API BANK AD BELGRADE

Financial Statements as of and for the Year Ended 31 December 2024

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 API BANK AD BELGRADE

Opinion

We have audited the financial statements of API BANK AD BELGRADE (hereinafter: the "Bank"), which comprise the balance sheet as of 31 December 2024 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 2024, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting 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 (including International Independence Standards)* ("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 Matters

The financial statements of the Bank as of and for the year ended 31 December 2023 were audited by another auditor who expressed an unqualified opinion on those financial statements on 15 April 2024.

Other Information

Management is responsible for the other information. The other information comprises the Annual Business Report for the year ended 31 December 2024, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

INDEPENDENT AUDITOR'S REPORT

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

Other Information (Continued)

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

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

- The information provided in the Annual Business Report for the year ended 31 December 2024, is consistent, in all material respects, with the financial statements of the Bank as of and for the year ended 31 December 2024; and
- The Annual Business Report for the year ended 31 December 2024 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 API 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, 4 April 2025

Danijela Krtinić
Ovlašćeni revizor

Društvo za reviziju BDO d.o.o. Beograd

INCOME STATEMENT
For the Year Ended 31 December 2024

In RSD thousand

	Note	2024	2023
Interest income	5	1,072,772	620,543
Interest expense	5	(276,801)	(103,605)
Net interest income		**795,971**	**516,938**
Fee and commission income	6	2,599,915	943,294
Fee and commission expense	6	(644,186)	(117,658)
Net fee and commission income		**1,955,729**	**825,636**
Net losses from derecognition of financial instruments measured at fair value		-	(56)
Net foreign exchange (losses)/gains and effects of contracted foreign currency clause	7	(11,043)	386,828
Net impairment loss on financial assets not measured at fair value through profit or loss	9	(145,736)	(112,379)
Other operating income	8	11,007	10,989
TOTAL NET OPERATING INCOME		**2,605,928**	**1,627,956**
Salaries, compensations and other personal expenses	10	(353,733)	(331,501)
Amortisation and depreciation expense	11	(84,390)	(76,703)
Other income	12	15,555	21,556
Other expenses	13	(307,972)	(271,175)
PROFIT/(LOSS) BEFORE TAX		**1,875,388**	**970,133**
Income taxes		**(280,906)**	**(35,136)**
Deferred tax expense	14	(9,103)	(1,238)
PROFIT/(LOSS) FOR THE YEAR		**1,585,379**	**933,759**

The notes on pages 6 to 102
are an integral part of these financial statements.

Signed on behalf of the Bank's management on 31 March 2025:

Natasa Djokovic	Valentina Keisa	Radomir Stevanovic
Responsible for the reparation of financial statements	Executive Board Chairperson	Executive Board Member

AKCIONARSKO DRUŠTVO BEOGRAD API bank a.d. Beograd API bank Beograd

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the Year Ended 31 December 2024

In RSD thousand	2024	2023
PROFIT/(LOSS) FOR THE YEAR	**1,585,379**	**933,759**
Other comprehensive income:		
Positive effects of value changes in debt securities measured at fair value through other comprehensive income	-	-
Negative effects of value changes in debt securities measured at fair value through other comprehensive income	-	(2,053)
Tax gains related to other comprehensive income	-	-
Items of other comprehensive income that can be reclassified to profit or loss:	-	-
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**1,585,379**	**933,759**

The notes on pages 6 to 102
are an integral part of these financial statements.

Signed on behalf of the Bank's management on 31 March 2025:

Natasa Djokovic Responsible for the reparation of financial statements	Valentina Keisa Executive Board Chairperson	Radomir Stevanovic Executive Board Member

Akcionarsko društvo API Bank a.d. Beograd
API bank
Beograd

BALANCE SHEET
As of 31 December 2024

In RSD thousand	Note	2024	2023
ASSETS			
Cash and balances with central bank	16	10,724,141	7,526,810
Loans and advances to banks and other financial organisations	17	6,296,761	5,486,608
Loans and advances to customers	18	5,858,145	4,726,062
Intangible assets	19	83,196	52,425
Property, plant and equipment	20(a)	210,133	88,287
Current tax assets	14	35,136	
Deferred tax assets	14	2,340	11,443
Other assets	21	114,532	165,442
TOTAL ASSETS		**23,324,384**	**18,057,077**
LIABILITIES			
Deposits and other financial liabilities to banks, other financial organisations and central bank	22	269,435	342,289
Deposits and other financial liabilities to other customers	23	17,956,109	14,537,448
Provisions	24	16,597	50,255
Current tax liabilities	14	280,906	35,136
Other liabilities	25	284,399	160,391
TOTAL LIABILITIES		**18,807,446**	**15,125,519**
EQUITY	26		
Share capital		4,632,407	4,632,407
Loss		(1,700,848)	(2,634,608)
Profit		1,585,379	933,759
TOTAL EQUITY		**4,516,938**	**2,931,558**
TOTAL LIABILITIES AND EQUITY		**23,324,384**	**18,057,077**

The notes on pages 6 to 102
are an integral part of these financial statements.

Signed on behalf of the Bank's management on 31 March 2025:

Natasa Djokovic Responsible for the reparation of financial statements	Valentina Keisa Executive Board Chairperson	Radomir Stevanovic Executive Board Member

API bank
Beograd

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2024

In RSD thousand	Share capital	Reserves	Profit/ (Loss)	Total equity
Opening balance as of 1 January 2023	**4,632,407**	**2,053**	**(2,634,608)**	**1,999,852**
Profit/(loss) for the year	-	-	933,759	933,759
Other comprehensive income:	-	-	-	-
Negative effects of fair value changes in debt instruments measured at fair value through other comprehensive income	-	(2,053)	-	(2,053)
Deferred taxes credited to equity (Note 15(d))	-	-	-	-
Allowance for impairment of financial assets measured through other comprehensive income	-	-	-	-
Balance as of 31 December 2023	**4,632,407**	**-**	**(1,700,849)**	**2,931,558**
Opening balance as of 1 January 2024	**4,632,407**	**-**	**(1,700,849)**	**2,931,558**
Profit/(loss) for the year	-	-	1,585,379	1,585,379
Transactions with owners recorded directly under equity - additions	-	-	-	-
Other comprehensive income:	-	-	-	-
Negative effects of fair value changes in debt instruments measured at fair value through other comprehensive income	-	-	-	-
Deferred taxes credited to equity (Note 15(d))	-	-	-	-
Allowance for impairment of financial assets measured through other comprehensive income	-	-	-	-
Balance as of 31 December 2024	**4,632,407**	**-**	**(115,470)**	**4,516,937**

The notes on pages 6 to 102
are an integral part of these financial statements.

Signed on behalf of the Bank's management on 31 March 2025:

Natasa Djokovic	Valentina Keisa	Radomir Stevanovic
Responsible for the reparation of financial statements	Executive Board Chairperson	Executive Board Member

STATEMENT OF CASH FLOWS
For the Year Ended 31 December 2024

In RSD thousand	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	**3,853,168**	**4,983,494**
Interest receipts	1,067,457	635,459
Fee and commission receipts	2,596,033	945,499
Receipts from other operating activities	189,678	3,402,536
Cash outflow from operating activities	**(1,254,133)**	**(3,597,216)**
Interest paid	(208,485)	(71,055)
Fees and commission paid	(599,284)	(98,824)
Salaries, compensations and other personal expenses	(248,051)	(298,610)
Taxes, contributions and other duties paid	(50,674)	-
Outflows for other operating expenses	(147,639)	(3,128,727)
Net cash (outflow)/inflow before an increase or a decrease in financial assets and liabilities	**2,599,035**	**1,386,278**
Decrease in financial assets and increase in financial liabilities	**6,457,747**	**1,476,040**
Decrease in loans and other placements to banks, other financial organizations, central bank and customers	2,526,596	256,600
Decrease in receivables for derivatives and other non-investment financial assets	-	354,233
Increase in deposits and other liabilities to banks, other financial organizations, central bank and customers	3,931,151	865,207
Increase in financial assets and decrease in financial liabilities	**(8,017,943)**	**(6,682,763)**
Increase in loans and other placements to banks, other financial organizations, central bank and customers	(7,369,087)	(6,007,455)
Decrease in deposits and other liabilities to banks, other financial organizations, central bank and customers	(648,856)	(675,308)
Net cash from/(used in) operating activities	**1,038,839**	**(3,820,445)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	-	**234,645**
Other proceeds from investing activities		234,645
Cash outflow from investing activities	**(86,751)**	**(30,125)**
Purchase of investment securities	-	(56)
Purchase of intangible assets and property, plant and equipment	(86,751)	(30,069)
Net cash (used in)/from investing activities	**(86,751)**	**204,520**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	-	**3,147,110**
Proceeds from borrowings	-	3,147,110
Cash outflow from financing activities	**(71,047)**	**(119,278)**
Cash outflow from subordinated loans	(71,047)	(119,278)
Net cash from/(used in) financing activities	**(71,047)**	**3,027,832**
Net increase /(decrease) in cash and cash equivalents	**881,041**	**(588,093)**
Cash and cash equivalents at the beginning of the year	1,163,310	1,911,166
Net foreign exchange gains	(360,311)	(159,763)
Cash and cash equivalents at the end of the year (Note 17)	**1,684,040**	**1,163,310**

The notes on pages 6 to 102
are an integral part of these financial statements.

Signed on behalf of the Bank's management on 31 March 2025:

Natasa Djokovic Responsible for the reparation of financial statements	Valentina Keisa Executive Board Chairperson	Radomir Stevanovic Executive Board Member

1. CORPORATE INFORMATION

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

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

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

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

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

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

The Bank's registration number is 20439866. Its tax identification number is 105701111. The Bank's Head Office is located in Belgrade, at 6-8 Bulevar Vojvode Bojovica.

On 3 June 2009, the Bank opened its first branch in Belgrade, in no. 2, Balkanska Street, the status of which was changed in affiliate by the end of 2010.

On 22 November 2010, the Bank opened its first affiliate in Novi Sad, in no. 12, Narodnog fronta Street.

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

As of 31 December 2024, the Bank had 96 employees (31 December 2023: 87 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of the Financial Statements

Legal entities and entrepreneurs in the Republic of Serbia are obliged to keep business books, recognise and estimate assets and liabilities, income and expenses, compile, present, submit and disclose financial statements in accordance with the Law on Accounting, and other applicable laws and by-laws in the Republic of Serbia. The Company, as a large-sized legal entity, is required to apply International Financial Reporting Standards ("IFRSs"), which, as per the Law, comprise the Framework for the Preparation and Presentation of Financial Statements ("the Framework"), International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), as well as the related interpretations issued by the IFRS Interpretations Committee ("IFRIC"), subsequent amendments to standards and their related interpretations approved by the International Accounting Standards Board ("IASB"), whose translation into the Serbian language has been approved and published by the competent Ministry of Finance.

Pursuant to the Decision, translated International Financial Reporting Standards comprise:

- Conceptual Framework for Financial Reporting,
- IAS basic texts, and IFRS basic texts issued by the IASB, and
- Interpretations issued by the IFRIC, in the form in which they are issued or adopted and which do not include reasoning, illustrative examples, guidelines, comments, dissenting opinions, elaborated examples and other supplementary explanatory material that may be adopted in connection with standards or interpretations, unless if it is not explicitly stated that it is an integral part of the standard or interpretations.

2.2. Published Standards and Interpretations applied for the First Time in the Current Reporting Period

(a) New and Amended IFRS Accounting Standards Mandatory for the First Time for Reporting Periods Beginning on 1 January 2024

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 2024 and, as such, are applicable for the Bank's accompanying financial statements:

- **Amendments to IFRS 16 "Leases" - Lease Liability in a Sale and Leaseback**

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.

The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 "Revenue from Contracts with Customers" to be accounted for as a sale. The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognise a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date.

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

2.2. Published Standards and Interpretations applied for the First Time in the Current Reporting Period (Continued)

(a) New and Amended IFRS Accounting Standards Mandatory for the First Time for Reporting Periods Beginning on 1 January 2024 (Continued)

- **Amendments to IFRS 16 "Leases" - Lease Liability in a Sale and Leaseback (Continued)**

The amendments do not affect the gain or loss recognised by the seller-lessee relating to the partial or full termination of a lease. Without these new requirements, a seller-lessee may have recognised a gain on the right of use it retains solely because of a remeasurement of the lease liability (for example, following a lease modification or change in the lease term) applying the general requirements in IFRS 16. This could have been particularly the case in a leaseback that includes variable lease payments that do not depend on an index or rate.

A seller-lessee applies the amendments retrospectively in accordance with IAS 8 to sale and leaseback transactions entered into after the date of initial application, which is defined as the beginning of the annual reporting period in which the entity first applied IFRS 16.

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

- **Amendments to IAS 1 "Presentation of Financial Statements" - Classification of Liabilities as Current or Non-current**

The objective of the amendments is to clarify the principles in IAS 1 for the classification of liabilities as either current or non-current. The amendments affect only the presentation of liabilities as current or non-current in the balance sheet (statement of financial position) and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments also clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

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

- **Amendments to IAS 1 "Presentation of Financial Statements" - Non-current Liabilities with Covenants**

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.

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

2.2. Published Standards and Interpretations applied for the First Time in the Current Reporting Period (Continued)

(a) New and Amended IFRS Accounting Standards Mandatory for the First Time for Reporting Periods Beginning on 1 January 2024 (Continued)

- **Amendments to IAS 1 "Presentation of Financial Statements" - Non-current Liabilities with Covenants (Continued)**

The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or non-current). Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date).

The IASB also specifies that the right to defer settlement of a liability for at least twelve months after the reporting date is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants.

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

- **Amendments to IAS 7 "Statement of Cash Flows" and IFRS 7 "Financial Instruments: Disclosures" - Supplier Finance Arrangements**

The amendments add disclosure requirements, and "signposts" within existing disclosure requirements, that ask entities to provide qualitative and quantitative information about supplier finance arrangements.

The amendments to IAS 7 state that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, IFRS 7 is amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.

The amendments contain specific transition provisions for the first annual reporting period in which the group applies the amendments. Under the transitional provisions an entity is not required to disclose:

- comparative information for any reporting periods presented before the beginning of the annual reporting period in which the entity first applies those amendments; and
- the information otherwise required by IAS 7:44H(b)(ii)–(iii) as at the beginning of the annual reporting period in which the entity first applies those amendments.

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

2.2. Published Standards and Interpretations applied for the First Time in the Current Reporting Period (Continued)

(a) New and Amended IFRS Accounting Standards Mandatory for the First Time for Reporting Periods Beginning on 1 January 2024 (Continued)

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

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

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

The following new and amended 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 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 amendments state that a currency is exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations. An entity assesses whether a currency is exchangeable into another currency at a measurement date and for a specified purpose. If an entity is able to obtain no more than an insignificant amount of the other currency at the measurement date for the specified purpose, the currency is not exchangeable into the other currency.
- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" – Amendments to the Classification and Measurement of Financial Instruments (effective for annual reporting periods beginning on or after 1 January 2026). The amendments address matters identified during the post-implementation review of the classification and measurement requirements of IFRS 9 "Financial Instruments".
- Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" – Contracts Referencing Nature-dependent Electricity (previously Power Purchase Agreements) (effective for annual reporting periods beginning on or after 1 January 2026).
- Annual Improvements to IFRS Accounting Standards – Volume 11 (effective for annual reporting periods beginning on or after 1 January 2026). As a result of the IASB's annual improvement project, this cycle addresses the following standards: IFRS 1, IFRS 7, IFRS 9, IFRS 10 and IAS 7.
- IFRS 18 "Presentation and Disclosures in Financial Statements" (effective for annual reporting periods beginning on or after 1 January 2027). IFRS 18 includes requirements for all entities applying IFRS for the presentation and disclosure of information in general purpose financial statements.
- IFRS 19 "Subsidiaries without Public Accountability: Disclosures" (effective for annual reporting periods beginning on or after 1 January 2027). IFRS 19 specifies the disclosure requirements an eligible subsidiary is permitted to apply instead of the disclosure requirements in other IFRS Accounting Standards.

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

2.2. Published Standards and Interpretations applied for the First Time in the Current Reporting Period (Continued)

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

The Bank is currently assessing the impact of these amended and new standards. The management does not expect that the adoption of the amendments to the existing standards effective from 1 January 2025 will have a material impact on the Bank's financial statements in the period of their first application.

2.3. Comparative Figures

Comparative figures comprise the audited financial statements of the Bank as of and for the year ended 31 December 2023, prepared in accordance with IFRS.

2.4. Going Concern Assumption

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

In 2024, the Bank generated net profit of RSD 1,585,379 thousand (2023: net profit of RSD 933,759 thousand).

As of 31 December 2024, the Bank's regulatory capital calculated in accordance with the National Bank of Serbia's Decision on Capital Adequacy of Banks ("RS Official Gazette", no. 103/2016) amounts to RSD 2,848,362 thousand, i.e. EUR 24,342 thousand according to the official middle exchange rate prevailing as of the reporting date and is above the minimum amount of capital of EUR 10 million, prescribed by the Law on Banks ("RS Official Gazette", no. 107/2005, 91/2010 and 14/2015).

The Bank's management prepared an adequate Capital Management Plan in terms of an internal capital adequacy assessment process that enabled a capital increase with the aim of increasing credit activities of the Bank and permanent provision of capital sufficient to cover all risks that the Bank will be exposed to in the ordinary course of business in the coming period.

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

2.5. Use of Estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. If through examination it is determined that there have been changes in the estimated value, the determined effects are recognized in the financial statements in the period when the change has occurred.

Areas that require a higher degree of judgment or complexity, or areas where assumptions and estimates are material to the financial statements are disclosed in Note 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest Income and Expense

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

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

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

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

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

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

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

Fees from approved loans are deferred over the period of loans, on the proportional basis, over the repayment period, and recognised in the income statement within interest income.

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

3.2. Fee and Commission Income and Expense

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Fee and Commission Income and Expense (Continued)

Fee and commission income can be divided into the following two categories:

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

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

/ii/ Fee from Providing Transaction Services

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

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

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

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

3.3. Foreign Currency Translation

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

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

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

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

Foreign exchange gains or losses arising upon the translation of balance sheet items denominated in foreign currencies and transactions in foreign currencies are credited or charged as appropriate, to the income statement, as foreign exchange gains or losses (Note 8).

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Financial Instruments

3.4.1. Initial Recognition

All financial instruments are initially recognised at fair value including any directly attributable incremental costs of acquisition or issue, except for financial assets and financial liabilities at fair value through profit and loss.

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

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

3.4.2. Derecognition of Financial Assets and Financial Liabilities

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risk and rewards of ownership of the financial asset are transferred, or it has neither transferred nor retained substantially all the risks and rewards of the asset, but it has transferred control of the asset.

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

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

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

3.4.3. Classification of Financial Instruments

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Financial Instruments (Continued)

3.4.3. Classification of Financial Instruments (Continued)

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

Under IFRS 9, financial assets are classified into one of the following categories:

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Financial Instruments (Continued)

3.4.3. Classification of Financial Instruments (Continued)

Cash Flow Characteristics

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

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

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

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

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

Initial Recognition of Financial Instruments

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

Subsequent Measurement of Financial Instruments

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

Financial assets are classified into three categories:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Financial Instruments (Continued)

3.4.3. Classification of Financial Instruments (Continued)

Financial Assets Subsequently Measured at Amortised Cost

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

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

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Financial Instruments (Continued)

3.4.3. Classification of Financial Instruments (Continued)

Financial Assets Subsequently Measured at Amortised Cost (Continued)

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

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

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Financial Instruments (Continued)

3.4.3. Classification of Financial Instruments (Continued)

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

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

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

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

Equity Instruments

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

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

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

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

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

Derivatives and Hybrid Financial Assets

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Financial Instruments (Continued)

3.4.3. *Classification of Financial Instruments (Continued)*

Subsequent Measurement of Financial Liabilities

Financial liabilities are classified as:

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

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

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

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

Reclassification of Financial Assets

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Financial Instruments (Continued)

3.4.4. Interest Income from Financial Instruments

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

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

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

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

Write-off

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

Modification of Contractual Cash Flows

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

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

3.4.5. Gains or Losses on Financial Instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Financial Instruments (Continued)

3.4.5. Gains or Losses on Financial Instruments (Continued)

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

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

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

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

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

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

Pursuant to the decision on Amendments to the Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items ("RS Official Gazette", no. 103/2018). the National Bank of Serbia revoked the obligation to calculate the reserve for estimated losses and a capital deductible item in accordance with the Decision on Capital Adequacy of Banks.

3.6. Cash and Cash Equivalents

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Repurchase Agreements

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

3.8. Intangible Assets

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

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

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

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

The amortisation of intangible assets with finite useful lives is recognised in the income statement (Note 12).

Amortisation of intangible assets is calculated using the straight-line method to write down the cost of intangible assets over their estimated useful lives, as follows:

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

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

3.9. Property, Plant and Equipment and Investment Property

/i/ Property, Plant and Equipment

Property, plant and equipment of the Bank a 31 December 2024 comprise equipment and leasehold improvements.

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9. Property, Plant and Equipment and Investment Property (Continued)

/i/ Property, Plant and Equipment (Continued)

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

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

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

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

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

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

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

/ii/ Investment Property

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

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

3.10. Impairment of Non-financial Assets

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

If the recoverable amount of an asset is estimated to be lower than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of an asset's fair value less costs to sell and value in use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Impairment of Non-financial Assets (Continued)

Impairment losses, representing a difference between the carrying amount and the recoverable amount of property, plant and equipment and intangible assets, are recognised in the income statement as required by IAS 36 “Impairment of Assets”.

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

3.11. Repossessed Property

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

3.12. Non-current Assets Held for Sale

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Leases

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

(a) Finance Lease – Bank as a Lessee

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

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

As of 31 December 2024, the Bank had no assets under the finance lease.

(b) **Lease -** *Bank as a Lessee*

IFRS 16 “Leases”, which came into effect on 1 January 2019, brings major changes for lessees that have entered into material amounts of lease.

The key novelty for lessees is that in most cases a lease will result in an asset being capitalised together with the recognition of a liability for the corresponding lease payments. This will result in changes to key financial ratios and has the potential to affect borrowing costs (interest expenses).

As at the beginning of lease, a lessee recognises a lease liability and an asset representing the right to use that asset during the period of lease (a “right of use” asset). Interest expense on lease liability and depreciation of the right of use asset should be separately recognised, as required (Note 2.1 (b))

In the case of operating leases terminating in the period of 12 months or less after the date of the first application of IFRS 16, there shall be no change in the accounting treatment, as well as to leases of low value. In such cases, the Bank will recognise the cost of leasing using a straight-line basis, as permissible by the standard.

3.14. Provisions and Contingencies

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14. Provisions and Contingencies (Continued)

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

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

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

3.15. Subordinated Liabilities

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

3.16. Equity

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

3.17. Employee Benefits

(a) Employee Taxes and Contributions for Social Security

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

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

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

(b) Liabilities arising from Other Benefits - Retirement Benefits

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17. Employee Benefits (Continued)

(b) **Liabilities arising from Other Benefits – Retirement Benefits (Continued)**

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

Long-term provisions for retirement benefits after fulfilling the prescribed conditions in accordance with the Labour Law as of 31 December 2024 are determined using the following assumptions:

- Discount rate	6.0%
- Annual salary growth rate	8.2%
- Employee turnover rate	4.0%
- Disability rate	0.1%
- Mortality tables (SORS) for the years	2021 – 2023

(c) **Short-Term Compensated Absences**

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

The Bank does not have its own pension funds or share-based remuneration options, and therefore there are no identified liabilities with respect to these benefits as of 31 December 2024.

3.18. Financial Guarantees

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19. Funds Managed on Behalf of Third Parties

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

3.20. Taxes and Contributions

(a) Income Taxes

Current Income Tax

Current income tax is calculated and paid in accordance with the effective Corporate Income Tax Law of the Republic of Serbia ("RS Official Gazette", no. 25/2001, 80/2002, 43/2003, 84/2004, 18/2010, 101/2011, 119/2012, 47/2013, 108/2013, 68/2014, 142/2014, 91/2015,112/2015,113/2017, 95/2018, 86/2019, 153/2020, 118/2021 and 94/2024) and relevant by-laws.

Income tax is calculated at the rate of 15% (2023: 15%) on the tax base reported in the annual corporate income tax return and can be reduced by any applicable tax credits.

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

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

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

Deferred Income Tax

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on the official tax rates and regulations that have been enacted or substantively enacted as of the balance sheet date. The tax rate of 15% is used for calculation of deferred income tax (2023: 15%).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20. Taxes and Contributions (Continued)

(a) 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/(loss) for the period. Deferred income taxes related to items that are recorded directly in equity are also recognised in equity.

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

Taxes, contributions and other duties that are not related to the Bank's operating result include employer contributions on salaries, and various other taxes and contributions paid pursuant to republic and municipal regulations. These taxes and contributions are included within other expenses (Note 15).

3.21. Related Party Disclosures

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

Relations between the Bank and its related parties are regulated at contractual basis. Outstanding balances of receivables and liabilities at the reporting date, as well as transactions occurred during the reporting periods with related parties are disclosed separately in notes to the financial statements (Note 32).

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(a) Impairment of Financial Assets

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

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

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

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

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

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

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

(b) Determination of Fair Value of Financial Instruments

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

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

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

(d) Impairment of Non-financial Assets

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

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

(e) Deferred Tax Assets/Liabilities

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

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

(f) Employee Retirement Benefits

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

As these plans are long-term ones, significant uncertainties influence the outcome of the assessment. Actuarial assumptions are disclosed in Note 3.17(b) to the financial statements.

(g) Provisions for Litigations

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(g) Provisions for Litigations (Continued)

A provision is recognised when it is probable that an obligation exists for which a reliable estimate can be made of the obligation after careful analysis of the individual matter (Note 28). The required provision may change in the future due to new developments and as additional information becomes available.

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

5. INTEREST INCOME AND EXPENSE

In RSD thousand	2024	2023
Interest income		
Other banks	263,285	262
National Bank of Serbia	458,020	207,892
Corporate customers	311,576	368,552
Retail customers	39,891	42,243
State institutions	-	1,594
Total	**1,072,772**	**620,543**
Interest expense		
Banks	(59)	-
Corporate customers	(74,927)	(28,303)
Retail customers	(197,482)	(74,341)
State institutions	-	-
Lease interest expenses in accordance with IFRS 16	(4,333)	(961)
Total	**(276,801)**	**(103,605)**
Net interest income	**795,971**	**516,938**

5. INTEREST INCOME AND EXPENSE (Continued)

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

In RSD thousand	2024	2023
Interest income		
Loans and advancements to banks	263,285	262
Repo placements with the National Bank of Serbia	145,945	87,880
Obligatory reserve with the National Bank of Serbia	9,335	5,368
Other placements and deposits with the National Bank of Serbia	302,740	114,644
Loans to corporate customers	311,576	368,552
Loans to retail customers	39,891	42,243
Loans to state institutions	-	1,594
Total	**1,072,772**	**620,543**
Interest expense		
Subordinated loans	-	(10,922)
National Bank of Serbia	(59)	-
Other banks	-	-
Deposits from corporate customers	(74,927)	(17,381)
Deposits from retail customers	(197,482)	(74,341)
Deposits and borrowings from state institutions	-	-
Lease interest expenses in accordance with IFRS 16	(4,333)	(961)
Total	**(276,801)**	**(103,605)**
Net interest income	**795,971**	**516,938**

6. FEE AND COMMISSION INCOME AND EXPENSE

In RSD thousand	2024	2023
Fee and commission income		
Domestic banking services	98,638	106,447
Credit activities	17,433	29,865
Realised FX differences	2,419,879	767,200
Other fees and commissions	63,965	39,772
Total	**2,599,915**	**943,294**
Fee and commission expense		
Domestic payment transactions	(9,013)	(26,771)
Foreign payment transactions	(44,903)	(32,560)
Realised FX differences	(566,539)	(57,938)
Other fees and commissions	(23,731)	(389)
Total	**(644,186)**	**(117,658)**
Net fee and commission income	**1,955,729**	**825,636**

Income and expenses realised from foreign exchange operations (sale and purchase of foreign currency means of payment) are recognised under Other Fees and Commissions.

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

In RSD thousand	2024	2023
Foreign exchange gains and positive effects of contracted foreign currency clause application	4,255,688	3,338,275
Foreign exchange losses and negative effects of contracted foreign currency clause application	(4,266,731)	(2,951,447)
Net foreign exchange gains and effects of contracted foreign currency clause	**(11,043)**	**386,828**

8. OTHER OPERATING INCOME

In RSD thousand	2024	2023
Rental income	-	188
Income from safe deposit box rentals	10,070	8,375
Other income	937	2,426
Total	**11,007**	**10,989**

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

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

In RSD thousand	2024	2023
Impairment losses and provisions		
Impairment losses on financial assets:		
– loans and advances to banks	(276,030)	(1,516)
– loans and advances to customers	(318,565)	(593,982)
Provisions for credit risk-weighted off-balance sheet items (Note 24(a))	(1,983)	(449)
Total	**(596,578)**	**(595,947)**
Impairment of securities measured at fair value through other comprehensive income	-	-
Write-off and allowance for impairment of fee and commission receivables unprovided for	(2,928)	-
Direct write-off of placements to retail customers		(133)
Losses from the modification of financial instruments – NPV effect		-
Total expenses	**(599,506)**	**(596,080)**
Reversal of impairment losses		
Reversal of impairment losses on financial assets:		
– loans and advances to banks	227,092	228
– loans and advances to customers	191,338	462,872
Release of provisions for credit risk-weighted off-balance sheet items (Note 24(a))	1,376	714
Liabilities waived recorded to off-balance sheet items based on the Decision on Accounting Write-off	33,759	19,529
Gains from the modification of financial instruments	205	115
	453,770	**483,458**
Release of provisions for:		
- securities measured through other comprehensive income	-	-
- gains from the reversal of impairment of financial assets measured at fair value through other comprehensive income	-	243
Total income	**453,770**	**483,701**
Net impairment loss	**(145,736)**	**(112,379)**

9. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

(b) Movements in the Allowance for Impairment of Financial Assets during the Year

In RSD thousand	Loans and advances to banks (Note 19)	Loans and advances to customers (Note 20)	Other assets (Note 24)	Impairment of paid advance for intangible assets (Note 24)	Total
Balance as of 1 January 2023	**10,958**	**326,989**	**13,281**	**10,453**	**361,681**
Charge for the year (Note 9(a))	1,516	593,982	-	-	595,498
Reversal of impairment losses and release of provision (Note 9(a))	(228)	(461,052)	-	-	(461,279)
Accounting write-off	-	(242,824)	-	-	(242,824)
Foreign exchange gains and losses and other movements	6,828	(31,834)	5,808	11,051	(8,147)
Unwinding	-	(1,820)	-	-	(1,820)
Balance as of 31 December 2023	**19,074**	**183,441**	**19,089**	**21,504**	**243,108**
Balance as of 1 January 2024	**19,074**	**183,441**	**19,089**	**21,504**	**243,108**
Charge for the year (Note 9(a))	276,030	318,565	-	-	594,595
Reversal of impairment losses and release of provision (Note 9(a))	(227,092)	(193,345)	-	-	(420,437)
Accounting write-off	-	(221,616)	-	-	(221,616)
Foreign exchange gains and losses and other movements	(4,327)	18,048	5,595	20,312	39,628
Unwinding		2,007	-	-	2,007
Balance as of 31 December 2024	**63,685**	**107,101**	**24,684**	**41,816**	**237,285**

10. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

In RSD thousand	2024	2023
Gross salaries and compensations	(205,625)	(190,737)
Payroll taxes and contributions	(76,154)	(70,329)
Provisions for unused vacations	(11,051)	(10,302)
Other personal expenses	(60,981)	(58,090)
Provision for retirement benefits (Note 24(a))	78	(2,042)
Total	**(353,733)**	**(331,501)**

11. AMORTISATION AND DEPRECIATION EXPENSE

In RSD thousand	2024	2023
Amortisation of intangible assets (Note 19)	(18,880)	(17,768)
Depreciation of property, plant and equipment (Note 20(a))	(15,256)	(14,231)
Depreciation of leases in line with IFRS 16 (Note 20(b))	(50,254)	(44,704)
Total	**(84,390)**	**(76,703)**

12. OTHER INCOME

In RSD thousand	2024	2023
Reversal of provisions for holiday allowances	9,200	10,946
Reversal of provisions for bonuses	-	-
Derecognition of assets lease in line with IFRS 16	453	-
Gains from the sale of assets held for sale	-	-
Term deposits termination	429	1,376
Provisions for litigations (Note 24(a))	50	2,480
Gains from value changes in investment property	-	-
Other income	5,423	6,754
Total	**15,555**	**21,556**

13. OTHER EXPENSES

In RSD thousand	2024	2023
Rental costs	(668)	(662)
Maintenance costs	(86,656)	(76,547)
Professional services	(23,298)	(17,437)
Advertising and marketing costs	(7,239)	(6,514)
Donations and sponsorships	(1,136)	(1,136)
Postal and telecommunication costs	(6,153)	(6,797)
Insurance premiums	(39,378)	(31,418)
Taxes	(12,518)	(11,354)
Contributions	(40,889)	(37,697)
Other compensations to employees	(9,137)	(7,258)
Cost of material	(8,545)	(12,319)
Provisions for litigations (Note 28(d))	(70)	(25,866)
Losses from value changes in assets held for sale	-	-
Other expenses	(72,285)	(36,170)
Total	**(307,972)**	**(271,175)**

14. INCOME TAXES

a) Components of Income Taxes

The total income tax for the period includes:

In RSD thousand	2024	2023
Current income tax	280,906	35,136
Deferred tax income	(1)	(3,426)
Deferred tax expense	9,104	4,664
Total tax expense of the period	**290,009**	**36,374**

14. INCOME TAXES (Continued)

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

In RSD thousand	2024	2023
Profit/(loss) before income tax	**1,875,388**	**970,133**
Income tax at statutory rate of 15%	**281,308**	**145,520**
Expenses non-deductible for tax purposes	(383)	(13,905)
Income non-deductible for tax purposes	(19)	(648)
Tax effect of losses carried forward	-	(95,831)
Current tax	**280,906**	**35,136**
Deferred tax income	(1)	(3,426)
Deferred tax expense	9,104	4,664
Effective tax rate	**15.5%**	**3.7%**

(c) Deferred Tax Assets

Deferred tax assets as of 31 December 2024 are related to:

- Temporary differences arising from the provision for employee retirement benefits in the amount of RSD 12 thousand (31 December 2023: RSD 306 thousand), due to different periods of recognising the provision for accounting and tax purposes;
- Temporary differences between the carrying value of property, plant and equipment and intangible assets and their tax basis in the amount of RSD 3,964 thousand (31 December 2023: RSD 4,971 thousand); and
- other temporary differences in the amount of RSD 5,137 thousand (31 December 2023: RSD 3,427 thousand).

14. INCOME TAXES (Continued)

(c) Deferred Tax Assets (Continued)

Movements in deferred tax assets in 2024 and 2023 were as follows:

In RSD thousand

	Balance as of 1 January	Stated in the income statement	Balance as of 31 December
2024			
Tax depreciation	3,926	(3,964)	(38)
Employee retirement benefits	2,204	(12)	2,192
Provisions for litigations	5,290	(5,128)	162
Effect of other temporary differences	23	1	23
Total	**11,443**	**(9,103)** -	**2,339**

	Balance as of 1 January	Stated in the income statement	Balance as of 31 December
2023			
Tax depreciation	8,897	(4,971)	3,926
Employee retirement benefits	1,898	306	2,204
Provisions for litigations	1,864	3,425	5,290
Effect of other temporary differences	21	2	23
Total	**12,680**	**(1,238)** -	**11,443**

(d) Tax Losses and Tax Credits

The Bank did not have any tax loss and tax credit carry forwards from previous years since they were all used in 2023.

15. EARNINGS PER SHARE

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

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

16. CASH AND BALANCES WITH CENTRAL BANK

In RSD thousand	2024	2023
In RSD		
Current and gyro accounts	967,267	75,276
Deposits of excess liquid funds	8,177,590	5,642,924
Cash on hand	82,207	174,035
Accrued income on cash and balances with central banks	404	1,931
	9,227,468	**5,894,166**
In foreign currency		
Obligatory reserve	1,245,080	1,354,197
Cash on hand	251,598	278,447
	1,496,678	**1,632,644**
Less: Allowance for impairment of foreign currency accounts	(5)	-
Balance as of 31 December	**10,724,141**	**7,526,810**

The obligatory reserve in local currency – Dinars (RSD) represents the minimal reserve in foreign currency allocated in line with the Decision on Banks' Required Reserves with the National Bank of Serbia ("RS Official Gazette", no. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012, 62/2013, 125/2014, 135/2014, 4/2015, 78/2015, 102/2015, 76/2018, 21/2019 and 77/23).

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

The Bank is required to calculate and allocate the obligatory reserves in RSD by applying 7% (2023: 7%) to the amount of the average daily balance of the dinar funds with the agreed maturity of up to two years, i.e. up to 730 days, as well as 2% on a portion of the dinar base with the agreed maturity of over two years, i.e. over 730 days (2023: 2%) during the preceding calendar month to their gyro account with the National Bank of Serbia (foreign currency clause-indexed deposits in dinars are part of the foreign currency base of the obligatory reserve).

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

16. CASH AND BALANCES WITH CENTRAL BANK (Continued)

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

As of 31 December 2024, the calculated obligatory reserve in Dinars amounted to RSD 1,380,877 thousand (31 December 2023: RSD 820,345 thousand).

Pursuant to the Decision on Banks' Required Reserves with the National Bank of Serbia, the Bank calculates and allocates the obligatory foreign currency reserve in accordance with the prescribed rates on the foreign currency base, which is the daily average of foreign currency liabilities and the daily average of foreign currency clause-indexed dinar liabilities in the prior calendar month.

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

In accordance with the above-mentioned Decision, the Bank calculates and allocates the obligatory foreign currency reserve against foreign currency accounts of the National Bank of Serbia at a rate of 23% (2023: 23%) on the amount of the average daily balance of foreign currency funds in the preceding calendar months for the funds with the agreed maturity of up to two years, i.e. up to 730 days, and 16% (2023: 16%) on a portion of the foreign currency base with the agreed maturity of over 2 years, i.e. over 730 days.

The percentage of allocation of the obligatory foreign currency reserve amounts to 100% (2023: 100%) to foreign currency clause-indexed liabilities arising from dinar deposits, loans, securities and other dinar liabilities. Out of the total calculated foreign currency reserve, 54% is allocated in EUR, and the remaining portion in RSD, for funds with the agreed maturity of up to two years, i.e. up to 730 days, and 62% is allocated in EUR for foreign currency funds with the agreed maturity of over two years, i.e. over 730 days, while the remaining portion is allocated in dinars to the gyro account.

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

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

As of 31 December 2024, the Bank's obligatory foreign currency reserve complied with the afore-mentioned Decision of the National Bank of Serbia.

The National Bank of Serbia does not pay interest on the obligatory reserve in foreign currency.

16. CASH AND BALANCES WITH CENTRAL BANK (Continued)

Overview of cash and balances with central bank in the Statement of Cash Flows and Balance Sheet as of 31 December 2024 and 2023 is presented in the table below:

In RSD thousand	2024		
	Balance sheet	Cash flow statement	Difference
In RSD			
Current and gyro accounts	967,267	967,267	-
Cash on hand	82,207	82,207	-
Deposits of excess liquid funds	8,177,590	-	8,177,590
Prepayments and accrued income	404	-	404
	9,227,468	**1,049,474**	**8,177,994**
In foreign currency			
Required reserve	1,245,080	-	1,245,080
Cash on hand	251,598	251,598	-
Foreign currency accounts	382,968	382,968	-
	1,879,646	**634,566**	1,245,080
Balance as of 31 December	**11,107,114**	**1,684,040**	**9,423,074**

In RSD thousand	2023		
	Balance sheet	Cash flow statement	Difference
In RSD			
Current and gyro accounts	75,276	75,276	-
Cash on hand	174,035	174,035	-
Deposits of excess liquid funds	5,642,924	-	5,642,924
Prepayments and accrued income	1,931	-	1,931
	5,894,166	249,311	5,644,855
In foreign currency			
Required reserve	1,354,197	-	1,354,197
Cash on hand	278,447	278,447	-
Foreign currency accounts	635,552	635,552	-
	2,268,196	913,999	1,354,197
Balance as of 31 December	**8,162,362**	**1,163,310**	**6,999,052**

17. LOANS AND ADVANCES TO BANKS AND OTHER FINANCIAL ORGANIZATIONS

(a) Overview by Loan Type

In RSD thousand	2024	2023
In RSD		
Receivables from the National Bank of Serbia arising from repurchase (repo) transactions	3,227,250	2,500,000
Other placements	1,200,281	600,438
	4,427,531	**3,100,438**
In foreign currency		
Foreign currency accounts	382,968	635,553
Other deposits	1,549,948	1,769,691
	1,932,915	**2,405,244**
Gross loans and advances	**6,360,446**	**5,505,682**
Less: Allowance for impairment (Note 10(b))	(63,685)	(19,074)
Balance as of 31 December	**6,296,761**	**5,486,608**

As of 31 December 2024, Bank’s funds in the amount of RSD 3,227,250 thousand were placed, including repo operations. Other placements include RSD loans granted to other banks for one day (overnight loans).

The balance of foreign currency funds under the item ’Foreign currency accounts’ includes balances on nostro accounts with correspondent banks. Funds placed with foreign banks for a period longer than one day are recorded under ’Other foreign currency placements’.

(b) Maturity Structure of Loans and Receivables

The maturity structure of net loans and advances to banks and other financial organizations, based on the remaining maturity period, outstanding as of 31 December 2024 and 2023, is as follows:

In RSD thousand	2024	2023
Up to 180 days	6,296,761	5,486,608
Over 1 year	-	-
Balance as of 31 December	**6,296,761**	**5.486.608**

18. LOANS AND ADVANCES TO CUSTOMERS

(a) Overview by Customer Type

In RSD thousand	2024	2023
Short-term RSD loans:		
– Corporate customers	683,825	276,220
– Retail customers	2,568	4,801
	686,393	**281,021**
Long-term RSD loans:		
– Corporate customers	4,529,330	4,082,858
out of which in RSD	*2,156,355*	*2,603,511*
out of which in RSD with a contracted foreign currency clause	*2,372,976*	*1,479,347*
– Retail customers	662,679	369,953
	5,192,010	**4,452,811**
Short-term foreign currency loans:		
– Corporate customers		-
– Retail customers	-	-
	-	**-**
Long-term foreign currency loans:		
– Corporate customers	-	50,601
– Retail customers	66,883	74,172
	66,883	**124,773**
Receivables for accrued interest:		
– Corporate customers	22,038	25,850
– Retail customers	4,392	4,470
	26,430	**30,320**
Deferred interest receivables:		
– Corporate customers	231	23,389
– Retail customers	72	2,730
	303	**26,120**
Deductible items in RSD - accruals and deferred income:		
– Corporate customers	(5,937)	(5,187)
– Retail customers	(836)	(355)
	(6,773)	**(5,542)**
Gross loans and advances	**5,965,246**	**4,909,502**
Less: Allowance for impairment (Note *10(b)*)	(107,100)	(183,441)
Balance as of 31 December	**5,858,145**	**4,726,062**

As of 31 December 2024, total gross RSD loans include loans with a contracted foreign currency clause in the amount of RSD 5,965,246 thousand (31 December 2023: RSD 4,909,502 thousand).

Short-term loans have been granted to corporate customers for financing business activities in trading, processing industry and for other purposes, at the rates ranging from 6.35% to 8.31% per annum for loans with foreign currency clause, i.e. at rates ranging from 7.82% to 10.04% per annum for loans in Dinars.

18. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(a) Overview by Customer Type (Continued)

The interest rates on short-term retail loans in Dinars ranged from 12.00% to 14.00% p.a.

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

(b) Structure of Loan Portfolio by Loan Type

The structure of the gross loan portfolio by loan type as of 31 December 2024 and 2023 was as follows:

In RSD thousand	2024	2023
Overdrafts	7,237	4,956
Cash loans	69,118	109,435
Loans for current assets	3,458,762	2,844,698
Investment loans	301,195	165,167
Housing loans	660,450	334,690
Other loans	1,468,482	1,450,557
Balance as of 31 December	**5,965,246**	**4,909,502**

Other loans as of 31 December 2024 in the gross amount of RSD 1,468,482 thousand (31 December 2023: RSD 1,450,557 thousand) mostly relate to loans granted to corporate customers for funding their business activities.

(c) Maturity Structure of Loan Portfolio

The maturity structure of the gross loan portfolio, based on the remaining maturity period, outstanding as of 31 December 2024 and 2023 is as follows:

In RSD thousand	2024	2023
Up to 30 days	150,182	240,026
From 1 to 3 months	37,536	93,825
From 3 to 12 months	882,862	718,244
Over 1 year	4,894,665	3,857,408
Balance as of 31 December	**5,965,246**	**4,909,502**

19. INTANGIBLE ASSETS

In RSD thousand	Licenses and software	Total
COST		
Balance as of 1 January 2023	**287,349**	**287,349**
Additions during the year	23,459	23,459
Balance as of 31 December 2023	**310,808**	**310,808**
Additions during the year	49,651	**49,651**
Balance as of 31 December 2024	**360,459**	**360,459**
ACCUMULATED AMORTISATION		
Balance as of 1 January 2023	**240,615**	**240,615**
Amortisation charge (Note 11)	17,768	17,768
Balance as of 31 December 2023	**258,383**	**258,383**
Amortisation charge (Note 11)	18,880	**18,880**
Balance as of 31 December 2024	**277,263**	**277,263**
CARRYING VALUE AS OF:		
- 31 December 2024	**83,196**	**83,196**
- 31 December 2023	**52,425**	**52,425**

The carrying value of intangible assets as of 31 December 2024 relates to software in the amount of RSD 70,841 thousand (31 December 2023: RSD 39,149 thousand) and licenses in the amount of RSD 12,355 thousand (31 December 2023: RSD 13,276 thousand).

According to a Bank's management estimate, intangible assets as of 31 December 2024 are not impaired.

20. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

(a) Property, Plant and Equipment

In RSD thousand	Equipment	Construction in progress	Leased assets	Leasehold improve-ments	Total
COST					
Balance as of 1 January 2023	**156,907**	-	**148,210**	**39,814**	**344,931**
Additions during the year	4,534	-	21,971	2,077	28,582
Disposals and write-offs	(2,769)	-	(1,992)	-	(4,761)
Balance as of 31 December 2023	**158,672**	-	**168,189**	**41,891**	**368,752**
Additions during the year	20,286	13,553	184,150	3,261	**221,250**
Disposals and write-offs	(5,842)	(12,901)	(161,616)	-	**(180,359)**
Balance as of 31 December 2024	**173,116**	652	**190,723**	**45,152**	**409,643**
ACCUMULATED DEPRECIATION					
Balance as of 1 January 2023	**99,674**	-	**89,193**	**36,658**	**225,525**
Depreciation charge (Note 12)	12,765	-	44,704	1,466	58,935
Disposals and write-offs	(2,003)	-	(1,992)	-	(3,995)
Balance as of 31 December 2023	**110,436**	-	**131,905**	**38,124**	**280,465**
Depreciation charge (Note 12)	13,510	-	50,253	1,747	65,510
Disposals and write-offs	(3,585)	-	(142,880)	-	(146,465)
Balance as of 31 December 2024	**120,361**	**-**	**39,278**	**39,871**	**199,510**
CARRYING VALUE AS OF:					
- 31 December 2024	**52,755**	652	**151,445**	**5,281**	**210,133**
- 31 December 2023	**48,236**	-	**36,284**	**3,767**	**88,287**

The carrying value of equipment as of 31 December 2024 mostly relates to computer and telecommunication equipment and office furniture.

The most significant increase within property, plant, and equipment relates to the recognition of effects under IFRS 16 “Leases”.

According to a Bank’s management estimate, the items of property, plant and equipment as of 31 December 2024 are not impaired.

20. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY (Continued)

(b) Structure of Right-of-Use Assets

In RSD thousand	2024	2023
Office space and parking places	176,048	155,228
Cars	6,844	6,844
Office space – ATMs	3,464	1,715
Other leases	4,366	4,401
Gross balance as of 31 December	**190,722**	**168,188**
Less: allowance for impairment	(39,276)	(131,904)
Net balance as of 31 December	**151,446**	**36,285**

Movements in right-of-use assets in 2023 and 2024 were as follows:

In RSD thousand	Office space and parking places	Cars	Office space – ATMs	Other leases	Total
GROSS CARRYING VALUE					
As of 1 January 2023	145,689	2,521	-	-	148,210
New assets during the year	11,532	4,323	1,715	4,401	21,971
Contracts no longer active	(1,992)	-	-	-	(1,992)
Balance as of 31 December 2023	155,229	6,844	1,715	4,401	168,189
New assets during the year	178,035	-	1,749	4,366	184,150
Contracts no longer active	(157,215)	-	-	(4,401)	(161,616)
Balance as of 31 December 2024	176,049	6,844	3,464	4,366	190,723
ACCUMULATED DEPRECIATION					
As of 1 January 2023	(85,614)	(1,212)	(2,366)	-	(89,192)
Depreciation charge (Note 12)	(39,867)	(1,566)	(1,193)	(2,078)	(44,704)
Contracts no longer active	1,992	-	-	-	1,992
Balance as of 31 December 2023	(123,490)	(2,778)	(3,559)	(2,078)	(131,905)
Depreciation charge (Note 12)	(42,766)	(1,711)	(1,157)	(4,620)	(50,254)
Contracts no longer active	138,480	-	-	4,401	142,881
Balance as of 31 December 2024	(27,776)	(4,489)	(4,716)	(2,297)	(39,278)
Carrying value as of:					
- 31 December 2024	148,273	2,355	(1,252)	2,069	151,445
- 31 December 2023	31,738	4,067	(1,844)	2,323	36,284

21. OTHER ASSETS

In RSD thousand	**2024**	**2023**
Other receivables		
In RSD		
Receivables from employees	7,015	-
Advances paid	48,790	73,983
Receivables for overpaid taxes	5	-
Funds on payable-through accounts	45	45
Other receivables	41,746	43,749
	97,601	**117,777**
In foreign currency		
Advances paid	4,528	3,518
Receivables from employees	17,595	17,619
Other receivables	54,783	59,761
	76,906	**80,898**
Prepayments and accrued income		
Prepaid expenses in RSD	6,525	7,360
	181,032	**206,034**
Gross other assets		
Less: Allowance for impairment (Note 10(b))	(24,684)	(19,089)
Less: Allowance for impairment of advances paid	(41,816)	(21,504)
Balance as of 31 December	**114,532**	**165,442**

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

In RSD thousand	**2024**	**2023**
In RSD		
Transaction accounts	6,930	43,641
Other deposits	200,000	-
Accrued interest liability	1,885	-
	208,815	**43,641**
In foreign currency		
Transaction accounts	25,689	16,979
Other deposits	23,687	280,760
Other liabilities	11,244	909
	60,620	**298,648**
Balance as of 31 December	**269,435**	**342,289**

Other deposits mainly include deposits of the Association of Serbian Insurers.

23. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CUSTOMERS

In RSD thousand	2024	2023
In RSD		
Transaction accounts	5,649,470	2,572,686
Savings deposits	3,027,564	1,398,480
Special-purpose deposits	378,457	3,479
Other deposits	2,327,351	3,641,683
Interest payable on loans, deposits and other financial liabilities	22	22
Accrued interest liability	44,921	9,989
	11,427,785	**7,626,339**
In foreign currency		
Transaction accounts	3,148,224	3,273,149
Savings deposits	2,954,622	3,026,716
Special-purpose deposits	143,944	559
Other deposits	130,000	211,740
Borrowings	-	-
Other financial liabilities	105,760	380,774
Interest payable on loans, deposits and other financial liabilities	-	-
Accrued interest liability	45,774	18,171
	6,528,324	**6,911,109**
Balance as of 31 December	**17,956,109**	**14,537,448**

The Bank pays interest on fixed-term deposits in RSD and foreign currencies of customers at rates ranging from 1.00% to 4.00% per annum, depending on the currency and the period the funds have been deposited for.

The Bank does not pay interest on *a vista* saving deposits in RSD, nor on *a vista* saving deposits in USD and EUR.

The interest rates on short-term retail customers' deposits in Dinars range from 1.00% to 4.00% per annum, depending on the period the funds have been deposited for.

The interest rates on the short-term retail customers' deposits in foreign currency range from 2.00% to 3.04% per annum, depending on the currency and the period the funds have been deposited for.

Long-term deposits placed by retail customers in foreign currency earn interest at rates ranging from 3.00% to 3.40% per annum for deposits in EUR, depending on the period that the funds have been deposited for.

24. PROVISIONS

In RSD thousand	2024	2023
Provision for credit risk-weighted off-balance sheet items (a)	903	297
Provision for retirement benefits (b)	14,617	14,695
Provision for litigations (c)	1,077	35,263
Balance as of 31 December	**16,597**	**50,255**

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

Evidence based on which the Bank performs the individual assessment of impairment are payments effected on the Bank's accounts with respect to commitments arising from guarantees, bills of guarantees, etc., and that the customer has been classified in accordance with the Bank's classification criteria into the categories G and D.

Individual assessment of impairment of off-balance sheet items is performed in the same manner as for the balance sheet assets.

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

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

The provision for retirement benefits has been recorded in the Bank's financial statements on the basis of an independent actuary's calculation as of 31 December 2024, and it is stated in the amount of the present value of the future defined benefit obligation.

When determining the present value of the expected outflows the following assumptions were used: the discount rate of 6.0%, average salary increase rate of 8.2% per annum, employee fluctuation rate of 4.0% and disability rate of 0.1% p.a.

The Bank established a provision for litigations in which it acted as a defendant and for which adverse outcome was expected according to the estimate of the Legal Department.

24. PROVISIONS (Continued)

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

In RSD thousand	**2024**	**2023**
Provision for credit risk-weighted off-balance sheet items		
Balance as of 1 January	297	483
Charge for the year (Note 9(a))	1,983	331
Release of provision	(1,376)	(517)
FX differences and other movements	-	-
	903	**297**
Provision for retirement benefits		
Balance as of 1 January	14,695	12,653
Charge for the year (Note 10)	78	2,042
Payments during the year charged to provisions	-	-
	14,617	**14,695**
Provisions for litigations		
Balance as of 1 January	35,263	12,424
Charge for the year (Note 13)	70	25,866
Payments based on lost lawsuits	(34,256)	-
	1,077	**38,289**
Balance as of 31 December	**16,597**	**50.255**

25. OTHER LIABILITIES

In RSD thousand	**2024**	**2023**
Trade payables	13,825	15,130
Liabilities for value added tax	2,079	1,948
Liabilities for other taxes and contributions	518	3,084
Accrued interest expense	4,753	5,761
Deferred other income	23,439	14,087
Liabilities to employees	40,200	31,985
Lease liabilities in line with IFRS 16	153,784	37,140
Other liabilities	45,801	51,256
Balance as of 31 December	**284,399**	**160,391**

Other liabilities in the amount of RSD 45,802 thousand as of 31 December 2024 mostly relate to accrued liabilities in RSD and foreign currencies (for loan repayment by individuals and legal entities).

25. OTHER LIABILITIES (Continued)

The maturity structure of lease liabilities is provided below:

In RSD thousand	2024	2023
Maturity:		
Up to one year	10,287	3,486
Up to 2 years	11,696	27,821
Up to 3 years	17,435	3,938
Up to 4 years	0	1,895
Up to 5 years	114,366	0
Over 5 years	0	
Total	**153,784**	**37,140**

The structure of lease expenses in 2024 and 2023 were as follows:

In RSD thousand	2024	2023
Interest expenses for lease liabilities	4,333	961
Depreciation charge for right-of-use assets	60,757	53,847
Lease expenses	668	662
Total	**65,758**	**55,469**

In 2024, the Bank paid RSD 71,045 thousand (2023: RSD 44,750 thousand) for operating lease agreements in accordance with IFRS 16, out of which the largest portion related to the lease of the office space used by the Bank.

26. EQUITY

In RSD thousand	2024	2023
Share capital – ordinary shares	4,632,407	4,632,407
Reserves	-	-
Prior years' accumulated losses	(1,700,848)	(2,634,608)
Profit/(loss) for the year	1,585,379	933,759
Balance as of 31 December	**4,516,938**	**2,931,558**

In 2018 the shareholders of the Bank changed, as disclosed in Note 1. The company registered in Serbia "AZRS INVEST" d.o.o. Belgrade became the Bank's owner and, accordingly, as of 31 December 2021, it is the sole shareholder participating with 100% in share capital of the Bank. The ultimate owner of "AZRS INVEST" d.o.o. Belgrade.

As of 31 December 2024, subscribed and paid-in share capital of the Bank consists of 9,264,813 ordinary shares (31 December 2023: 9,264,813 ordinary shares), whose nominal value per share is RSD 500.

On 25 April 2024, the Bank's General Assembly adopted a Decision on Distribution of Profit generated in FY 2023 in the amount of RSD 933,759 thousand, which it used to partially cover previous years' losses.

27. OFF-BALANCE SHEET ITEMS

In RSD thousand	2024	2023
Guarantees and other irrevocable commitments (a)	2,766,380	1,910,801
Other off-balance sheet items (b)	11,875,165	10,024,269
Balance as of 31 December	**14,641,545**	**11,935,070**

(a) Guarantees and Other Irrevocable Commitments

In RSD thousand	2024	2023
Payment guarantees:		
– in Dinars	374,878	308,580
– in foreign currency	-	-
	374,878	**308,580**
Performance guarantees:		
– in Dinars	2,390,248	1,600,125
– in foreign currency	1,255	2,096
	2,391,502	**1,602,221**
Total guarantees and other irrevocable commitments	**2,766,380**	**1,910,801**
Swap transactions and purchase of foreign currencies for RSD	-	-
Irrevocable commitments		-
Balance as of 31 December	**2,766,380**	**1,910,801**

The Bank makes provisions for potential losses from other credit risk-weighted off-balance sheet items in accordance with the accounting policy disclosed in Note 4 to the financial statements.

(b) Other Off-balance Sheet Items

In RSD thousand	2024	2023
Loro guarantees	29,155	29,195
Revocable commitments	788,452	619,867
Material collaterals, mortgages and pledges	5,377,339	4,640,406
Accounting write-off	2,397,715	2,055,480
Other off-balance sheet items	3,282,504	2,679,321
Balance as of 31 December	11,875,165	10,024,269

Revocable commitments amounting to RSD 788,452 thousand as of 31 December 2024 mostly relate to long-term credit lines approved to corporate customers.

The Bank recorded all collaterals based on granted loans (not only first-ranking mortgages) under material collaterals, mortgages and pledges.

27. OFF-BALANCE SHEET ITEMS (Continued)

(b) Other Off-balance Sheet Items (Continued)

Pursuant to the National Bank of Serbia's Decision on Accounting Write-off of Balance Sheet Assets of Banks passed on 10 August 2017 and in effect since 30 September 2017, the Bank transferred all NPLs as of 31 December 2024 in cases where the allowance for impairment equalled 100% of their gross book value, from balance sheet assets to off-balance sheet items in the amount of RSD 33,759 thousand (31 December 2023: RSD 19,369 thousand (Note 10(b)).

28. RELATED PARTY DISCLOSURES

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

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

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

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

28. RELATED PARTY DISCLOSURES (Continued)

(a) Outstanding balance of receivables and payables as of 31 December 2024 and 2023 resulting from transactions with shareholders and other Bank's related parties are presented in the following table:

In RSD thousand	2024	2023
Placements with banks:		
Nostro accounts	-	-
Other placements	-	-
Loans:	-	-
Loans approved to the Bank's management	-	-
Less: Allowance for impairment	-	-
	-	-
Total	**-**	**-**
Deposits and borrowings:		
Transaction deposits of shareholders	113	363
Subordinated loans from shareholders	-	-
Deposits of Bank's related individuals according to the law that governs banks' operations	-	-
Balance as of 31 December	**113**	**363**

(b) A summary of transactions conducted with the related party AZRS INVEST d.o.o. Belgrade in 2024 and 2023 is provided below:

In RSD thousand	2024	2023
Revenues	52	1.157
Expenses	(292)	(10,967)
Accounts receivables	-	-
Accounts payable	-	-
Equity	4,632,407	4,632,407

(c) Salaries and other remunerations of the Executive Board members and other key management personnel of the Bank (stated in the gross amount) in 2024 and 2023 are presented in the following table:

In RSD thousand	2024	2023
Members of the Executive Board	(41,443)	(33,102)
Members of the Board of Directors	(32,520)	(32,699)
Directors of Departments	(59,206)	(53,925)
Audit Committee member	(1,734)	(1,737)
Balance as of 31 December	**(134,903)**	**(121,463)**

29. RISK MANAGEMENT

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

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

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

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

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

Risk Management Department

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

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

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

Treasury and Liquidity Department and Assets and Asset and Liability Committee

The Treasury and Liquidity Department is responsible for managing assets and liabilities and the overall financial structure of the Bank. Furthermore, it is responsible for the funding and liquidity of the Bank. The Asset and Liability Committee is responsible for monitoring and managing liquidity risk.

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

29. RISK MANAGEMENT (Continued)

Risk Management and Reporting Systems

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

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

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

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

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

29.1. Credit Risk

Credit risk is a risk of the occurrence of adverse effects on Bank's financial performance and equity due to debtors' inability to fulfil their contractual obligations to the Bank.

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

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

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

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

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

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

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

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

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

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

Credit-related Risks

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

Derivative Financial Instruments

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

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

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

The net amounts of maximum credit risk exposure, excluding collaterals, as of 31 December 2024 and 2023 are provided below:

In RSD thousand	2024 Net maximum exposure	2023 Net maximum exposure
The exposure related to balance sheet assets		
Securities	-	-
Loans and advances to banks and other financial institutions	6,296,761	5,486,608
Loans and advances to customers	5,858,145	4,726,062
Other assets	114,532	165,442
Total balance sheet assets	**12,269,438**	**10,378,112**
The exposure related to off-balance sheet items		
Payment guarantees	374,874	308,547
Performance bonds	2,390,604	1,601,956
Uncovered letters of credit	-	-
Unused commitments	788,452	619,867
Total off-balance sheet items	**3,553,930**	**2,530,370**
Balance as of 31 December	**15,823,368**	**12,908,482**

As presented in the table above, 37.02% of the maximum credit risk exposure as of 31 December 2024 relates to loans and advances to customers (31 December 2023: 36.61%), 4.98% to unused commitments (31 December 2023: 4.80%) and 39.79% to loans and advances to banks and other financial institutions (31 December 2023: 42.50%).

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

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

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

In RSD thousand	31 December 2024		
	Gross exposure	Allowance for impairment and provisions	Net exposure
Loans and advances to banks and other financial institutions			
Regular placements	**6,360,446**	**(63,685)**	**6,296,761**
Level 1	6,201,180	(16,147)	6,185,033
Level 3	159,266	(47,538)	111,728
Loans and advances to customers and other assets			
Regular placements	**5,471,929**	**(54,747)**	**5,417,182**
Level 1	5,010,046	(46,133)	4,963,913
Level 2	461,883	(8,614)	453,269
Non-performing placements - Level 3	**670,998**	**(115,503)**	**555,495**
Collectively estimated	59,080	(6,511)	52,569
Individually estimated	611,918	(108,992)	502,926
Securities – Level 1*	-	-	-
Total balance sheet exposures	**12,503,373**	**(233,935)**	**12,269,438**
Off-balance sheet exposures			
Regular placements	**3,554,833**	**(903)**	**3,553,929**
Level 1	3,339,833	(683)	3,339,150
Level 2	215,000	(221)	214,779
Default placements - Level 3	**-**	**-**	**-**
Collectively estimated	-	-	-
Individually estimated	-	-	-
Total off-balance sheet exposures	**3,554,833**	**(903)**	**3,553,930**

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

The concentration of customer loans by industry sectors as of 31 December 2024 and 2023 is presented in Note 20(d).

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

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

The structure of the Bank's credit risk exposure stated at the gross book value of the total risky placements as of 31 December 2024, grouped by geographical sectors, is presented in the table below:

In RSD thousand

	Serbia	Europe	Other	Total
Loans and advances:				
- Banks and financial institutions	4,497,902	-	1,798,859	6,296,761
– Corporate customers	5,101,123	-	-	5,101,123
– Retail customers	658,914	16,782	51,874	727,570
- Entrepreneurs	29,452	-	-	29,452
Guarantees and other commitments	3,553,132	-	798	3,553,930
Balance as of 31 December 2024	**13,840,523**	**16,782**	**1,851,531**	**15,708,836**
Balance as of 31 December 2023	**10,349,843**	**38,004**	**2,355,193**	**12,743,040**

The analysis of the Bank's credit risk exposure by industry sectors, before and after allowance for impairment of financial assets and provisions for risk, as of 31 December 2024 and 2023, is presented in the table below:

In RSD thousand

	Gross maximum exposure 2024	Net maximum exposure 2024	Gross maximum exposure 2023	Net maximum exposure 2023
Processing industry	3,589,608	3,533,304	3,107,453	2,996,269
Transportation and warehousing	243,518	219,011	394,251	386,659
Trade	1,332,877	1,314,953	874,978	865,444
Finance	6,360,445	6,296,761	5,505,682	5,486,608
Retail customers	735,757	727,570	455,771	435,648
Entrepreneurs	29,623	29,452	-	-
Other	33,863	33,855	77,050	42,042
Total	**12,325,691**	**12,154,906**	**10,415,185**	**10,212,670**

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

(b) Portfolio Quality

The Bank manages the financial asset quality using the internal classification of placements.

In RSD thousand

	Customer placements			Bank placements			Total 2024	Total 2023
Category	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Placements to customers and banks	Placements to customers and banks
A	3,817,321	82,057	14,101	4,881,256	-	-	8,794,735	7,559,144
B	3,941,665	308,371	-	1,319,924	-	-	5,569,960	4,125,217
V	478,578	81,358	455,129	-	-	-	1,015,065	674,341
G	2,579	204,452	124,997	-	-	159,266	491,294	375,251
D	164	-	9,306	-	-	-	9,470	211,899
Total	**8,240,307**	**676,238**	**603,533**	**6,201,180**	**-**	**159,266**	**15,880,524**	**12,945,852**

The following tables present the portfolio quality (gross placements and off-balance sheet exposures) based on the Bank's grading system as of 31 December 2024 and 2023.

The structure of allowances for impairment and provisions, established in accordance with the Bank's internal methodology, was as follows as of 31 December 2024 and 2023:

In RSD thousand

	Allowances for impairment and provisions for customers			Allowances for impairment and provisions for banks			Total 2024	Total 2023
Category	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Placements to customers and banks	Placements to customers and banks
A	13,109	1,303	1	4,250	-	-	18,663	27,028
B	19,321	104	-	11,897	-	-	31,322	30,354
V	13,975	657	26,061	-	-	-	40,693	10,538
G	199	6,753	23,199	-	-	47,538	77,689	27,733
D	5	-	3,317	-	-	-	3,322	107,158
Total	**46,609**	**8,817**	**52,578**	**16,147**	**-**	**47,538**	**171,689**	**202,811**

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

(b) Portfolio Quality (Continued)

In RSD thousand

	Investments to customers and banks				
	Level 1	Level 2	Level 3	Total 2024	Total 2023
Non-defaulted receivables	10,950,309	451,897	418,949	11,821,155	10,044,230
Defaulted receivables:					
- 1-30 days	89,271	-	108,408	197,679	20,913
- 31-60 days	-	356	-	356	13,943
- 61-90 days	-	390	36,746	37,136	22,436
- over 90 days	-	-	98,580	98,580	111,148
Total	**11,039,580**	**452,643**	**662,683**	**12,154,906**	**10,212,670**

The structure of the risky balance sheet assets and off-balance sheet items and allowances for impairment/provision, determined in accordance with the Bank's internal methodology, as of 31 December 2024 and 2023, is as follows.

RSD thousand	Individual assessment		Group assessment		Total 2024	
As of 31 December 2024:	Balance sheet assets	Allowance for impairment	Balance sheet assets	Allowance for impairment	Balance sheet assets	Allowance for impairment
Retail customers	1	(1)	735,756	(8,187)	735,757	(8,188)
Banks and corporate customers	706,473	(96,276)	10,853,838	(66,151)	11,560,311	(162,427)
Entrepreneurs	-	-	29,623	(170)	29,623	(170)
	706,474	**(96,277)**	**11,619,217**	**(74,508)**	**12,325,691**	**(170,785)**
	Individual assessment		**Group assessment**		**Total 2024**	
	Off-balance sheet items	**Provision**	**Off-balance sheet items**	**Provision**	**Off-balance sheet items**	**Provision**
Retail customers	-	-	3,542	-	3,542	-
Banks and corporate customers	-	-	3,551,291	(903)	3,551,291	(903)
Entrepreneurs	-	-	-	-	-	-
	-	**-**	**3,554,833**	**(903)**	**3,554,833**	**(903)**
Total	**706,474**	**(96,277)**	**15,174,050**	**(75,411)**	**15,880,524**	**(171,688)**

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

(b) Portfolio Quality (Continued)

RSD thousand	Individual assessment		Group assessment		Total 2023	
As of 31 December 2023:	Balance sheet assets	Allowance for impairment	Balance sheet assets	Allowance for impairment	Balance sheet assets	Allowance for impairment
Retail customers	-	-	455,771	(20,122)	455,771	(20,122)
Banks and corporate customers	223,857	(103,972)	9,735,557	(78,420)	9,959,414	(182,392)
Entrepreneurs	-	-	-	-	-	-
	223,857	**(103,972)**	**10,191,328**	**(98,542)**	**10,415,185**	**(202,515)**
	Individual assessment		**Group assessment**		**Total 2023**	
	Off-balance sheet items	**Provision**	**Off-balance sheet items**	**Provision**	**Off-balance sheet items**	**Provision**
Retail customers	-	-	4,756	-	4,756	-
Banks and corporate customers	-	-	2,525,912	(297)	2,525,912	(297)
Entrepreneurs	-	-	-	-	-	-
	-	**-**	**2,530,668**	**(297)**	**2,530,668**	**(297)**
Total	**223,857**	**(103,972)**	**12,721,996**	**(98,839)**	**12,945,853**	**(202,812)**

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

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

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

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

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

(b) Portfolio Quality (Continued)

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

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

Rescheduled and Restructured Loans

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

As of 31 December 2024, the Bank had 4 restructured loans of corporate customers and 5 restructured loans of retail customers.

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

RSD thousand	**Rescheduled**		**Restructured**	
31 December 2024	**Gross**	**Net**	**Gross**	**Net**
Corporate customers	-	-	105,096	
Retail customers	-	-	1,310	
Total	**-**	**-**	**106,406**	

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

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

(b) Portfolio Quality (Continued)

Collaterals and Other Credit Enhancements

The amount and type of the collateral required depends on an assessment of the credit risk of each customer. Protection terms of each placement are determined based on an analysis of customers' creditworthiness, type of credit risk exposure, placements' maturity, as well as the amount of a particular loan.

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

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

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

The fair value of collaterals in the form of mortgages as of 31 December 2024 amounts to RSD 2,478,766 thousand (31 December 2023: RSD 2,472,896 thousand) while the fair value of collaterals in the form of a cash deposit amounts to RSD 429,002 thousand (31 December 2023: RSD 299,428 thousand).

(c) Default Receivables

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

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

According to the regulations, default receivables of corporate customers and entrepreneurs are monitored at a customer level, i.e. at the level of an individual receivable with retail customers.

In RSD thousand	Gross exposure	Default receivables
Corporate sector	5,199,866	121,072
Retail sector	735,757	3,318
Entrepreneurs' sector	29,623	-
Finance and insurance sector	6,360,445	-
Total as of 31 December 2024	**12,325,691**	**124,390**
Total as of 31 December 2023	**10,415,185**	**219,701**

29. RISK MANAGEMENT (Continued)

29.1. Credit Risk (Continued)

(c) Default Receivables (Continued)

Movements in allowance for impairment and provisions during the year

In RSD thousand	12/31/2024 Level 1	Level 2	Level 3	Total	12/31/2023 Total
Loans and receivables to customers					
Balance as of 1 January	**38,971**	**34,230**	**110,240**	**183,441**	**326,989**
Transfer to Level 1	8,052	(7,498)	(554)	-	-
Transfer to Level 2	-	2	(2)	-	-
Transfer to Level 3	(1,731)	(17,668)	19,399	-	-
New allowance for impairment	3,248	-	315,317	318,565	593,982
Financial assets that have been derecognised	(11,113)	(1,970)	(180,262)	(193,345)	(461,052)
Write-off	-	-	(221,616)	(221,616)	(242,824)
Interest income from impaired placements	-	-	2,007	2,007	(1,820)
FX differences and other movements	8,500	1,500	8,048	18,048	(31,834)
Balance as of the reporting date	**45,927**	**8,596**	**52,578**	**107,101**	**183,441**

29. RISK MANAGEMENT (Continued)

29.2. Liquidity Risk

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

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

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

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

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

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

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

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

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

Liquidity risk assessment/measurement is a quantitative and/or a qualitative assessment of the identified liquidity risk and it is the responsibility of the Risk Management Department. Liquidity risk assessment/measurement involves the application of the GAP analysis, ratio analysis and stress testing.

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

29. RISK MANAGEMENT (Continued)

29.2. Liquidity Risk (Continued)

Liquidity risk mitigation involves defining:

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

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

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

The method of handling and resolving temporary and long-term liquidity crises is defined in more details by the Liquidity Crisis Plan and recovery options, further described through the Bank's Recovery Plan for 2024.

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

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

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

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

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

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

29. RISK MANAGEMENT (Continued)

29.2. Liquidity Risk (Continued)

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

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

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

The liquidity ratios in 2024 and 2023 were as follows:

	2024	2023
Average during the period	3.51	4.29
Highest	5.57	5.20
Lowest	2.69	2.26
As of 31 December	3.28	2.60

As of 31 December 2024, **the narrow liquidity ratio** amounted to 2.08, while the **LCR** amounted to 538.09% and it was above the prescribed limit.

During 2024 and 2023 the Bank maintained its liquidity level above the minimal prescribed limits established by the National Bank of Serbia.

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

29. RISK MANAGEMENT (Continued)

29.2. Liquidity Risk (Continued)

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

31 December 2024	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	In RSD thousand Total
Deposits and other financial liabilities to banks, other financial organizations and central bank	67,550	-	201,885	-	-	269,435
Deposits and other financial liabilities to customers	12,350,185	469,996	3,875,742	1,259,902	284	17,956,109
Subordinated liabilities	-	-	-	-	-	-
Other liabilities	284,399	-	-	-	-	284,399
Total	**12,702,134**	**469,996**	**4,077,627**	**1,259,902**	**284**	**18,509,943**
31 December 2023						
Deposits and other financial liabilities to banks, other financial organizations and central bank	62,074	280,217	-	-	-	342,291
Deposits and other financial liabilities to customers	9,875,471	410,054	3,212,956	894,893	144,074	14,537,448
Subordinated liabilities	-	-	-	-	-	-
Other liabilities	160,389	-	-	-	-	160,389
Total	**10,097,934**	**690,271**	**3,212,956**	**894,893**	**144,074**	**15,040,128**

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

29. RISK MANAGEMENT (Continued

29.2. Liquidity Risk (Continued)

The maturity structure of commitments for undrawn loans and limits and received guarantees based on the remaining contractual maturity dates as of 31 December 2024 and 2023 is presented in the table below:

In RSD thousand	Up to 1 year	From 1 to 5 years	Total
31 December 2024			
Guarantees	1,497,701	1,267,777	2,765,478
Commitments for undrawn loans and limits	79,283	709,169	788,452
Total	**1,576,984**	**1,976,946**	**3,553,930**
31 December 2023			
Guarantees	759,011	1,151,492	1,910,503
Commitments for undrawn loans and limits	60,000	559,867	619,867
Total	**819,011**	**1,711,359**	**2,530,370**

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

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

29. RISK MANAGEMENT (Continued)

29.2. Liquidity Risk (Continued)

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
ASSETS						
Cash and balances with central bank	10,724,141	-	-	-	-	10,724,141
Pledged financial assets	-	-	-	-	-	-
Securities	-	-		-	-	-
Loans and advances to banks and other financial organisations	5,968,808	327,953	-	-	-	6,296,761
Loans and advances to customers	129,407	360,548	851,899	3,829,277	687,014	5,858,145
Intangible assets	-	-	-	-	83,196	83,196
Property, plant and equipment	-	-	-	-	210,133	210,133
Current tax assets	35,136	-	-	-	-	35,136
Deferred tax assets	-	-	-	2,340	-	2,340
Non-current assets held for sale	-	-	-	-	-	-
Other assets	114,483	49	-	-	-	114,532
Total assets	**16,971,975**	**688,550**	**851,899**	**3,831,617**	**980,343**	**23,324,384**
LIABILITIES						
Deposits and other financial liabilities to banks, other financial organisations and central bank	67,550	-	201,885	-	-	269,435
Deposits and other financial liabilities to customers	12,350,185	469,996	3,875,742	1,259,902	284	17,956,109
Changes in fair value of items subject to hedging	-	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-	-
Provisions	16,597	-	-	-	-	16,597
Current tax liabilities	280,906	-	-	-	-	280,906
Deferred tax liabilities	-	-	-	-	-	-
Other liabilities	284,399	-	-	-	-	284,399
Total liabilities	**12,999,637**	**469,996**	**4,077,627**	**1,259,902**	**284**	**18,807,446**
Equity	**-**	**-**	**-**	**-**	**4,516,938**	**4,516,938**
Total liabilities and equity	**12,999,637**	**469,996**	**4,077,627**	**1,259,902**	**4,517,222**	**23,324,384**
Maturity mismatch as of:						
- 31 December 2024	**3,972,338**	**218,554**	**(3,225,728)**	**2,571,715**	**(3,536,879)**	
- 31 December 2023	**3,043,480**	**(525,161)**	**(2,466,168)**	**2,521,330**	**(2,573,481)**	

29. RISK MANAGEMENT (Continued)

29.3. Interest Rate Risk

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

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

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

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

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

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

1. Identification of interest rate risk;
2. Interest rate risk assessment/measurement;
3. Mitigation of interest rate risk;
4. Monitoring and control of interest rate risk; and
5. Reporting on interest rate risk.

The Bank identifies in a timely manner significant causes that result in interest rate risk, which involves the determination of the current exposure to interest rate risk (interest-bearing assets and liabilities) and optional risk and exposure to interest rate risk based on new business products and activities, under items carried in the banking book.

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

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

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

29. RISK MANAGEMENT (Continued)

29.3. Interest Rate Risk (Continued)

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

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

In 2024, the Bank continued with the interest rate risk control and measurement activities by applying the standard interest rate shock of 200bp to the items in the banking book on the major currencies individually and for all other currencies collectively; the results are presented in the table below.

The Bank's exposure to risk of changes in interest rate (Repricing Gap Report) as of 31 December 2024 with comparative presentation of effects for 2023 is presented in the table below.

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

Time period	Marginal gap		Weighting factor	Effect on economic value	
	Total in RSD thousand	Total in EUR thousand		Total in RSD thousand	Total in EUR thousand
Up to 1 m	9,023,462	77,114	0.08%	7,219	62
1 - 3 m	(109,853)	(939)	0.32%	(352)	(3)
3 - 6 m	(796,942)	(6,811)	0.72%	(5,738)	(49)
6 - 12 m	(2,979,273)	(25,461)	1.43%	(42,604)	(364)
1 - 2 y	(6,195)	(53)	2.77%	(172)	(1)
2 - 3 y	(131,086)	(1,120)	4.49%	(5,886)	(50)
3 - 4 y	(115,191)	(984)	6.14%	(7,073)	(60)
4 -5 y	(8,776)	(75)	7.71%	(677)	(6)
5 -7 y	-	-	10.15%	-	-
7 - 10 y	(283)		-		
10 - 15 y	-	-	-	-	-
Total	**4,875,863**	**41,671**		**(55,281)**	**(472)**

Stress testing results as of 31 December 2024		
Regulatory capital as of 31 December 2024	2,848,362	24,342
Impact of standard shock +200bp	**-1.94%**	**-1.94%**
Stress testing results as of 31 December 2023		
Regulatory capital as of 31 December 2023	1,945,374	16,602
Impact of standard shock +200bp	**-1.70%**	**-1.70%**

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

29. RISK MANAGEMENT (Continued)

29.3. Interest Rate Risk (Continued)

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

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

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

In RSD thousand

Scenario	Change in market interest rates	Interest rate risk 2024
1	1%	308
2	2%	615
3	-1%	-308
4	-2%	-615

In RSD thousand

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

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

1. Under the influence of the standard shock on the economic value of individual major currencies (materially significant), a positive effect would be 0.02% in relation to the regulatory capital, for a change of 200 bp,
2. Under the influence of the standard shock on the economic value of individual major currencies (materially significant), a positive effect would be 0.01% in relation to the regulatory capital, for a change of 100 bp.

29. RISK MANAGEMENT (Continued)

29.4. Market Risks

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

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

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

29.4.1. Foreign Exchange Risk

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

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

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

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

During 2024 the Bank strictly paid attention to reconcile the currency risk indicator with the prescribed limit, where this indicator was mostly at the level below the limit for the whole period during the year.

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

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

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

1. Identifying the currency risk;
2. Currency risk assessment/measurement;
3. Mitigation of currency risk;
4. Monitoring and control of currency risk; and
5. Reporting on currency risk.

29. RISK MANAGEMENT (Continued)

29.4. Market Risks (Continued)

29.4.1. Foreign Exchange Risk (Continued)

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

Currency risk measurement includes a quantitative and qualitative assessment of the Bank's exposure to currency risk using the GAP analysis (currency structure), ratio analysis, VaR methodology and stress testing. The Risk Management Department applies on a daily basis the measurement techniques for currency risk indicators and OCP exposures and the stress testing is performed at least quarterly.

The Risk Management Department performs the stress testing of the sensitivity of the Bank's positions to changes in foreign currency rates at least quarterly, and informs the Bank's Executive Board, ALCO, Audit Committee and Board of Directors.

The following tables present the currencies in which the Bank has significant exposure of its non-trading monetary assets and liabilities to currency risk as of 31 December 2024 and 2023.

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

In RSD thousand	Changes in foreign exchange rate (%)	Effect to result before tax
	2024	2024
Currency		
EUR	-20%	(649)
CHF	-20%	(23,225)
USD	-20%	(24,968)
RUB	-20%	(77,267)

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

29. RISK MANAGEMENT (Continued)

29.4. Market Risks (Continued)

29.4.1. Foreign Exchange Risk (Continued)

The following table presents the Bank's exposure to foreign exchange risk (including a foreign currency clause) as of 31 December 2024.

The table includes assets and liabilities at their carrying amounts.

ASSETS	EUR	USD	CHF	RUB	Other currencies	Total sub-balance sensitive to changes in foreign exchange rate	Sub-balance not sensitive to changes in foreign exchange rate	Total
Cash and balances with central bank	1,386,185	96,741	3,476	15,781		1,502,183	9,221,958	**10,724,141**
Pledged financial assets								
Securities	-			-		-		**-**
Loans and advances to banks and other financial organizations	326,571	72,781	1,951	1,459,180	17,481	1,877,964	4,418,797	**6,296,761**
Loans and advances to customers	3,248,994	-	-	-	-	3,248,994	2,609,151	**5,858,145**
Intangible assets						-	83,196	83,196
Property, plant and equipment						-	210,133	210,133
Investment property						-	-	-
Current tax assets							35,136	35,136
Deferred tax assets						-	2,340	2,340
Non-current assets held for sale						-	-	-
Other assets	52,842	-		-	-	52,842	61,690	114,532
Total assets	**5,014,592**	**169,522**	**5,427**	**1,474,961**	**17,481**	**6,681,983**	**16,642,401**	**23,324,384**
Off-balance sheet items - purchase of EUR for RSD. Sale of EUR for RUB	**-**	**-**	**-**	**-**	**-**	**-**		

29. RISK MANAGEMENT (Continued)

29.4. Market Risks (Continued)

29.4.1. Foreign Exchange Risk (Continued)

LIABILITIES AND EQUITY	EUR	USD	CHF	RUB	Other currencies	Total sub-balance sensitive to changes in foreign exchange rate	Sub-balance not sensitive to changes in foreign exchange rate	Total
Deposits and other financial liabilities to banks, other financial organizations and central bank	25,672			17		25,689	243,746	**269,435**
Deposits and other financial liabilities to customers	4,933,273			1,439,094		6,372,367	11,388,444	**17,760,811**
Changes in fair value of items subject to hedging		172,261	4,646		18,391	195,298		**195,298**
Subordinated liabilities								
Provisions	520					520	16,077	**16,597**
Current tax liabilities						-	280,906	**280,906**
Deferred tax liabilities								
Other liabilities	166,354					166,354	118,045	**284,399**
Total liabilities	**5,125,819**	**172,261**	**4,646**	**1,439,111**	**18,391**	**6,760,228**	**12,047,218**	**18,807,446**
Equity	**-**	**-**	**-**			**-**	**4,516,938**	**4,516,938**
Total equity and liabilities	**5,125,819**	**172,261**	**4,646**	**1,439,111**	**18,391**	**6,760,228**	**16,564,156**	**23,324,384**
Off-balance sheet items - purchase of EUR for RSD. Sale of EUR for RUB	**-**	**-**	**-**	**-**	**-**	**-**		
Net foreign currency position as of:	**-**	**-**	**-**		**-**	**-**		
-31 December 2024	(111,227)	(2,739)	781	35,850	(910)	(114,876)		
-31 December 2023	(2,032,594)	2,205	135	406	(34)	(2,029,882)		

29. RISK MANAGEMENT (Continued)

29.5. Exposure Risk (Concentration Risk)

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

The concentration risk relates to:

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

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

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

The Bank mitigates the concentration risk by actively managing the credit portfolio and by adapting the established limits.

In 2024 the Bank maintained the exposure risk indicators within the prescribed values. By implementing appropriate activities anticipated by the relevant procedures and decisions on credit approval, the Bank has strived to ensure the scope and the structure of its operations and risky placements to be reconciled with the performance indicators prescribed by the National Bank of Serbia.

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

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

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

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

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

29. RISK MANAGEMENT (Continued)

29.6. Investment Risk

The Bank's investment risks include Bank's investments in other legal entities' equity, and in property, plant and equipment (fixed assets).

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

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

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

In 2024 the Bank maintained the permanent investments indicator within the prescribed limits and ensured that investments were reconciled with the ratios prescribed by the National Bank of Serbia.

As of 31 December 2024, the Bank did not have investments into non-financial sector entities, while the investment indicator into property, plant and equipment amounted to 14.75 % of the Bank's regulatory capital.

29.7. Country Risk

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

Country risk includes the following risks:

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

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

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

29. RISK MANAGEMENT (Continued)

29.7. Country Risk (Continued)

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

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

The Bank applies the country risk management policy by constantly monitoring its exposure to this type of the risk compared to adopted limits, which are determined based on the rating of countries determined by competent institutions (OECD), regularly informing the management on such exposures.

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

29.8. Operational Risk

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

Operational risk also includes legal risk, risk arising from introduction of new products, activities, processes and systems, as well as the risk of outsourcing activities to third parties and information system risk.

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

The operational risk management is conducted by the Board of Directors, Executive Board, Operational Risks Management Committee, Audit Committee and all other organizational units of the Bank.

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

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

1. Identifying the risk;
2. Risk assessment/measurement;
3. Risk mitigation;
4. Risk monitoring and control; and
5. Reporting on the risk.

29. RISK MANAGEMENT (Continued)

29.8. Operational Risk (Continued)

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

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

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

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

When assuming the operational risk, the Bank is guided by the following principles:

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

The Bank determines the operational risk mitigation measures based on an operational risk mitigation process. The measures include the following:

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

The Bank has defined and adopted the Policy on Business Continuity and revised Business Continuity Plan (BCP), which also includes Disaster Recovery Plan (DRP), that, along with the accompanying appendices enable smooth and continuous operations of all relevant systems and processes of the Bank, as well as limiting the loss in emergency situations. These plans were adequately tested during 2024.

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

29. RISK MANAGEMENT (Continued)

29.8. Operational Risk (Continued)

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

A decision on outsourcing, i.e. changing the Service Provider and introducing a new product, as well as the procedures for its amendment, is made by the Bank's Executive Board based on a proposal from the Operational Risk Management Committee.

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

During 2024, the Risk Management Department reported to the Executive Board of the Bank by submitting periodical reports on the recorded operational events that may have adverse effects to the capital and capital adequacy with the proposal of measures to be undertaken for their elimination/mitigation.

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

In 2024, reported operational risk events were recorded in the Operational Losses Database.

29.9. Risk of Early Repayment

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

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

In RSD thousand	Effect to the net interest income 2024	Effect to the net interest income 2023
Currency		
EUR	(4,439)	(2,334)
Other currencies	(13,317)	(4,202)

29. RISK MANAGEMENT (Continued)

29.10. Information System Risk

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

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

An IS risk assessment is carried out at least once a year as part of a comprehensive self-assessment of operational risks in the Bank on the processes containing the information component and according to the dynamics of assessment of the Analysis of the influence on operations, which includes the process in which the organizational units of the Bank, in collaboration with the Risk Management Department, observe the IS risk register and indicate the extent to which they are exposed to certain IS risks.

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

30. FAIR VALUE MEASUREMENT

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

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

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

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

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

30. FAIR VALUE MEASUREMENT (Continued)

Measurement of Financial Instruments

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

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

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

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

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

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

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

30. FAIR VALUE MEASUREMENT (Continued)

Measurement of Financial Instruments (Continued)

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

	31 December 2024		31 December 2023	
	Carrying value	Fair value	Carrying value	Fair value
Financial (monetary) assets				
Cash and balances with central bank	10,724,141	10,724,141	7,526,810	7,526,810
Securities	-	-	-	-
Loans and advances to banks and other financial organizations	6,296,761	6,185,032	5,486,608	5,486,608
Loans and advances to customers	5,858,145	5,198,124	4,726,062	4,104,541
Other assets	114,532	114,532	165,442	165,442
Total	**22,993,579**	**22,221,829**	**17,904,922**	**17,283,401**
Financial (monetary) liabilities				
Deposits and other financial liabilities to banks and other financial organizations	269,435	269,435	342,289	342,289
Deposits and other financial liabilities to customers	17,956,109	17,956,109	14,537,448	14,537,448
Subordinated liabilities	-	-	-	-
Other liabilities	284,399	284,399	160,391	160,391
Total	**18,509,943**	**18,509,943**	**15,040,128**	**15,040,128**

30. FAIR VALUE MEASUREMENT (Continued)

Measurement of Financial Instruments (Continued)

Fair Value Hierarchy Analysis

In RSD thousand

	Fair value			
31 December 2024	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through other comprehensive income				
Loans and advances to banks and other financial organizations	6,185,032			6,185,032
Loans and advances to customers	4,367,034	409,953	421,137	5,198,124
Total	**10,552,066**	**409,953**	**421,137**	**11,383,156**
Liabilities				
Deposits and other financial liabilities to banks and other financial organizations	269,435			269,435
Deposits and other financial liabilities to customers	17,956,109			17,956,109
Subordinated liabilities	-			-
Total	**18,225,544**			**18,225,544**

30. FAIR VALUE MEASUREMENT (Continued)

Measurement of Financial Instruments (Continued)

Fair Value Hierarchy Analysis (Continued)

In RSD thousand

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

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

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

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

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

30. FAIR VALUE MEASUREMENT (Continued)

Measurement of Financial Instruments (Continued)

Fair Value Hierarchy Analysis (Continued)

Table below presents Bank classification for each class of financial assets and liabilities at carrying value and their fair value as of 31 December 2024:

In RSD thousand

	Measured at fair value	FVOCI securities	Amortised cost	Total carrying value	Fair value
Cash and balances with central bank	10,724,141			10,724,141	10,724,141
Financial assets at fair value through other comprehensive income		-		-	-
Loans and advances to banks and other financial organizations			6,296,761	6,296,761	6,185,032
Loans and advances to customers			5,858,145	5,858,145	5,198,124
Other assets			114,532	114,532	114,532
Total assets	**10,724,141**	**-**	**12,269,438**	**22,993,579**	**22,221,829**
Deposits and other financial liabilities to banks and other financial organizations			269,435	269,435	269,435
Deposits and other financial liabilities to customers			17,956,109	17,956,109	17,956,109
Subordinated liabilities			-	-	-
Other liabilities			284,399	284,399	284,399
Total liabilities			**18,509,943**	**18,509,943**	**18,509,943**

30. FAIR VALUE MEASUREMENT (Continued)

Measurement of Financial Instruments (Continued)

Fair Value Hierarchy Analysis (Continued)

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

In RSD thousand

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

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

Assets whose Fair Value Approximates their Carrying Value

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

Financial Instruments with Fixed Rate

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

30. FAIR VALUE MEASUREMENT (Continued)

Measurement of Financial Instruments (Continued)

Financial Instruments with Fixed Rate (Continued)

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

31. INTERNAL ASSESSMENT OF CAPITAL ADEQUACY

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

a. Identification of the material significance of the risk;
b. Calculation of the amount of internal capital requirements for individual risks;
c. Determining total internal capital requirements; and
d. Comparison of the following elements:
   i. The amount of capital calculated in accordance with the National Bank of Serbia's Decision governing the banks' capital adequacy and available internal capital;
   ii. Minimum capital requirements calculated in accordance with the National Bank of Serbia's Decision governing the banks' capital adequacy and internal capital requirements for individual risks; and
   iii. Sum of minimal capital requirements calculated in accordance with the National Bank of Serbia's Decision governing the banks' capital adequacy and total internal capital requirements.

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

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

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

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

The Risk Management Department informs the Executive Board, the Asset and Liability Committee, the Audit Committee and the Bank's Board of Directors on the calculated internal assessment of capital adequacy.

32. CAPITAL MANAGEMENT

(a) Regulatory Capital

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

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

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

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

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

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

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

In accordance with the Decision on Capital Adequacy of Banks (“RS Official Gazette”, no. 113/2016, 103/2018, 88/2019, 67/2020, 98/2020, 137/2020 and 59/2021, 67/2022, 137/2022, 48/2023, 110/2023 and 102/2024) the method of calculating capital adequacy ratios has been determined. The capital adequacy ratio of the Bank equals to the ratio between the Bank’s capital and the sum of risk-weighted assets of the Bank. The Bank’s equity consists of the aggregate of basic capital and supplementary capital, net of deductible items defined by the above decision.

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

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

32. CAPITAL MANAGEMENT (Continued)

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

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

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

For the purposes of determining the regulatory capital and the capital adequacy ratio, the Bank's core (basic) capital as of 31 December 2024 is comprised of the paid-in share capital. Deductions from capital are losses from prior years, loss for the current year, intangible assets and gross amount of receivables from borrower-private individual (except agricultural producers) for granted consumer loans, cash loans or other loans recorded in accounts 102, 107 and 108, whose debt to income ratio prior to the loan approval was higher than the percent stipulated under the Decision regulating the classification of balance sheet assets and off-balance sheet items of banks or whose percent would be higher due to the loan approval, with the deductible being implemented regardless of whether the borrower's debt to income ratio decreased below the said percent after the loan approval.

32. CAPITAL MANAGEMENT (Continued)

The table below summarizes the structure of the Bank's regulatory capital as of 31 December 2024 and 2023, as well as the capital adequacy ratio:

	31 December 2024	In RSD thousand 31 December 2023
Regulatory capital		
Core capital		
Basic share capital	4,632,406	4,632,406
Losses from previous years	(1,700,848)	(2,634,608)
Profit/loss for the year	1,585,379	933,759
Revaluation reserves	-	-
Intangible assets	(83,196)	(52,424)
	2,848,362	**1,945,374**
Supplementary capital - subordinated liabilities	**-**	**-**
Total core and supplementary capital	**2,848,362**	**1,945,374**
Deductible items:		
Gross receivables from private individuals	-	-
Required reserve for estimated losses on balance sheet assets and off-balance sheet items	-	-
Total capital (1)	**2,848,362**	**1,712,393**
Risk exposure		
Credit risk exposure	5,786,254	5,127,054
Operational risk exposure	2,128,510	1,201,159
Market risk exposure	114,876	116,479
Adjustment risk exposure	-	-
Total (2)	**8,029,640**	**6,444,692**
Capital adequacy ratio - Basic share capital	*35.47%*	*30.19%*
Capital adequacy ratio - Core capital	*35.47%*	*30.19%*
Capital adequacy ratio (1/2 x 100)	*35.47%*	*30.19%*

As of 31 December 2024, the Bank's regulatory capital amounts to RSD 2,848,362 thousand, i.e. EUR 24,342 thousand translated at the official median exchange rate as of the balance sheet date (31 December 2023: RSD 1,945,374 thousand, i.e. EUR 16,602 thousand). The capital adequacy ratio of the Bank amounting to 35.47% is above the prescribed minimum of 8% (i.e. 15.10% in line with the supervisory document of the National Bank of Serbia dated 3 September 2024).

Tier 1 Leverage Ratio representing the ratio of core capital and the amount of the Bank's exposure as of 31 December 2024 amounted to 10.34%.

32. CAPITAL MANAGEMENT (Continued)

Pursuant to the National Bank of Serbia's Official Letter on the Bank's Supervisory Assessment and Accompanying Recommendations, the Bank is obliged to individually maintain the capital adequacy ratio of basic share capital at the level of 8.48%, the capital adequacy ratio of core capital at the level of 11.33% and the capital adequacy ratio at the level of 15.10%, representing total supervisory capital requirement that needs to be increased by the calculated combined capital buffer on a relevant date.

As of 31 December 2024, the overall capital requirement amounted to 18.81% of the risk-weighted assets, calculated as the sum of the total supervisory capital requirements and combined capital buffer on that day.

Pursuant to the Decision of the National Bank of Serbia on Bank Capital Adequacy, as of 31 December 2024 the Bank had sufficient level of capital to meet the minimum requirements of the National Bank of Serbia.

(a) Performance Indicators - Compliance with Legal Requirements

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

The Bank's performance indicators as of 31 December 2024 were as follows:

Performance indicators	Prescribed	Realized
1. Regulatory capital	Minimum EUR 10 million	24,342 thousand
2. Capital adequacy ratio	Minimum 8%	35.47%
1. Capital adequacy ratio of basic share capital	Minimum 4.5%	35.47%
2. Capital adequacy ratio - Core capital	Minimum 6%	35.47%
5. Bank's investments	Maximum 60% of the capital	14.75%
6. Exposure to a single party or a group of related parties	Maximum 25% of the capital	15.70%
7. The total sum of all large exposures of the Bank in relation to capital	Maximum 400%	231.22%
8. Liquidity ratios as of the last date:		
– in the first month of the last quarter of 2024	Minimum 1	3.45
– in the second month of the last quarter of 2024	Minimum 1	3.07
– in the third month of the last quarter of 2024	Minimum 1	3.28
9. Narrow liquidity coverage ratio	Minimum 0.5	2.08
10. Liquidity coverage ratio (LCR)	Minimum 100%	538.09%
11. Currency risk indicator	Maximum 20% of the capital	4.03%

As of 31 December 2024 the Bank complied all its performance indicators with the prescribed ones.

33. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Litigations

As of 31 December 2024, the Bank acts as a defendant in 102 litigations. The total estimated amount of the related claims equals RSD 252,354 thousand.

According to the estimate of the Legal Department and the legal advisors of the Bank, positive outcome is expected for a certain number of litigations, whereas other litigations have uncertain outcome. As disclosed in the Note 28 to the financial statements, as of 31 December 2024, the Bank established the provision for potential losses that may arise from the above litigations in the total amount of RSD 1,077 thousand.

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

(b) Tax Risks

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

34. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

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

The reconciliation was performed as of 31 October 2024.

Out of the total amount of receivables to be reconciled, the amount of RSD 143,951 thousand, i.e. 0.64%, remained unreconciled.

Out of the total amount of payables requested to be reconciled, the amount of RSD 252 thousand, i.e. 0.00%, remained unreconciled.

Since the confirmations (IOS form) include a clause stating that "If the recipient does not return the confirmation within a certain period of time, the balance of receivables and payables shall be deemed reconciled", the Bank considers that the outstanding balances stated in the remaining unreturned confirmations, are also reconciled.

35. EXCHANGE RATES

The official median exchange rates of the National Bank of Serbia, determined at the Interbank Foreign Currency Market, used in the translation of balance sheet items denominated in foreign currencies, as of 31 December 2024 and 2023 into the functional currency (RSD), for the major foreign currencies were as follows:

	2024	2023
EUR	117.0149	117.1737
USD	112.4386	105.8671
CHF	124.5237	125.5343
RUB	1.0557	1.1764

36. EFFECTS 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 was 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 indirect stakeholders (e.g. suppliers and customers, investors and lenders).

The Bank has immaterial direct exposure to Russia and Ukraine, as well as the Middle Eastern countries, and accordingly, does not have any adverse effects on its operation in 2024 and 2023. In the upcoming period, the Bank does not expect a significant impact based on direct exposure to these countries.

Despite the limited direct exposure, due to the continuation of the conflict and further macroeconomic instability, an additional adverse effect on the global economy can be expected, particularly in terms of the prices of energy products, changes in foreign exchange rates, interest rates, stock market activities, supply chain disruptions and increased inflationary pressures, which may indirectly impact the Bank's operations.

The management is carefully monitoring and assessing the potential impact of the global macroeconomic instability and undertakes all necessary measures to ensure the stability of Bank's operations, although future effects cannot be predicted with reasonable certainty.

37. EVENTS AFTER THE REPORTING PERIOD

There were no significant events subsequent to the reporting date.

Belgrade, 31 March 2025

Наташа

Natasa Djokovic	Valentina Keisa	Radomir Stevanovic
Responsible for financial statements preparation	Executive Board Chairperson	Executive Board Member

AKCIONARSKO DRUŠTVO BEOGRAD API Bank a.d. Beograd API bank Beograd

ANNUAL BUSINESS REPORT

2024

March 2025

Contents

1. Introductory Note by the Chairperson of the Executive Board

Dear clients and partners,

In the previous year, we implemented a number of activities and projects with the aim of positioning ourselves as a provider of high-quality financial services, validating the trust of existing clients, as well as gaining the trust of new ones. Another turbulent year on the global level strengthened our position and intention to be regarded in the wider social community as a reliable partner in business and support in life.

The positive business trend of our Bank continued, implying a 70% increase in profit compared to the previous year, based on a 73% increase in interest income, as well as a 176% increase in fee and commission income. Moreover, compared to the previous business year, we recorded a growth of on-balance assets of 29%. We justifiably reinforced the trust of our clients, whose deposits increased by 24% compared to 2023.

Strengthening of the Bank through the inclusion of our generated profit in capital resulted in capital adequacy of 35.47%, being above the average of the banking market. The non-performing loans (NPL) ratio of 1.74% achieved at the end of 2024 is still at a historically low level for the Bank and, along with adequate management of the Bank, it represents a good basis for further growth and business development.

Considering needs of each client individually, respecting their unique characteristics and, accordingly, providing adequate solutions, is an approach which makes the core of our business philosophy. We continued improving service automation in order to improve productivity, with also finalising certain important technological projects related to the further improvement of information security.

We are oriented towards modernization, without neglecting personal contact, as a part of the banking tradition on which, we firmly believe, the future must be based. Our tasks for the upcoming period will be further expansion of the client base, provision of high-quality services, continuation of digitisation and development of electronic services, with maintaining healthy financial indicators.

Professionalism and flexibility, prompt reactions to changes of regulations and technology, as well as a prudent approach to risk management make the key foundations of our future business. Social responsibility seen through donations will continue to be an integral part of supporting the local community, while the API team is supported by various professional trainings and educations, team building and corporate events – to be prepared for future success.

API Bank is willing to invest its knowledge and energy in improving our partner business relations and the quality of your life through developing our services and the brand.

On behalf of my team and myself, I thank you for the cooperation, trust and loyalty that we all have been building together over the past years.

Sincerely,
Valentina Keisa,
Chairperson of the Executive Board

2. Main Information on API Bank a.d. Belgrade

API BANK a.d. BEOGRAD, former VTB Banka (the Bank), was established on 11 July 2008 based on the Decision of the National Bank of Serbia no. 2158 dated 3 March 2008.

On 26 July 2018, a change of ownership over 100% of shares of VTB Banka a.d. Belgrade was realised, so the sole owner of the Bank's shares became the company "AZRS INVEST" d.o.o. Belgrade, a Serbian company owned by the Russian investor Andrey Zakharovich Shlyakhovoy, and pursuant to the Decision of the Shareholders' Assembly dated 24 September 2018, the new business name of the Bank was adopted - API Bank a.d. Belgrade.

The change of the Bank's business name to API Bank a.d. Belgrade was registered with the Business Registers Agency on 18 October 2018.

API Bank a.d. Belgrade is registered in the Republic of Serbia for performing payment operations and credit and deposit operations in the country and payment operations abroad, and in accordance with the Law on Banks, it is obliged to operate on the principles of liquidity, security and profitability.

The Bank's registered office is located in Belgrade, Bulevar Vojvode Bojovica No. 6-8.

As of 31 December 2024, the Bank's network is comprised of a branch office in Belgrade, Balkanska Street No. 2, a branch office in Belgrade, Makedonska Street No. 44 and, a branch in Novi Sad, Narodnog fronta Street No. 12.

The Bank has no subsidiaries and has not purchased own shares.

The Bank management bodies are the Assembly, Board of Directors and Executive Board.

As of 31 December 2024, the Bank Board of Directors is comprised of five members, the Chairman being Mr. Vladislav Shlyakhovoy.

Members of the Executive Board are Valentina Keisa, the Chairperson, and Radomir Stevanović, the Member.

Other bodies established by the Bank pursuant to the Law on Banks are the Assets and Liabilities Management Committee, Credit Committees and the Audit Committee.

As of 31 December 2024, the Bank has 96 employees (31 December 2023: 87 employees).

In the qualifications structure of employees at the end of 2024, the share of employees with university education was 57%, while in the age structure, the share of people under 40 was 32%.

The Bank invests in improving the skills and knowledge of its employees through external and internal training, in order to equip them with skills necessary for adequate performance and realisation of tasks. The Bank pays special attention to internal communication so that all employees could be aware of strategic goals and results, major challenges and activities and so that all employees can respond properly to requirements set by the Bank and recognise their role in it.

3. Macroeconomic Environment and the Banking Sector

3.1. Gross Domestic Product

Based on an assessment of the Serbian Bureau of Statistics (RZS), the gross domestic product in the fourth quarter of 2024 achieved a real growth of 3.3% compared to the same period last year.

The seasonally adjusted data series shows GDP growth in the fourth quarter 2024 of 1.1% compared to the previous quarter.

When comparing business activities in the fourth quarter of 2024 to the same period in the previous year, a significant real growth of gross added value was recorded in the sectors of wholesale and retail trade, repair of motor vehicles, transport, storage and accommodation and catering services by 6.0%, the information and communication sector by 9.8% and the sectors of industry, water supply and wastewater management by 3.5%. A real drop of the gross added value was recorded in the sectors of agriculture, forestry and fishing by 7.6% and construction by 5.5%.

Observed by the aggregates of gross domestic product, in the fourth quarter of 2024, compared to the same period of the previous year, a real growth was recorded in expenditure for final household consumption by 3.8%, expenditure on final consumption by non-profit institutions that provide services to households by 4.5%, gross investments in fixed assets by 1.2%, export of goods and services by 3.1% and import of goods and services by 7.1%. A real fall was recorded in government final consumption expenditure by 0.3%.

3.2. Industrial Production

It was estimated that the total economic activity in the Republic of Serbia in 2024, measured by the real movement of gross domestic product (GDP), recorded a growth of 3.9% compared to 2023.

Gross investments in fixed assets in 2024, measured by real growth rates, made a growth of 9.2% relative to the previous year.

In 2024, agricultural production experienced a decrease in physical volume of 8.8%. In the same period, industrial production recorded a growth of 3.0% and the processing industry recorded an increase of 4.4%.

The value of construction works in 2024 recorded a real growth by 8.6% compared to the previous year. Turnover in retail trade achieved real growth of 5.9%, while turnover in wholesale trade was nominally higher by 5.0%. Foreign trade commodity exchange, in euros, in 2024, compared to 2023, showed an increase in exports by 1.7% and an increase in imports by 5.6%. Within the accommodation and catering services sector, the real growth of tourism in 2024 was estimated to be 8.3%, while the number of overnight stays by tourists increased by 1.4%. In 2024, compared to 2023, an increase was registered in physical volume of transport by 9.3% while the physical volume of telecommunications shrank by 0.9%.

According to the data obtained from the Labor Force Survey, in the third quarter of 2024, the employment rate was

51.9%, while the unemployment rate was 8.1%.

Average salaries without taxes and contributions in 2024, compared to the previous year, were nominally higher by 14.2%, and in real terms by 9.2%.

The estimated annual inflation rate was 4.3%.

3.3. Foreign Trade

The total foreign trade of Serbia for the period January-December 2024 was:

– USD 73,831.8 million – an increase of 4.3% compared to the same period of previous year;

– EUR 68,189.6 million – an increase of 4.1% compared to the same period of previous year.

Goods worth USD 31,586.4 million were exported, which is an increase of 2.1% compared to the same period of the previous year and USD 42,245.4 million worth of goods was imported, being 6% higher compared to the same period of the previous year.

Exports of goods, expressed in euros, had a value of 29,162.1 million, which is an increase of 1.8% compared to the same period of the previous year. Imports of goods had a value of 39,027.5 million, which is 5.9% more than in the same period last year.

The achieved deficit is USD 10,659.0 million, which represent increase of 19.8% compared to the same period of the previous year. Expressed in euros, the deficit amounts to 9,865.4 million, an increase of 19.9% compared to the same period of the previous year.

The coverage of imports by exports is 74.8% and it is lower than the coverage in the same period last year, when it amounted to 77.7%.

The most important foreign trade partners are the countries with whom Serbia has a free trade agreement signed, out of which 58.3% of the total exchange is with EU member states.

The second most important partner of the Republic of Serbia are the CEFTA countries, with whom Serbia has a trade surplus in the amount of USD 3,063.8 million, mainly resulting from exports of grain products, beverages, oil and oil derivatives, electricity, and road vehicles. Serbia's exports amount to USD 4,862.5 million and imports to USD 1,798.7 million for the observed period. The coverage of imports by exports is 270.3%. Expressed in euros, exports amount to EUR 4,490.3 million and imports EUR 1,660.5 million (surplus is EUR 2,829.8 million and the coverage of imports by exports is 270.4%).

3.4. Inflation

According to the data of the Serbian Bureau of Statistics, at the level of 2024, the average annual inflation rate was 4.6%.

On a monthly basis, consumer prices increased by 0.1% in December, based on price growth within the core inflation (0.4%) and energy product prices (0.3%), which were mitigated by lower prices of unprocessed food (-1.7%).

The increase in prices within the base inflation was driven by an increase in prices of certain products (footwear and clothes, household chemicals), and to a lesser extent by an increase in the prices of utility services. On a year-on-year basis, the core inflation slowed down slightly in December and reached 5.3%.

The increase in the prices of energy products in December was reflected in the increase in prices of oil derivatives by 0.4%. Year-on-year growth in energy product prices in December amounted to 0.5%.

Regarding the food prices, for the first time since May, a decrease in prices was recorded (-0.3%) on a monthly basis, with different movements within the basic subcategories of food inflation. The decline in unprocessed food prices was driven by lower prices of vegetables, fruit and meat, while a slight increase (0.3%) was recorded within the processed food category. Observed on a year-on-year basis, the growth of food prices in December was slightly lower than overall inflation and amounted to 4.0%.

3.5. Employment and Salaries

The average salary (gross) calculated for December 2024 was RSD 148,428, while the average salary without taxes and contributions (net) amounted to RSD 108,312.

The growth of gross salaries in the period January-December 2024, compared to the same period last year, was 14.2% in nominal terms, or 9.2% in real terms, while the average net salary increased by 14.1% in nominal terms, or 9.1% in real terms.

The average gross salary for December 2024, compared to December 2023, was nominally higher by 13.8%, or 9.1% in real terms, while the average net salary was nominally higher by 13.9%, or 9.2% in real terms.

The median net salary in December 2024 amounted to RSD 79,624, indicating that 50% of employees earned at least that amount.

3.6. Exchange rate

The value of dinar to euro in December was almost unchanged, while in 2024, dinar nominally strengthened against euro by 0.1%.

In December, the National Bank of Serbia purchased net EUR 410 million in the interbank foreign exchange market in order to keep dinar's exchange rate relatively stable to euro.

In 2024, the National Bank of Serbia made a net purchase of EUR 2,725 million from the interbank foreign exchange market in order to keep dinar's exchange rate relatively stable to euro.

In this way, the National Bank of Serbia preserved the relative stability of the exchange rate of dinar against euro in 2024 despite strong pressures on the domestic foreign exchange market, preventing the excessive strengthening of dinar against euro, while significantly contributing to the further increase of foreign exchange reserves.

4. Financial Position and Achieved Results

ASSETS

In RSD thousand

ASSETS	2024	2023	Δ abs	Δ %
Cash and funds with the central bank	10,724,141	7,526,810	3,197,331	42%
Loans and receivables from banks and other financial organisations	6,296,761	5,486,608	810,153	15%
Loans and receivables from customers	5,858,145	4,726,062	1,132,083	24%
Intangible assets	83,196	52,425	30,771	59%
Property, plant and equipment	210,133	88,287	121,846	138%
Tax assets	37,476	11,443	26,033	228%
Other assets	114,532	165,442	(50,910)	-31%
TOTAL ASSETS	23,324,384	18,057,077	5,267,307	29%

The Bank ended 2024 with a total balance sheet amount of RSD 23,324,384 thousand, which represents a growth of 29.2% compared to the previous year.

The largest share in the Bank's total assets is taken by the item Cash and funds with the central bank (46%), followed by Loans and receivables from banks and other financial organisations (27%), as well as Loans and receivables from customers (25%).

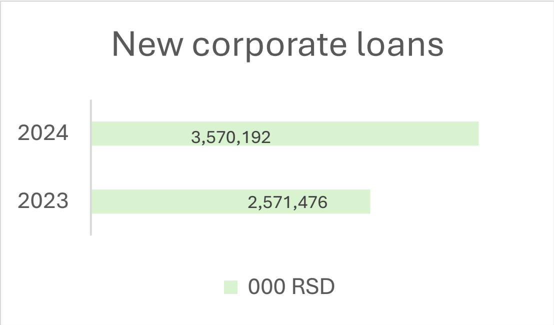
In absolute terms, the highest year-on-year growth was recorded by Cash and funds with the central bank, as well as the Loans and receivables from customers.

The growth of the Cash and funds with the central bank refers to the growth of assets in RSD. From a structural point of view, the largest part of this position consists of deposits of surplus liquid assets (76%), followed by mandatory reserve in EUR (12%) and current and giro accounts (9%).

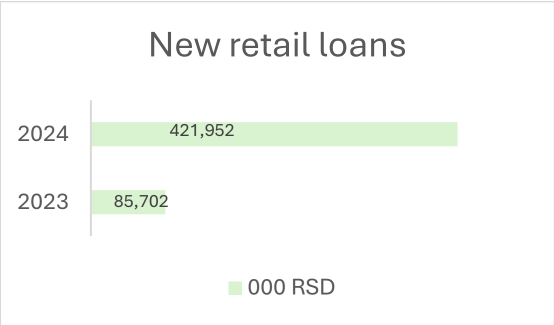
The position Loans and receivables from banks and other financial organizations is mostly made up of receivables from the National Bank of Serbia based on repo placements (51%), as well as other deposits in foreign currency (31%).

Guided by the trend from previous years, during 2024, the Bank continued strengthening its loan portfolio by providing its clients with support through placing both short-term and long-term loans.

During the reporting year, the volume of placed corporate loans totalled RSD 3,600,850 thousand, the largest part of it being related to loans for liquidity and working capital. In terms of the currency structure of new loans, 62% were dinar loans, while 38% were loans with a currency clause. Furthermore, through factoring performed during the year, the Bank placed an amount of RSD 74,502 thousand, providing support once again to the development of its clients' business.



On the other hand, the growth of loan portfolio in the retail segment implied the placement of new loans in the total amount of RSD 421,952 thousand. The largest part of these placements were housing loans (96%), while a smaller part was placed through cash loans (4%).



The item Property, plant and equipment consists mostly of computer and telecommunication equipment and office furniture, while the most significant increase in this item during the year was related to the recognition of effects based on IFRS 16 - Leases.

LIABILITIES

In RSD thousand

LIABILITIES	2024	2023	Δ abs	Δ %
Deposits and other financial liabilities to banks, other financial organizations and the central bank	269,435	342,289	(72,854)	-21%
Deposits and other financial liabilities to other customers	17,956,109	14,537,448	3,418,661	24%
Provisions	16,597	50,255	(33,658)	-67%
Current tax liabilities	280,906	35,136	245,770	699%
Deferred tax liabilities	0	0	0	0%
Other liabilities	284,399	160,391	124,008	77%
TOTAL LIABILITIES	18,807,446	15,125,519	3,681,927	24%
Share capital	4,632,407	4,632,407	0	0%
Loss	(1,700,848)	(2,634,608)	933,760	-35%
Profit	1,585,379	933,759	651,620	70%
Reserves	0	0	0	0%
TOTAL EQUITY	4,516,938	2,931,558	1,585,380	54%
TOTAL LIABILITIES	23,324,384	18,057,077	5,267,307	29%

During the reporting year, the Bank directed its resources towards further building of solid relations with clients, reflecting in the year-on-year growth of the position Deposits and other financial liabilities to customers of 24%.

In the structure of total liabilities, Deposits and other financial liabilities to other customers account for 95% (77% of total liabilities). Broken down to more details, transactional deposits had the share of 49% of the item.

Regarding the sectoral structure of the client deposit portfolio, 53% are retail deposits, while 47% refer to corporate deposits.

Deposits and other financial liabilities to banks, other financial organizations and the central bank mostly includes liabilities in RSD (78%), while 22% refer to liabilities in foreign currency.

As of 31 December 2024, the registered and paid-up capital of the Bank consisted of 9,264,813 ordinary shares (31 December 2023: 9,264,813) with individual nominal value of RSD 500.

As of 31 December 2024, the regulatory capital of the Bank stood at RSD 2,848,362 thousand (31 December 2023: RSD 1,945,374 thousand), i.e. EUR 24,342 thousand according to the official median exchange rate on the reporting date and it was above the minimum amount of capital of EUR 10 million prescribed by the Law on Banks.

INCOME STATEMENT

In 2024, the Bank recorded the best results of its operations so far observed through the generated profit before tax in the amount of RSD 1,875,388 thousand, i.e. RSD 1,585,379 after tax (2023: RSD 970,133 thousand before tax and RSD 933,759 thousand after tax).

In RSD thousand

Income statement	2024	2023	Δ abs	Δ %
Interest income	1,072,772	620,543	452,229	73%
Interest expenses	(276,801)	(103,605)	(173,196)	167%
Net interest income	795,971	516,938	279,033	54%
Fee and commission income	2,599,915	943,294	1,656,621	176%
Fee and commission expenses	(644,186)	(117,658)	(526,528)	448%
Net income from fees and commissions	1,955,729	825,636	1,130,093	137%
Net profit from derecognition of financial instruments measured at fair value	0	(56)	56	-100%
Net income from foreign currency gains/losses and the effects of the contracted foreign currency clause	(11,043)	386,828	(397,871)	-103%
Net expense on impairment of financial assets not measured at fair value through profit or loss	(145,736)	(112,379)	(33,357)	30%
Other operating income	11,007	10,989	18	0%
TOTAL NET OPERATING INCOME	2,605,928	1,627,956	977,972	60%
Costs of salaries, salary compensations and other personal expenses	(353,733)	(331,501)	(22,232)	7%
Depreciation/amortisation costs	(84,390)	(76,703)	(7,687)	10%
Other income	15,555	21,556	(6,001)	-28%
Other expenses	(307,972)	(271,175)	(36,797)	14%
PROFIT / (LOSS) BEFORE TAX	1,875,388	970,133	905,255	93%
Income tax	(280,906)	(35,136)	(245,770)	699%
Profit from deferred taxes	(9,103)	(1,238)	(7,865)	635%
PROFIT / (LOSS) FOR THE PERIOD	1,585,379	933,759	651,620	70%

The operations of the Bank in 2024 was characterised by a year-on-year growth of the total net operating income of 60%.

Net interest income had a year-on-year growth rate of 54%, while Net fee and commission income had the highest absolute growth.

The total operating income is comprised of 29% of the interest income and 71% of the fee and commission income.

Net interest income reached the level of RSD 795,971 thousand, and within its structure, income from relations with the National Bank of Serbia had the largest share (43%), followed by corporate interest income (29%), interest income from other banks (25%), and retail interest income (4%).

Considering the types of financial instruments, the generated interest income mostly refers to income from loans and receivables from clients (29%), other placements and deposits with the National Bank of Serbia (28%), loans and receivables from banks (25%), repo placements with the National Bank of Serbia (14%), retail loans and receivables (4%) and mandatory reserve with the National Bank of Serbia (1%).

When it comes to interest expenses, retail interest expenses (71%) had the largest share in 2024, followed by corporate interest expenses (27%).

Net income from fees and commissions reached the level of RSD 1,955,729 thousand and it exceeded the previous year's by RSD 1,130,093 thousand.

Within the structure of total operating expenses, 60% were fee and commission expenses, 26% were interest expenses and 14% were expenses from impairment of financial assets not measured at fair value through profit or loss.

Costs of salaries, salary compensations and other personal expenses reached RSD 353,733 thousand. Costs of salaries and compensations (72%) had the largest share, as well as the costs of salary-related taxes and contributions (25%), while the rest was made up of provisions for unused vacations and other personal expenses.

OFF-BALANCE SHEET ITEMS

In RSD thousand	2024	2023	Δ abs	Δ %
Guarantees and other future commitments	2,766,380	1,910,801	855,579	45%
Other off-balance sheet items	11,875,165	10,024,269	1,850,896	18%
Balance as of 31 December	14,641,545	11,935,070	2,706,475	23%

The development of the Bank's operations also implies the growth of off-balance sheet items, so that at the end of 2024, they reached the level of RSD 14,641,545 thousand.

In absolute terms, the highest growth was recorded by Other off-balance sheet items, where the highest growth was recorded by Material collaterals, mortgages and pledges.

The growth of Guarantees and other future commitments is mostly related to an increase in approved performance guarantees in dinars.

5. Risk Management

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

Owing to the nature of its activities, the Bank is exposed to the following major risks:

- credit risk,
- liquidity risk,
- interest rate risk, and
- market risk (which includes the foreign exchange risk and other market risks).

The Bank is also subject to operational risks which include legal risk, risks arising from the introduction of new products, activities, processes and systems, as well as the risk of entrusting activities to third parties, i.e. outsourcing and the information system risk.

Significant risks of the Bank are also: interest risk in the banking book, exposure risk to one entity or a group of related parties, risk of the Bank's investments in other legal entities and in fixed assets, as well as the risk related to the country of origin of the entity to which the Bank is exposed and the risk of early repayment, which the Bank continuously monitors.

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

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

In order to establish an integrated system of risk management and enable functional and organizational segregation of risk management activity and regular operating activities, the Bank has established the Risk Management Department. Management of liquidity risk, foreign exchange and other market risks, as well as management of interest rate risk in the banking book, management of the risk of the Bank's exposure to a single entity or a group of related parties, management the risk of investments in other legal entities and in fixed assets, management of the risk of exposure towards the country of a client's origin, management of operational risk and development of internal methodology for the evaluation, measurement and management of the risks that the Bank is exposed to, are included in the scope of activities of this department. Credit risk management and providing recommendations for the Bank's exposures that are under the influence of credit risk are also included in the scope of this department's activities.

The Treasury and Liquidity Department is responsible for managing assets and liabilities and the overall financial structure of the Bank. Furthermore, it is responsible for the funding and liquidity of the Bank.

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

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

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

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

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

The Bank's management assesses the adequacy of impairment of placements on quarterly basis. The Bank quarterly presents to the Audit Committee an extensive report that includes all the relevant information needed to estimate the risks the Bank is exposed to. Special reports on risk management are prepared for each level in the Bank to ensure that all organizational units have access to comprehensive, necessary and updated information.

5.1. Credit Risk

Credit risk is a risk of the occurrence of adverse effects on Bank's financial performance and equity due to debtors' inability to fulfil their contractual obligations to the Bank.

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

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

The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, as well as by monitoring exposures in relation to these risks. Exposure to credit risk is continuously monitored by periodical assessments of the credit beneficiaries' abilities to settle their liabilities to the Bank and other creditors. The Bank has established a credit quality review process to ensure early identification of possible changes in the creditworthiness of counterparties, including regular collateral review and revision. Counterparty limits are established by the use of a credit risk classification system, which classifies every counterparty according to certain credit rank as well as according to the internal methodology, which defines the level of exposure that the Bank is willing to accept toward an individual customer or the group of related parties.

The classification of counterparties is subject to regular reviews. The credit quality review process allows the Bank to assess the potential loss as a result of the risk to which it is exposed and take corrective actions.

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

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

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

The Bank issues guarantees and letters of credit to its customers, and, consequently, it has a contingent liability to perform payments in favour of third parties. Thus, the Bank is exposed to credit-related risks, which can be mitigated by control processes and procedures used for mitigating credit risks. Credit risk arising from derivative financial instruments is, at any time, limited to the instruments with positive fair value, as recorded in the balance sheet. Such credit risk is limited by determining the maximum fair value of the total derivatives' portfolio, as well as determination of the maximum positive fair value of each individual transaction. The Bank is not exposed to this risk, since it does not have significant derivative financial instruments.

Net amounts of credit risk exposure, excluding collaterals, as of 31 December 2024 and 2023 are provided below:

As of 31 December 2024, 25.12% of the net credit risk exposure relates to loans and receivables to customers (31 December 2023: 26.17%), 3.38% to unused commitments (31 December 2023: 3.43%) and 27.00% to loans and receivables to banks and other financial organisations (31 December 2023: 30.38%).

5.2. Liquidity Risk

Liquidity risk is the risk of adverse effects on the Bank's financial result and equity due to its inability to fulfil its liabilities when due arising from withdrawal of the existing sources of financing, i.e. inability to obtain new sources of funding (liquidity risk of sources of funding), or difficulties in converting assets into liquid assets due to disturbances in the market (market liquidity risk).

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

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

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

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

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

- Identifying the liquidity risk;
- Measurement or liquidity risk assessment;
- Mitigation of liquidity risk;
- Monitoring and control of liquidity risk; and
- Reporting on liquidity risk.

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

Liquidity risk assessment/measurement is a quantitative and/or a qualitative assessment of the identified liquidity risk and it is the responsibility of the Risk Management Department. Liquidity risk assessment/measurement involves the application of the GAP analysis, ratio analysis and stress testing.

Mitigation of liquidity risk implies determining measures and rules for mitigating risks by establishing a system of limits, i.e. maintaining the acceptable level of risk for the Bank's risk profile.

The acceptable level of the Bank's risk exposure depends on: structure of assets and their ability to be converted into liquid assets, concentration of the funding sources, as well as the currency structure of assets and sources of funding, based on which limiting the adverse effects to the financial result and the capital of the Bank is enabled, i.e. the sufficient level of liquid funds to meet the outstanding liabilities and to finance the increase in assets is provided.

Liquidity risk mitigation involves defining:

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

Monitoring of liquidity risk defines the process of analysis of the status, changes and trends in liquidity risk exposure. The Risk

Management Department manages the liquidity risk by using defined internal limits within regulatory limits and prescribed measures for protection from critically low liquidity level, i.e. monitors compliance with the defined limits.

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

The method of handling and resolving temporary and long-term liquidity crises is defined in more details by the Liquidity Crisis Plan and recovery options, further described through the Bank's Recovery Plan for 2024. For the purpose of managing the Bank's short-term liquidity the analyses of the maturity of inflows and outflows on the basis of different items of assets and liabilities are used. Managing medium-term and long-term liquidity is performed by projections of the balance sheet structure based on the planned operating activities and the Strategy of the Bank.

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

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

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

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

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

As of 31 December 2024, the narrow liquidity ratio amounted to 2.08, while the LCR amounted to 538% they were above the prescribed limits.

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

5.3. Interest rate risk

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

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

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

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

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

The Bank's interest rate risk management entails a process that includes:

- Identification of interest rate risk;
- Interest rate risk assessment/measurement;
- Mitigation of interest rate risk;
- Monitoring and control of interest rate risk; and
- Reporting on interest rate risk.

The Bank comprehensively and timely identifies significant causes that result in interest rate risk, which involves the determination of the current exposure to interest rate risk (interest-bearing assets and liabilities) and optional risk and exposure to interest rate risk based on new business products and activities, under items carried in the banking book.

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

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

The Risk Management Department analyses the impact of changes in interest rates or interest rate repricing pursuant to the Methodology for interest sensitive asset and liability items on a monthly basis and measures the effects of a standard interest rate shock of 200bp and/or 300bp on the economic value of the Bank in relation to the Basel limit of 20% of regulatory capital (Tier 1 + Tier 2), which at the same time represents the maximal limit of the acceptable risk by the Bank.

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

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

In 2024, the Bank continued with the interest rate risk control and measurement activities during the exposure determination by applying the standard interest rate shock of 200bp and/or 300bp (bp) to the items in the banking book on the major currencies individually (EUR, RSD and RUB) and for all other currencies collectively (USD, CHF, GBP, CNY).

The Bank's exposure to interest rate risk on the economic value of equity as of 31 December 2024 was 2.28% (31 December 2023: 1.20%).

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

5.4. Market risks

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

Market risks include:

- foreign exchange risk,
- price risk (on debt and equity securities) and
- commodity risk.

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

Foreign exchange risk is the risk of adverse effects to the financial result and capital of the Bank due to changes in foreign exchange rates. The Bank is exposed to the foreign currency risk based on the items recorded in the banking and trading books. The ALCO Committee has established the limits for foreign currency position for each materially significant foreign currency. The positions are monitored on a daily basis to ensure positions are maintained within the established limits.

The foreign exchange risk indicator is the ratio between the total open net foreign currency position (including the absolute value of the net open position in gold) and the Bank's capital, which are calculated in accordance with the Decision on Capital Adequacy of Banks.

In accordance with the National Bank of Serbia's requirements, the Bank regularly maintains its foreign currency position – foreign exchange risk indicator within maximum regulatory limits, determined in relation to the regulatory capital, i.e. not to be higher than 20% of the capital at the end of each day.

In 2024, this indicator was mostly at the level below the limit for the whole period during the year.

The objective of foreign exchange risk management is to ensure the safe operations of the Bank, by minimizing the adverse effects of the exchange rates fluctuations to the financial result and capital of the Bank, for the positions maintained in the banking and trading books. The Bank has established a unified process of currency risk management which identifies and assesses the impact of the Bank's activities on its exposure to foreign exchange risk, i.e. identifies and assesses their impact on the Bank's operating result and equity.

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

- Identifying the foreign exchange risk;
- The foreign exchange risk assessment/measurement;
- Mitigation of foreign exchange risk;
- Monitoring and control of foreign exchange risk; and
- Reporting on foreign exchange risk.

The Risk Management Department in cooperation with the Finance Department and the Treasury and Liquidity Department comprehensively and timely identifies causes/factors that result in the occurrence of foreign exchange risk, which includes the determination of the current exposure and the foreign exchange risk exposure arising from new business products and activities.

Foreign exchange risk measurement includes a quantitative and qualitative assessment of the Bank's exposure to foreign exchange risk risk using the currency structure, VaR methodology and stress testing. The Risk Management Department applies on a daily basis the measurement techniques for currency risk indicators and OCP exposures and the stress testing is performed at least quarterly.

The Risk Management Department performs the stress testing of the sensitivity of the Bank's positions to changes in foreign currency rates at least quarterly, and informs the Bank's Executive Board, ALCO Committee, Audit Committee, Board of Directors and the Bank's shareholders.

The foreign exchange risk indicator as of 31 December 2024 was 4.03% (31 December 2023: 5.99%).

5.5. Concentration risk

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

The concentration risk relates to:

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

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

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

the concentration ratio and the Herfindahl-Hirschman Index (HHI).

The Herfindahl-Hirschman Index represents a sum of all percentage exposures in regulatory capital.

The more diversified the credit portfolio (i.e. lower concentration), the lower the index values.

In 2024 the Bank maintained the exposure risk indicators within the prescribed values. By implementing appropriate activities anticipated by the relevant procedures and decisions on credit approval, the Bank has strived to ensure the scope and the structure of its operations and risky placements to be reconciled with the performance indicators prescribed by the National Bank of Serbia.

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

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

Counterparty risk is monitored through the process of managing credit risk and market risks. The Risk Management Department monitors the exposure to financial institutions in terms of internal and regulatory limits on concentration risk. The movement reports are presented to the Treasury and Liquidity Department and the ALCO. The Risk Management Department prepares quarterly reports on the concentration of receivables in relation to individual borrowers, groups of related borrowers, industries, countries or geographical areas and in relation to other parameters of importance for managing credit risk, on which it regularly reports to the Bank's Executive Board in the prescribed form.

5.6. Investment risks

The Bank's investment risks include equity investments of the Bank in:

- other legal entities' equity,
- property,
- plant and equipment (fixed assets).
- In accordance with the National Bank of Serbia legislation, the Bank monitors its permanent investments and their relation to the regulatory capital. The Bank also ensures that the investment of the Bank in a single non-financial sector entity does not exceed 10% of its capital, while the total investments of the Bank in non-financial entities and in property, plant and equipment cannot exceed 60% of its capital. Exposure to the risk of investments into other legal entities and property, plant and equipment is monitored by the organizational unit or the Bank's body competent for procurement of tangible assets and investing in legal entities familiar with the current exposure and the amount of capital for the purposes of acting in timely manner in accordance with the prescribed limits.
- Additional supervision of the exposure risk indicators is performed in the Risk Management Department, which reports to the Bank's management on the matter. The procedures of investment risk management are subject to controls of the internal audit and compliance function. In 2024 the Bank maintained the permanent

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

- As of 31 December 2024, the Bank did not have investments into non-financial sector entities, while the investment indicator into property, plant and equipment amounted to 14.75% of the Bank's regulatory capital.

5.7. Country risk

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

Country risk includes the following risks:

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

The Risk Management Department is responsible for managing the Bank's exposure to country risk. The Bank's limits of exposure to the country risk are determined individually by debtors' country of origin. In case of a concentration of exposures by geographic regions, limits are established on a regional basis. In determining the level of the allowance for impairment and provision for risks per states, the Bank takes into account the country risk.

The Bank conducts a major part of its business operations and in particular granting activities on the territory of the Republic of Serbia and to the local customers, while it is exposed to the country risk in the portion of assets it keeps on the accounts with foreign banks. The Bank applies the country risk management policy by constantly monitoring its exposure to this type of the risk compared to adopted limits, which are determined based on the rating of countries determined by competent institutions (OECD), regularly informing the management on such exposures. The Bank also mitigates the country risk by deploying the policy of placing funds abroad, primarily by depositing funds on a short-term basis with foreign banks.

5.8. Operational risk

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

Operational risk also includes legal risk, risk arising from introduction of new products, activities, processes and systems, as well as the risk of outsourcing activities to third parties and information system risk.

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

The operational risk management is conducted by the Board of Directors, Executive Board, Audit Committee and all other organizational units of the Bank.

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

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

- Identifying the risk;
- Risk assessment/measurement;
- Risk mitigation;
- Risk monitoring and control; and
- Reporting on the risk.

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

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

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

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

When assuming the operational risk, the Bank is guided by the following principles:

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

minimizing the operational risk event.

The Bank determines the operational risk mitigation measures based on an operational risk mitigation process. The measures include the following:

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

The Bank has defined and adopted the Policy on Business Continuity and revised Business Continuity Plan (BCP), which also includes Disaster Recovery Plan (DRP), that, along with the accompanying appendices enable smooth and continuous operations of all relevant systems and processes of the Bank, as well as limiting the loss in emergency situations. These plans were adequately tested during 2024.

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

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

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

In 2024, reported operational risk events were recorded in the Operational Losses Database.

5.9. Information system risk

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

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

An IS risk assessment is carried out at least once a year as part of a comprehensive self-assessment of operational risks in the Bank on the processes containing the information component and according to the dynamics of assessment of the Analysis of the influence on operations, which includes the process in which the organizational units of the Bank, in collaboration with the Risk Management Department, observe the IS risk register and indicate the extent to which they are exposed to certain IS risks.

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

6. Corporate governance

The Bank has adopted and is implementing a management system that aims to integrate the Bank's strategies, policies and procedures with the principles and values set out in the Code of Ethics. Operating on the principles of responsible corporate governance based on high ethical standards, the Bank protects the interests of shareholders, its clients, employees and the wider community.

The management of the bank is organized as a two-tier system consisting of the Board of Directors and the Executive Board. The Board of Directors of the Bank consists of five members, including the BoD Chairperson.

The Board of Directors convenes sessions of the bank's assembly; prepares draft decisions for the Bank's assembly and is responsible for the implementation of those decisions; adopts the proposal of the Bank's business policy and strategy and submits them to the bank's assembly for adoption; adopts the Risk Management Strategy and Policy, as well as the Bank's Capital Management Strategy; determines the general business conditions of the Bank, as well as their amendments; elects and dismisses the chair and members of the Bank's Executive Board; elects and dismisses members of the Audit Committee, Credit Committee, Asset and Liability Management Committee; determines the amounts up to which the Bank's executive board may decide on placements and borrowing of the Bank; gives prior consent for the Bank's exposure to each individual person or group of related parties exceeding 10% of the Bank's capital, or for increasing this exposure over 20% of the Bank's capital; supervises the work of the Bank's Executive Board; establishes a system of internal controls and monitors its effectiveness; adopts the program and plan of the bank's internal audit and the methodology of its work; reviews external and internal audit reports, reports on internal audit activities and work, and approves the annual report on the adequacy of risk management and internal control of the Bank; adopts quarterly and annual reports of the bank's executive board on the Bank's operations, including quarterly reports on risk management, and submits the adopted financial report to the Bank's assembly for final adoption; adopts the rules of procedure for its work and the work of the board; adopts the Bank's recovery plan; informs the National Bank of Serbia and other competent authorities about the identified irregularities; determines the internal organization, i.e. the organizational structure of the bank; adopts the policy of salaries and other incomes of bank employees; and performs other activities in line with the Bank’s Articles of Association.

The Bank's Executive Board consists of two members, including the Chair. The Chair of the Executive Board of the bank represents the Bank. The Bank's Executive Board organizes and supervises the day-to-day operations of the bank and is responsible for the implementation and efficient functioning of the Bank's internal control system.

The Bank's Executive Board executes the decisions of the Bank's General Assembly and the Bank's Board of Directors: proposes to the Board of Directors the business policy and strategy of the bank, as well as the strategy and policy for risk management and the strategy of capital management of the bank; implements the business policy and strategy of the bank by making appropriate business decisions; implements the risk management strategy and policies and the bank's capital management strategy; analyses the risk management system and report at least quarterly to the bank's board of directors on the level of risk exposure and risk management; decides on placements and borrowings of the bank up to the amount determined by the bank's board of directors; decides, with the prior approval of the bank's board of directors, on any increase in the bank's exposure to a party related to the bank and informs the bank's board of directors thereof; provides security and regular monitoring of the bank's information technology system and treasury operations; informs the bank's board of directors on all actions that are not in accordance with the regulations and other acts of the bank; at least once during the business quarter submits to the bank's board of directors an overview of business activities, balance sheet and income statement of the bank; without delay informs the Board of Directors of the bank and the National Bank of Serbia of any deterioration in the financial condition of the bank or the existence of a danger of such deterioration; ensures that all employees are familiar with the regulations and other acts of the bank which regulate their work obligations; adopts the rules of procedure for its work; And decides on all issues that are not within the competence of the Assembly and the Board of Directors of the Bank.

The Bank's General Meeting, consisting of one shareholder, conducts business operations in accordance with the Bank's Articles of Association:

- adopts the Bank's Business Policy and Strategy;
- adopts the Bank's Articles of Association and amendments to the Memorandum of Association and Articles of Association;
- adopts the financial report of the Bank and decides on the use and distribution of the realized profit, i.e. coverage of losses;
- decides on the increase of the Bank's capital, i.e. on capital investments in another bank or in other legal entities, as well as on the amount of investments in the Bank's fixed assets;
- appoints and dismisses the president and members of the Bank's Board of Directors;
- determines the remuneration of the members of the Bank's Board of Directors;
- decides on status changes and on the termination of the Bank's operation;
- appoints and dismisses an external auditor.

The Bank's Audit Committee consists of three members, including its Chairperson. The Audit Committee assists the Board of Directors in supervising the work of the Executive Board and the Bank's employees.

7. Contribution to the community

The Bank adheres to the highest international standards and values in the creation of financial products and services, develops and implements activities in the field of environmental protection and protection of human and labour rights.

During 2024, the Bank continued its socially responsible activities in order to raise the awareness of employees and the community in which we operate. The Bank gives priority to projects that have greater social and environmental values.

Waste management involves sorting waste into commercial waste and waste regarding electrical and electronic equipment. All electrical waste (old computers, printers, fax machines) is still adequately disposed of by companies authorized to dispose of this type of waste.

The satisfaction and motivation of our employees is at the top of the Bank's priorities, with equal opportunities, protection of rights and transparent communication.

The Bank's approach to these complex topics is defined in the Bank's strategic documents, which relate to various areas of responsibility towards employees: the Code of Business Conduct, Employment Policy. Training and Development Policy, Remuneration Policy, Guidelines on Occupational Health and Safety.

As a responsible employer, in order to provide and improve a motivating work environment, we are focused on the following priority topics:

- Gender equality and the right to equality

Recognizing the value of diversity, the Bank is guided by this principle in its hiring practices, daily interactions with employees and HR management. Special attention is paid to equality in the workplace and to providing equal opportunities for women and men in terms of career advancement and personal development. There is no need in the Bank to make gender differences for the purpose of employment.

The Bank provides a work environment free of discrimination and harassment, which protects the dignity of employees and promotes a safe and professional work environment that develops teamwork, diversity and trust.

The focus is on creating a work environment where employees feel free to express their opinions and ask questions to senior management, as well as an environment where they feel safe to report any violations of internal policies, by-laws, and legal regulations, as well as any form of unethical behaviour by clients, employees, and contractual partners or suppliers that the Bank cooperates with.

Continuous development of employees is one of the key principles of the Bank. The Bank encourages its employees to develop their talents, innovation and creativity and to push the boundaries of their professional development.

The Bank believes in the power of continuous learning and therefore makes an extra effort to provide both internal and external training opportunities for its employees. We encourage our employees to continuously develop their knowledge and skills, foster teamwork, unity, and the achievement of common business goals. The exchange of knowledge and experience among employees is particularly important to us, as it not only broadens our collective expertise but also strengthens the connection between employees around a common goal — the improvement of that knowledge. We highly value the trust our employees place in the Bank as an employer and deeply appreciate their loyalty and dedication.

We have recognized the balance between private and business life of employees as one of the important goals of sustainable development because it affects the satisfaction and commitment of employees, as well as creating a healthy and comfortable working environment. We respect the private life of employees and do not abuse the technical possibilities and the related availability of employees.

The Bank respects all human rights guaranteed by the Constitution of the Republic of Serbia. In its operations, the Bank does not use or abuse children or minors.

The women who work in our Bank are allowed to use the right to pregnancy leave, maternity leave, childcare leave and special childcare leave, in accordance with the Labour Law and the employment contract.

The Bank observes personal data protection stipulated by the Law on Personal Data Protection. The Bank also adopted its Personal Data Management Policy.

All information available to the Bank, whether received by the Bank from a client or as a result of business, cooperation and service to clients, is confidential. Continuous attention is paid to security and protection, as well as to the improvement of the IT aspect of security and raising security standards for the protection of all data available to the Bank. We take care of the protection of personal data of clients, contractual partners and employees, in accordance with the Rulebook on the Protection of Personal Data, which sets out the rules related to the protection of individuals with regard to the collection and processing of personal data. All detailed information on the processing of personal data of clients, employees, business partners and other persons whose data are processed, is published publicly on the Bank's web page.

In accordance with its Corporate Social Responsibility Strategy, the Bank continuously strategically and proactively invests in the community by listening to the needs, communicating daily with all stakeholders, following modern trends in sustainable development.

Aware of its impact on the environment, as well as the fact that acting and doing business in the company implies constant care and respect for it, the Bank is always happy to help the community and society through donations and sponsorships. We support projects at the local and national level that encourage the creation of new values in order to promote knowledge, excellence and preservation of cultural heritage. Special attention is paid to humanitarian activities.

Our goal is to help clients achieve financial sustainability and we believe that by working committed to this goal we have a positive impact on the local community in which we operate, but also on society as a whole. Through our work and presence, we strive to continuously contribute to the social and economic well-being of the communities in which we operate, while actively working to reduce the impact of our business on the environment. It is extremely important for us to have good partnerships with the local community, to cooperate and promote initiatives that bring significant social value.

8. Principles and strategy for future development

The 2025-2027 Business Strategy of API Bank AD Belgrade (“the Strategy”) defines the main goals, principles, development directions, and key tasks entrusted to the Bank's management and employees.

The primary strategic goal in the upcoming three-year period is defined through maintaining and increasing the achieved results, as well as creating the preconditions for the Bank's successful and stable operations in the long term.

The following three key tasks in the development of business activities have been identified:

- Building trust in the Bank from clients, partners, and regulators;
- Diversification of the Bank's business operations in various aspects;
- Defining the scope of the Bank's existing operations.

The key principles of the implementation of the planned Strategy are as follows:

- Full compliance with legal, regulatory, and interbank standards and requirements;
- Protection of interests of the users of Bank’s services;
- A risk-oriented approach focused on identifying risks at an early stage and preventing their further development;
- Decision-making timeliness and efficiency taking into account the current situation, trends and forecasts;
- Transparency and improvement of relationships with clients, partners, and regulators;
- Building market participants’ trust in the Bank, which is largely conditioned by the Bank's stable and successful operations and the provision of high-quality services to clients.

The Bank's corporate culture is based on values shared by all employees, which are applied in daily operations. The main goal regarding the development of corporate culture in the upcoming period is to create an environment where employees feel a sense of belonging and enjoy working, and where they will be able to grow further and develop both personally and professionally.

The Bank's business model during this strategic period will focus on social responsibility at all management levels, striving to comply with all environmental protection principles.

The main principle on which the Bank's operations are based during the observed period is the provision of all types of financial services to the Bank's clients in a sustainable and environmentally friendly manner, with the aim of reducing the negative environmental impact. The Bank will accordingly and timely comply with the applicable legislation and other standards.

9. Events after the reporting date

There have been no significant events after the Balance Sheet date.

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