



ADRIATIC BANK

ANNUAL REPORT

2023

Banking – tailor made

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In 2023, Adriatic Bank underwent a transformation that led to impressive business success. The change in ownership structure not only marked a new era in our history but also sparked a series of innovations that have enhanced our operations. Together, we have exceeded expectations and strengthened our market position.

Our commitment to personalized services was shaped by a successful rebranding in August, symbolizing our new business philosophy. The investment in Skyline, a prestigious business space, highlighted our commitment to innovation and excellence, creating an environment that inspires our employees and fosters exceptional service for our clients and partners.

The past year witnessed our efficiency, adaptability, and innovation, with significant progress in digitization and process automation. The modernization of key systems and intensive work on information security confirmed our commitment to maintaining high standards and responding to digital challenges. We focused on our employees, our most valuable resource, investing in their development and creating a stimulating work environment.

We are grateful to everyone who contributed to our success this year. Your support and dedication are the foundation of our progress.



This strengthened our corporate culture and unity, key to achieving our goals. We are grateful to everyone who contributed to our success this year. Your support and dedication are the foundation of our progress. With optimism, we look to the future, ready to embrace new opportunities, continuing to innovate and improve our services to exceed the expectations of our clients and partners.

Sincerely,

Đorđe Lukić

President of the Executive Board

**A LETTER FROM THE PRESIDENT
OF THE EXECUTIVE BOARD**

1.1 Company's ID

	DATA	
1	Business name	Adriatic Bank A.D. Beograd
2	Seat and Address	Dalaminatinska 22 Beograd
3	Registration Number	07534183
4	TIN	100003148
5	Web address	www.adriaticbank.rs
6	e-mail	office@adriaticbank.rs
7	No. and date of Decision of registering in the register of business entities:	BD 498 of 14.02.2005.
8	Activity	6419 – Other monetary intermediaries
9	Number of employees	145
10	Number of shareholders	1 shareholder
11	Place of insight into the Shareholder Register:	Central Securities, Depository and Clearing House of the Republic of Serbia
12	Code of activity	6419 – Other monetary activities
13	Social Networks:	Facebook, Instagram, LinkedIn
14	Auditor for 2023	Moore Stephens Revizija i računovodstvo d.o.o.

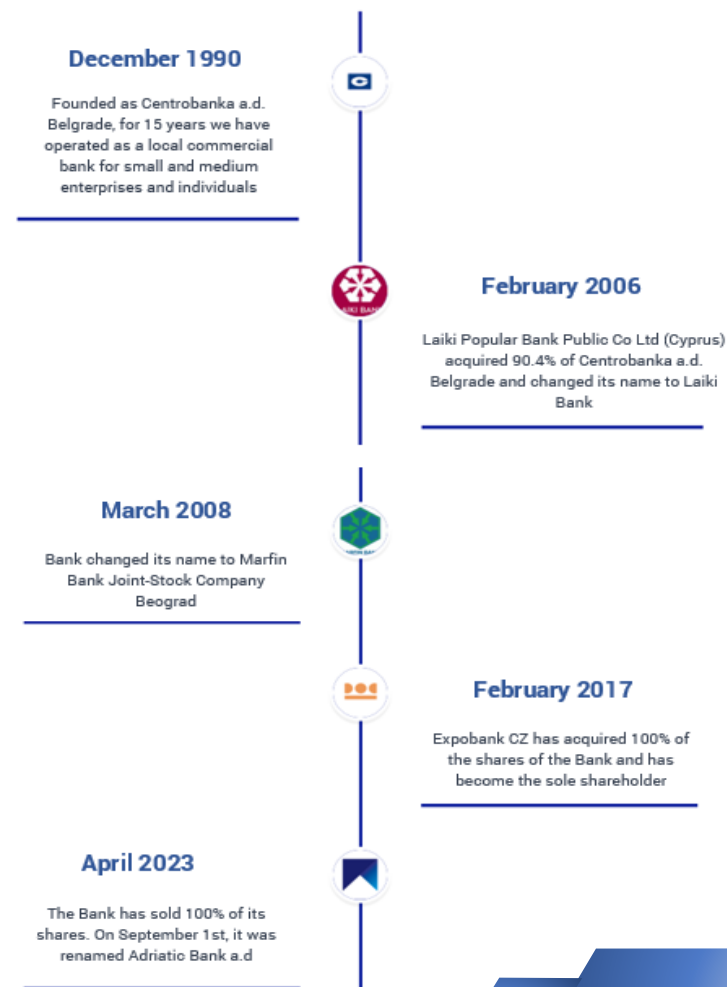
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ADRIATIC BANK

1.2 Adriatic Bank Timeline



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1. ABOUT US



ADRIATIC BANK

1.3 Ownership Structure of the Bank

The ownership structure is presented in the table below:

No	Shareholder	Number of shares	% of ownership
1	SHNAIDER ALEXANDER	11,343,217	100%
Total		11,343,217	100%

** data as of 13. december 2023.*

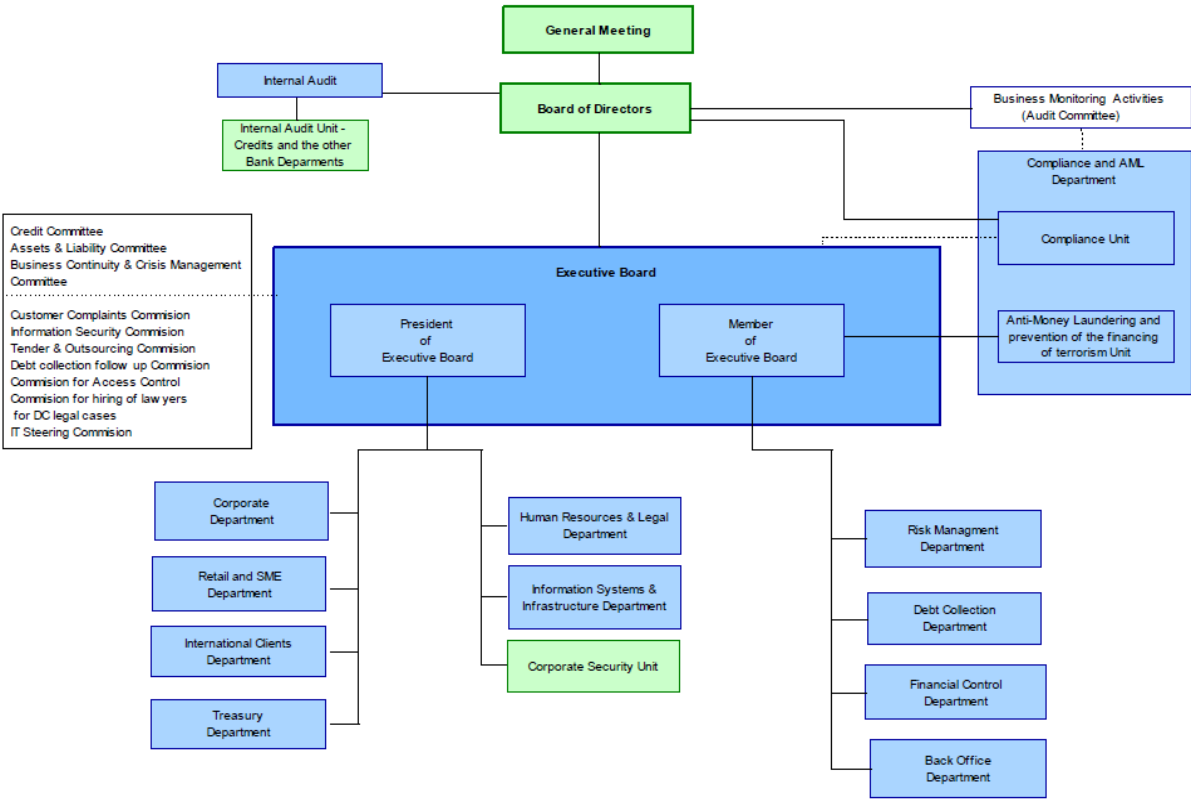
Value of share capital (in thousands of dinars):	3.065.958
Number of issued shares (ordinary and preference shares, with ISIN number and CFI code):	Ordinary shares: ISIN:RSCEBAE31481 CFI:ESVUFR, 11,343,217 shares
Business name, registered office and business address of the auditing company that audited the last financial report:	MOORE STEPHENS Revizija i računovodstvo d.o.o. Beograd, Studentski trg 4/V, 11070 Beograd, Srbija

1. ABOUT US

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1.4 Organizational Structure of the Bank

Organization Structure Adriatic Bank JSC Belgrade



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1. ABOUT US

By changing the ownership structure in April 2023 and appointing new management structures in May, the Bank's business policy is also changing, focusing on the development and diversification of commercial activities. For this purpose, from one sector that encompassed business with individuals and legal entities, three separate sectors have been differentiated, focusing on different market segments:

- ▶ Sector for business with the economy
- ▶ Sector for business with individuals and small & medium-sized enterprises
- ▶ Sector for services to international clients.

An imperative in the functioning of the aforementioned organizational units, in addition to servicing certain categories of clients, is also mutual cooperation to intensify the so-called "cross-selling" and achieve synergy among all sales centers.

Banking experts have been recruited to key positions in all three organizational units with the task of developing client portfolios and further developing teams.

Significant personnel changes have occurred in the risk management and support sectors (Back Office), with professionals with relevant experience being engaged in managerial positions.

Corporate governance is organized through the activities of the Supervisory, Executive, Credit, and other committees defined by the Law on Banks and the Bank's Statute.

All relevant provisions of the Law on Banks and internal regulations defining the composition and operation of the Supervisory and Executive Board are fully implemented.

The Bank's operations are also supported by other committees:

1. Asset and Liability Management Committee (ALCO Committee)
2. Bank Business Monitoring Committee (Audit Committee)
3. Credit Committee
4. Crisis Management and Business Continuity Committee.

In addition to the above-mentioned committees, the Executive Board has established Commissions to support the performance of its duties prescribed by the Law on Banks, the purpose, composition, scope of work, and manner of work of which are regulated by internal regulations.

1. ABOUT US

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2. CORPORATE GOVERNANCE

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1. ABOUT US

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2. CORPORATE GOVERNANCE

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2.1 Supervisory Board

The Supervisory Board of the Bank consists of five members, including the Chairman of the Supervisory Board, of whom three members are individuals independent of the Bank:

1	Name, surname and place of residence:	Wolfgang Mitterberger
Education:	Master of Business Administration, Master of Social and Economic Sciences	
Current employment (company's business name and position):	Member of the board of Adriatic Bank AD Podgorica; Managing Director in companies: MERU Holding GmbH Vienna, MERU KaW Projektentwicklungs GmbH Vienna, MERU Velden Hills Projektentwicklungs GmbH Vienna, MERU Real Prime Service GmbH Vienna	
Number and percentage of shares possessed in the joint stock company:	There is no share capital in the company	
2	Name, surname and place of residence:	Fraser Eliot Marcus, US
Education:	Bachelor - English Language and Mathematics	
Current employment (company's business name and position):	Global director at Ormonde Capital Partners London and Dallas, board member of Adriatic Bank AD Podgorica and Adriatic LLC Capital Management Dallas	
Number and percentage of shares possessed in the joint stock company:	There is no share capital in the company	
3	Name, surname and place of residence:	Bassem Snaije, France
Education:	Master of economy	
Current employment (company's business name and position):	SciencesPo – Paris University, Associate Professor of Economics, Finance and Geopolitics	
Number and percentage of shares possessed in the joint stock company:	There is no share capital in the company	
4	Name, surname and place of residence:	Milovan Popović, Serbia
Education:	Master of economy	
Current employment (company's business name and position):	Auditing company "BDO" d.o.o. Belgrade, member and representative	
Number and percentage of shares possessed in the joint stock company:	There is no share capital in the company	
5	Name, surname and place of residence:	Dragiša Lekić, Serbia
Education:	Bachelor of Economics	
Current employment (company's business name and position):	/	
Number and percentage of shares possessed in the joint stock company:	There is no share capital in the company	

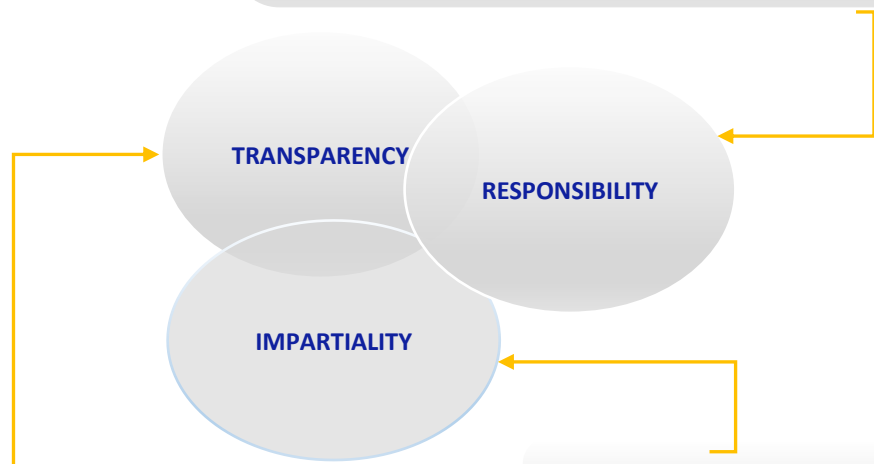
2.2 Executive Board

The Executive Board of the Bank consists of two members, including the President of the Executive Board:

1	Name, surname and place of residence:	Đorđe Lukić, Serbia
Education:	Bachelor of Economics	
Current employment (company's business name and position):	Adriatic Bank AD Beograd, CEO	
Number and percentage of shares possessed in the joint stock company:	There is no share capital in the company	
2	Name, surname and place of residence:	Nemanja Marković, Serbia
Education:	Bachelor of Economics	
Current employment (company's business name and position):	Adriatic Bank AD Beograd, Member of executive board	
Number and percentage of shares possessed in the joint stock company:	There is no share capital in the company	

2.1 Corporate Governance Principles

Responsibility is one of the most important ethical principles, and it implies that the Bank's boards are responsible, and answer to the shareholders for their decisions and acts. The respective Boards of the Bank are responsible for strategies, plans and actions, management of the Bank through practice, but also for the introduction of new changes when necessary.



The Bank implements comprehensive, truthful and timely disclosure of information on all important issues concerning financial condition, profitability, ownership and management structure.

The applied corporate governance framework protects the rights of shareholders.

2. CORPORATE GOVERNANCE

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The economic achievements of the Republic of Serbia in 2023 reflect resilience and dynamism in facing global challenges. A stable credit rating of BB+, with stable outlooks from international rating agencies, clearly demonstrates the reliability of economic policy and management, confirming confidence in Serbia's ability to maintain stability and growth.

The growth of gross domestic product (GDP) by 2.5%, reaching a value of 7.097 billion dinars, is an example of the country's economic vitality. Additionally, the reduction of the current account deficit to 1.0 billion euros, representing a significant improvement compared to the previous year, highlights the effectiveness in resource management and financial discipline crucial for long-term economic stability.

Despite being a global economic challenge, inflation in Serbia has remained at a controlled level of 8.0% at the end of November, thanks to the thoughtful measures of the National Bank of Serbia. The decision to increase the key policy rate to 6.5% demonstrates determination in preserving the value of the national currency and economic stability, ensuring a favorable environment for investment and savings.

The labor market shows strong resilience, with unemployment steadily maintained at 9.0% in the third quarter. This indicator, along with an employment rate of 50.7%, indicates that the employment sector remains robust and adaptive, even in changing economic conditions.

Serbia's foreign trade balance shows positive trends, with export growth of 4.5% and a decline in imports of 5.8%, improving the import-export coverage to 78.7%. This indicates successful positioning of Serbian products and services in the international market, as well as the strong adaptability and competitiveness of the domestic economy.

Overall, the economic indicators and measures taken by the National Bank of Serbia and the government indicate a solid foundation for maintaining economic stability and supporting continuous growth. Serbia successfully faces global challenges, maintaining a stable economic course and confirming its ability to adapt and progress. This approach promises not only to preserve existing economic strength but also to open up new opportunities for development and prosperity in the future.

3. MACROECONOMIC ENVIRONMENT

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Adriatic Bank's strategy for the period 2024-2026 is focused on strengthening its market position and improving business results, relying on building strong relationships with clients. With the aim of meeting and exceeding client expectations, the bank is dedicated to providing services of the highest quality and launching innovative products tailored to the specific requirements of its clients. This strategy aims to lay the groundwork for gaining a competitive advantage by combining high-quality services with a personalized approach to enhance client satisfaction and ensure long-term collaboration.

The main strategic objectives include:

- Support for small and medium-sized enterprises (SMEs):** Intensifying collaboration by providing specialized products and services, with a focus on agility and adaptability of banking solutions to the needs of these enterprises, aiming to expand the client base through effective marketing initiatives and continuous improvement of service quality.
- Innovative services for corporate employees:** Developing financial solutions for employees in the corporate sector, further strengthening relationships with corporate clients and providing comprehensive support in managing their finances.
- Development of private banking:** The goal is to provide high-quality personalized services to clients with high financial standards, stimulating deposit and investment growth and enriching the bank's financial portfolio.
- Technological innovation and process modernization:** Through significant investments in technology and process efficiency, including the modernization of branches and digital payment services such as mobile banking applications, Google Pay, and Apple Pay, the bank aims to improve operational efficiency and client experience.
- Risk and asset quality management:** Implementing an integrated approach to risk management with a focus on the credit portfolio and non-performing assets, aiming to maintain and gradually reduce the share of non-performing assets in line with regulatory frameworks and improve financial stability.

4. STRATEGY

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5.1 Balance sheet as of December 3, 2023

(in thousands of dinars)

ASSETS

Cash and balances with Central Bank	6,661,193	28.38%	2,156,085	13.69%
Securities	3,981,530	17.0%	3,660,279	23.2%
Loans and receivables from banks and others financial organizations	4,925,362	21.0%	1,542,099	9.8%
Loans and receivables from customers	6,273,298	26.7%	6,960,059	44.2%
Intangible assets	80,716	0.3%	46,764	0.3%
Property, plant and equipment	865,015	3.7%	389,079	2.5%
Investment property	268,009	1.1%	268,786	1.7%
Deferred tax assets	77,459	0.3%	121,164	0.8%
Other assets	337,058	1.4%	608,851	3.9%

TOTAL ASSETS

LIABILITIES AND EQUITY

Deposits and other liabilities due to banks, other financial institutions and Central Bank	294,385	1.25%	258,109	1.64%
Deposits and other financial liabilities due to customers	18,688,383	79.63%	12,316,984	78.19%
Provisions	203,927	0.87%	1,583	0.01%
Other liabilities	62,171	0.26%	188,328	1.20%

TOTAL LIABILITIES

EQUITY

Share capital	3,065,958	13.06%	8,549,095	54.27%
Profit for the period	632,389	2.69%	18,133	0.12%
Previous years losses	-56	0.00%	-5,604,554	-35.58%
Reserves /(unrealised loss)	-37,056	-0.16%	-131,229	-0.83%

TOTAL CAPITAL

TOTAL LIABILITIES AND EQUITY

	31.dec.23	Percentage	31.dec.22	Percentage
ASSETS				
Cash and balances with Central Bank	6,661,193	28.38%	2,156,085	13.69%
Securities	3,981,530	17.0%	3,660,279	23.2%
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Property, plant and equipment	865,015	3.7%	389,079	2.5%
Investment property	268,009	1.1%	268,786	1.7%
Deferred tax assets	77,459	0.3%	121,164	0.8%
Other assets	337,058	1.4%	608,851	3.9%
TOTAL ASSETS	23,469,640	100.0%	15,753,166	100.0%
LIABILITIES AND EQUITY				
Deposits and other liabilities due to banks, other financial institutions and Central Bank	294,385	1.25%	258,109	1.64%
Deposits and other financial liabilities due to customers	18,688,383	79.63%	12,316,984	78.19%
Provisions	203,927	0.87%	1,583	0.01%
Other liabilities	62,171	0.26%	188,328	1.20%
TOTAL LIABILITIES	19,808,405	84%	12,921,721	82%
EQUITY				
Share capital	3,065,958	13.06%	8,549,095	54.27%
Profit for the period	632,389	2.69%	18,133	0.12%
Previous years losses	-56	0.00%	-5,604,554	-35.58%
Reserves /(unrealised loss)	-37,056	-0.16%	-131,229	-0.83%
TOTAL CAPITAL	3,661,235	16%	2,831,445	18%
TOTAL LIABILITIES AND EQUITY	23,469,640	100%	15,753,166	100%

5. FINANCIAL RESULT

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ASSETS

During 2023, the balance sheet total assets increased by 49%. The most significant changes in the Bank's assets in 2023 compared to 2022 relate to: a significant increase in loans and receivables from banks and other financial institutions by 219.39% (RSD 3,383,263 thousand), a decrease in exposure to clients by 9.9% (RSD 686,761 thousand), and an increase in property, plant, and equipment by 122.3% (RSD 475,936 thousand).

The following table shows changes in loans and receivables from clients by sector:

SECTOR	31.12.2023	učešće %	31.12.2022	%
Corporate	4.603.442	73,38%	4.873.953	70,03%
Entrepreneurs	121.295	1,93%	237.543	3,41%
Retail	1.519.543	24,22%	1.702.025	24,45%
Non Residents	20.027	0,32%	19.312	0,28%
Other	8.991	0,14%	127.226	1,83%
Total	6.273.298	100%	6.960.059	100%

In 2023, compared to the previous year, there was a decrease in exposure to all listed sectors. The largest percentage decrease of 92.93% is related to other sectors, but the largest impact on the bank's assets was the reduction in receivables from companies by 5.55% (RSD 270,511 thousand). Loans to individuals decreased by 10.72% (RSD 182,482 thousand). As a result of these reductions, the share of exposure to individuals decreased by 0.23%, while the share of exposure to companies increased by 3.35%.

Loans granted to individuals were mostly long-term loans with a maturity period of over one year in dinars, with annual interest rates ranging from 10.98% to 14.5%. The average interest rate for newly approved housing loans in December was 8.61%.

Within the newly approved loans to companies, the largest share was held by long-term investment loans with a currency clause, with an average interest rate in December of 8.28%, as well as long-term working capital loans in RSD with an average interest rate in December of 10.42%.

The increase in the position of loans and receivables from banks and other financial institutions in 2023 was mainly due to an increase in repo transactions with the National Bank of Serbia, which amounted to 2 billion dinars as of December 31, 2023.

The increase in the position of Real Estate, Plant, and Equipment is largely the result of the rebranding of the bank and the new business premises, Skyline (lease of space and equipment).

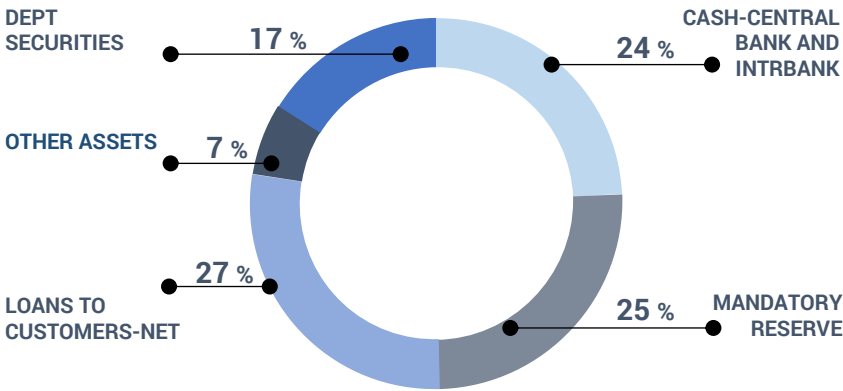
LIABILITIES

The changes in the Bank's liabilities mainly relate to an increase in customer deposits by 51.7%, as well as a significant increase in other liabilities by 230.1% (RSD 433,382 thousand). The amount reserved has increased by 28.8% (RSD 45,627 thousand), largely due to provisions for short-term employee benefits. Similar to other banks in the market, the Bank is subject to various legal disputes regarding certain fees in loan agreements. For such cases, the Bank has created a provision (included in the above amount) of RSD 46,512 thousand. It is currently not possible to accurately determine the outcome of all these lawsuits. The Bank's management estimates that there will be no material losses arising from the outcome of ongoing legal disputes, above the amount for which provisions have been made.

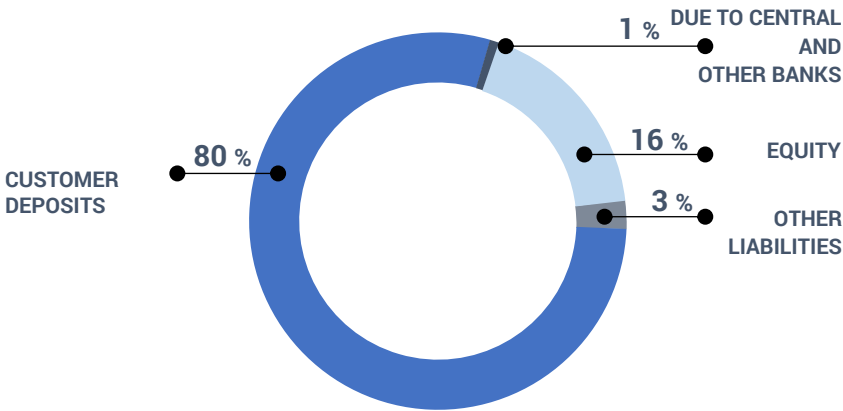
In the structure of customer deposits, deposits from individuals account for 60.9%, while 39.1% of deposits are from companies. Individuals mainly placed deposits for a period of up to one year in foreign currency. The average rate on new deposits maturing up to one year in foreign currency in December was 3.14%.

Company deposits mostly consist of demand deposits in dinars. Companies mostly placed deposits for a period of up to one year. The average interest rate on newly placed dinar deposits up to one year in December was 3.69%.

ASSET STRUCTURE



LIABILITIES STRUCTURE



5.2 Income statement for the year ended December 31, 2023

(in thousands of dinars)

	31.dec.23	31.dec.22
Interest income	824,341	595,545
Interest expenses	-215,800	-164,730
Net interest income	608,541	430,815
Fee and commission income	801,248	523,104
Fee and commission expense	-35,749	-26,272
Net fee and commission income	765,499	496,832
Net gain on derecognition of financial instruments at fair value	-	5,565
Net foreign exchange gains/(loss) and currency clause effects	369,931	-38,411
Net loss from impairment of financial assets that are not valued at fair value through profit and loss	-18,564	-69,412
Net gain on derecognition of financial instruments valued at amortized cost	-	101
Net gains from derecognition of investments in associated undertakings and joint ventures	429	-
Other operating income	17,013	29,462
TOTAL NET OPERATING INCOME	1,742,849	854,952
Salaries, compensations and other personal expenses	-509,190	-359,316
Depreciation expenses	-100,404	-69,243
Other income	77,460	56,311
Other expenses	-570,506	-472,861
PROFIT BEFORE TAX	640,209	9,843
Deferred tax gain	-	8,290
Deferred tax loss	-7,820	-
PROFIT AFTER TAX	632,389	18,133

* All amounts are expressed in 000 RSD
unless otherwise indicated

5. FINANCIAL RESULT

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During 2023, there was an increase in net interest income by 41.3%. Interest income increased by 38.4%, mainly as a result of the growth in income due to increased interest rates on loans during 2023, which were influenced by the increase in reference interest rates and interest on RS bonds, as well as deposits placed with other banks. The bank generated income from interest on bonds purchased from the RS in the amount of RSD 238,817 thousand, accounting for 28.9% of total interest income (2022: RSD 178,528 thousand or 29.98%).

Interest expenses increased by 31% in 2023, mainly due to an increase in interest expenses on deposits from companies, as well as on operations with banks and the Ministry of Finance.

Net fee and commission income amounted to RSD 765,499 thousand, marking an increase of 54.1% compared to 2022. The majority of fee income was generated from banking services related to currency exchange operations, totaling RSD 333,008 thousand (2022: RSD 196,195 thousand), and fees for currency exchange transactions amounted to RSD 311,469 thousand (2022: RSD 185,363 thousand), accounting for 94.5% of total fee income. Significant revenues were also generated from fees for banking services provided to other companies, such as guarantees and letters of intent, which amounted to RSD 29,314 thousand by the end of the year (2022: RSD 29,132 thousand). Fee income from payment services increased by 15.58% compared to 2022, primarily driven by fees from foreign currency payment transactions, totaling RSD 24,079 thousand (2022: RSD 16,524 thousand). A significant income from exchange rate differences and effects of contracted currency clauses amounted to RSD 36,931 thousand, compared to a loss of RSD 38,411 thousand in 2022.

5. FINANCIAL RESULT

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In line with the cautious and conservative credit risk management policy, adjustments were made for all potential credit losses based on known and predictable risks. This year, the bank incurred expenses related to the impairment of financial assets and credit-risk-related off-balance sheet items amounting to RSD 18,564 thousand, which is lower compared to 2022 when the net expense amounted to RSD 69,412 thousand.

In the section of Other Operating Income, rental income has increased, amounting to RSD 16,888 thousand this year, compared to RSD 14,975 thousand in 2022. The bank did not generate income from the sale of assets acquired through the collection of receivables this year, unlike in 2022 when income of RSD 14,360 thousand was generated.

Other income increased by RSD 21,149 thousand compared to the previous year, i.e., by 37.6%. The main reason for the increase is a higher amount of unused provisions for legal disputes amounting to RSD 58,992 thousand (2022: RSD 37,883 thousand)

Other expenses increased by RSD 97,645 thousand, i.e., by 20.6%. The largest share in the increase in expenses is attributed to other expenses amounting to RSD 43,346 thousand

Rent costs amount to RSD 59,902 thousand (2022: RSD 22,555 thousand) and are expressed through the cost of leasing rights depreciation in the amount of RSD 37,293 thousand, interest in the amount of RSD 13,445 thousand, VAT costs in the amount of RSD 9,540 thousand, and positive exchange rate differences in the amount of RSD 376 thousand.

5.3 Business Events after the reporting period

As of the date of this report, there have been no significant events after the end of the reporting period that would require separate disclosure in the attached financial statements of the Bank for the year 2023.

6.1 Corporate Department

During 2023, the Corporate Department directed its resources towards enhancing its market position by achieving growth in various areas of activity. This was accomplished by providing outstanding support and services to all our clients, employing innovative approaches to enhance business operations, processes, and product range. The Bank took additional steps to assist our clients in overcoming the economic challenges arising from the Russian-Ukrainian crisis, aiming to offer personalized services tailored to each partner's business needs, all aimed at fostering their business growth.

Special attention during this period was focused on intensifying collaboration with our existing clients and attracting new clients from sectors that have experienced growth or have high growth potential. Our mission was to expand the client base, including both large corporations and small and medium-sized enterprises. We continuously worked on building and strengthening long-term partnerships based on mutual respect and trust. One of the key aspects of our strategy was focused on improving pricing policies that match the level of risk, aiming to achieve satisfactory returns. Client satisfaction remains a fundamental indicator of the success of our partnerships.

For the 2024, the Corporate Department plans include further expanding the client base and improving collaboration with existing clients through continuous enhancement of products and services. Our focus will be on supporting and stimulating the growth of our clients' businesses, thus reaffirming our commitment to their success.

5. FINANCIAL RESULT

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6. BUSINESS WITH CLIENTS

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6.2 Retail and SME Department

During 2023, the Bank established a new organizational structure that encompasses the Retail and Small and Medium-sized Enterprises (SME) business sector. This Department is built on foundations of innovation and strategic planning, with clearly defined objectives and activities that include:

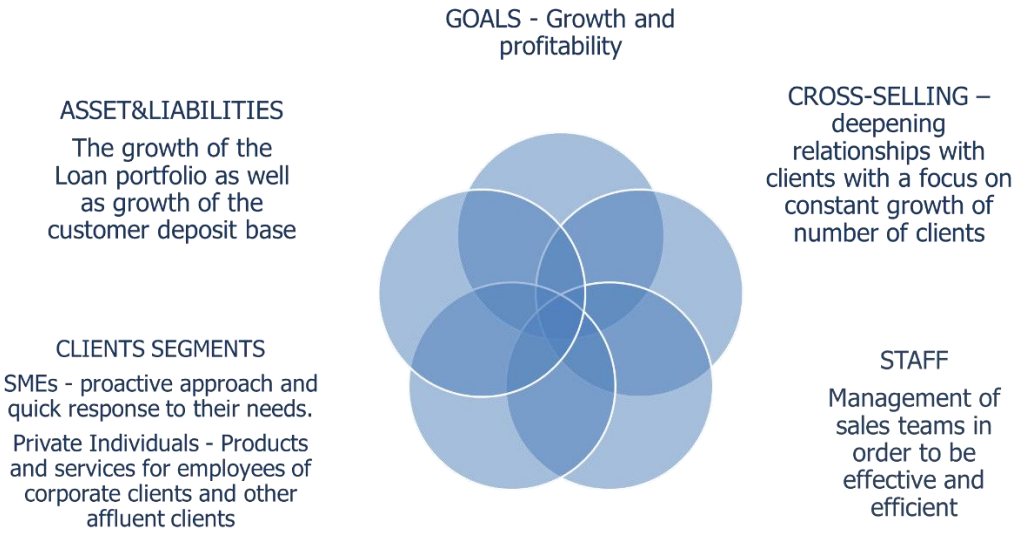
- ▶ Developing and implementing a business strategy focused on the SME segment and individual clients.
- ▶ Expanding and enhancing the branch network, as well as the professional development of employees within branches.
- ▶ Creating and executing business plans for sale of products and services, with efficient monitoring of the sales team and branch performance.
- ▶ Ensuring profitability and high-quality services for clients through regular branch meetings focusing on their performance, branch visits, and key client interactions.
- ▶ Initiating campaigns and special offers to encourage cross-selling and strengthen client loyalty.
- ▶ Managing human resources, including employee motivation, education, recruitment, as well as defining and managing employee goals in line with the Department's strategy.

The strategic goal of this Department is to position itself primarily in the SME segment, aiming to become the first choice for top-tier clients by offering a comprehensive set of products and services for successful business. Through a flexible, proactive approach and quick reactions, the Bank seeks to expand its client base, utilizing active marketing strategies and continuously improving the quality of its services.

Parallel to the development of the SME segment, the Bank has also defined strategies to enhance collaboration with individuals, modernizing its offerings to meet high-quality standards. The focus is on creating products and services that cater to the needs of employees in SMEs and corporate clients, facilitating cross-selling and strengthening loyalty. Through these efforts, the Bank is engaged in developing new products and optimizing existing processes and internal procedures.

The new organizational structure of the Department, which includes a network of branches and the sales team at the Bank's headquarters, is designed to support this dynamic business environment and ensure the Bank's recognition in the field of innovation and services in the banking sector. The new organizational structure of the Department, which includes a network of branches and the sales team at the Bank's headquarters, is designed to support this dynamic business environment and ensure the Bank's recognition in the field of innovation and services in the banking sector

Objectives of Retail and SME Department:



6.3 International Clients Department

The International Clients Department at Adriatic Bank comprises a team of highly qualified professionals dedicated to providing exceptional services to both individual and corporate clients worldwide. At the heart of our service is the personal banker, a key figure who, in collaboration with teams across the entire Adriatic Group and your personal advisors, strives to offer you the very best our Bank can provide. At Adriatic Bank, we aim to create a unique synergy among our talented individuals, innovation, and a wide range of opportunities to support you in achieving your goals.

Clients are always our top priority. Your personal banker accompanies you every step of your financial journey – whether it's analyzing specific issues, providing insights into the broader picture of your finances, or assessing potential opportunities and risks. Our mission is to deeply understand your needs, build a relationship based on mutual trust and privacy, and together lay the foundation for a long-term strategy. Our imperative is to provide tailored advice, with a guarantee of quick and efficient response to all the changes life may bring you.

6. BUSINESS WITH CLIENTS

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7.1 Risk Management System

The Bank continuously identifies, assesses, monitors and controls risks in accordance with national and international banking and accounting regulations, ensuring an integrated, prudent and consistent risk management system. By its acts, the Bank's Managing Board has established an adequate risk management system and internal control system, which includes various corporate bodies and management committees: Managing Board, Executive Board, Audit Committee, Assets and Liabilities Management Committee (ALCO), Credit Committee.

The functioning of the system is regulated by policies and procedures adopted individually for each materially significant type of risk.

In accordance with the adopted strategic goals of the Bank's operations and the bases for their realization, the Bank has defined the goals for the needs of continuous risk management (credit, market, interest rate, currency, operating), as follows:

- ▶ Achieving and maintaining the status of a stable and reputable financial institution, specialising in supporting the population, small and medium enterprises,
 - ▶ Maintaining the trust of its clients and ensuring the security and profitability of their investments,
 - ▶ Providing assistance to clients in their business, development, business projects,
 - ▶ Achieving stable growth,
 - ▶ Strengthening its market position,
 - ▶ Maintaining the stability of the Bank's financing sources,
 - ▶ Ensuring liquid, economical and successful operations, in order to prevent any kind of instability
- In order to improve the level of capital and improve the portfolio, the Bank focuses on:
- ▶ Change of the structure of assets by intensifying the collection of the non-performing loans and the sale of NPL portfolios,
 - ▶ Focusing on lending to A and B category clients only
 - ▶ Enhanced monitoring of lending activities

7. RISK MANAGEMENT

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The comprehensiveness and reliability of the risk management system, as well as the Bank's disposition toward risk is based on:

- ▶ Active participation of the Bank's Executive Board and Managing Board in the risk management process (the Executive Board and the Managing Board regularly review reports on the Bank's exposure to risks, as well as measures to manage and mitigate these risks; the Audit Committee oversees the implementation and adequate enforcement of adopted risk management strategies and policies)
- ▶ Establishment and operation of the Bank's Credit Committee
- ▶ Establishment of the Bank's Assets and Liabilities Management Committee (ALCO)
- ▶ Adoption of the Business Continuity Plan (BCP) and the Disaster Recovery Plan (DRP)
- ▶ Adopted methodologies for risk identification and measurement
- ▶ Adopted measures to mitigate certain types of risks and rules for the application of these measures
- ▶ Established limit system
- ▶ Calculation and distribution of internal capital

The long-term goal of the Bank in risk management is to minimise the negative effects on the financial result and capital of the Bank due to exposure to all potential risks.

In accordance with its strategic and long-term commitment, the Bank has defined the following objectives regarding risk management:

- ▶ avoiding or minimising risks in order to maintain operations within acceptable risk levels, in accordance with the Bank's defined risk appetite;
- ▶ minimising risks within the acceptable level of the Bank's exposure in dinars with a currency clause and in foreign currency, both at the portfolio level and by type of exposure;
- ▶ minimising negative effects on the Bank's capital;

7. RISK MANAGEMENT

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- ▶ maintaining the Bank's capital adequacy ratio at a level that covers all identified risks;
- ▶ increasing the share of exposure to companies with the aim of diversifying the portfolio of placements;
- ▶ increasing the source of financing in order to improve the structure and level of the deposit base;
- ▶ adequate placement management in order to timely identify potentially problematic placements;
- ▶ establishing an adequate system of prevention against misuse of the Bank for money laundering and terrorist financing, which would minimise the possibility of using the business relationship, transaction, service or products of the Bank for money laundering and terrorist financing, as well as raising employee awareness regarding this risk
- ▶ ensuring constant harmonisation of the Bank's operations with the law, regulations and internal acts, especially in the field of money laundering and terrorist financing, namely mutual harmonisation of the Bank's internal acts.
- ▶ ensuring the continuous development of IT support in order to adequately monitor and manage all risks.

In the long term, the Bank must maintain risks within the prescribed limits (each risk individually up to the level prescribed by law or up to the level of limits defined by the Bank's internal acts).

The basic principles of risk management are defined by the Risk Management Policy. Based on the Risk Management Strategy and the Risk Management Policy, the Bank's Executive Board adopts and implements risk management procedures that describe individual risk management processes.

Risk management policies and procedures prescribe the manner of organising the Bank's individual risk management process, methods and methodologies for identifying, measuring or assessing, mitigating and monitoring specific risks, as well as the principles of functioning of the internal control system.

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7.2 Credit Risk

The process of assessing and monitoring credit risk at the level of an individual client and a group of related persons is carried out in accordance with the adopted policies and procedures that establish the rules and criteria for approving new placements, defining the activities that are undertaken, as well as the obligations and responsibilities of the persons involved in the monitoring process.

The process of identification, assessment, measurement and management of credit risk is carried out on a continuous basis and includes the total portfolio of the bank that is subject to credit risk.

The methodology for impairment according to IFRS 9 was additionally improved in 2023 by applying new macroeconomic forecasting of the probability of default (PD) and updating the calculation of loss given default (LGD).

7.3 Liquidity and Interest Rate Risk

The liquidity risk management system is based on measures and criteria prescribed by the National Bank of Serbia and is focused on short-term and structural liquidity.

The Bank's liquidity risk management activities in 2023 were aimed at measuring, monitoring and reporting on projections of liquidity inflows and outflows, liquidity reserves in various scenarios of regular operations and potential liquidity crises, as well as monitoring and regular reporting to the bank's authorities and the ALCO board on the dynamics of regulatory liquidity indicators (liquidity indicator, narrower liquidity indicator, Liquidity Coverage Ratio - LCR), as well as other liquidity indicators according to the Bank's internal methodology. During 2023, all liquidity indicators, both regulatory and indicators defined by internal acts, related to liquidity risk management were aligned and above the prescribed limits.

The Bank's interest rate risk management system is based on the principles prescribed by the National Bank of Serbia with a focus on analysis, measurement, monitoring and reporting on interest rate risk from the banking book. In the course of 2023, all indicators of the Bank's exposure to interest rate risk were harmonized and within the limits of the defined the Bank's policies and procedures related to interest rate risk management

7.4 FX Risk

In accordance with the Decision of the National Bank of Serbia on the adequacy of the bank's capital, the Bank is obliged to maintain the indicator of FX risk, as the ratio between the total net open FX position and the capital at the end of each working day, shall not exceed 20% of its capital. During the entire 2023, the Bank had a harmonized indicator of foreign exchange risk with the requirements of the National Bank of Serbia.

7.4 Operational Risk

As a result of exposure to operational risks during 2023, the largest number of recorded events in the loss data base relates to lawsuits against the Bank in connection with the collection of a one-time loan processing fee. During 2023, the number of potential losses due to new and withdrawn lawsuits was significantly reduced.

During 2023, the bank continued to assess the operational risks that may arise when introducing new products and from activities entrusted to third parties, as well as assessment of the risk system and internal controls in the bank's key processes.

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7. RISK MANAGEMENT



ADRIATIC BANK

8.1 Human Resources

Retail and SME Department will undergo its most significant transformation from an HR perspective in early 2024. In addition to the branch network and SME Department, it will receive not only logistical support but also experts in product development and alternative sales channels with an active role in the process. Furthermore, branches, as sales centers, will be dedicated exclusively to sales and client servicing, relieved of administrative tasks.

The premise of all personnel changes is the mobilization and further development of available human resources, with additional engagement of experts in cases where necessary.

Automation and digitization of business processes are prioritized to enhance efficiency and cost optimization, emphasizing the importance of selecting and developing versatile employees.

In the given circumstances, the greatest HR challenge during 2023 is undoubtedly the integration of different business cultures i.e. the development of a unified corporate culture at Adriatic Bank AD Belgrade and a sense of belonging to it, whose basic principles can be defined as goal-oriented, flexibility, teamwork and dedication to the Bank, which everyone perceives as their organization

Already initiated connections are supposed to evolve in different directions:

- ▶ **A shift from the current vertical structure towards a flatter organizational one**, should lead to professional growth, increased responsibility, higher engagement levels and better alignment with corporate objectives on an individual level, ultimately resulting in a positive impact on employees' long-term engagement and commitment to the Bank.
- ▶ **Mapping everyone's skills and fostering a conducive learning environment** ensuring a flow of knowledge and its seamless dissemination. HR budget for 2024 allocates funds for both, technical and soft skill' development.

- ▶ **Teamwork** - by executing complex projects and solving complicated problems through collaboration among members from different organizational units. To enhance coordination and create a so-called buffer zone in case of unforeseen events, the position of project manager has been systematized. Their close collaboration with the HR and IT Departments aims to promote cooperation both within individual teams and among different teams whose members are often involved in multiple projects simultaneously, aligning them with their job descriptions. Collaboration has also been established with the HR agency Manpower, although out of 20 external recruitments in the second half of the year, 17 were conducted independently.
- ▶ **Reward Policy** - in 2024, its development is planned to be directly linked with the Performance Evaluation System, whose applicative solution already exists but whose functionality can yield results with intensive training of all participants, whose competence and objectivity condition its success.
- ▶ **Additional benefits** - starting from February 2024, employees will have access to free private health insurance, with the option to add family members at an additional cost. In addition to faster and easier access to better healthcare, the purpose of this benefit is to raise awareness about continuous care for both physical and mental health through regular preventive check-ups.
- ▶ **Organized social gatherings outside working hours** allow employees to get to know each other better on topics unrelated to work, making work itself more interesting and easier, especially in stressful situations. In November 2023, a corporate celebration was organized for all employees, providing them with the opportunity to informally socialize and get to know their new colleagues after a long period.

Taking into account the aforementioned, as well as the fact that human capital, along with technological, represents the backbone of development, during 2024, the Human Resources Department, which has been separated from the Legal Department, will have a dynamic and demanding agenda where the development and implementation of HR analytics, primarily measuring employee productivity through various tools, will be highly prioritized.

8.2 Rebranding of the Bank

Considering the needs of modern banking and providing VIP services, as well as the need to create a contemporary working environment for both its employees and clients, in September 2023, the Bank relocated the majority of its operations to a new, exclusive business-residential complex "Skyline" in Belgrade, at 88 Kneza Miloša street.

This is a business space covering over 1000 m2, designed and adapted on the principle of "open space," which provides users with the most optimal working conditions in line with the requirements and trends in office space furnishing and management.

With the change in ownership structure and business name, the Bank successfully implemented the "rebranding" project. Among other things, the project included branding of the business premises of administrative buildings and all branches, by installing new Bank signage within the interior and exterior.

The new brand and visual identity have already made the Bank recognizable to existing and new clients as a synonym for safe and modern banking and will continue to do so in the future.

In order to improve the quality and reliability of its services for clients, the Bank replaced existing ATMs with new and modern devices at all of its branch locations in Belgrade, Novi Sad, Niš, Čačak, and Šabac.

In order to enhance its market positioning and promotion, during Savings Week in November 2023, the Bank implemented a successful marketing campaign encompassing internet, billboard, and media - TV advertising. The reactions and effects of the campaign were extremely positive, with the general consensus that the campaign was well-received, creative, and effective, undoubtedly contributing significantly to the visibility and attractiveness of the Bank and its services, both within the target audience and overall within the banking sector of Serbia.

8.3 Research and Development

The development of the Bank is based on continuous improvement of product range and the implementation of new technologies. A key element of this process is market research, which serves as the basis for launching new products, along with constant monitoring of the development and application of new technologies in banking processes.

Additionally, the Bank is currently working on developing a new digital channel for mobile and web banking for individuals called "Digital Edge". This channel will allow customers easy access to their accounts and transactions via mobile devices and the internet, enhancing their experience in using banking services.

Furthermore, the Bank plans to implement Google Pay and Apple Pay, enabling customers to use their mobile devices for payments in a fast, secure, and convenient manner. These initiatives are part of a broader strategy of the Bank's digital transformation, aimed at providing modern and convenient solutions to its customers, in line with trends and standards in the banking industry.

8.4 Digitalization

The efficiency, adaptability, and expertise of our IT Department were among the significant factors that contributed to the Bank's business success during 2023. Improvements in the organizational structure strengthened the foundations for progress in digitalization and automation of business processes, while adhering to standards.

Aligned with the overall bank strategy, the IT strategy maintains its focus on digital channels, the development of digital products, as well as the automation of both sales and post-sales processes.

The significant role of the IT Department particularly stood out in late August 2023, during the successful rebranding of the bank, which involved updating key systems and digital resources, including the CORE system, regulatory reports, applications, and the website. As part of the new business vision, a multi-year lease of one of the most modern business spaces – Skyline – was realized, where IT played a crucial role in ensuring a smooth transition and business process continuity.

In the field of information security, continuous improvement is being pursued, with a focus on employee education, data protection, and defense against cyber attacks, forming the basis for the protection of our systems. Investments in new tools, upgrades of existing systems, and specialized training, such as those for managing firewall devices, further contribute to strengthening our information security.

With plans for numerous projects aimed at further digitalization, the IT sector will play a key role in the Bank's transformation. In 2024, our goal is to focus on continuous improvements, more efficient process optimization, and expanded digitalization, all aimed at enhancing the experience and satisfaction of our clients.

8. BANKING SUPPORT

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8.5 Compliance

Maintaining compliance with legal and regulatory requirements is a fundamental obligation and integral part of the Bank's business strategy. This obligation extends through all levels and dimensions of our operations, including the Management and Executive Boards, as well as the leadership, which jointly play a key role in establishing and implementing efficient procedures and systems. The goal is to ensure complete compliance with regulatory frameworks, thereby ensuring the stability and integrity of our business.

The risk of non-compliance, which could adversely affect the Bank's financial results and capital, exists in various segments of our operations, particularly in operational areas. It has been identified as a risk of potential sanctions, financial losses, and damage to the Bank's reputation due to non-compliance with regulatory requirements, professional standards, good business practices, and ethical norms. To address these challenges, we have established a systematic and comprehensive approach to managing this risk, applying the highest level of attention and responsibility.

At the core of our compliance policy lies the principle that all Bank activities are conducted with integrity, transparency, and in accordance with the law. The leadership and governing bodies are dedicated to ensuring that each employee is informed about regulatory requirements relevant to their area of work and acts accordingly. This approach ensures the protection of both the Bank's interests and the interests and assets of our clients.

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The compliance function, organized as a separate department within the Compliance and AML Department, is tailored to the size and specifics of our business. Compliance is ensured through a developed system of internal controls, in line with established policies, programs, and procedures, which clearly define authorities and responsibilities in risk control.

Our compliance function dynamically supports the operational segments of the Bank, continually adjusting its control mechanisms in line with business development and the Bank's strategy, thereby ensuring continuous protection and compliance at all levels

8.6 Environmental Protection

The Bank, as a newcomer to the market, is firmly committed to establishing a new operational process system, implementing environmental protection measures in accordance with the regulations of the Republic of Serbia, and striving for the rational use of natural resources by undertaking additional activities for environmental preservation. In line with this, one of the first steps in 2023 is the relocation of the Bank to a new prestigious business space, the "Skyline AFI Tower," one of the few buildings in Serbia awarded the "Gold LEED Certificate," which is obtained for exceptional contribution to environmental sustainability, confirming our commitment to the highest global standards of green construction.

Preserving nature is crucial for the sustainability of our business and society as a whole, so we apply measures that reduce the negative impact on the environment, promoting efficient resource use and supporting initiatives for sustainable development. In accordance with these values, projects that could endanger the environment in the long term are not in line with the Bank's business policy. Following the established strategy, the Bank directs its efforts towards defining internal acts, initiatives, and projects that will enhance environmental protection and through which we strive for the development of innovative banking products that support various aspects of environmental protection.

Belgrade, March 2024
Signed on behalf of Adriatic Bank A.D. BEOGRAD

Marko Ćorić
Financial Control Manager

Đorđe Lukić
Chairman of the Executive Board

INDEPENDENT AUDITORS' REPORT

To the Shareholders of ADRIATIC BANK a.d. Beograd

Report on the Audit of Financial Statements

Opinion

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

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Adriatic bank a.d. Beograd as at 31 December 2023 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note no. 31 accompanying the financial statements, and we emphasize that on April 13, 2023, a sale of shares of the Bank was executed based on a Share Purchase Agreement outside the regulated market between the previous shareholders and Alexander Shnaider, where Alexander Shnaider became the owner of 100% of the shares and the sole shareholder of the bank. On September 5, 2023, the change of the bank's name from Expo bank AD to Adriatic Bank AD was registered with the Business Registers Agency.

In addition, we draw attention to Note no. 25 to the financial statements, where it is disclosed that within the item Assets acquired by collection of receivables, the Bank shows amount of RSD 344,470 thousand (on date 31. December 2022, amount of RSD 517,998 thousand). From this amount, amount of RSD 143,033 thousand and refers to real estate acquired during 2012 and 2013. The Bank evaluates every year the value of these properties and the service is provided by reference appraisal firm. Without questioning that the real estate in question has its own value, the lack of sales of the same for a long period of time raises the issue whether the sale itself can be realized. During 2023, the decrease of the Assets acquired by collection of receivables relates to the sale of real estate predominantly acquired during 2022.

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Our opinion is not modified with respect to these matters.

INDEPENDENT AUDITORS' REPORT (continued)

To the Shareholders of ADRIATIC BANK a.d. Beograd (continued)

Responsibilities of the Management for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

INDEPENDENT AUDITORS' REPORT (continued)

To the Shareholders of ADRIATIC BANK a.d. Beograd (continued)

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

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

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

Other information included in the Bank's Annual Business Report

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the annual financial statements does not cover other information, except to the extent expressly stated in paragraph "Report on other legal and regulatory requirements", and we do not express any form of assurance conclusion about them.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work conducted, we conclude that there is a material misstatement of other information, we are required to disclose that fact in the Report. In that sense, we have nothing to report in this regard.

Report on Other Legal and Regulatory Requirements

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

In our opinion, the Annual Business Report is:

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

In addition, considering the knowledge and understanding of the Bank and its environment obtained during the audit, we are required to report if we have identified material misstatements in the Annual Report.

Belgrade, 14 March 2024

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Ružica Vukosavljević
 Authorised Auditor

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9. INDEPENDENT AUDITOR'S REPORT



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BELGRADE

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