

**Report on Quantitative and Qualitative Data on Capital and Risks of
the Bank
31 December 2023**

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1. INTRODUCTION

The National Bank of Serbia adopted the Decision on Disclosure of Data and Information by Banks (RS Official Gazette No. 103/2016) prescribing the content of data, i.e. information that a bank is obliged to publish in accordance with the Law on Banks, as well as the conditions, manner and deadlines under which they are to be published. Mirabank a.d. Beograd (hereinafter: the Bank) has prepared this document in accordance with the aforementioned Decision of the National Bank of Serbia, with the balance as at 31 December 2023.

The Report herein has been published on the Bank's website (<http://www.mirabankserbia.com/>).

Disclosure relates solely to the Bank's data.

Marijana Trifković

Member of the Executive Committee

Nikola Mihailović

President of the Executive Committee

2. BASIC INFORMATION ABOUT THE BANK

The founder of Mirabank a.d. Beograd (hereinafter: the Bank) is Duingraaf Financial Investments B.V., Hoogoorddreef 15, 1014BA Amsterdam, Holland (hereinafter: the Founder), which obtained preliminary approval for the establishment of the Bank in line with EB Decision No. 32, issued by the Executive Board of the National Bank of Serbia on 18 August 2014.

With NBS EB Decision No. 58 of 16 December 2014, the National Bank of Serbia gave its consent to the Bank to commence operations.

Upon receiving approval of the National Bank of Serbia on the Bank's Founding Assembly Act (Decision on the Appointment of the President and Members of the Board of Directors, Decision on the Appointment of the President and Members of the Executive Committee of the Bank, Decision on the Adoption of the Articles of Association of the Bank, Decision on the Issue of the First Shares of the Bank, Decision on the Adoption of the Bank Strategy and Business Policy), the Bank was thereby registered in the Business Entities Register - Companies in line with Decision BD 8779/2015 of 5 February 2015, issued by the Business Registers Agency.

Neither the Bank's Founder nor the Bank are part of a banking group. The Bank's founding capital amounts to EUR 15 million in the RSD equivalent and the conversion of capital was performed on 6 April 2015 when an account belonging to the Bank was opened with the National Bank of Serbia, upon which the Bank began operations via said account and began to complete payment operations. At the same time, the Bank began to engage in the reporting process with the National Bank of Serbia.

On 11 May 2016, upon registering with the Central Securities Depository and Clearing House, an increase of the Bank's capital was executed through the issuance of II issues in the amount of 1,840,500 ordinary shares with a nominal value of RSD 1,000 per share, upon which the Bank's total share capital (with the founding issue in the amount of RSD 1,790,700 thousand) amounted to a total of RSD 3,631,200

thousand.

In 2021, the Bank increased its share capital by RSD 587,797 thousand, based on the conversion of a subordinated line in the amount of EUR 5 million. In February 2022, the Bank received the consent of the National Bank of Serbia to include this amount in the share capital, in the calculation of the Bank's CET1 capital.

In September 2022 the Bank further increased its share capital by RSD 587,299, based on the conversion of a subordinated line in the amount of EUR 5 million, upon which the Bank's total share capital amounts to RSD 4,806,296 thousand. In October 2022, the Bank received the consent of the National Bank of Serbia to include this amount in the share capital, in the calculation of the Bank's CET1 capital, upon which said amount was included in the calculation of the Bank's CET1 capital and reported as such on reporting date 31 December 2022.

The Bank is seated in Belgrade, at ul. Španskih boraca br. 1, Novi Beograd (*in English: Španskih boraca 1 New Belgrade*), and the Bank conducts its business via one branch located within the territory of the Republic of Serbia at the same address.

The Bank's Identification No. is 21080608. The Bank's Tax Identification No. is 108851504.

In accordance with the Law on Banks (Banking Act) and the Decision on Disclosure of Data and Information by Banks, the Bank hereby publishes this Report which contains all of the data and information prescribed by said Decision for the period of 1 January to 31 December 2023.

3. RISK MANAGEMENT STRATEGY AND POLICY

3.1. Strategy and Policy Implemented in the Management of All Risks

The Bank has defined an appropriate Risk Management Strategy as well as a set Risk Management Policies.

The Bank has established and continues to improve a comprehensive and reliable risk management system which is included in all of its business activities and ensures that the Bank's risk profile remains in line with its established risk appetite.

The risk management system has been clearly defined and documented throughout, proportionate to the nature, scope and complexity of the Bank's operations, i.e., the type and nature of risks the Bank is willing and able to undertake in order to achieve its business objectives. In terms of this, all business activities are guided by a general strategy of the Bank and are determined by legal regulations and internal acts of the Bank. The risk management system is incorporated in all business activities in such a manner that every business decision to assume risk (including the conditions of contracting individual transactions), is rendered by taking into account the previous assessments of all employees responsible for risk management.

At the strategic level, the Bank's risk management objectives are as follows:

- Identifying material risks and ensuring that the business profile and plans are in compliance with the Bank's risk appetite;
- Optimising decisions in terms of return and risks taken on by ensuring that they are as close as possible to the business model, accompanied by the establishment of strong and independent testing and control structures;
- Ensuring that business growth plans are appropriately supported by an efficient risk management infrastructure;
- To assist management in improving control and in coordinating risks found within operations.

The Bank actively takes into account risks that are linked to business activities and in this regard the following principles represent risk management within the Bank:

- Risks are taken within the defined risk appetite for taking on risk and risk tolerance;
- Each risk taken must be approved within the risk management framework;
- Accepted risks must be adequately compensated for through return;
- Risk must be continuously monitored;
- A strict risk management culture assists in strengthening the Bank's stability.

The risk management system consists of the following:

- The Risk Management Strategy, policies and procedures;
- Internal organisation (organisational structure for the management of specific types of risk);
- An efficient and effective management process for all risks that the Bank is or may be exposed to as a result of its activities;
- An adequate internal control system;
- A suitable information system;
- An adequate internal capital adequacy assessment system.

The Risk Management Strategy regulates the Bank's unique and consistent risk management on a long-term basis, the Bank's attitude towards the risks to which it is/may be exposed to in its operations.

The Risk Management Strategy, as well as the defined risk profile and risk appetite (risk tolerance), are in compliance with the Bank's Business Policy and Strategy. The Risk Management Strategy includes an overview and definition of all risks that the Bank is or may be exposed to, long-term objectives determined by the Bank's business policy and strategy, risk appetite determined in line with these objectives, basic principles related to taking on risk and risk management as well as the basic principles of the Bank's internal capital adequacy assessment process.

The objective of the Bank's risk management policies is to define the manner in which the Bank actively manages risks it is or may be exposed to i.e., to define the principles, guidelines and rules for risk identification, measurement and risk assessment, control of individual risks and establishing a limit system within the Bank.

Strategies and policies are in accordance with the Bank's size and organisational structure. The mentioned documents were adopted by the Bank's BoD, and the Bank's EC is responsible for their implementation. Policies define and delineate employee roles and responsibilities within

the risk management process, at all times taking into account the Bank's size. The responsibilities of taking on risk are strictly separate from the area which deals with risk management, including the Executive Committee level.

Based on the adopted risk management strategy and policies, the Bank adopts, applies and periodically updates relevant procedures, as needed.

The Bank's internal control system

The Bank's internal control system is a set of processes and procedures that are an integral part of the business activities of the Bank and ensure the collection of relevant and accurate information in relation to risk management and the creation of databases that relate to said information, as well as the timely and effective monitoring of all activities related to risk management and control of system compliance with the rules and procedures of the Bank.

The following are defined as the main objectives of the internal control framework:

- The efficiency and effectiveness of activities (targeted performances);
- Reliability, completeness and timeliness of financial and management information (targeted awareness); and
- Compliance with relevant laws and regulations (targeted compliance).

Internal control is comprised of five related elements:

- Supervision of managers and the control culture;
- Recognition of risk and assessment;
- Control activities and segregation of duties;
- Information and communication, and
- Monitoring of activities and correction of deficiencies.

The effective functioning of these elements is essential to the Bank's ability to perform and to its awareness and compliance objectives.

3.2. Credit Risk Management and Management of Risks Related to Credit Risk

The main objective of credit risk management within the Bank is to minimise the possibility of adverse effects on the Bank's financial results and capital due to the failure of debtors to fulfil their obligations towards the Bank. In order to control the acceptance of credit risk and the adequate management of said, the Bank has established an adequate lending process which includes loan approval and credit risk management, which are regulated in detail by the Bank's corresponding procedures.

The Credit Risk Management Policy defines risks the Bank is exposed to as a result of its operations:

Credit Risk is the possibility of the occurrence of negative effects on the Bank's financial results and the capital due to the inability of the debtor to meet its obligations towards the Bank under conditions of the agreement.

FX-Induced Credit Risk is the probability that the Bank shall suffer losses due to a debtor's failure to meet their obligation as a result of the negative effects of changes to the RSD exchange rate on the debtor's financial state and creditworthiness.

Concentration Risk is the direct or indirect result of the Bank's exposure to the same or a similar source of risk, i.e. the same or similar type of risk. Concentration risk relates to: large exposures, groups of exposures with the same or similar risk factors (such as commercial sectors, geographical regions, and the like).

Counterparty Risk is the possibility of the occurrence of negative effects on the Bank's financial results and capital due to the inability of the counterparty to meet its obligations in transactions prior to the final settlement of cash flow transactions, i.e. settlement of financial obligations under the transaction.

Settlement/Delivery Risk is the possibility of the occurrence of negative effects on the Bank's financial results and capital based on unsettled transactions and/or due to the default of the counterparty under free delivery transactions on the contracted date of settlement/delivery.

Credit Risk Induced by Interest Rate Risk is the possibility of a negative impact on the Bank's financial results and capital due to a change of reference interest rates in connection with loan repayment, which may impact the client's ability to repay these obligations.

Credit Risk Management

Credit risk is the single most important risk to which the Bank is exposed. The objective of credit risk management is to reduce the negative effects of credit risk on the capital and financial result of the Bank.

The credit risk management process includes: identification, evaluation and measuring, monitoring and reporting on credit risk.

Credit risk identification is a basic step in credit risk management, aiming to detect such risk in a timely manner.

The identification of exposure to a concrete credit risk happens the moment a loan is applied for. Analysis of individual placements (loans) includes the analysis of qualitative and quantitative business indicators of a client, by identifying the client's risk factor. The Bank's loan approval process consists of defined steps which may differ depending on the type of client, the type, characteristics and the purpose of the loan, the type of collateral given for the loan, and include:

- Preparation of proposals for the loan;
- Collection and verification of loan documentation;
- Credit analysis;
- Risk assessment;
- Control of accompanying documentation and other conditions;
- Loan approval;
- Disbursement of funds.

The assessment of credit risk is performed upon review of a specific loan application, requests for a change of conditions, maturity date and terms of use and repayment of a specific loan, as

well as when drafting the regular annual report on the client's business operations.

Said credit risk assessment is based on an analysis of indicators relating to the financial position of the debtor, the timeliness of the settlement of obligations towards the Bank, measuring the effect of changes to the RSD exchange rate on the debtor's financial state, qualitative data collected on the client and the quality of collateral.

In order to mitigate credit risk, during loan approval or while the approved loan is in use, specific collateral is requested. The amount and type of requested collateral depends on the evaluated credit risk that each client poses individually. Security conditions that follow each loan depend on the debtor's credit rating, the type and the degree of exposure to credit risk, the maturity and the loan amount.

After loan approval, both the loan and business operations of the client are monitored through regular and extraordinary monitoring, aiming to ensure the timely identification of warning signs.

The Risk Management Division monitors the loan portfolio monthly.

The Bank uses the following method to classify its exposures, in line with its Management of Loans with Increased Credit Risk Procedure:

1. Regularly repaid loans;
2. Loans classified under intense monitoring;
3. Bad assets:
 - NPLs in arrears up to 180 days
 - NPLs in arrears over 180 days

Loans classified under intense monitoring are exposures whereby early signs of risk have been identified, deeming a need for the increased intensified monitoring and management of these exposures. Early risk detection is conducted within the framework of regular financial monitoring or extraordinary financial monitoring if there is information indicating a need for said.

Bad assets are considered to be such exposures the Bank is obliged to classify as non-performing receivables (or NPLs) in line with the decision governing the classification of balance sheet assets and off-balance sheet items of the Bank. The Bank treats bad assets as impaired exposures in line with IFRS 9 provisions.

By monitoring the portfolio, the Bank compares the previous periods, identifies tendencies and causes of changes in the level of credit risk exposure.

The credit risk reporting (and related risks) process includes:

- Detailed reporting to the Executive Committee (monthly, in the very least) and the Board of Directors of the Bank (quarterly, in the very least), concerning all credit risk aspects of relevance to the Bank (such as the volume and structure of exposures, collateralisation, allowances for impairment, concentration and the like);
- Regulatory reporting to the National Bank of Serbia in accordance with regulations prescribed by the National Bank of Serbia.

A directly connected, intertwined and complementary process which relates to the credit risk management process is the concentration risk management process. In order to better manage concentration risk management, the Bank has defined internal limits, monitored regularly (in addition to the prescribed regulatory limits). Based on the above, the concentration risk management process is integrated into comprehensive credit risk management (which includes, inter alia, reporting, harmonisation of processes, mitigation techniques, control, etc.) and concentration risk is incorporated into the credit risk reporting process.

3.3. Market Risk Management

The Liquidity and Market Risks Management Policy defines the following risks to which the Bank is exposed in its operations.

Interest Rate Risk is the risk of the possibility of the occurrence of negative effects on the Bank's financial result and capital due to changes in interest rates. The responsibility of market risk management as well as liquidity risk, are defined by the Policy. Exposures to interest rate risk are monitored by the Risk Management Department and presented to the ALCO on a quarterly basis, in the form of a report that indicates the degree of exposure to the stated risk. Bearing in mind the Bank's existing balance sheet structure, the estimation to date is that more frequent reporting of this risk is unnecessary, however, in the event that more frequent reporting is deemed necessary, said shall be conducted. The Bank manages its assets and liabilities in a such a manner so as not to be significantly exposed to interest rate risk, and therefore, there has been no need to apply risk mitigation techniques thus far.

Foreign Exchange Risk is the risk of the possibility of the occurrence of negative effects on the Bank's financial result and capital due to changes in foreign exchange rates. Other market risks include price risk on the basis of debt securities, price risk on the basis of equity securities, etc.

The responsibilities of foreign exchange risk management as well as liquidity risk, are defined by the Policy. Exposure to FX risk is monitored daily by the Treasury Department and the Risk Management Department. Additionally, FX risk is monitored within the framework of the ALCO, where the movement of this risk is analysed and, as necessary, certain measures are adopted to reduce this risk.

While reporting on market risks is done on a monthly basis, the movement of FX risk indicators is monitored daily, as are any fluctuations.

The Bank maintains a nearly closed foreign exchange position, therefore it is not significantly exposed to FX risk, thus, in line with said, it does not apply any FX risk mitigation techniques at this time.

The Bank is not exposed to other market risks, nor does it have a trading book.

The market risk reporting process includes:

- Reporting to the Executive Committee (monthly, in the very least) and the Board of Directors of the Bank (quarterly, in the very least);
- Regulatory reporting to the National Bank of Serbia in accordance with regulations prescribed by the National Bank of Serbia.

3.4. Operational Risk Management

Given the Bank's level of development, its internal organisation and the complexity of its operations, the Bank pays special attention to the management and control of operational risk.

The Bank defines operational risk as a risk of the potential occurrence of negative effects on the Bank's financial result and capital due to intentional and unintentional employee error, inadequate internal procedures and processes, inadequate management of information and other systems within the Bank, as well as due to the occurrence of unforeseeable external events.

The operational risk management framework includes all adopted written documents, procedures and the organisational structure, as defined in accordance with internal and regulatory requirements.

The Bank measures i.e., evaluates operational risk exposure taking into consideration the possibility i.e., the frequency of occurrence of said risk, as well as its potential effect on the Bank, paying close attention to events whose occurrence is less likely, but which may potentially cause significant material losses.

In order to achieve long-term objectives, the Bank has established a corporate culture guided by risk management principles, which supports and ensures appropriate standards and incentives for the professional and responsible behaviour of employees and has developed an operational risk management framework which has been fully integrated into a comprehensive risk management process at the level of the Bank.

The Bank records events that have occurred on the basis of operational risk by classifying them according to business lines, types, causes and significance of impact. The Bank uses a central database for recording events. Employees are responsible to report any event that has occurred on the basis of operational risk to the Capital Management and Non-financial Risks Department.

The process of gathering data on events is centralised and is performed by the Risk Management Department which unifies and analyses all reported events and enters this data into the event recording system based on operational risk. The Capital Management and Non-financial Risks Department monitors exposure to operational risks per type, cause and significance of the event and is under obligation to inform management of the Bank (EC monthly, in the very least and the BoD quarterly, in the very least) thereof on regular basis, as well as on measures taken to mitigate said risks.

Self-assessment of operational risks and processes is the process of identifying and determining the priorities of potential operational risks which may prevent the Bank from achieving its

business objectives. This process is performed on the principle of residual (remaining) risk, i.e. it is focused on the assessment of operational risk exposure and risks relating to fraud, after taking into consideration all internal controls used.

In accordance with risk assessment, the Bank uses Key Risk Indicators (KRI) as a tool to assess, monitor and control operational risks, as a preventive mechanism in preventing losses due to operational risks, and as a management mechanism in the adoption of decisions for the improvement of business process performance and control efficiency.

For the purpose of operational risk management, the Capital Management and Non-financial Risks Department submits adequate reports on the Bank's exposure to operational risks to the Executive Committee.

The operational risk management framework has been documented in detail and adequately documented within the adopted acts of the Bank and includes monitoring operational risk and operational losses. The most important documents that include operational risk management are the Risk Management Strategy, Capital Management Strategy, Information System Development Strategy, Operational Risk Management Policy, User Password Policy, Classification and Protection of Information Policy, Ownership of Data Policy, Recovery Plan, and the Business Plan, in the event of unforeseeable circumstances.

The Bank defines governance structures for operational risk management, including reporting lines and responsibilities, establishes a risk reporting system and monitors inherent and residual risks.

The Bank pays close attention to the assessment and identification of operational risks when introducing new products, activities and processes, as well as to whether the outsourcing of activities to third parties may lead to increased operational risk.

The Bank seeks to mitigate operational risks, inter alia, by constantly identifying and monitoring operational risks, proposing corrective measures and action plans to eliminate or reduce risks involved, as well as by forecasting a plan to secure business continuity and a recovery plan in the event of disaster.

3.5. Compliance Risk Management

The compliance risk monitoring programme is governed through the establishment and implementation of compliance control within the Bank, aiming to reach the highest business standards and in line with regulations.

The Bank's Compliance Department regularly identifies, assesses, monitors and manages operational compliance risk which may incur as a result of the incompliance of the Bank's operations with regulations and the Bank's own internal acts, the rules of the profession and good business practices which include the following, in particular:

- 1) the risk of sanctions applied by regulatory bodies;
- 2) the risk of financial loss;
- 3) reputational risk;

The function of compliance control is an integral part of the Bank's internal control system, which aims to continually monitor compliance risk to which the Bank is or may be exposed to in its operations. The Department is functionally an independent unit, responsible for identifying, monitoring and managing compliance risk, which includes the proposal of preventative and mitigation plans that will serve to reduce said risk. The department and its employees complete their work independently and conduct activities which are solely within the scope of the Department, avoiding potential conflicts of interest with employees in other organisational units. The Head of the Department is responsible for effectively implementing compliance control within the Bank and is appointed and relieved of duty by the BoD.

With the aim of implementing regular business activities within its scope, as well as identifying and monitoring compliance risk, the Department also takes on the following activities: monitors the compliance of the Bank's internal acts with regulations, as well as their mutual compliance; takes action and supervises the handling of client complaints; undertakes necessary activities to protect confidential information and banking secrecy; monitors and undertakes activities to prevent the misuse of privileged information, ensures the application of the Code of Ethics, confirms the existence of conflicts of interest and ensures the management of said, undertakes activities necessary to combat fraud and corruption; participates in the process of introducing new products and services, as well as in the process of outsourcing activities and services to third parties; actively partakes in monitoring established and adequate procedures, as well as updating said at the level of all organisational units of the Bank with the aim of continual monitoring of compliance.

Compliance risk management is a process made up of specific, predefined phases, as follows:

1. Identification of risks - consists of identifying all business processes conducted by the Bank, relevant regulations, internal acts and procedures applicable to established processes - the so-called *regulatory environment*, recognising whether or not business processes are conducted in a manner which results or may result in injury to the above-mentioned regulatory environment, identifying reasons for performing in such a manner and identifying risks related to said performance. The aim of this phase is to prepare a list of risks which may hinder successful business and the realisation of objectives and tasks within the scope of specific organisational units, as well as to determine laws, by-laws, other regulatory and internal acts applicable to the business process within a specific organisational unit;
2. Risk assessment - is conducted by the process owner in collaboration with the Compliance Department and estimates the consequences of a specific occurrence of identified risks, which affect the ability to achieve objectives and implement tasks related to specific processes of the Bank and the assessment of the probability of occurrence of a particular risk. Based on the probability of occurrence of a specific risk and estimated consequences, the initial risk level is determined. Afterwards, all internal regulations, controls and other existing measures used to mitigate initial exposure to risk are taken into account and a new assessment of the possibility of occurrence of said risk and possible consequences is conducted and if necessary, adjustments are made. The given result is the residual risk and is a basis for drafting plans that will be used to monitor and manage compliance risk.
3. Risk management - exposure to residual risk may be estimated as: low, medium and high, and is conducted according to the criteria contained in the Bank's internal acts which govern compliance risk management. For low-risk exposure, it is unnecessary to undertake additional measures or activities, medium risk requires careful monitoring, and high risk requires an immediate plan of action to reduce the level of risk exposure.

Compliance control implies regular reporting, as well as *ad hoc* reporting in special cases - so-called Special reports, in accordance with regulations and internal acts of the Bank.

Regular reporting implies quarterly and annual reports drafted by the department on compliance risk which are submitted to the Executive Committee and Audit Committee, as well as the Bank's IA Department, and quarterly department activity reports.

Special reports include reporting in the event of internal or external fraud, when it is necessary to react promptly; reports issued to the National Bank of Serbia at its request and other reports in line with relevant regulation.

In an attempt to mitigate risk, the Department continually identifies, monitors and manages compliance risk and proposes plans to avoid and mitigate said risk. To implement said activities, two basic principles/control models have been envisaged within the framework of the Compliance Risk Management Methodology:

- a) Preventative measures within the area of continual compliance risk management - Regarding preventative measures in compliance risk management within the Bank, the Compliance Department engages in the following activities: informing competent organisational units of the Bank on the relevant regulatory framework, changes to said and the proposal of necessary compliance of internal acts with said; participation and monitoring of established appropriate procedures, as well as updating existing and controlling compliance of internal regulations prior to their adoption by the competent body of the Bank; providing expert opinions.
- b) Controlling activities within the area of compliance risk management are done by implementing the department's Annual Activity Plan which includes a description of the main activities and implementation deadlines, depending on compliance risk assessment. The aim of the Plan is to consider and manage all relevant compliance risks from the aspect of the Bank's business and defines activities that will reduce mentioned risks to an acceptable level.

3.6. Strategic Risk Management

Strategic risk is the possibility of the occurrence of negative effects on the Bank's financial result and capital due to a lack of appropriate policies and strategies, their inadequate implementation, as well as due to changes in the environment in which the Bank operates or the lack of appropriate response to these changes by the Bank.

The Bank has adopted a set of documents that define the Bank's strategic areas and risks that arise therefrom, the most important of which are as follows: The Bank's Strategy, Corporate Policy, Risk Management Strategy, Capital Management Strategy, the Information System Development Strategy and the Bank Strategic Management Procedure.

Strategic risk assessment is included in the Bank's ICAAP. The EC and BoD are informed of the results of strategic risk assessment within the framework of the ICAAP, and the values as at the reporting date, 31 December 2023, are given in the following chapters of this Report.

The Bank seeks to mitigate strategic risk, through careful implementation of the planning process.

3.7. Liquidity Risk Management

Liquidity risk is the possibility of the occurrence of negative effects on the Bank's financial result and capital due to inability of the Bank to fulfil its matured obligations due to:

The withdrawal of existing sources of finance, i.e., inability to obtain new sources of finance;
Difficulty in converting property into liquid assets due to disturbances on the market.

Responsibilities of liquidity risk management are defined in detail in the Bank's Liquidity and Market Risk Management Policy and the Bank's Risk Liquidity Management Procedure. The Capital Management and Non-financial Risks Department monitors exposure to liquidity risk on a daily basis and presents said to the ALCO at regular monthly sessions, and more often, as necessary. The ALCO is responsible for monitoring the Bank's exposure to liquidity risk, as well as the decision-making process and implementation of measures aimed at reducing exposure to said risk. Apart from the Bank's Management, the ALCO is attended by representatives of organisational units which play a part in managing the Bank's assets and liabilities. In this way, different participants share relevant information that may be important to Management when considering the Bank's risk exposure, as well as when making decisions related to liquidity risk management within the Bank. The Executive Committee regularly informs the Board of Directors of all elements significant to the management of the Bank's liquidity risk.

When reporting on liquidity risk, the movement and tendencies of daily liquidity indicators and narrow liquidity indicators are monitored on a monthly basis. The maximum value of the daily liquidity indicator throughout 2023 amounted to 7.14; the average value amounted to 4.60; and the minimum value amounted to 3.16. The liquidity ratio amounted to 3.33 as at 31 December 2023. The maximum value of the narrow liquidity indicator throughout 2023 amounted to 6.33; the average value amounted to 3.67; and the minimum value amounted to 2.48. The narrow liquidity indicator amounted to 2.63 as at 31 December 2023. The liquidity coverage ratio (LCR) amounted to 216.27% as at 31 December 2023. In addition to said liquidity indicator monitoring, a part of the regular set of reports on liquidity consists of the analysis of the Bank's liquidity gaps, the Bank's liquidity plan, stress testing as well as of additional analyses and reports that are drafted, when necessary, with the aim of contributing to an adequate liquidity management process.

3.8. Information System Risk Management

IS risk is the risk of the possibility of the occurrence of negative effects on the Bank's financial result and capital due to the inadequate management of IS risk and its security. The Bank has developed an adequate system used to manage this risk, as well as suitable organisation. Regarding internal acts which regulate IS management and risk mitigation techniques, the Bank has adopted numerous internal acts, of which we can highlight the following: Bank IS Strategy,

ICT System Security Act, Information System Security Policy, User Password Policy, Classification and Protection of Information Policy, Data Ownership Policy, Business Continuity Plan, Disaster Recovery Plan, etc. Given the essence of this risk, management activities here are for the most part linked to operational risk management. Therefore, the Bank seeks to mitigate this risk, inter alia, by constantly identifying and monitoring risks, proposing and enforcing corrective measures and action plans to eliminate or reduce existing risks.

IS risk assessment is included in the Bank's ICAAP. The EC and BoD are informed of the results of this risk assessment within the framework of the ICAAP, and the values as at the reporting date, 31 December 2023, are given in the following chapters of this Report.

3.9. Money Laundering and Terrorist Financing Prevention Management

The basic model used to manage the risk of money laundering and terrorist financing is based primarily on principle of integrity - striving to achieve objectives which are honourable, accurate and responsible, in full compliance with the rules and positive regulations, ensuring the following:

- that adopted measures are proportionate to risks related to the prevention of money laundering and terrorist financing, specific to different types of clients, business relationships, activities, products or transactions;
- that adopted measures are suitable to banking activities, financial business operations and the size of the Bank.

By adoption of the AML and PTF Policy the Bank achieve compliance with the provisions of the corresponding Law; ensured the establishment of corresponding procedures within the domain of knowing and monitoring of clients, reporting, keeping records, internal controls, risk assessment, risk management, compliance and data exchange, with the aim of preventing money laundering and financing of terrorism.

In accordance with the organisational model, the AML and PTF Department was formed as independent function within the Bank, reporting directly to top management. Functionally, the AML and PTF Department is formed by the Head of the Department and his/her Deputy. The designated person responsible for the prevention of money laundering (AML) is the Head of the AML and PTF Department. The designated person responsible for AML and their Deputy are appointed and dismissed by the Executive Committee.

The designated AML person is responsible for the establishing, functioning and further development of the system for the prevention and detection of money laundering and financing of terrorism and in those terms, starts initiatives and provides management with proposals for the application of corresponding measures for their development. Inter alia, the authorised person organises and directs tasks related to the prevention of money laundering in terms of approval and the application of procedures and guidelines from the mentioned area, participates in the development of supporting software and participates in the development of professional educational programmes, employee training and their development.

The Bank is responsible for executing of legal obligations related to the prevention of money laundering and financing of terrorism and for this reason the Bank has regulated the reporting process. The content of reports depends on who intended recipients are and the purpose of reporting, and it may be as follows:

- external reporting to supervisory bodies in line with regulations on the prevention of money laundering and the financing of terrorism – Administration for the Prevention of Money Laundering, the National Bank of Serbia and others;
- internal reporting to the Bank's bodies – Executive Committee and BoD. Internal reporting, besides operational reports, includes the comprehensive Annual Report on the Prevention of Money Laundering and evaluation of the system used to manage money laundering risk applied within the Bank. Additionally, the Bank conducts a comprehensive AML and PTF Risk Analysis annually.

The money laundering risk analysis aims to identify a comprehensive profile of money laundering to which the Bank is exposed to and consequently to identify potential weaknesses which require corresponding improvements within the organisation, processes and procedures of the Bank, as a primary measure aiming to mitigate the overall exposure to risk of money laundering.

3.10. Other Risks Management

In addition to the mentioned risks, the Bank has a developed and adequate risk management system, organises processes, i.e. internal acts (policies and/or other documents) also for the management of other risks, such as: Outsourcing Risk, Country Risk, etc. The materiality of these risks is assessed within the ICAAP and on the basis of the results achieved, appropriate activities are undertaken to ensure that the treatment of said risks is appropriate.

4. MANAGING THE BANK'S CAPITAL

4.1. BANK CAPITAL

The total capital of the Bank consists of **Tier 1 capital** which is comprised of

nominal value of paid-in shares (excluding cumulative preference shares) in the amount of RSD 4,806,296 thousand reduced by: the *loss of the previous years* in the amount of RSD 2,183,484 thousand, the *loss of the current year* in the amount of RSD 191,723 thousand, *intangible assets* in the amount of RSD 72,378 thousand.

The following **Tables 1a** and **1b** show data and information relative to linking the Bank's Balance Sheet items with the Bank's capital positions, as presented in the Report on Capital compiled in line with the decision governing the Bank's capital adequacy reporting as at 31 December 2023.

Table 1a

PI-UPK

Data referring to the Bank's capital
Linking positions in the broken-down Balance Sheet with the PI-KAP form positions

(in 000 RSD)

Item No.	Position title	Balance Sheet	Reference
A	ASSETS		
A.I	Cash and assets with the central bank	860,115	
A.II	Pledged financial assets	-	
A.III	Derivative receivables	104	
A.IV	Securities	1,710,214	
A.V	Loans and receivables from banks and other financial institutions	1,055,164	
A.VI	Loans and receivables from clients	1,990,350	
A.VII	Change in fair value of hedged items	-	
A.VIII	Receivables arising from hedging derivatives	-	
A.IX	Investments in associated companies and joint ventures	-	
A.X	Investments in subsidiaries	-	
A.XI	Intangible assets	60,412	b
A.XII	Property, plant and equipment	167,986	
A.XIII	Investment property	-	
A.XIV	Current tax assets	-	
A.XV	Deferred tax assets	-	
A.XVI	Fixed assets held for sale and discontinued operations	-	
A.XVII	Other assets	12,245	
A.XVIII	TOTAL ASSETS (items A.I to A.XVII in the consolidated Balance Sheet)	5,856,590	

Table 1a (continued)

Item No.	Position title	Balance Sheet	Reference
P	LIABILITIES		
PO	LIABILITIES		
PO.I	Liabilities arising from derivatives	-	
PO.II	Deposits and other financial liabilities to banks, other financial institutions and the central bank	267,776	
PO.III	Deposits and other financial liabilities to other clients	3,080,610	
PO.IV	Liabilities arising from hedging derivatives	-	
PO.V	Change in fair value of hedged items	-	
PO.VI	Liabilities arising from securities	-	
PO.VII	Subordinated liabilities	-	
	Of which subordinated liabilities included in the bank's Tier 2 capital	-	d
PO.VIII	Provisions	65,653	
PO.IX	Liabilities under assets held for sale and discontinued operations	-	
PO.X	Current tax liabilities	-	
PO.XI	Deferred tax liabilities	-	
PO.XII	Other liabilities	159,752	
PO.XIII	TOTAL LIABILITIES (items PO.I to PO.XIII in the consolidated Balance Sheet)	3,573,791	
	CAPITAL		
PO.XIV	Share capital	4,806,297	
	Of which: shares and other capital instruments meet the conditions from Item 8 of the DCA	4,806,297	a
PO.XV	Own shares	-	
PO.XVI	Profit	-	
PO.XVII	Loss	2,488,449	
	Of which losses from the previous years	2,375,207	c
	Of which losses from the current year	113,242	c
PO.XVIII	Reserves	-	
	Of which positive revaluation reserves created on the basis of the effects of changes in the fair value of fixed assets, securities and other assets which are, in accordance with IFRS/IAS, credited to these reserves	-	
PO.XIX	Unrealised losses	35,049	c
	Of which 30% are unrealized losses based on securities valued at fair value through other results	21,573	
PO.XX	TOTAL CAPITAL (the result of adding/subtracting the following EDP items from consolidated Balance Sheet items: PO.XIV - PO.XV + PO.XVI - PO.XVII + PO.XVIII - PO.XIX) ≥ 0	2,282,799	
PO.XXI	TOTAL CAPITAL SHORTFALL (the result of adding, i.e. subtracting the following EDP items from consolidated balance sheet items: PO.XIV - PO.XV + PO.XVI - PO.XVII + PO.XVIII - PO.XIX) < 0	-	
PO.XXII	TOTAL LIABILITIES (the result of adding, i.e. subtracting the following EDP items from consolidated balance sheet items: PO.XIII + PO.XX - PO.XXI)	5,856,590	
V.P.	OFF-BALANCE SHEET ITEMS		
V.P.A.	Off-balance sheet assets	7,738,066	
V.P.P.	Off-balance sheet liabilities	7,738,066	

Table 1b
PI-KAP

Data referring to the Bank's capital
Linking positions in the broken-down Balance Sheet and positions in the PI-KAP form

(in 000 RSD)

Item No.	Position title	Amount	Data source in line with references from step 2
	Common equity Tier 1 capital (CET 1): Elements		
1	Instruments of CET 1 and corresponding issue premium	4,806,296	
1.1.	<i>of which. shares and other capital instruments meeting the requirements from Item 8 of the DCA</i>	4,806,296	a
1.2.	<i>of which: corresponding issue premiums which accompany instruments from Item 1.1., i.e. paid amount above the nominal value of those instruments</i>	-	
2	Earnings from previous years not encumbered with future liabilities, for which the Bank's General Assembly reached a decision to be allocated to the CET1	-	
3	Earnings from the current year or earnings from the previous year for which the Bank's General Assembly still has not reached a decision to allocate said earnings to CET1, which meets the conditions in Item 10, Sub-Items 2 and 23 for inclusion in CET1	-	
4	Revaluation reserves and other unrealised gains	-	
5	Reserves from earnings and other reserves of the Bank, with the exception of reserves for general banking risks	-	
6	Reserves for general banking risks	-	
7	Non-controlling participation (minority participation) recognised in CET1 **	-	
8	CET1 before regulatory adjustments and deductibles (sum 1 to 7)	4,806,296	
	CET1: regulatory adjustments and deductibles		
9	Additional value adjustments (-)	-	
10	Intangible investments, including goodwill (reduced by the amount of deferred tax assets) (-)	(60,412)	b
11	Deferred tax assets depending on the Bank's future profitability, with the exception of those arising from temporary differences, reduced by related deferred tax liabilities, provided that conditions from Item 14 Sub-Item 1 of DCA are met.	-	
12	Fair values for impairments with relation to gains and losses based on hedging instruments for cash flow risks for financial instruments not quantified at fair value, including projected cashflows	-	
13	IRB approach: the negative amount of difference obtained by conducting calculation in line with Item 134 of DCA (-)	-	
14	Increase in capital resulting from exposure securitization (-)	-	
15	Gains and losses based on bank liabilities measured at fair value due to a change in the Bank's credit rating	-	
16	Assets held with the pension fund at fees defined in the Bank's Balance Sheet (-)	-	
17	Direct, indirect and synthetic investments of the Bank in its own CET1 instruments of entities in the financial sector which have mutual investments in the Bank, the investments having been made for the purpose of disclosing a higher amount of the Bank's capital (-)	-	
18	Direct, indirect and synthetic investments of the Bank in its own CET1 instruments, including own instruments of the CET1 which the Bank is obliged or may be obliged to buy as a result of a contractual obligation (-)	-	
19	Applicable amount of the Bank's Direct, indirect and synthetic investments in the CET1 instruments of entities in the financial sector in which the Bank does not hold a substantial investment (-)	-	
20	Applicable amount of the Bank's Direct, indirect and synthetic investments in the CET1 instruments of entities in the financial sector in which the Bank holds a substantial investment (-)	-	
21	The amount of exposures meeting conditions for the application of risk weighting of 1.250%, which the Bank may decide to deduct from CET1 instead of applying the weighting	-	
21.1.	<i>of which: stakes in entities which are not entities from the financial sector exceeding 10% of such entities' capital, i.e. stakes allowing effective exercising of significant influence on the managing of such legal entities or those business entities' corporate policy (-)</i>	-	
21.2.	<i>of which securitised positions (-)</i>	-	

21.3.	<i>of which: free deliveries (-)</i>	-	
22	Deferred tax assets depending on the Bank's future profitability, arising from temporary differences (amounts exceeding 10% of the Bank's CET1, from Item 21 Sub-Item 2, reduced by the amount of related tax liabilities, provided that conditions from Item 14 Sub-Item 1 of DCA are met (-)	-	
23	The sum of deferred tax liabilities and investments in entities in the financial sector in which the Bank has a substantial investment from Item 21 Sub-Item 3 of DCA (-)	-	
23.1.	<i>of which: Direct, indirect and synthetic investments in CET 1 instruments of entities in the financial sector in which the Bank holds a substantial investment (-)</i>	-	
23.2.	<i>of which: deferred tax assets arising from temporary differences</i>	-	
24	Loss for the current year and previous years as well as unrealised losses (-)	(2,510,022)	c
25	Tax amounts relative to the elements of the CET1 which may be envisaged at the time of capital calculation, unless the Bank has previously corrected the amount of CET1 elements by amounts in which those taxes reduce the amount up to which the CET1 elements may be used for risk or losses coverage (-)	-	
26	The amount by which CET 1 deductibles exceed the amount of the Tier 2 capital (-)	-	
27	The amount of required impairments for estimated losses arising from Balance Sheet and Off-Balance Sheet items	-	
28	Total regulatory adjustments and deductibles from the CET1 (sum 9 to 27)	(2,570,434)	
29	CET1 (difference between 8 and 28)	2,235,862	
	Tier 1 capital: elements		
30	Shares and other capital instruments meeting conditions from Item 23 of DCA and corresponding issue premiums	-	
31	CET1 instruments issued by subsidiaries recognised in the Tier 2 capital	-	
32	Tier 2 capital before deductions (30+31)	-	
	Tier 2 capital: deductibles		
33	Direct, indirect and synthetic of the Bank investment in its own Tier 2 capital instruments, including instruments which the Bank is obliged or may be obliged to buy as a result of an existing contractual obligation (-)	-	
34	Direct, indirect and synthetic investments of the Bank in its own Tier 2 capital instruments of entities in the financial sector which have mutual investments in the Bank, the investments having been made for the purpose of disclosing a higher amount of the Bank's capital (-)	-	
35	Applicable amount of the Bank's Direct, indirect and synthetic investments in the Tier 2 capital instruments of entities in the financial sector in which the Bank holds a substantial investment (-)	-	
36	Direct, indirect and synthetic investments of the Bank in instruments of Tier 2 capital in the financial sector in entities where bank holds a substantial investment, excluding positions on the basis of custody for shares held five business days or shorter (-)	-	
37	Amount by which Tier 2 capital deductibles exceed the amount of the Bank's Tier 2 capital (-)	-	
38	Total deductibles from the Tier 2 capital (sum 33 to 37)	-	
39	Tier 2 capital (difference between 32 and 38)	-	
40	CET1 (sum 29 and 39)	2,235,862	
	Tier 2 capital: elements		
41	Shares and other Tier 2 capital instruments and subordinated liabilities which meet conditions from Item 28 of DCA and corresponding issue premiums with instruments	-	d
42	Capital instruments issued by subsidiaries recognised for the Tier 2 capital **	-	
43	Credit risk adjustments which meet the conditions to be included in the Tier 2 capital	-	
44	Tier 2 capital before deductions (sum 41 to 43)	-	
	Tier 2 capital: deductibles		
45	Direct, indirect and synthetic of the Bank investment in its own Tier 2 capital instruments and subordinated liabilities including instruments which the Bank is obliged or may be obliged to buy as a result of an existing contractual obligation (-)	-	
46	Direct, indirect and synthetic investments of the Bank in the Tier 2 capital instruments and subordinated liabilities of entities in the financial sector which have mutual investments in the Bank, the investments having been made for the purpose of disclosing a higher amount of the Bank's capital (-)	-	
47	Applicable amount of the Bank's direct, indirect and synthetic investments in the Tier 2 capital instruments of entities in the financial sector in which the Bank does not hold a substantial investment (-)	-	
48	Direct, indirect and synthetic investments of the Bank in instruments of Tier 2 capital and subordinated liabilities of entities in the financial sector where the Bank holds a substantial investment, excluding positions on the basis of custody for shares held five business days or shorter (-)	-	
49	Total deductibles from the Tier 2 capital (sum 45 to 48)	-	
50	Tier 2 capital (difference between 44 and 49)	-	
51	Total capital (sum 40 and 50)	2,235,862	
52	Total risk weighted assets	3,279,375	
	Capital adequacy ratios and capital buffer		
53	CET1 adequacy ratio (%)	68.18%	
54	Tier 1 adequacy ratio (%)	68.18%	
55	Capital adequacy ratio of the Bank (%)	68.18%	
56	Total regulatory capital buffer (%) ***	3.71%	

57	CET1 available for capital buffer coverage (%) ****	61.52%
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The following **Table 2** shows the basic features of all the elements included in the calculation of Bank's capital as at 31 December 2023.

Table 2 **PI-FIKAP**
Data on the main features of financial instruments included in the calculation of the Bank's capital

Item No.	Instrument Features	Description
1.	Issuer	Duingraaf Financial Investments B.V., Hoogoorddreef 15, 1101BA Amsterdam, Holland
1.1.	Individual denotation (e.g. CUSIP, ISIN or Bloomberg denotation for private placements)	ISIN: RSMIRAE27626
	<i>Treatment in line with regulations</i>	-
2.	Treatment in line with the Decision on Capital Adequacy of Banks	Instrument of CET1
3.	Individual/(sub)consolidated)/individual and (sub)consolidated level of including instruments in the capital on Group level	Individual
4.	Instrument type	Ordinary shares
5.	Amount recognised for the purpose of calculating regulatory capital (in RSD thousand, as at the last reporting date)	4,806,296
6.	Nominal value of the instrument	The total nominal value of shares amounts to RSD 4,806,296,000 ((1,790,700+1,840,500+1,175,096) *1,000= RSD 4,806,296,000)
6.1.	Issuing price	-
6.2.	Purchasing price	-
7.	Accounting Classification	Share capital
8.	Initial Date of Issuance	<p>The founding capital of the Bank amounts to EUR 15,000,000 in the RSD equivalent and the conversion of capital was performed on 6 April 2015 when an account belonging to the Bank was opened with the National Bank of Serbia.</p> <p>On 11 May 2016, upon registering with the Central Securities Depository and Clearing House, an increase of the Bank's capital was executed through the issuance of II issues in the amount of 1,840,500 ordinary shares with a nominal value of RSD 1,000 per share, upon which the Bank's total share capital amounted to a total of RSD 3,631,200 thousand.</p> <p>On 3 May 2021, the Bank registered with the Central Securities and Depository Clearing House the execution of the III issue of shares, and on 10 December 2021, the registration of the increased capital of the Bank was made with the Serbian Business Registers Agency and the Bank converted EUR 5 million of a subordinated debt into share capital. With the NBS Resolution of 14 February 2022, the Bank received approval to include this capital in its regulatory capital, the total amount of the Bank's CET1 capital amounts to RSD 4,218,997 thousand.</p> <p>On 15 September 2022, the Bank registered with the Central Securities and Depository Clearing House the execution of the IV issue of shares, and 21 September 2022 converted an additional EUR 5 million subordinated debt into share capital and received approval from the NBS via Resolution dated 10 October 2022 to include this capital into its regulatory capital upon which the Bank's total CET1 capital amounts to RSD 4,806,296 thousand.</p>
9.	Instrument with or without a maturity date	No maturity date
9.1.	Original maturity	No maturity date
10.	With or without an issuer call option	No
10.1.	First date of call option activation, conditional call option activation dates and purchasing value	-

10.2.	Subsequent dates of call option activation (if applicable)	-
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Table 2 (continued)

Item No.	Instrument Features	Description
	<i>Coupons/dividends</i>	-
11.	Fixed or variable dividends/coupons	-
12.	Coupon rate and related indices	-
13.	Existence of mechanism of mandatory dividend cancellation	-
14.1.	Full, partial or no discretion regarding the time of dividend/coupon payment	Full discretion
14.2.	Full, partial or no discretion regarding the amount of dividend/coupon	Full discretion
15.	Step up option or other purchase incentives	No
16.	Non-cumulative or cumulative dividends/coupons	Non-cumulative
17.	Convertible or non-convertible instrument	Non-convertible
18.	If convertible, terms under which conversion may take place	-
19.	If it is convertible, specify if it is partially or fully convertible	-
20.	If it is convertible, rate of conversion	-
21.	If it is convertible, mandatory or voluntary conversion	-
22.	If it is convertible, the instrument to which it is converted	-
23.	If it is convertible, the issuer of the instrument to which it is converted	-
24.	Possibility of value reduction	No
25.	If there is possibly to reduce value, terms under which value can be reduced	-
26.	If there is possibly to reduce value, in part or in full	-
27.	If there is possibly to reduce value, permanently or temporarily	-
28.	If temporary, specify terms of re-recognition	-
29.	Type of instrument to be collected immediately prior to said instrument in case of bankruptcy or receivership	-
30.	Mismatched features of converted instruments	-
31.	If any, specify mismatched features	-

4.2. Regulatory Capital Requirements and Capital Adequacy Ratio

In accordance with the Decision on the Capital Adequacy of Banks, the Bank calculates the minimal capital requirements for the following risks:

- credit risk – by applying the standardised approach;
- FX risk - by applying the standardised approach;
- operational risk - by applying the basic indicator approach;

In accordance with the NBS Decision on Capital Adequacy and Capital Management Strategy, the Bank shall, at all times, maintain the capital adequacy ratio at levels that are not below

- 18.0% for the CET1 adequacy ratio,
- 15.0% for the Tier 1 capital adequacy ratio and
- 12.0% for the capital adequacy ratio.

In accordance with the NBS Decision on Capital Adequacy of Banks and the Capital Management Strategy, in addition to the minimum prescribed CET1, Tier 1 and total capital adequacy ratios, the Bank will maintain its capital adequacy ratios increased in a way that enables it to cover the requirements for capital buffers.

In addition to the above, while maintaining the minimum level of capital, the Bank takes into account any add-on prescribed by the NBS as a result of the implemented Supervisory Review and Evaluation Process of the Bank (SREP), in order to fulfill the Total SREP Capital Requirement (TSCR) and the Overall Capital Requirement (OCR).

The following **Table 3** shows data on total capital requirements and the capital adequacy ratio of the Bank as at 31 December 2023.

Table 3

PI-AKB

Data on total capital requirements and the capital adequacy ratio

Item No.	Item title	Amount
I	CAPITAL	2,235,862
1.	TOTAL CET1	2,235,862
2.	TOTAL TIER 1 CAPITAL	-
3.	TOTAL TIER 2 CAPITAL	-
II	CAPITAL REQUIREMENTS	
1.	CAPITAL REQUIREMENT FOR CREDIT RISK, COUNTERPARTY RISK, RISK OF REDUCTION IN THE VALUE OF PURCHASED RECEIVABLES AND SETTLEMENT/DELIVERY RISK ON THE BASIS OF FREE DELIVERIES	228,032
1.1.	Standardised Approach (SA)	2,850,399
1.1.1.	<i>Exposures to governments and central banks</i>	-
1.1.2.	<i>Exposures towards territorial autonomies, and units of local government</i>	-
1.1.3.	<i>Exposures towards public administrative bodies</i>	-
1.1.4.	<i>Exposures towards international development banks</i>	-
1.1.5.	<i>Exposures towards international organisations</i>	-

1.1.6.	<i>Exposures towards banks</i>	129,124
1.1.7.	<i>Exposures towards companies</i>	2,083,404
1.1.8.	<i>Exposures towards retail (private individuals)</i>	1,768
1.1.9.	<i>Exposures secured on real estate collateral</i>	408,694
1.1.10.	<i>Past due items</i>	33,989
1.1.11.	<i>High-risk exposures</i>	-
1.1.12.	<i>Exposures in the form of covered bonds</i>	-
1.1.13.	<i>Exposures under securitised positions</i>	-
1.1.14.	<i>Exposures towards banks and corporates with short-term credit rating</i>	-
1.1.15.	<i>Exposures under investments in open investment funds</i>	-
1.1.16.	<i>Exposures under ownership investments</i>	-
1.1.17.	<i>Other exposures</i>	193,420
1.2.	Internal rating based (IRB) approach	
1.2.1.	<i>Exposures towards governments and central banks</i>	-
1.2.2.	<i>Exposures towards banks</i>	-
1.2.3.	<i>Exposures towards corporates</i>	-
1.2.4.	Retail exposures	-
1.2.4.1.	<i>of which: Retail exposures collateralised with mortgages on properties</i>	-
1.2.4.2.	<i>of which: Qualified retail revolving exposures</i>	-
1.2.4.3.	<i>of which: Exposures towards SME's classified in this exposure category</i>	-
1.2.5.	Exposures under ownership investments	-
1.2.5.1.	Applied approach:	-
1.2.5.1.1	<i>Simple risk weighting approach</i>	-
1.2.5.1.2	<i>PD/LGD approach</i>	-
1.2.5.1.3	<i>Internal model approach</i>	-
1.2.5.2.	Types of exposures under ownership investments	-
1.2.5.2.1	<i>Tradeable ownership investments</i>	-
1.2.5.2.2	<i>Non-tradeable ownership investments which are in sufficiently diversified portfolios</i>	-
1.2.5.2.3	<i>Other ownership investments</i>	-
1.2.5.2.4	<i>Ownership investments to which the Bank applies the Standardised Credit Risk Approach</i>	-
1.2.6.	<i>Exposures under securitised positions</i>	-
1.2.7.	<i>Exposures under other positions</i>	-
2	CAPITAL REQUIREMENT FOR SETTLEMENT/DELIVERY RISK ON THE BASIS OF UNSETTLED TRANSACTIONS	-
3	CAPITAL REQUIREMENT FOR MARKET RISKS	10,681
3.1.	Capital requirements for price, foreign exchange and commodity risks calculated under standardised approaches	10,681
3.1.1.	Capital requirements for price risk arising from debt securities	-
	<i>which capital requirements for price risk arising from securitised positions</i>	-
3.1.2.	Capital requirements for price risk arising from equity securities	-
3.1.3.	Additional capital requirements for large exposures from the trading book	-
3.1.4.	Capital requirement for foreign exchange risk	10,681
3.1.5.	Capital requirements for commodity risk	-
3.2.	Capital requirements for price, foreign exchange and commodity risks calculated under the Internal Models Approach	-
4	CAPITAL REQUIREMENTS FOR OPERATIONAL RISK	33,464
4.1.	Capital operational risk requirement calculated by applying the basic indicator approach	33,464
4.2.	Capital operational risk requirement calculated by applying the standardised/alternative standardised indicator approach	-
4.3.	Capital operational risk requirement calculated by applying the advanced approach	-
5.	CET1 ADEQUACY RATIO (%)	-
III	TIER 1 ADEQUACY RATIO (%)	68.18%
IV	CAPITAL ADEQUACY RATIO (%)	68.18%

4.3. Internal Capital Adequacy Assessment

The Bank implements the ICAAP, which includes the following phases:

- 1) Determining materially significant risks;
- 2) Calculation of internal capital requirement for individual risks;
- 3) Determining total internal capital requirements;
- 4) Stress tests of internal capital requirements and their impact on ICAAP;
- 5) Comparison of the following elements:
 - capital calculated in accordance with the NBS Decision which governs capital adequacy of banks and available internal capital,
 - minimal capital requirements calculated in accordance with the NBS Decision which governs capital adequacy of banks and available internal capital requirements for individual risks,
 - a sum of the minimal capital requirements calculated in accordance with the NBS Decision which governs capital adequacy of banks and total internal capital requirements.

When determining the materially significant risks to which the Bank is exposed and those involved in the ICAAP, the type, scope and complexity of business are taken into account, as is the specificity of the market in which the Bank operates. Assessment is performed in relation to risks for which capital requirements are calculated in accordance with the NBS Decision which governs capital adequacy, as well as risks that are not covered in full or at all by the above-mentioned Decision. The Bank applies quantitative and qualitative approaches when evaluating the material significance of risks.

The approach adopted by the Bank to calculate materially significant risks, within the framework of the ICAAP as at the reporting date 31 December 2023:

Credit Risk: Standardised Approach from the Decision on Capital Adequacy of Banks, National Bank of Serbia.

FX Risk: Standardised Approach from the Decision on Capital Adequacy of Banks, National Bank of Serbia, with certain modifications (primarily in terms of the application of a more rigorous materiality threshold and a longer data time series).

Operational Risk: a combination of the Basic Indicator Approach from the DCA and the records generated by the Bank's operational losses database.

Strategic Risk: internal method based on the testing of planned and achieved balance sheet values.

IS Risk: internal method which combines balance sheet values and the records generated by the Bank's operational losses database.

Concentration Risk: internal method, which takes into account concentration measured by

applying the Herfindal-Hirschman index - HHI, as well as internal concentration risk limits, calculation of risk assets and the records pertaining to large exposures.

Compliance Risk: internal method which projects possible future losses, from within the domain of compliance, taking into account historical data, expectations for the future period and relevant balance sheet records.

FX-Induced Credit Risk: internal method which takes into account FX values in the loan portfolio i.e., risk-weighted assets and projected foreign currency values and the impact the change in the currency rate has on deteriorating the Client's creditworthiness i.e., *unsettled obligations status*.

Interest Rate Risk: internal method based on changes in the economic value of the banking book (standardised shock).

Credit Risk Induced by Interest Rate Risk: an internal method which uses assumptions on the changes in interest rates from credit risk assessment scenarios, applied to the part of the loan portfolio characterised by a variable interest rate, to determine the possibility of increased credit risk.

Residual Risk – internal method, which combines the value of collateral participation in the calculated value of the Bank's CRWA, as well as the ratio between the level of recovery from collateral and the expected recovery amount.

In terms of risk accumulation (namely its internal capital requirements) in the ICAAP, the Bank applies the method of adding the internal capital requirements for each risk specifically, the so-called *building-block* approach (i.e., a more conservative method compared to alternatives, and accordingly the overall internal capital requirements could be lower due to diversification effects).

The Capital Management and Non-financial Risks Department, as well as other organisational units involved in the internal capital adequacy assessment process, shall regularly, and no less than once per year, verify and review the ICAAP Methodology, and if necessary, propose necessary changes and make adequate adjustments to the process.

In addition to the regular annually scheduled process check, the Bank shall put into question and adjust the process whenever it is exposed to new risks and significant changes, as in its strategic and operational plans, so as in the external environment.

Results of the internal capital adequacy assessment process as at 31 December 2023 - allocating internal capital requirements. Taking into account the implemented quantitative and qualitative evaluation reviews of materially significant risk and the valid ICAAP Methodology, the Bank has determined that as at 31 December 2023, it is necessary to allocate the following internal capital requirements for said date.

Table 1 - Overview of internal capital requirements

in 000 RSD

Type of risk	Internal capital requirement
Credit Risk	228,032
Market Risks (FX Risk)	10,695
Operational Risk	33,657
Strategic Risk	33,221
IS Risk	2,979
Concentration Risk	85,512
Compliance Risk	2,925
FX-Induced Credit Risk	1,822
Credit Risk Induced by Interest Rate Risk	18,463
Interest Rate Risk	115,398
Other risks	2,280
Total:	534,984

4.4. CAPITAL BUFFERS

In accordance with the Decision on Capital Adequacy of Banks, the following capital buffers have been defined:

- capital maintenance buffer;
- countercyclical capital buffer;
- capital buffer for a global system significant bank;
- capital buffer for a system significant bank and
- capital buffer for structural system risk

As at 31 December 2023, the Bank defined the buffers for maintaining capital and for structural system risk. The capital maintenance buffer is defined at 2.5% of the Bank's risk-weighted assets whereas the structural system risk is defined at 3% of total F/X and F/X indexed loans (placements) extended to corporate and retail clients in the Republic of Serbia.

Table 5
PI-GR
Data referring to the geographic distribution of risk-weighted exposure for the calculation of the countercyclical capital buffer

in 000 RSD and %

Item No.		credit exposures		Exposures from the Trading Book		Exposures under securitisation		Regulatory capital requirements				Capital requirement weighting	Ratio of Countercyclical Capital Buffer
		Amount of exposure according to the standardised approach	Amount of exposure according to the IRB approach	Sum of long- and short-term positions in the Trading Book	Amount of exposure from the Trading Book as per the internal model	Amount of exposure according to the standardised approach	Amount of exposure according to the IRB approach	Of which: general credit exposures	Of which: exposures from the Trading Book	Of which exposures under securitisation	Total		
1.	Breakdown by country												
1.1.	Serbia	2,720,991	-	-	-	-	-	217,679	-	-	217,679	95.46	0%
1.2.	Austria	104,181	-	-	-	-	-	8,334	-	-	8,334	3.65	0%
1.3.	UAE	23,572	-	-	-	-	-	1,886	-	-	1,886	0,83	0%
1.4.	Bosnia and Herzegovina	352	-	-	-	-	-	28	-	-	28	0,01	0%
1.5.	Great Britain	1,293	-	-	-	-	-	103	-	-	103	0,05	0%
1.6.	USA	10	-	-	-	-	-	1	-	-	1	0,00	0%
1.7.	Russia	-	-	-	-	-	-	-	-	-	-	0,00	0%
2.	Total	2,850,399	-	-	-	-	-	228,032	-	-	228,032	100.00	0%

Table 2 – Capital buffers

in 000 RSD

Combined capital buffer requirement	121,572
- Capital maintenance buffer	81,984
- Countercyclical capital buffer	-
- Capital buffer for structural system risk	39,588
- Capital buffer for a system significant bank	-

Table 6
PI-KZS
Data on the Bank's countercyclical buffer amount

in 000 RSD and %

1.	Total risk weighted assets	3,279,375
2.	Specific countercyclical capital buffer ratio	0.00%
3.	Regulatory requirements for the Bank's countercyclical capital buffer	0

5. EXPOSURE TO RISKS

5.1. Credit Risk

The following tables provide an overview of the total and average net exposures per class and exposure category. Net exposure is derived at by subtracting gross exposure of the formed impairment of balances sheet receivables i.e., provisions on estimated off-balance sheet losses. The shown exposures are based on data from the Bank's SP form ('net exposures').

Data referring to net exposures per exposure class as at 31 December 2023:

Table 3 The amount of net exposures per class, prior to applying the credit risk mitigation technique

in 000 RSD

CLASS	Risk balance sheet assets		Risk off-balance sheet items		Off-balance sheet items not payable		Financial Derivatives		TOTAL	
	Total	Average	Total	Average	Total	Average	Total	Average	Total*	Average**
Governments and central banks	3,039,184	3,156,985	-	-	-	-	4,697	3,528	3,043,881	3,160,513
Banks	539,263	353,680	31,633	32,562	-	-	-	-	570,897	386,242
Companies	1,355,654	1,428,823	2,706,870	2,427,519	2,044,382	2,064,845	-	-	6,106,906	5,921,187
Retail	1,405	4,478	5,202	4,739	-	1,173	-	-	6,607	10,389
Exposures collateralised with mortgages on properties	643,152	641,320	89,904	57,716	84,656	59,936	-	-	817,712	758,971
Exposures in non-settlement status	16,950	17,178	44,184	62,080	-	-	-	-	61,134	79,257
Other exposures	197,314	106,037	-	-	1,477,434	1,730,230	-	-	1,674,748	1,836,268
Total	5,792,921	5,708,501	2,877,793	2,584,615	3,606,472	3,856,184	4,697	3,528	12,281,883	12,152,828

*Note: gross exposure is reduced by allowances for impairment (for balance sheet positions) and provisions for estimated losses (per off-balance sheet items), and necessary reserves for estimated losses.

** Average amount value as at 31.03., 30.06., 30.09. and 31.12.2023

Detailed information regarding credit risk exposure has been disclosed in the Bank's Notes to the

5.1.1. Geographic distribution of gross exposures per asset classes

The following table present credit risk exposure per geographical distribution by exposure class as at 31 December 2023:

Table 4 - Exposures according to geographical distribution per class

In 000 RSD

	31.12.2023	
Exposure to credit risk	Gross exposure	Impairment amount on receivables and provisions for off-balance sheet losses
<u>Governments and central banks</u>	<u>3,047,034</u>	<u>3,153</u>
Serbia	3,047,034	3,153
- Belgrade	3,047,034	3,153
<u>Banks</u>	<u>570,941</u>	<u>44</u>
Serbia	6,860	-
- Belgrade	6,860	-
UAE	43,135	5
Austria	520,946	39
<u>Companies</u>	<u>6,120,766</u>	<u>13,860</u>
Serbia	6,119,110	13,860
- Belgrade	4,780,078	11,883
- Vojvodina	679,695	594
- Šumadija and Western Serbia	499,997	1,210
- Southern and Eastern Serbia	159,340	173
Great Britain	1,293	-
Bosnia i Hercegovina	352	-
USA	10	-
<u>Retail</u>	<u>6,741</u>	<u>134</u>
Serbia	6,741	134
- Belgrade	4,096	108
- Vojvodina	2,633	25
- Šumadija and Western Serbia	11	1
UAE	1	-
<u>Exposures collateralised with mortgages on properties (property)</u>	<u>819,621</u>	<u>1,910</u>
Serbia	819,621	1,910
- Belgrade	137,978	106
- Vojvodina	571,500	1,775
- Southern and Eastern Serbia	110,143	29
<u>Exposures in non-settlement status</u>	<u>88,434</u>	<u>27,300</u>
Serbia	86,375	25,243
- Belgrade	69,686	24,957
- Šumadija and Western Serbia	16,675	272
- Southern and Eastern Serbia	9	7
- Vojvodina	14	14
UAE	2	2
Russia	2,048	2,048
<u>Other exposures</u>	<u>2,016,767</u>	<u>342,020</u>
Serbia	2,016,767	342,020
- Belgrade	2,016,767	342,020
Total	12,670,304	388,421

5.1.2. Sector Distribution of Exposure Based on Asset Class

Sector distribution of all exposures as at 31 December 2023, per exposure class is presented in the following table:

Table 5 - Exposures towards sector distribution per class

In 000 RSD

Exposure to Credit Risk	31.12.2023.	
	Gross exposure	Impairment amount on receivables and provisions for off-balance sheet losses
<u>Governments and central banks</u>	<u>3.047.034</u>	<u>3.153</u>
Financial and insurance activities	1.336.819	0
State administration and fense, mandatory social insurance	1.710.214	3.153
<u>Banks</u>	<u>570.941</u>	<u>44</u>
Financial and insurance activities	570.941	44
<u>Companies</u>	<u>6.120.766</u>	<u>13.860</u>
Transport and storage	579.793	3.462
Foreign legal entities (except banks)	1.655	-
Financial and insurance activities	22.418	36
Information and communications	1.465.703	2.981
Administrative activities	214.081	535
Other service activities	16.555	5
Construction	1.407.068	2.934
Wholesale and retail trade; repair of motor vehicles and motorcycles	595.107	445
Professional, scientific, innovative and technical activities	507.369	377
Mining	212.365	72
Manufacturing industry	1.094.728	3.007
Agriculture, forestry and fishing	20	0
Water supply, waste water management, controlling the waste removal process and similar activities	3.904	7
<u>Retail</u>	<u>6.741</u>	<u>134</u>
Retail	11	-
Financial and insurance activities	260	-
Information and communications	184	0
Administrative activities	312	0
Other service activities	266	0
Construction	570	-
Wholesale and retail trade; repair of motor vehicles and motorcycles	94	93
Professional, scientific, innovative and technical activities	3.003	15
Accommodation and catering services	10	0
Manufacturing industry	2.025	25
Water supply, waste water management, controlling the waste removal process and similar activities	6	0

Exposure to Credit Risk	31.12.2023.	
	Gross exposure	Impairment amount on receivables and provisions for off-balance sheet losses
Exposures collateralised with mortgages on properties	819.621	1.910
Transport and storage	108.446	65
Administrative activities	26.520	99
Construction	110.143	29
Wholesale and retail trade; repair of motor vehicles and motorcycles	93.830	-
Professional, scientific, innovative and technical activities	22.906	41
Agriculture, forestry and fishing	457.776	1.675
Exposures in non-settlement status	88.434	27.300
Transport and storage	15	15
Real estate business	3	3
Retail	6	6
Financial and insurance activities	2.048	2.048
Information and communications	4	4
Administrative activities	11	10
Construction	69.600	24.876
Wholesale and retail trade; repair of motor vehicles and motorcycles	16.699	297
Professional, scientific, innovative and technical activities	23	21
Accommodation and catering services	1	0
Manufacturing industry	19	17
Agriculture, forestry and fishing	3	3
Other exposures	2.016.767	342.020
Financial and insurance activities	2.016.767	342.020
Construction	1	0
Total	12.670.304	388.421

5.1.3. Distribution of Exposures on Remaining Maturity

The following table presents an overview of exposure to remaining maturity per exposure class as at 31 December 2023:

Table 6 – Net exposures according to remaining maturity

in 000 RSD

CLASS	Risk balance sheet assets	Risk off-balance sheet items	Off-balance sheet items not payable	Financial Derivatives	TOTAL
Governments and central banks	3,039,184	-	-	4,697	3,043,881
up to 90 days	500,540	-	-	4,697	505,237
from 91 to 180 days	-	-	-	-	-
from 181 to 365 days	-	-	-	-	-
over 365 days	1,707,136	-	-	-	1,707,136
no deadline	831,508	-	-	-	831,508
Banks	539,263	31,633	-	-	570,897
up to 90 days	-	-	-	-	-
from 91 to 180 days	1,203	21,089	-	-	22,293
from 181 to 365 days	-	10,544	-	-	10,544
over 365 days	-	-	-	-	-
no deadline	538,060	-	-	-	538,060
Companies	1,355,654	2,706,870	2,044,382	-	6,106,906
up to 90 days	109,574	597,368	64,087	-	771,029
from 91 to 180 days	147,304	463,108	578,412	-	1,188,825
from 181 to 365 days	625,150	598,955	1,293,167	-	2,517,272
over 365 days	399,594	1,047,438	-	-	1,447,032
no deadline	74,032	-	108,716	-	182,748
Retail	1,405	5,202	-	-	6,607
up to 90 days	-	1,975	-	-	1,975
from 91 to 180 days	-	2,915	-	-	2,915
from 181 to 365 days	-	-	-	-	-
over 365 days	-	312	-	-	312
no deadline	1,405	-	-	-	1,405
Exposures collateralised with mortgages on properties	643,152	89,904	84,656	-	817,712
up to 90 days	29,384	-	-	-	29,384
from 91 to 180 days	6,625	-	-	-	6,625
from 181 to 365 days	-	-	84,656	-	84,656
over 365 days	607,142	89,904	-	-	697,047
no deadline	-	-	-	-	-
Exposures in non-settlement status	16,950	44,184	-	-	61,134
Up to 90 days	-	-	-	-	-
from 91 to 180 days	-	-	-	-	-
from 181 to 365 days	541	44,184	-	-	44,725
over 365 days	-	-	-	-	-
no deadline	16,409	-	-	-	16,409

Other exposures	197,314	-	1,477,434	-	1,674,748
up to 90 days	-	-	7,109	-	7,109
from 91 to 180 days	-	-	-	-	-
from 181 to 365 days	-	-	31,637	-	31,637
over 365 days	-	-	-	-	-
no deadline	197,314	-	1,438,688	-	1,636,002
Total	5,792,921	2,877,793	3,606,472	4,697	12,281,883

5.1.4. Impaired Exposures

The following table shows changes to impairment i.e., allowance for credit losses and gross carrying amounts on loans and receivables from clients that are classified at amortised cost in comparison to the start and end of the reporting period.

Table 7 – Changes in allowances for credit loss on loans and receivables from clients classified at amortised cost throughout 2023

In 000 RSD	Allowance for Credit Losses				Gross Carrying Amount			Total
	Level 1 (12-month ECL)	Level 2 (Lifetime ECL on SICR)	Level 3 (Lifetime ECL less credit loss)	Total	Level 1 (12-month ECL)	Level 2 (Lifetime ECL on SICR)	Level 3 (Lifetime ECL less credit loss)	
Standardised Lending								
31 December 2023	(7,369)	(136)	(76,578)	(84,084)	2,009,309	165,309	102,983	2,277,601
<i>Movement impacting allowance for credit losses for the period:</i>								
Transition:								
- into credit losses (from Levels 1 and 2 to Level 3)	1,133	(1,133)	-	-	(73,466)	(73,466)	-	-
Realised or purchased	(12,904)	(6,778)	(16)	(19,698)	2,147,382	156,560	105	2,304,046
Suspended recognition throughout the period	5,710	4,172	76,787	86,669	(2,309,588)	(183,951)	(86,408)	(2,579,947)
Accrued interest change	4,601	1,629	(468)	5,762	-	-	-	-
Total movement impacting allowance for credit loss for the period:	(1,479)	(2,091)	76,304	72,733	581,170	(269,576)	(54,485)	257,110

<i>Movement without impacting allowance for credit losses for the period:</i>								
Write-offs:	-	-	-	-	-	-	-	-
Movement of the FX and other modification of contractual cash flows	-	-	-	-	-	-	-	-
31 December 2023	(8,849)	(2,227)	(275)	(11,350)	1,773,636	211,384	16,680	2,001,700

Detailed information regarding impairment for credit losses is disclosed in the Notes to the Financial Statements of the Bank for 31 December 2023.

The table below provides an explanation of the changes in allowance for credit loss and the gross carrying amounts of loans and receivables from other banks between the start and year-end of the period, due to the following factors.

Table 8 - Changes in allowances for credit loss on loans and exposures from other banks throughout 2023

<i>In 000 RSD</i>	Allowance for credit losses				Gross Carrying Amount			
	Level 1 (12-month ECL)	Level 2 (Lifetime ECL on SICR)	Level 3 (Lifetime ECL for credit loss)	Total	Level 1 (12-month ECL)	Level 2 (Lifetime ECL on SICR)	Level 3 (Lifetime ECL for credit loss)	Total
<i>Loans and receivables from banks and other financial institutions 31 December 2022</i>	(512)	-	(2,126)	(2,638)	197,751	-	2,126	199,877
<i>Movement impacting allowance for credit losses for the period:</i>								
Realised or purchased	(174)	-	(180)	(354)	1,708,648	-	180	1,708,828
Suspended recognition throughout the period	143	-	258	401	(851,158)	-	(258)	(851,416)
Risk adjustments	466	-	-	466				-
Total movement impacting allowance for credit loss for the period:	435	-	78	513	857,490	-	(78)	857,412
31 December 2023	(77)	-	(2,048)	(2,125)	1,055,241	-	2,048	1,057,289

Detailed information on impairment i.e., allowances for impairment, the number of days in arrears (in

default), approaches, methods, definitions relevant to this area are disclosed in the Notes to the Financial Statements of the Bank as at 31 December 2023.

5.1.5. Credit Rating and Calculation of the Capital Requirement for Credit Risk

The Bank applies the Standardised Approach to credit risk. The Bank applies Moody's Investor Service Ltd. credit ratings, which has received the approval of the National Bank of Serbia as a recognised external credit rating agency, in accordance with the Decision on the Capital Adequacy of Banks.

Throughout 2023, the Bank applied the credit ratings of a recognised rating agency in the calculation of risk-weighted assets for exposures to banks, mapping external ratings into suitable credit quality categories according to the following table:

Table 9 - Credit Ratings

Recognised rating agencies		Moody's Investor Service Ltd One Canada Square, Canary Wharf London E14 5FA Decision G. No. 1370 of 28 February 2012
Method of issuing consent	Based on assessed fulfilment of conditions related to credit quality methodology and assessment - direct recognition	
	Based on the previous consent of no less than two regulatory bodies with which the NBS has signed collaboration agreements with submitted suitable documentation - indirect recognition	X
	Based on evidence of registration in an EU member state, issued by the competent authority	
Basic market segment for which consent has been issued	public finance	X
	corporate finance	X
	structured finance	
Mapping long-term credit ratings into categories of credit quality (for exposures to governments, central banks and companies)	1	from Aaa to Aa3
	2	from A1 to A3
	3	from Baa1 to Baa3
	4	from Ba1 to Ba3
	5	from B1 to B3
	6	Caa1 and lower
Mapping long-term credit assessments into categories of credit quality (for exposures to banks and companies)	1	P-1
	2	P-2
	3	P-3
	4 to 6	NP
Mapping based on investments in open funds	1	from Aaa to Aa3
	2	from A1 to A3
	3 and 4	from Baa1 to Baa3
	5 and 6	B1 and lower
Recognition of unsolicited credit ratings		For exposures to governments and central banks

Source: Based on data found on the website of the NBS:

The NBS Decision on Capital Adequacy of Banks defines appropriate credit risk weights for exposure classes, for each credit quality level.

5.1.6. Credit Risk Mitigation Techniques

The Bank uses funds in the form of financial assets i.e., cash and cash equivalents deposited with the Bank as funded credit protection when calculating capital requirements. This group of instruments also includes bonds issued by the Republic of Serbia, the National Bank of Serbia, autonomous provinces and local governments, however, the Bank did not have these types of instruments as at 31 December 2023.

The following table presents net exposures covered by credit risk mitigation instruments per exposure class as at 31 December 2023:

Table 10 - Net exposures covered by credit risk mitigation instruments per exposure class

u 000 RSD

Exposure class	Funded credit protection		Unfunded credit protection
	the amount of net exposure covered by financial assets	the amount of net exposure covered by other material protection instruments	
Governments and central banks	-	-	-
Territorial autonomies and units of local government	-	-	-
Public administrative bodies	-	-	-
International development banks	-	-	-
International organisations	-	-	-
Banks	-	-	-
Companies	181,619	-	-
Retail	570	-	-
Exposures collateralised with mortgages on properties	-	-	-
Exposures in non-settlement status	-	-	-
High-risk exposures	-	-	-
Covered bonds	-	-	-
Banks and companies with short-term credit ratings	-	-	-
Investments in open investment funds	-	-	-
Equity investments	-	-	-
Other exposures	-	-	-
Total	182,189	-	-

Within the total material protection presented, company credit protection dominates.

The table below shows the net exposure before and after the application of credit protection,

per exposure class and risk weights, which are a measure of credit quality, based on NBS Decision on Capital Adequacy of Banks, which defines risk weights for individual credit quality or exposure class:

Table 11 – Net exposure before and after the application of credit protection, per exposure class and risk weights:

Exposure class	Net exposure before applying credit protection	Net exposure after applying credit protection
Governments and central banks	3,043,881	3,043,881
<i>Risk weight 0%</i>	3,043,881	3,043,881
Banks	570,896	570,896
<i>Risk weight 20%</i>	527,767	527,767
<i>Risk weight 100%</i>	31,633	31,633
<i>Risk weight 150%</i>	11,496	11,496
Companies	6,106,906	5,925,286
<i>Risk weight 100%</i>	6,106,906	5,925,286
Retail	6,607	6,037
<i>Risk weight 75%</i>	6,607	6,037
Exposures collateralised with mortgages on properties	817,712	817,712
<i>Risk weight 35%</i>	61,463	61,463
<i>Risk weight 50%</i>	411,370	411,370
<i>Risk weight 100%</i>	344,879	344,879
Exposures in non-settlement status	61,137	61,134
<i>Risk weight 100%</i>	44,729	44,729
<i>Risk weight 150%</i>	16,404	16,404
Other exposures	1,674,748	1,856,937
<i>Risk weight 0%</i>	27,329	92,344
<i>Risk weight 20%</i>	0	117,174
<i>Risk weight 100%</i>	1,647,419	1,647,419
Total	12,281,883	12,281,883

In developing its risk management system, including its desire to provide efficiency in risk mitigation, the Bank has defined the following internal act: the Collateral Valuation Procedure, governing in greater detail, inter alia, the area referring to credit protection instruments use, while at the same time ensuring efficiency in mitigation.

In terms of methods implemented by the Bank to impair and monitor risk mitigation efficiency, when using risk mitigation techniques, we specifically emphasise the following: the Bank implements regular internal reporting, analysis and monitoring of the collateral, including collateral insurance monitoring. Based on the identified analyses, the Bank undertakes corrective and prevention measures which have an impact on improving the Bank's position and increasing the efficiency of risk mitigation. This way, the Bank ensures adequate and timely efficiency in terms of risk mitigation and monitoring.

Detailed information on collateral instruments has been disclosed in the Bank's Notes to the Financial Statements as at 31 December 2023 as well as the overall LTV ratio. As at 31 December 2023 the Bank did not have in its portfolio assets acquired through the collection of receivables.

5.1.7. Credit Quality of Receivables

As at 31 December 2023, the Bank applied the principal of monitoring various signs of risk and therefore clients could be assigned one of the following statuses:

- Regular (this status is assigned to all clients who regularly make payments where early signs of risk have not been identified i.e., a higher credit risk category) or
- Intense monitoring (assigned to clients where early signs of risk have been identified in accordance with the Managing Receivables with Increased Credit Risk and Bad Assets Procedure).

As at 31 December 2023, the Bank had six clients assigned under Intense Monitoring, i.e., early signs of risk were identified with these six clients. Total balance sheet exposure to these clients amounted to RSD 210,995 thousand, and corresponding allowances for impairment amounted to RSD 1,475 thousand. In the case of one client with Intensive Monitoring status, the Bank has secured collateral in the form of a deposit covering 100% of the placement. With another client, the balance placement is additionally secured by joint and several guarantees of creditworthy and solvent and highly liquid related companies.

As at 31 December 2023, the Bank had identified two NPLs in the total amount of RSD 86,452 thousand and individually assessed allowances for impairment for said loans in an amount totalling RSD 25,144 thousand. The loan with the highest exposure amount (RSD 69,600 thousand) arose from a long-term, off-balance sheet loan with accompanying fee receivables, partially secured by a first-rank mortgage over property and a pledge over equipment. Said off-balance sheet loan is in the form of a performance bond which as at 31 December 2023 was not protested by the user, thus, the Bank assessed the individual impairment of the loan in the amount of RSD 24,876 thousand, taking into account all of the mentioned parameters. For another client with NPL status and who is in bankruptcy proceedings, the Bank has collateral in the form of a first-rank mortgage over property - a family home located in Belgrade, and an individual impairment assessment was made on an individual basis in the amount of RSD 268 thousand.

As at 31 December 2023, the Bank had one client in Performing Restructured Receivables status which is one of the six clients assigned Intense Monitoring status.

The NPL ratio (participation of NPLs in total loans) as at 31 December 2023 was 0.83% i.e., the Bank had three NPLs in one client's portfolio.

In 2023, the Bank had four loan exposure write-offs in the total amount of RSD 76,623 thousand, all of which fulfilled the conditions for accounting write-off i.e., all of which were 100% impaired. More information is available on the credit quality of receivables which are disclosed in the Notes to the Financial Statements of the Bank as at 31 December 2023.

5.1.8. Distribution of Exposures by Category of Classification in line with NBS Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items

The following table shows data on the distribution of exposures by category of classification in line with NBS Decision on the Classification of Bank Balance Sheet Assets and Off-balance Sheet Items. The table includes only those receivables that are classified in line with the NBS Decision on the Classification of Balance Sheet Assets and Off-balance Sheet Items. In line with applicable NBS regulations, in 2023 the Bank did not calculate the reserve for estimated losses and the required reserve for estimated losses.

Table 12 – Distribution of Exposures by Category of Classification

In 000 RSD	
Classification category	Total amount of gross receivables
A	2,210,813
B	2,718,142
V	1,770,108
G	759,616
D	86,510
Total	7,545,189

5.2. Counterparty Risk

At at 31 December 2023, based on the applied regulatory approach based on the Decision on Capital Adequacy, the Bank was not exposed to counterparty risk, and therefore the capital requirement for counterparty risk was not calculated.

In addition to the above-mentioned regulatory approach, the Bank internally monitors exposure to counterparty risk on a daily basis, taking into account internal limits for this risk. In terms of the internal capital requirement amount for counterparty risk, as at 31 December 2023, the Bank did not calculate said internal capital requirement.

5.3. Interest Rate Risk in the Banking Book

The interest rate risk represents a risk of changes in market exchange rates having an adverse effect of the Bank's financial result and capital. The main sources of interest rate risks are the risks of maturities mismatch and the repricing for the yield curve, base risks and option risk. The report on exposure to interest rate risks is compiled by the Risk Management Department, which report is on a quarterly basis presented and analysed by the ALCO.

When assessing the exposure to interest rate risk the Bank uses the following presumptions:

- All assets and liabilities Balance Sheet items of the Banka are classified in certain timelines depending on their maturity (for times with a fixed interest rate) or period of next interest rate change (for items that have a variable interest rate).
- Funds on transactional accounts/demand deposits are allocated in a time unit of up to one year, for deposit accounts with an amount of over EUR 1 million funds are allocated to the overnight time unit, and deposit accounts with amounts under EUR 1 million funds are distributed by placing 40% of the deposit into the overnight time unit and allocating the

remaining amount proportionally for up one year.

- Required RSD and FX reserves held with the NBS are allocated in time units, proportionally in line with deposit participation within a certain time unit, relative to the total deposit after allocation of demand deposits.
- 200 base points are applied to all currencies, as a standard interest rate shock, in accordance with the Decision on Risk Management of Banks.

An analysis of the exposure to option risk and the risk of premature TD termination or loan prepayment is considered at ALCO meetings. Given the Bank's corporate policy, and interest rates within the loan portfolio, the Bank's assumption is that the amount of prospective premature TD termination and loan prepayments is not of material significance.

When it comes to general information relative to interest income, changes in income structure, financial value and other information of relevance to interest rate risk management, relative details are disclosed in the Notes to the Bank's Financial Statements as at 31 December 2023. Interest rate risk indicators, indicating a ratio between reduced economic capital value and the Bank's capital for the relevant interest rate risk measurement in terms of the standard interest rate shock (parallel shift in the yield curve) of 200 bp, as at 31 December 2023 amounted to 5.21%, which is a value within the Bank internal limits. The mentioned level of risk is based on RSD and EUR positions, in that exposure to RSD interest rate risk dominates and EUR interest rate risk exposure is 8 times less relative to RSD interest rate risk exposure.

5.4. Market Risk

Where market risks are in question, the Bank is currently exposed to interest rate risk and foreign exchange risk.

As regards the Bank's F/X position, it is monitored on a daily basis by means of the F/X risk ratio. Throughout the year, the F/X risk ratio was within limits defined by the supervising body. The Bank strived to maintain this particular position almost closed, and accordingly was not significantly exposed to F/X risk.

In 2023, the Bank was compliant with the regulatory FX risk ratio, expressed as 20% of the regulatory capital. The Bank applies a standardised approach in calculating capital requirements for FX risk.

As at 31 December 2023, the FX risk ratio stood as follows:

FX risk ratio (in %)	
as at 31 December 2023*	5.84
average throughout 2023	1.39
maximum throughout 2023	5.84
minimum throughout 2023	0.08

*Ratio after calculating the capital and recording all operational changes

To determine the value of the internal capital requirement for foreign exchange risk, the Bank considers the impact of exchange rate changes on the open foreign exchange open position, i.e. calculates the additional internal capital requirement that would be needed to cover the open foreign exchange position under regular operating conditions and under stress conditions.

5.5. Operational Risk

The Bank calculates the capital requirement for operational risk using the Basic Indicator method.

Table 13 - Capital Requirements for Operational Risk

No.	Description	31.12.2021	31.12.2022	31.12.2023
1	Net interest income	113,965	155,243	225,613
-	Interest income	150,234	187,791	272,717
-	Interest expenses	(36,270)	(32,548)	(47,104)
2	Income from dividends and participation	-	-	-
3	Net income from fees and commissions	42,418	54,429	58,748
-	Income from fees and commissions	47,978	61,097	63,616
-	Expenses from fees and commissions	(5,560)	(6,669)	(4,867)
4	Gains/losses from the sale of securities in the trading book	-	-	-
5	Income/expenses from changes in the value of securities assets and liabilities	-	-	-
6	Exchange rate differences	(10)	(751)	(360)
-	Foreign exchange gains	711,788	1,433,583	1,137,564
-	Foreign exchange losses	(711,798)	(1,434,334)	(1,137,924)
7	Other income and expenses	6,529	4,939	8,509
	Risk indicator	162,902	213,860	292,510
	Risk indicator * 15%	24,435	32,079	43,877
	Capital Requirement	27,638	28,463	33,464

In 000 RSD

5.6. Equity Exposures in the Banking Book

As at 31 December 2023, the Bank did not have any exposures in the form of equity exposures in the banking book.

5.7. Credit Valuation Risk (CVA risk)

The credit valuation risk (CVA risk) is a risk of the occurrence of losses resulting from changes in CV due to credit margin changes of the counterparty, as a result of such counterparty's credit rating change. The Bank calculates capital requirements for this risk by applying the

standardised approach method. As at 31 December 2023, the Bank did not have any exposures to said risk, therefore it did not have a capital requirement for this risk.

6. LEVERAGE RATIO

In line with the Drafting the Report on the Leverage Ratio Methodology, the Bank calculates this ratio as a Tier 1 capital ratio, obtained as a sum of the CET1 capital and Tier 2 capital and the Bank's exposure is percentage denominated. The leverage ratio for the first time emerged when Basel III standards were introduced, as an additional indicator of banks' operations, it being not based upon the level of risk weighted assets.

As at 31 December 2023, the leverage ratio amounted to 32.10%.

Table 14 shows the leverage ratio, as well as the amount of total exposure and levels of Tier 1 capital as at 31 December 2023.

Table 14 – Leverage Ratio

(in 000 RSD)

Total level of exposure for leverage ratio calculation purposes	6,394,344
Tier 1 capital in line with the decision governing capital adequacy of banks	2,235,862
Leverage ratio	32.10%