furniture to hospitals in Subotica and Sombor and to a primary school in Bor.

In addition, we donated a certain number of books titled *"Ti si ta"* (You are the One) written by Ana Dornik to the Oncology Department of the General Hospital in Subotica with the aim of empowering women. As part of our in-house *"Open Library" project*, we collected a certain number of used books, which were donated to the National Library Vuk Karadzic in Kragujevac.

Another important topic we covered in 2023 was the importance of recycling and reusing different items and products. An in-house *ProCredit Garage Sale* was organised for the purpose of donating second-hand, but well-preserved, clothes that were displayed for sale. All collected money was later used to replace joinery items at the Intermunicipal Association of the Blind in Krusevac.

The *"Produce Energy" project* with its prize award, which was developed with the National Geographic, aimed at educating the general public about the benefits of using renewable energy sources. The importance of environmental protection for ProCredit Bank is reflected in the fact that 110 trees were planted in Subotica in cooperation with the Green Oasis organisation.

5. Planned Development in the Coming Period

Increasing the customer base in all segments remains a strategic goal of the Bank, as a basis for the future operations. A higher volume of transactions, as well as a more significant share of demand deposits will ensure a stable source of funding in the coming years.

In accordance with the Bank's goal to increase the customer base, further penetration of the retail segment has been planned along with an offer of a full range of financial products, which will entirely cover customers' needs. In order to maximise its outreach to potential customers, the Bank will increase the number of retail advisers in its branches. The Bank's focus will remain on the further promotion of digital banking in this customer segment and regular introduction of new technological solutions, as well as the adaptation of the existing ones, in order to increase efficiency.

Micro, small and medium-sized enterprises will remain the Bank's strategic segment and the pillar of its further development. Further process optimisation and the adaptation of the offering of financial services will remain a prerequisite for further successful cooperation with existing customers and for the acquisition of the new ones.

The Bank will continue its cooperation with international financial institutions that see ProCredit Bank as a stable partner, successful in investing their funds on the Serbian market.

The professional staff development will continue through identifying with our institution by respecting the approach of high personal responsibility via trainings, promotions, supporting employee initiatives and selecting personnel who share the values of the ProCredit Group. One of the Bank's most important investments will remain investing in employee training and professional development.

Future optimization of internal processes is expected to improve efficiency. The concept of cashless operations has a direct impact on increasing the efficiency of staff and processes. Increasing efficiency will remain an important goal for the coming year as well. Promotion of electronic and mobile banking and self-service zones helped position the Bank as a modern institution, available to customers 24 hours a day, 7 days a week. The above-mentioned services will be supported by a new software solution that will improve the efficiency of employees working with customers.

Adequate operating costs management will allow the cost-to-income ratio to be around 50%.

Achieving the planned ROE is expected from an increase in overall cooperation with customers, both existing and new ones. The stagnation in the first half of 2024 and the expected decline in interest rates in its second half, along with adequate and planned measures to reduce funding prices on the liability side, will keep the net interest margin close to the last year's level. An increase in the number of customers and the transaction volume will result in increased fee and commission income, which will compensate the income and maintain profitability at the last year's level.

6. Research and Development Activities

The Bank has not been engaged in any activities relating to market research and development in 2023.

7. Information on Treasury Shares

The Bank does not have treasury shares and has not been engaged in any activities relating to repurchase of treasury shares in 2023 or in prior years.

8. Existence of Branch Offices

The Bank does not have any branch offices in its organization.

9. Financial Risk Management and Protection

Risk management system is organised according to the provisions of the Law on Banks and relevant decisions of the National Bank of Serbia that define risk management and capital adequacy, as well as the provisions of the Articles of Association of the Bank.

According to the current legislation, the Board of Directors is responsible for establishing a uniform system of risk management and supervision thereof. It is obliged to ensure that the Executive Board of the Bank is capable of identifying risks to which the Bank is exposed, and to ensure that the control of these risks is carried out in line with approved policies and procedures.

The responsibilities of the Executive Board of the Bank, in terms of risk, are implementation of risk management strategy and policies and capital management strategy; adoption of procedures for identification, measurement and assessment of risk, and managing risks, i.e. analysing the effectiveness of their implementation and reporting to the Board of Directors on these activities.

The Risk Management Department is responsible for the identification, measurement, assessment and management of the risks assumed by the Bank in its regular business, as well as providing opinions on new products generating risk and other general areas that imply risk.

The risk management policies applied by the Bank and approved by the Board of Directors are in line with the applicable legal framework and requirements of the National Bank of Serbia.

In addition to compliance with the local regulatory requirements, the Bank's policies comply with the requirements of the regulator of the Federal Republic of Germany. The Bank regularly, on a quarterly basis, notifies the competent risk management departments of the Group of its risk position. The Group’s Risk Management Department regularly monitors key risk indicators, providing additional support in case of need.

The Risk Management Strategy and Plan that defines the Bank’s risk appetites, policies relating to all significant risks, the Capital Management Strategy, Capital Management Policy and the Capital Management Plan, govern risk management at the Bank.

Indicators of risk appetite established at the Bank’s level are based on the following principles (criteria):

- Indicators describe in detail the high risk (limit) appetite by converting to quantitative and qualitative measurements, which cover core business areas;
- Indicators are integrated with the strategic objectives and reflect the structure of significant risks to which the Bank is exposed, and the level of risk required for the achievement of the Business Plan. The risk appetite includes quantitative indicators, which can be assigned to the levels of the Bank’s business, risk types, and other levels in order to effectively control the risk profile of the Bank and the ProCredit Group;
- Risk appetite indicators have targeted risk levels set out in the Bank's Strategy in correlation with the system of limits/thresholds applied to control the risk profile at operational level;
- The risk appetite includes indicators that define the amount of risk in stressful environment for an adequate assessment of the Bank's resistance to internal and external risk factors;
- Risk appetite indicators are integrated into all internal processes of the Bank, including its business planning, capital adequacy, liquidity and asset and liability management (ALM); and
- Risk appetite indicators include a risk matrix (risk probability and impact assessment) provided by the legal requirements of the national regulator.

Due to the nature of its activities, the Bank is exposed to a number of risks, with the most significant ones listed below.

9. *Financial Risk Management and Protection (Continued)*

/i/ Credit Risk

In its operations, the Bank is exposed to credit risk, which may be defined as the possibility of the debtor defaulting on their obligations towards the Bank in terms of the contracted amount and the due date. Exposure to credit risk arises primarily from lending to customers.

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

- Evaluates the creditworthiness of each individual debtor based on its total indebtedness under loans, guarantees, and other credit products;
- Analyses risks arising from the very investment that is the subject of lending;
- Specifies the limits of clients' credit indebtedness based on a risk assessment;
- Lends only to creditworthy clients and obtains appropriate collateral; and
- Has separate processes for lending credit products, i.e. customer relationships that start with the process of analysing client creditworthiness for all loans to medium and large clients.

In order to control credit risks, the Bank has developed a prudential credit policy. The clients to whom loans are granted are analysed carefully and in detail. Decisions on lending to clients are made based on the borrower's repayment capacity and the corresponding collateral.

The decision on credit exposure is based on the following four criteria:

(a) **Reliability, reputation and stability of the client's operations**: results of the client profile analysis and how well the client mitigates operational risk, management risk, organisational risk, market risk and political and legal risk. This includes the client's credit history with the Bank and other financial institutions, and a usage overview of the services the Bank has on offer; decisions made by the client in the past, as well as the client's legal history. For exposures which require the results of the classification of risk, such results are taken into account.

(b) **Ability to pay/liquidity**: results obtained by responsible employees concerning the client's ability to repay its debt.

(c) **Pledge/collateral**: structure and value that meets the Bank's requirements.

(d) **Business/operational potential**: the client's needs as a supplement to the request that is being processed and potential future collaboration with the Bank.

Classification of Financial Assets and Credit Risk Provisions

The Bank has developed procedures for classification of loans and other receivables in line with the assessed level of collectability.

The central element of the Bank's IFRS 9 impairment approach is the expected credit loss (ECL) model for impairment recognition and measurement. This model requires the timely identification of ECLs in order to ensure that the amount of identified ECLs reflects changes in the credit risk of financial instruments at each reporting date.

The objective of the impairment model is to identify ECLs during the lifetime of a financial instrument considering all realistic and supporting information, including the forward-looking.

9. *Financial Risk Management and Protection (Continued)*

/i/ Credit Risk (Continued)

Classification of Financial Assets and Credit Risk Provisions (Continued)

This model has three stages, which are based on changes in the credit risk exposure occurred since the date of initial recognition – Stage 1, 2 and 3.

Stage 1 includes financial assets that have not experienced a significant increase in credit risk since the initial recognition, as well as those assets that show low credit risk at the reporting date or those assets for which there are no triggers indicating a need for allocation to Stage 2 or Stage 3.

Stage 2 includes financial assets that have experienced a significant increase in credit risk since the initial recognition, but for which there is no objective evidence of impairment, whereas Stage 3 includes all exposures that are impaired at the reporting date.

Through the calculation of provisions, the Bank calculates impairment on a monthly basis on receivables where impairment is established at the portfolio level (group provisions), and individually - impairments determined at the level of an individual client.

In case of *group-based impairment assessment*, firstly the classification of financial assets according to portfolio quality indicators into impairment levels is conducted. The impairment stages differ according to the degree of increase in credit risk from the moment of initial recognition.

In accordance with IFRS 9 "Financial Instruments", an appropriate loan loss provision (LLP) rate depends on the segment of the portfolio in which client exposure is classified (Stage 3, Stage 2 and Stage 1).

In case of insignificant individual credit exposures which indicate signs of impairment, usually an individual impairment test is not performed, as operational costs do not justify a comprehensive impairment test for each of these clients.

Impairment allowances are calculated by applying a general weight under the contamination principle, on the established principal in the event of group provisioning. Only in exceptional cases, the Bank can perform an impairment test on insignificant individual credit exposures through individual impairment assessment.

Specific individual impairment (which is based on an individual assessment) is calculated on the individually significant exposures that show signs of impairment and for these, the impairment test is carried out on an individual basis.

Individually significant exposures are credit exposures to clients, whose sum of the balance sheet and off-balance sheet exposure exceeds EUR 250,000 at the reporting date.

The process of determining specific provisions on an individual bases aims to measure impairment loss at the level of a client with its related parties. Individual impairment is determined based on the net current value of future inflows. In other words, provisions are determined in the amount of individual receivables or portion of receivables for which collection is not expected.

In 2023 and 2022 there were no credit-impaired financial assets, whose contractual terms and conditions were considerably modified to result in the derecognition of the original asset and the recognition of a new financial asset (POCI).

9. *Financial Risk Management and Protection (Continued)*

/i/ Credit Risk (Continued)

Loan Portfolio Quality and Maximum Exposure

The table below presents an overview of the exposure to credit risk as of 31 December 2023 and 2022, indicating the Bank's maximum exposure to credit risk before collaterals.

In addition to credit exposures based on loans to banks and loans to clients, the table also includes: placements to the National Bank of Serbia (NBS) based on repo transactions, the NBS treasury bills, financial assets at FVOCI and off-balance sheet items that may generate credit risk for the Bank (broken down according to the items constituting the position):

In RSD thousand

Balance sheet items exposed to credit risk	Net exposure 31 December 2023	Net exposure 31 December 2022
Loans and placements for business purposes	64,509,260	69,177,093
Loans and placements for improving housing conditions and housing loans	6,130,110	6,146,747
Agricultural loans and placements	31,381,001	30,352,087
Consumer loans and placements	1,634,419	1,237,212
Loans and placements to customers	**103,654,790**	**106,913,139**
Loans and placements to banks and other financial institutions	**19,696,333**	**11,611,839**
Cash and balances with Central Bank	**29,917,809**	**19,814,215**
Securities	**5,203,368**	**6,741,979**
Other assets *	**1,021,771**	**624,101**
Total balance sheet items exposed to credit risk	**159,494,071**	**145,705,273**
Off-balance sheet items exposed to credit risk**	**20,820,222**	**20,213,290**
Balance as of (balance sheet and off-balance sheet items)	**180,314,293**	**165,918,563**

* *The structure of the total other assets is disclosed in Note 30 to the Bank's financial statements for the year ended 31 December 2023.*

** *The structure of gross exposures of all off-balance sheet items is disclosed in Note 39.2 to the Bank's financial statements for the year ended 31 December 2023, whereas the net exposure is provided in the table above (the difference between the gross and net exposure is equal to the provisions for off-balance sheet items).*

The table above presents the Bank's total exposure to credit risk as of 31 December 2023 and 31 December 2022, respectively, where 57.48% (31 December 2022: 64.44%) relates to loans and placements to customers.

Observed through the share of balance sheet receivables only (including Loans and placements to customers), 91.29% o of total balance sheet placements are classified in the most favourable risk category according to the Bank's internal classification, reflecting high collectability of receivables (31 December 2022: 91.93%).

9. *Financial Risk Management and Protection (Continued)*

/i/ Credit Risk (Continued)

Loan Portfolio Quality and Maximum Exposure (Continued)

The following tables present the quality of **loans and placement to customers** classified according to impairment stages as of 31 December 2023 and 2022:

			In RSD thousand
31 December 2023	**Gross exposures**	**Allowance for impairment**	**Net exposures**
Stage 1	95,440,788	(814,815)	94,625,973
Stage 2	7,161,758	(233,246)	6,928,512
Stage 3	3,814,129	(1,713,824)	2,100,305
Total	**106,416,675**	**(2,761,885)**	**103,654,790**

			In RSD thousand
31 December 2022	**Gross exposures**	**Allowance for impairment**	**Net exposures**
Stage 1	98,897,645	(611,903)	98,285,742
Stage 2	7,191,283	(178,433)	7,012,850
Stage 3	2,857,306	(1,242,759)	1,614,547
Total	**108,946,234**	**(2,033,095)**	**106,913,139**

Collaterals

Collaterals used by the Bank in its activities include deposits, mortgages on commercial and residential buildings, pledges on movable property, sureties of legal entities and private individuals, guarantees issued by other banks, etc. Determining the fair value of collaterals is in accordance with the applicable Bank's policy for assessing the value of a collateral.

The Bank mostly used mortgages as an instrument to secure the collection of its receivables - as of 31 December 2023, 56.53% of gross loans to customers was secured by mortgages (31 December 2022: 52.0%).

Credit Risk Reporting and Analysis

In terms of its operations, the Bank has established a system of reporting on exposures to credit risk, which aims to ensure timely identification, true assessment, monitoring and a comprehensive overview in line with domestic regulations and the Bank's internal rules.

Through reporting and analysis at the total portfolio level and at the level of individual receivables, complete, accurate and timely information pertaining to the outstanding balance, quality and movements of the loan portfolio is provided. This ensures that the Board of Directors, the Executive Board and the Credit Risk Management Department are able to make sound decisions based on information and analysis on risk associated with the Bank's credit activities.

Credit risk monitoring at the portfolio level is carried on a monthly basis. The report aims to provide an analysis of the structure and characteristics of the current portfolio, the specifics expressed through credit risk and comparison with previous periods, in order to gain a clear picture of trends and possible increase in credit risk level.

9. *Financial Risk Management and Protection (Continued)*

/i/ Credit Risk (Continued)

Credit Risk Reporting and Analysis (Continued)

Important elements of the report are:

- Breakdown of the portfolio according to types of loans;
- Overview of top exposures;
- Quality trends in the overall portfolio;
- Monitoring of risk parameters according to the portfolio structure in relation to internally set limits;
- Portfolio structure according to internal classification;
- Changes in provisions calculated according to the internal methodology;
- Portfolio coverage by collaterals;
- Restructured portfolio;
- Monitoring of set concentration limits; and
- Other analyses and reports that indicate changes in credit risk and deterioration in portfolio quality.

Detailed review and analyses regarding the Bank's exposure to credit risk are presented in Note 6.1. to the Bank’s financial statements for the year ended 31 December 2023.

/ii/ Liquidity Risk

Liquidity risk arises from the Bank’s inability to meet its due and future liabilities, which may have an adverse effect on the Bank’s financial result and its capital.

ProCredit Bank manages this risk by providing an adequate and diverse structure of its funding base, which include the following:

- Clients’ deposits with wide ranges of maturity;
- Money market deposits;
- Borrowings from foreign banks and international financial institutions;
- Subordinated loans;
- Share capital; and
- Government securities.

The liquidity management policy is in place to secure sufficient assets for the timely payment of all liabilities at maturity dates and to satisfy clients’ demands for new loans. The Bank manages liquidity risk through the constant monitoring of the maturity mismatch and gap between assets and sources of funding, as well as by analysing expected cash flows in order to ensure that the Bank is able to meet its obligations at all times.

In addition, the Bank allocates funds into the mandatory reserve with the National Bank of Serbia in accordance with applicable legislation, which is a measure used as protection from sudden and significant withdrawal of deposits and other sources of funding.

The Bank has also liquidity reserves in the form of approved, but unused credit lines.

The liquidity level is expressed through the liquidity ratio, the narrow liquidity ratio, as well as the liquidity coverage ratio (LCR).

9. Financial Risk Management and Protection (Continued)

/ii/ Liquidity Risk (Continued)

The bank's liquidity ratio is the sum of the bank's Tier I + II liquid receivables, on the one hand, and the sum of the bank's demand liabilities or those without contractual maturity and the bank's liabilities with fixed maturity within the next month from the date of the calculation of the liquidity ratio, on the other hand.

The bank's narrow liquidity ratio is the sum of the bank's Tier I liquid receivables, on the one hand, and the sum of the bank's demand liabilities or those without contractual maturity and the bank's liabilities with fixed maturity within the next month from the date of the calculation of the liquidity ratio, on the other.

Tier I liquid receivables consist of cash, gyro account balances, gold and other precious metals, balances held with banks with an available credit rating of selected credit rating agencies to which a credit quality rating corresponds to a level 3 or higher, or is determined in accordance with the Decision on Capital Adequacy of Banks (investment grade); deposits held with the National Bank of Serbia; cheques and other monetary receivables in the process of realisation; irrevocable credit lines approved to the bank, shares and debt securities quoted on the stock exchange; 100% of the fair value of securities denominated in RSD, without a foreign currency clause, issued by the Republic of Serbia and whose minimum maturity is three months, i.e. 90 days and which the Bank has classified according to the business model for trading and 'hold to collect and sale.

The bank's Tier II liquid receivables are all of the bank's other receivables that mature within the following month from the date of the calculation of the liquidity ratio. The bank's demand liabilities or those without contractual maturities are obligations of the bank, namely: 40% demand deposits by banks, 20% demand deposits from other clients, 10% savings deposits, 5% guarantees and other forms of sureties, 20% approved but unused irrevocable credit lines. All of the bank's other liabilities that mature within the following month from the date of the calculation of the liquidity ratio represent the bank's liabilities with contractual maturity.

During 2023 and 2022, the Bank's daily liquidity ratio remained above the prescribed minimal indicators. In addition, as of 31 December 2023 and throughout 2023 and 2022, the Bank's narrow liquidity ratio remained above the statutory minimum.

The daily liquidity ratio as of 31 December 2023 amounted to 3.55, and the narrow liquidity ratio amounted to 3.31.

The liquidity coverage ratio (LCR) is the relationship between the bank's liquidity buffer and net outflows of its liquid assets that would arise in the following 30 days from the date of calculating this ratio under assumed stress conditions. The Bank is obliged to maintain the liquidity coverage ratio aggregately for all currencies at a level not below 100%. As of 31 December 2023, the liquidity coverage ratio (LCV) stood at 513%.

The Bank's exposure to liquidity risk is described in detail in Note 6.3 to the Bank's financial statements for the year ended 31 December 2023.

/iii/ Interest Rate Risk

The Bank is exposed to changes in the market interest rates, which have an effect on its financial position and its cash flows. As a result of these changes the interest margin may either increase or decrease.

Interest rates are based on market interest rates and are regularly adjusted by the Bank.

Interest rate risk management is an activity whose goal is to optimise net interest income, while maintaining market interest rates at a constant level in accordance with the Bank's corporate strategy.

9. *Financial Risk Management and Protection (Continued)*

/iii/ Interest Rate Risk (Continued)

The Assets and Liabilities Management Committee manages maturity match of assets and liabilities based on: macroeconomic analysis and forecasting, forecasting conditions for achieving liquidity, as well as by analysis and forecasting interest rate trends on the market for various segments of assets and liabilities.

The share of interest-bearing assets in the total assets of the Bank as of 31 December 2023 was 80%, while the share of interest-bearing liabilities in the total liabilities and equity was 69%.

The Bank's exposure to interest rate risk is described in detail in Note 6.2.1 to the Bank's financial statements for the year ended 31 December 2023.

/iv/ Foreign Exchange Risk

Foreign exchange risk arises from the potential adverse effects of changes in the foreign exchange rates on the Bank's financial results and its capital.

The Bank manages foreign exchange risk through careful planning and evaluation of the open foreign exchange position, and its compliance with the limits prescribed by the National Bank of Serbia. It also manages this risk by observing the limits prescribed by the National Bank of Serbia, as well as limitations set up by the internal policies prescribed by the Board of Directors and the Assets and Liabilities Management Committee.

The Bank actively manages foreign currency risk by adjusting the foreign currency structure of its assets and liabilities. Furthermore, the Bank maintains its foreign exchange position by approving loans with foreign currency clauses (loans indexed in EUR) and concluding agreements on foreign exchange swaps.

The share of the foreign currency sub-balance (including assets and liabilities indexed in EUR) amounted to 63% of the total assets, i.e. 64% of the total liabilities and equity of the Bank as of 31 December 2023.

The Bank's foreign exchange risk indicator was in compliance throughout 2023 and well below the prescribed maximum.

The Bank's exposure to foreign exchange risk is described in detail in Note 6.2.2 to the Bank's financial statements for the year ended 31 December 2023.

/v/ Counterparty Risk

Counterparty risk is the risk of default in payment of the counterparty in transactions prior to the final settlement of cash flow transactions, i.e. settlement of cash liabilities per this transaction.

Depending on the source of risk exposures, counterparty risk and issuers risk may also be separated into the following types of risk:

- Default risk;
- Migration risk;
- Concentration risk; and
- Derivative risk.

The Bank manages counterparty risk by defining limits in accordance with the Bank's policies and local regulations and constantly monitors exposures in line with defined limits.

9. *Financial Risk Management and Protection (Continued)*

/vi/ Exposure Risks

The Bank's exposure risks are monitored at the individual entity level, as well as at the group level of related parties in accordance with the Bank's procedures and regulations of the National Bank of Serbia (NBS).

The credit risk management policy defines the assessment of the Bank's exposure to a single entity or a group of related parties and to a person related to the Bank.

The Bank controls its exposure risks by establishing exposure limits that enable it to diversify its loan portfolio, as well as by using material and non-material credit protection instruments, in accordance with the National Bank of Serbia's Decision on Capital Adequacy of Banks.

As of 31 December 2023, the Bank's maximum exposure to a single entity or the group of related parties was 10.57%, while the sum of all large exposures was 14.36%, thus significantly below the prescribed maximum.

/vii/ Capital Adequacy

The Bank's objectives with regard to capital management can be summarized as follows:

- Compliance with the capital requirements prescribed by the National Bank of Serbia;
- Compliance with the capital requirements of international financial institutions on the basis of long-term loan agreements; and
- Adequate capital management by the Bank's management should provide for the expected stable growth and development of the Bank, as well as a strong foundation for the further development of the Bank's business opportunities.

Capital adequacy is planned in detail during the preparation of the business plan. The National Bank of Serbia is reported to on a quarterly basis regarding the achieved capital ratios. The National Bank of Serbia requires that all banks maintain a minimum of EUR 10 million in Tier 1 capital.

The Bank's regulatory capital as of 31 December 2023 amounted to EUR 145 million (31 December 2022: EUR 145 million).

In addition, the Bank is obliged to maintain capital adequacy ratios above the following limits:

- 4.5% for the common equity Tier 1 capital ratio;
- 6% for the Tier 1 capital ratio; and
- 8% for the total capital adequacy ratio.

In addition to the minimal capital adequacy ratios defined by the National Bank of Serbia, in its regular operations, the Bank implements significant buffers in terms of the aforementioned ratios, which are above those prescribed by regulations, within the framework of its risk appetite defined in the Bank's Risk Management Strategy.

The capital consists of Tier 1 capital, where a bank's Tier 1 capital is the sum of the basic share (common) capital and additional Tier 1 capital. The Bank does not have additional Tier 1 capital and its Tier 1 capital fully comprises of ordinary shares.

In line with the National Bank of Serbia's Decision on Capital Adequacy of Banks, in case of the Bank deductible items from the basic share capital relate to intangible assets.

9. Financial Risk Management and Protection (Continued)

/vii/ Capital Adequacy (Continued)

The Decision on Capital Adequacy of Banks prescribes in more details the manner of calculating regulatory capital, total risks weighted assets for credit, market and operational risks, as well as capital requirements for credit, market and operational risks.

The capital adequacy ratios of the Bank as of 31 December 2023 were as follows:

- Basic share Tier 1 capital ratio – 18.63%;
- Tier 1 capital ratio – 18.63%; and
- Total capital adequacy ratio – 18.63%.

Throughout 2023, the capital adequacy ratio was well above the prescribed statutory limit of 8%.

The amount and structure of the Bank's equity always need to provide coverage of the minimum capital requirements and internal capital requirements regarding the risks that the Bank is exposed to in its operations, which is described in more detail in Note 6.8 to the financial statements for the year ended 31 December 2023.

The Bank's equity structure is presented in Note 38, while the capital adequacy ratios and other performance indicators of the Bank are presented in Note 42 to the Bank's financial statements for the year ended 31 December 2023.

/viii/ Operational Risks

The Operational Risk Management Policy is fully compliant with the local regulations and the Operational Risk Management Policy of ProCredit Holding and the Fraud Prevention Policy.

In order to reduce the risk of operational risks and prevent fraud, all processes are precisely documented and control mechanisms are in place. The Bank bases its operations on a culture of transparency and risk awareness. The Bank organizes two-year trainings on operational risks and fraud prevention in order to maintain a high level of staff awareness.

The risk monitoring database (RED) established at the Bank level allows for continued and systemic monitoring of all operational risks, and defining corrective and preventative activities in order to avoid or mitigate the possibility of these events arising in future, or the effects on the Bank. Analyses of these events are presented to the Operational Risk Management Committee, which is the competent body that oversees operational risk management in the Bank.

Additionally, the competent department of the Bank is also notified of all significant operational risk events. In 2023, 42 operational risk events were recorded in the total amount of EUR 147,580.56 (gross amount).

The Bank conducts a risk self-assessment using the defined self-assessment questionnaire applied at the level of the Bank and ProCredit Group on an annual basis. This assessment allows the Bank to consider the impact of each individual scenario on the Bank' losses, and the level of control implementation and the manner in which controls mitigate risk exposure.

The annual self-assessment is conducted together for operational risks and fraud prevention. Furthermore, since 2013, the Bank has been conducting a scenario analysis of extreme risks.

9. Financial Risk Management and Protection (Continued)

/viii/ Operational Risks (Continued)

The Bank particularly focuses on the analysis of implementing new products (activities), which includes new products, services, business processes, financial instruments, IT systems and organisational structures. Significantly adjusted material products (activities) also fall under the definition of a ‘new product/activity’.

Management approves the introduction of new products (activities), whereby the relevant departments/units of the Bank that participate in the process and risk analysis are informed.

In the event that the Bank makes a decision to engage a third party to perform a certain activity on behalf of the Bank, prior to passing such a decision, it is assessed whether or not the supplier has the financial, technical and staffing capabilities to perform the given activity for the Bank. Moreover, the Bank analyses potential exist strategies, should any issue arise in realising the agreement with the supplier, in order to protect the Bank’s interests.

The Bank notifies the National Bank of Serbia and ProCredit Holding of its outsourcing activities, in line with the local regulations, policies of the Bank and ProCredit Holding, and its internal procedures.

The objectives and policies for managing the Bank's significant financial risks and capital are disclosed in detail in Note 6 to the Bank's financial statements for the year ended 31 December 2023.

10. Events after the Reporting Period

There have been no significant events after the reporting date that would require adjustments or disclosures in the notes to the financial statements and Annual Business Report of the Bank as of and for the year ended 31 December 2023.

In Belgrade, 8 March 2024

Ivan Smiljkovic Executive Board Member	Igor Anic Executive Board Chairman

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