AIK BANKA A.D., BELGRADE

Financial Statements
Year Ended 31 December 2021 and
Independent Auditors' Report

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS OF AIK BANKA AD BELGRADE

Opinion

We have audited the financial statements of AIK BANKA AD BELGRADE (hereinafter: the "Bank"), which comprise the balance sheet as of 31 December 2021 and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Matters

The financial statements of the Bank as of and for the year ended 31 December 2020 were audited by another auditor who expressed an unqualified opinion on those financial statements on 10 March 2021.

Other Information

Management is responsible for the other information. The other information comprises the Annual Business Report for the year ended 31 December 2021, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS
OF AIK BANKA AD BELGRADE (Continued)

Other Information (Continued)

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

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

- The information provided in the Annual Business Report for the year ended 31 December 2021, is consistent, in all material respects, with the financial statements of the Bank as of and for the year ended 31 December 2021;
- The Annual Business Report for the year ended 31 December 2021 has been prepared in accordance with the provisions of the Law on Accounting; and
- The non-financial report of the Bank, which is an integral part of the Annual Business Report, has been prepared in accordance with the applicable legal provisions.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS OF AIK BANKA AD BELGRADE (Continued)

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

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

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

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

Belgrade, 28 February 2022

Ksenija Ristic Kostic
Certified Auditor

Društvo za reviziju BDO d.o.o. Beograd

BALANCE SHEET
As of 31 December 2021
(In RSD thousand)

	Note	31 December 2021	31 December 2020
ASSETS			
Cash and balances with central bank	21	33,670,738	38,982,000
Derivatives	22	19,721	47
Securities	23	47,663,028	41,247,149
Loans and placements to banks and other financial organizations	24	35,723,908	18,176,446
Loans and placements to customers	25	116,392,087	110,709,208
Investments in subsidiaries	26	11,923,810	11,923,810
Intangible assets	27	475,749	509,550
Property, plant and equipment	28, 29	1,248,435	2,220,821
Investment property	30	5,603,528	8,417,955
Current tax assets	31	1,166,336	419,893
Deferred tax assets	32	327,475	78,693
Non-current assets held for sale and assets from discontinued operations		5,537	5,537
Other assets	33	2,741,749	2,240,518
TOTAL ASSETS		**256,962,101**	**234,931,627**
LIABILITIES AND EQUITY			
Derivatives		-	569
Deposits and other liabilities due to banks, other financial organizations and central bank	34	17,801,067	14,694,177
Deposits and other liabilities due to customers	35	181,670,393	164,440,928
Provisions	36	546,319	674,369
Other liabilities	37	1,890,723	2,015,478
TOTAL LIABILITIES		**201,908,502**	**181,825,521**
EQUITY	38		
Share capital		27,195,730	27,195,730
Retained earnings		13,237,614	10,920,167
Reserves		14,620,255	14,990,209
TOTAL EQUITY		**55,053,599**	**53,106,106**
TOTAL LIABILITIES AND EQUITY		**256,962,101**	**234,931,627**

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

Signed on behalf of AIK Banka A.D., Belgrade by:

Ana Medojević
Head of Accounting and Reporting

AKCIONARSKO DRUŠTVO AGROINDUSTRIJSKO KOMERCIJALNA BANKA "AIK BANKA" BEOGRAD 3-1

Jelena Galić
Executive Board Chairperson

Milan Mirkov
Executive Board Member

INCOME STATEMENT
For the Year Ended 31 December
(In RSD thousand)

	Note	2021	2020
Interest income	8	7,742,365	8,179,344
Interest expenses	8	(1,636,589)	(1,687,643)
Net interest income	8	**6,105,776**	**6,491,701**
Fee and commission income	9	2,350,705	1,965,754
Fee and commission expenses	9	(670,208)	(522,035)
Net fee and commission income	9	**1,680,497**	**1,443,719**
Net gains/(losses) from changes in fair value of financial instruments	10	1,705,757	(90,467)
Net gains from derecognition of financial instruments measured at fair value	11	1,417	683,487
Net gain on hedging		-	19
Net foreign exchange (losses)/gains and effects of contracted foreign currency clause	12	(119,901)	123,361
Net gains from reversal of impairment on financial assets not measured at fair value through profit or loss	15	643,390	597,692
Net gains from derecognition of financial instruments measured at amortised cost	13	21,539	17,851
Other operating income	14	486,570	5,175,584
Total operating income, net		**10,525,045**	**14,442,947**
Salaries, compensations and other personal expenses	16	(1,321,584)	(1,343,772)
Depreciation and amortization expenses	17	(475,356)	(443,992)
Other income	18	460,049	404,339
Other expenses	19	(2,661,978)	(2,498,365)
Profit before tax		**6,526,176**	**10,561,157**
Income taxes			
Current income tax expense	20	(765,499)	(737,952)
Deferred tax income/(expenses)	20	183,497	(21,619)
Profit for the year		**5,944,174**	**9,801,586**

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

Signed on behalf of AIK Banka A.D., Belgrade by:

Ana Medojević
Head of Accounting and Reporting

AKCIONARSKO DRUŠTVO INDUSTRIJSKO KOMERCIJALNA BANKA "AIK BANKA" BEOGRAD 3-1

Jelena Galić
Executive Board Chairperson

Milan Mirkov
Executive Board Member

STATEMENT OF OTHER COMPREHENSIVE INCOME
For the Year Ended 31 December 2021
(In RSD thousand)

	Note	2021	2020
Profit for the year		**5,944,174**	**9,801,586**
Other comprehensive income:			
Actuarial gains	36, 38	222	886
(Negative)/positive effects of changes in fair value of instruments measured at fair value through other comprehensive income		(435,501)	109,049
Deferred tax income/(expenses) related to other comprehensive income	32.2.	65,325	(16,490)
Other comprehensive (loss)/income, net of tax		**(369,954)**	**93,445**
Total comprehensive income for the year		**5,574,220**	**9,895,031**

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Signed on behalf of AIK Banka A.D., Belgrade by:

Ana Medojević
Head of Accounting and Reporting

"AIK BANKA" BEOGRAD

Jelena Galić
Executive Board Chairperson

Milan Mirkov
Executive Board Member

STATEMENT OF CHANGES IN EQUITY
In the period from 1 January to 31 December 2021
(In RSD thousand)

	Share capital	Share premium	Reserves from profit and other reserves	Revaluation reserves	Retained earnings	Total
Balance as of 1 January 2020	**19,762,595**	**7,433,135**	**19,832,157**	**942,887**	**9,348,899**	**57,319,673**
Profit for the year	-	-	-	-	9,801,586	9,801,586
Transfer from reserves to retained earnings (Note 38)	-	-	(5,878,280)	-	5,878,280	-
Profit distribution – dividends paid (Note 38)	-	-	-	-	(14,108,598)	(14,108,598)
Other comprehensive income, net of taxes	-	-	-	93,445	-	93,445
Balance as of 31 December 2020	**19,762,595**	**7,433,135**	**13,953,877**	**1,036,332**	**10,920,167**	**53,106,106**
Balance as of 1 January 2021	**19,762,595**	**7,433,135**	**13,953,877**	**1,036,332**	**10,920,167**	**53,106,106**
Profit for the year	-	-	-	-	5,944,174	5,944,174
Profit distribution – dividends paid (Note 38)	-	-	-	-	(3,626,727)	(3,626,727)
Other comprehensive income, net of taxes	-	-	-	(369,954)	-	(369,954)
Balance as of 31 December 2021	**19,762,595**	**7,433,135**	**13,953,877**	**666,378**	**13,237,614**	**55,053,599**

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

Signed on behalf of AIK Banka A.D., Belgrade by:

Ana Medojević
Head of Accounting and Reporting

AGROINDUSTRIJSKO KOMERCIJALNA BANKA AKCIONARSKO DRUŠTVO "AIK BANKA" BEOGRAD 3-1

Jelena Galić
Executive Board Chairperson

Milan Mirkov
Executive Board Member

STATEMENT OF CASH FLOWS
In the period from 1 January to 31 December 2021
(In RSD thousand)

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated in operating activities	**11,197,692**	**14,281,471**
Interest receipts	8,393,746	6,952,673
Fee and commission receipts	2,252,484	1,963,530
Receipts of other operating income	436,425	620,175
Dividend and profit-sharing receipts	115,037	4,745,093
Cash used in operating activities	**(6,075,589)**	**(5,223,082)**
Interest payments	(1,330,736)	(1,411,253)
Fee and commission payments	(683,933)	(522,674)
Payments to, and on behalf of employees	(1,342,772)	(1,333,638)
Taxes, contributions and other duties paid	(196,761)	(193,737)
Payments for other operating expenses	(2,521,387)	(1,761,780)
Net cash inflows from operating activities prior to increases / decreases in loans and deposits and other liabilities	**5,122,103**	**9,058,389**
Decrease in loans and increase in deposits received and other liabilities	**20,299,705**	**28,810,633**
Decrease in loans and placements to banks, other financial institutions, central bank and customers	-	5,329,101
Decrease in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not held for investments	-	7,197,346
Increase in deposits and other liabilities due to banks, other financial institutions, central bank and customers	20,299,705	16,284,186
Increase in loans and decrease in deposits received and other liabilities	**5,232,896**	-
Increase in loans and placements to banks, other financial institutions, central bank and customers	3,452,249	-
Increase in financial assets initially recognized at fair value through profit and loss, financial assets held for trading and other securities not held for investments	1,780,647	-
Cash generated from operating activities before income taxes	**20,188,912**	**37,869,022**
Income taxes paid	(1,511,762)	(1,544,315)
Dividends paid	(3,618,102)	(14,123,908)
Net cash flows from operating activities	***15,059,048***	***22,200,799***
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash generated in investing activities	**23,147,306**	**37,636,989**
Proceeds from investments in investment securities	19,341,570	36,429,486
Proceeds from the sales of intangible assets, property, plant and equipment	1,045,077	228,561
Proceeds from the sales of investment property	2,760,659	978,942
Cash used in investing activities	**(24,096,004)**	**(52,925,449)**
Investments in investment securities	(23,429,867)	(52,477,407)
Investments in subsidiaries, associates and joint ventures	(124,600)	-
Purchases of intangible assets, property, plant and equipment	(247,186)	(339,292)
Purchases of investment property	(8,043)	(5,984)
Other outflows from investing activities	(286,308)	(102,766)
Net cash used in investing activities	***(948,698)***	***(15,288,460)***
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash used in financing activities	**(824,363)**	**(414,245)**
Repayment of borrowings	(622,755)	(218,361)
Other outflows from financing activities	(201,608)	(195,884)
Net cash used in financing activities	***(824,363)***	***(414,245)***
TOTAL CASH INFLOWS	**54,644,703**	**80,729,093**
TOTAL CASH OUTFLOWS	**(41,358,716)**	**(74,230,999)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**13,285,987**	**6,498,094**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**29,568,780**	**23,149,827**
FOREIGN EXCHANGE GAINS	234,527	89,713
FOREIGN EXCHANGE LOSSES	(84,835)	(168,854)
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 21)	**43,004,459**	**29,568,780**

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

Signed on behalf of AIK Banka A.D., Belgrade by:

Ana Medojević
Head of Accounting and Reporting

AGROINDUSTRIJSKO KOMERCIJALNA BANKA AKCIONARSKO DRUŠTVO "AIK BANKA" BEOGRAD 3-1

Jelena Galić
Executive Board Chairperson

Milan Mirkov
Executive Board Member

1. BANK'S ESTABLISHMENT AND ACTIVITY

Agro-industrial Commercial Bank AIK Banka a.d., Belgrade (hereinafter: the "Bank") was established in accordance with the Articles of Association on 10 August 1993. The Bank harmonized its operations and organizational structure with the Law on Banks and Other Financial Organizations in 1995 and was registered with the Commercial Court of Nis as a shareholding company under Decision no. Fi 1291/95 dated 22 June 1995.

At its regular session held on 29 June 2015 the Bank's Shareholder Assembly enacted the Decision on Change of the Registered Seat of the Bank. The change was registered with the Serbian Business Registers Agency under Decision no. BD 57565/2015 dated 2 July 2015. Consequently, Agroindustrijsko komercijalna banka AIK banka a.d., Nis changed its legal name to Agroindustrijsko komercijalna banka AIK Banka a.d., Belgrade.

As of 31 December 2021, the Bank's sole shareholder with 100% shares was the Broker-Dealer Company "M&V Investments" a.d., Belgrade (31 December 2020: M&V Investments a.d., Belgrade with 100% shares). More details on the shareholder structure of the Bank are provided in Note 38.

The Bank is registered in the Republic of Serbia to provide banking services of payment transfers and lending and depositary operations performed domestically and abroad. As stipulated by the Law on Banks, the Bank is obligated to operate based on principles of liquidity, safety and profitability.

At its regular session held on 20 November 2017, the Assembly of AIK Banka a.d., Belgrade made a decision on the merger and acquisition of Jubanka a.d., Belgrade to the Bank. The status change of merger and acquisition of Jubanka a.d., Belgrade was performed as of 22 December 2017 and duly registered with the Serbian Business Registers Agency.

At the session of the Assembly held on 1 November 2021, the Bank determined that it plans to invest and acquire ownership in the subsidiary Sberbank Srbija a.d. Belgrade.

The Bank's is domiciled in Belgrade, at no. 115đ, Mihajla Pupina Street. The Bank operates through its Head Office in Belgrade and 12 branch offices in Belgrade, 4 branches in Nis, 2 branches in Novi Sad and one branch in following cities: Lazarevac, Obrenovac, Pančevo, Požarevac, Smederevo, Šabac, Valjevo, Pirot, Prokuplje, Kruševac, Vrnjačka Banja, Leskovac, Vranje, Jagodina, Paraćin, Zaječar, Bor, Negotin, Kragujevac, Čačak, Gornji Milanovac, Užice, Prijepolje, Novi Pazar, Kraljevo, Ruma, Inđija, Subotica, Kikinda, Vrbas, Zrenjanin, Sombor, which makes the total of 1 Head Office, 50 branches and one cash desk throughout Serbia.

As of 31 December 2021, the Bank had 618 employees (31 December 2020: 585 employees).

The Bank' tax identification number (fiscal code) is 100618836, and its corporate ID is 06876366.

The accompanying financial statements were approved by the Bank's management on 25 February 2022.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of the Financial Statements

The Bank's regular financial statements (the "financial statements") for the year ended 31 December 2021 have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and regulations of the National Bank of Serbia that regulate the financial reporting of banks.

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

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

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

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

These financial statements were prepared at historical cost principle, except for the measurement of the following significant statement of financial position items:

- financial assets available for sale stated at fair value through other comprehensive income;
- financial assets and liabilities at fair value through profit and loss;
- derivative financial instruments stated at fair value, and
- investment property.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Upon estimating the fair value of assets or liabilities, the Bank takes into account characteristics of assets or liabilities that other market participants would also consider upon determining the price of assets or liabilities at the measurement date.

Fair value for measurement and/or disclosure purposes in the accompanying financial statements was determined in the aforesaid manner, except for share-based payment transactions, which are in the scope of IFRS 2, leasing transactions, which are in the scope of IFRS 16, and measurements that have some similarities to fair value but are not fair value, such as the net realizable value in IAS 2 or value in use in IAS 36.

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

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

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

The accounting policies and estimates adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Bank's annual financial statements for the year ended 31 December 2020, except for newly adopted and/or amended IASs, IFRSs and interpretations (IFRIC) presented in Note 2.2.

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

Standards and interpretations issued that came into effect in the current period are disclosed in Note 2.2, while standards and interpretations in issue but not yet in effect are disclosed in Note 2.3.

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

2.2. Amendments to the Existing Standards Effective for the Current Reporting Period

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2021:

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2**

In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. In addition, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods.

- **Amendments to IFRS 16 "Leases" – Covid-19-Related Rent Concessions beyond 30 June 2021 (effective for annual reporting periods beginning on or after 1 April 2021).**

This amendment extends, for one year, the May 2020 amendment - Covid-19-Related Rent Concessions (effective for annual periods beginning on or after 1 June 2020), which provides for an exemption from the assessment whether the lease concession under the influence of the COVID-19 epidemic is a modification of the leasing contract.

The adoption of the aforementioned amendments to existing standards did not result in a significant change in the Bank's accounting policies, nor did it have an effect on the Bank's accompanying financial statements.

2.3. Standards issued but not yet effective and not early adopted

The IASB has issued a significant number of new and amended standards and IFRIC interpretations, which are not effective for the annual reporting period beginning on 1 January 2021 and have not been early adopted by the Bank.

- Amendments to IFRS 3 "Business Combinations" updating a Reference to the Conceptual Framework in IFRS (effective for annual reporting periods beginning on or after 1 January 2022).
- Amendments to IAS 16 "Property, Plant and Equipment" - Proceeds before Intended Use (effective for annual reporting periods beginning on or after 1 January 2022).
- Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" - Onerous Contracts — Cost of Fulfilling a Contract (effective for annual reporting periods beginning on or after 1 January 2022).
- Annual Improvements to IFRSs, 2018–2020 Cycle, make amendments to the following standards: IFRS 1, IFRS 9 IFRS 16 and IAS 41 (effective for annual reporting periods beginning on or after 1 January 2022).
- IFRS 17 "Insurance Contracts" and subsequent amendments to this standard (effective for annual periods beginning on or after 1 January 2023).
- Amendments to IFRS 4 "Insurance Contracts" - Extension of the deadline for temporary exemption from the application of IFRS 9 extending the fixed deadline for temporary exemption from the application of IFRS 9 "Financial Instruments" in IFRS 4 "Insurance Contracts", requiring of an entity to apply IFRS 9 for the annual periods beginning on or after 1 January 2023.

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

2.3. Standards issued but not yet effective and not early adopted (Continued)

- Amendments to IAS 1 “Presentation of Financial Statements” and IFRS Practice Statement 2 - Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 8 - “Definition of Accounting Estimates” (effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities Arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 1 “Presentation of Financial Statements” – Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after 1 January 2024).

The Bank’s management anticipates that the adoption of these standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

2.4. Impact of the COVID-19 pandemic

At the beginning of 2020, an epidemic developed caused by the COVID-19 virus, which was declared an international public health threat by the World Health Organization. The virus has spread globally and affected all economy sectors

Due to COVID-19 pandemic, the Bank has taken all the necessary measures to protect the health and safety of their employees, clients and business partners. All the business activities have been carried out in accordance with the preventive measures against the virus spread and and the state of emergency imposed by the Governments of the Group's member countries. In keeping with those measures, online provision of all the services to the clients has been enabled throughout online channels as well as throughout active branch network thus enabled unhindered usual communication with all the clients.

As from the introduction of the state of emergency, the Government of Serbia have prescribed economic incentive packages, among which the most significant is a temporary standstill in loan repayment for the borrowers (hereinafter: “Moratorium”), a series of tax incentives and guarantee schemes to allow liquidity loans secured by the government guarantees in order to mitigate the pandemic effects and preserve the financial system stability. Furthermore, since the outbreak of the pandemic, the NBS cut the key policy rate on four occasions in total by 1.25% and ended the year 2020 at the lowest level in the inflation-targeting regime of 1%.

The Moratorium on repayment of loan obligations for all debtor categories (opt out), first for a period of up to 90 days and then additional up to 60 days, contributed to the reduction of the negative effect of the crisis. In December 2020, another measure was adopted introducing, a grace period of six months and a corresponding extension of the repayment period, but this time targeting only a narrow group of clients (opt in) from sensitive industries effected by the COVID-19 pandemic.

The Bank has considered the impact of COVID-19 in preparing the financial statements as of 31 December 2021. The impact of COVID-19 resulted in the application of further judgments and the inclusion of estimates and assumptions specific to the pandemic.

Loans and receivables

The Bank offered support measures to clients affected by COVID-19, such as Moratorium as well as the approval of liquidity loans and working capital with a guarantee scheme. Measures of Moratorium were approved in accordance with the decisions of the NBS, first for a period of 90 days, and then for an additional 60 days, with a consequent increase in the maturity of placements. The following table represents acceptance rate in both Moratorium 1 & 2:

	Moratorium 1	Moratorium 2
Corporate	58%	25%
Retail	87%	74%

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

2.4. Impact of the pandemic COVID-19 (Continued)

The effects of the Decision on Interim Measures to Preserve the Stability of the Financial System, which introduced a delay in the repayment of debtors' obligations (Moratoriums I and II), on the present value of the cash flows from the affected financial assets were not recorded in the Bank's financial statements due to the immateriality of such effect and also in accordance with local regulations.

In respect to Expected credit loss the main impact is reflected in restaging of the clients operating in the most affected industries to Stage 2 and PD adjustment due to macroeconomic forecast including COVID 19 impact.

Non-financial assets

The Bank engages certified external appraisals for the valuation of whole real estate portfolio on yearly basis. The effects as of 31 December 2021 have been provided in Notes 28, 30 and 33.

Although estimates have been made based on information considered reasonable and acceptable as of 31 December 2021, they may be subject to change that is not currently foreseeable as a result of the development of the parameters used for the assessment. Furthermore, management of the Bank will continue to monitor the potential effects that may arise in order to be able to take appropriate steps aimed at avoidance of adverse impact on the Bank's operations.

2.5. Going Concern

From the current point of view, COVID-19 has produced no significant effects on the Bank's operations. In addition, at the date of these financial statements the Bank continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation.

Main triggers corresponding the going concern basis of the Bank's financial statements are:

- **Liquidity** – The Bank monitors liquidity position on the daily basis. COVID 19 pandemic or moratorium did not have negative impact on the Bank's liquidity position. Liquidity ratios were significantly above regulatory limits throughout the whole 2021. Furthermore, the Bank has all liquidity ratios above the regulatory prescribed ones as disclosed within the Note 4.2.
- **Capital** – The Bank has a very strong capital position and accordingly high capital adequacy ratio as disclosed in Note 4.9.
- **Reserves and Profit** – The Bank's capital represents 21.42% of total assets of the Bank whereas the reserves and profit represent 10.84% of total assets.

Considering the foregoing, the Bank's financial statements have been prepared on a going concern basis, which entails that the Bank will continue to operate for an indefinite period in the foreseeable future.

2.6. Comparative Information

Comparative information comprises the data from the Bank's audited financial statements for the year ended 31 December 2020.

2.7. Use of Estimates

Preparation of the financial statements in accordance with IFRS requires the Bank's management to make the best possible estimates and reasonable assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, as well as income and expenses arising during the accounting period. Actual amounts of assets and liabilities may vary from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis, and changes in estimates are recognised in the periods in which they become known.

Areas that require a higher degree of judgment or complexity, or areas where assumptions and estimates are material to the financial statements are disclosed in Note 5.

2.8. Statement of Compliance

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements represent the regular financial statements of the Bank.

The Bank has control over the Gorenjska banka d.d. Kranj with 100% ownership, as presented in Note 26.

The Bank does not prepare consolidated financial statements in accordance with Article 32 of Law on Accounting since the obligor of consolidated financial statements in Serbia is M&V Investments a.d., Belgrade.

3.1. Interest Income and Expenses

Interest income and interest expenses are recorded in the income statement on an accrual basis and in accordance with the obligations stipulated by contracts between the Bank and the client. They are recognized in the income statement in the period to which they relate and are calculated using the effective interest method for all interest-bearing financial instruments measured at amortized cost and fair value through profit or loss.

Interest income on financial assets at fair value through other comprehensive income under IFRS 9 is also recorded using the effective interest method.

Starting from 2020, in the case of financial assets that become impaired after initial recognition, interest income is calculated using the effective interest rate to the amortized (net) value of a financial asset. If the asset ceases to be impaired, the basis for calculating interest income again becomes the gross carrying value of the financial asset. In addition, the Bank did not apply this change of accounting policy retrospectively due to immateriality of the effect.

In the case of financial assets purchased or originally impaired at initial recognition ("POCI"), interest income is calculated using the effective interest rate adjusted for credit risk to the amortized (net) value of a financial asset and never at the gross carrying value of the financial asset.

The effective interest rate is the rate that precisely discounts estimated future payments or receipts over the expected life of the financial instrument or over a shorter period, where appropriate, to the net carrying value of the financial asset or financial liability. In calculation of the effective interest rate, the Bank estimates cash flows taking into account all the contractually agreed terms of the financial instrument but does not consider future credit losses.

Effective interest rate includes all fees and amounts paid or received between the counterparties that form an integral part of the effective interest rate, transaction costs and other premiums or discounts. The effective interest rate calculation includes the following types of the Bank's fees, which by their nature are an integral part of the effective rate: loan application processing fees, fees for processing authorized account overdraft applications, fees for investment project assessment and evaluation, fees for obligatory loan extension, when it is probable that a financial asset will be issued, fees for loan term modification.

Fees that are an integral part of the effective interest rate are deferred and amortized as interest income over the loan term using the effective interest rate.

Interest income and expenses presented within the Bank’s income statement include: interest on financial assets and liabilities measured at AC calculated using the effective interest method, interest on securities at FVOCI calculated using the effective interest method, and interest on coupon securities held for trading.

3.2. Fee and Commission Income and Expenses

Fees and commission primarily comprise considerations for banking services of payment transfers in the country and abroad, services per payment cards, issuance of guarantees and letters of credit and other banking services.

Fee and commission income and expenses are recognized on an accrual basis, when such services are rendered.

Fees for issuance of guarantees and letters of credit are deferred and recognized as income proportionately to the outstanding loan maturities, or guarantee and letter of credit validity terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at the official middle exchange rates determined at the Interbank Foreign Exchange Market and effective at each transaction date.

Assets and liabilities denominated in foreign currencies, including those in RSD but with a currency clause index, are translated into dinars by applying the official middle exchange rates, as determined at the Interbank Foreign Exchange Market and prevailing at the reporting date (Note 43).

Net foreign exchange positive or negative effects arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the income statement as foreign exchange gains or losses (Note 12).

3.4. Dividend Income

Dividend income is recognized when the Bank’s entitlement to dividend receipt is established. Dividend income is presented within the item of other operating income.

3.5. Net Gains / (Losses) on Changes in the Fair Value of Financial Instrument

Net gains / (losses) on changes in the fair values of the financial instruments comprise the net effects of changes in the fair values of derivatives (other than derivatives designated as risk hedging instruments) as well as of changes in the fair values of financial instruments measured at FVTPL.

3.6. Net Gains / (Losses) on Derecognition of Financial Instruments

Net gains / (losses) on derecognition of financial instruments and investments comprise the net effect of derecognition of financial instruments in line with IFRS 9.

3.7. Net Gains on Risk Hedges

Net gains on risk hedges include net gains on the value adjustment of financial derivatives designated as risk hedging instruments as well as on the fair value adjustment of loans, receivables and securities as hedged items, these adjustments arising from the risk against which the item is hedged.

3.8. Tax Expenses

Tax expenses comprise current taxes and deferred taxes. Current taxes and deferred taxes are recognized in the income statement except to the extent that they relate to items recognized directly within equity or in other comprehensive income.

Current Income Taxes

Current income tax is an amount payable calculated applying the legally prescribed tax rate of 15% (2020: 15%) to the amount of profit before taxes, as adjusted for permanent differences that adjust the statutory tax rate to the effective tax rate. The ultimate amount of the income tax payable is determined by applying the legally prescribed tax rate to the taxable income (base) determined within the tax statement and reported in the annual corporate income tax return.

The Corporate Income Tax Law of the Republic of Serbia does not envisage that any tax losses of the current period be used to recover taxes paid within a specific carryback period. However, current period tax losses stated in tax return may be used to reduce or eliminate taxes to be paid in future periods but only for duration of no longer than five ensuing years.

Taking into account the Amendments and Supplements to the Corporate Income Tax Law issued in December 2018, the Bank has elected to recognize within expenses in its annual tax statements one fifth of the effect resulting from the adjustment of the balance sheet items made under the amended accounting policy due to the first-time adoption of IFRS 9 over the period of the ensuing five years, starting from 2018 (up to and inclusive of 2022).

The Corporate Income Tax Law was amended at the end of 2019, with most of the provisions applicable to the determination, calculation and payment of taxes starting in 2020. Exceptionally, the provisions relating to the recognition of expenditures arising from the write-off of claims on housing loans indexed in the CHF apply to the determination, calculation and payment of tax liability starting in 2019.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8. Tax Expenses (Continued)

Current Income Taxes (Continued)

Namely, in accordance with Article 22a paragraph 6 of the Law, the amount of expenditures determined in the income statement of the bank on the basis of the reduction of debt borne by the bank in the amount determined in accordance with the law governing the conversion of housing loans indexed in CHF is recognized.

Deferred Income Tax

Deferred tax liabilities are recognized as at the reporting date for all taxable temporary differences between the carrying values of assets used for financial reporting purposes and their tax bases. The currently enacted tax rates or the substantively enacted rates at the balance sheet date are used to determine the deferred income tax amount.

Deferred tax assets are recognized for all deductible temporary differences, and the tax effects of income tax losses and credits are available for carryforward, to the extent that it is probable that taxable profit will be available, against which the deductible temporary differences and the tax loss/credits of the carryforwards can be utilized.

Carrying values of deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that sufficient taxable income will be realized against which the total deferred assets or a portion thereof can be utilized. Unrecognized deferred tax assets are reviewed at each reporting date and recognized to the extent that it has become probable that a sufficient level of expected future taxable income will be realized against which deferred tax assets can be utilized.

Current and deferred tax assets and liabilities are offset when levied by the same tax authority on the same taxable entity, when related to the same tax authority and if there is a legally enforceable right to offset tax liabilities against tax assets.

Current and deferred income taxes are either charged or credited to the income statement and included in the profit for the capital and allocated within equity in the current or another period.

Indirect Taxes and Contributions

Indirect taxes and contributions include property taxes, municipal fees and charges and other taxes and contributions payable pursuant to effective republic and local tax regulations. These taxes and contributions are sated within other expenses.

3.9. Financial Assets and Liabilities

Recognition

The Bank initially recognizes financial assets and liabilities as at the settlement date.

A financial asset or liability is measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue, except for financial assets and liabilities measured at fair value through profit or loss (FVTPL), whose initial measurement does not include such costs.

Classification

In accordance with IFRS 9 classification and measurement of financial assets depend on the following two main criteria:

(a) business model based on which the Bank manages a financial asset; and
(b) characteristics of the contractual cash flows of financial assets (the so-called SPPI criterion).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Financial Assets and Liabilities (Continued)

The business model reflects the manner in which the Bank manages its financial assets in order to collect the cash flows therefrom, i.e., the business model determines whether the cash flows will result from collection of cash flows, sales of assets or both. The Bank performed detailed analysis and defined the following business models:

(a) hold to collect cash flows;
(b) hold to collect cash flows and to sell; and
(c) other business models (e.g. hold for sales).

In instances of business models “hold to collect” or “hold to collect and sell” it is assessed whether the cash flows represent solely payments of principal and interest (the so-called SPPI test“).

In accordance with the basic loan arrangement, interest includes the time value of money, the accepted level of counterparty credit risk and other basic lending risks and adequate profit margin. If the contractual terms include risk exposures that are not in line with the basic loan arrangement, such a financial asset is classified and measured at fair value through profit or loss irrespective of the business model to which it belongs.

Based on the performed analysis of the business models and characteristics of the contractual cash flows, in line with IFRS 9 the Bank classifies its financial assets in one of the following three categories:

1) financial assets at amortized cost (AC);
2) financial assets at fair value through other comprehensive income (FVOCI); and
3) financial assets at fair value through profit or loss (FVTPL).

The Bank measures its financial liabilities at amortized cost.

Reclassification

If a change occurs to the model underlying a financial asset management, the financial assets is reclassified. Reclassification is made prospectively, i.e., as of the first day of the following reporting period.

Upon reclassification of a financial asset from the category of measurement as amortized cost t (AC) t the category of measurement at fair value through profit or loss (FVTPL), the asset's fair value is measured at the reclassification date, while any gain or loss on the difference between the previously amortized cost the fair value is recognized in the profit or loss.

In case of a contrary reclassification, from an asset measured at FVTPL to the category of assets measured at AC, the asset's fair value as of the reclassification date will become its gross carrying value.

Upon reclassification of a financial asset from the category of measurement as amortized cost into the category of measurement at fair value through other comprehensive income (FVOCI), the asset's fair value is measured at the reclassification date, while any gain or loss on the difference between the previously amortized cost the fair value is recognized in the other comprehensive income.

In case of a contrary reclassification, from an asset measured at FVOCI to the category of assets measured at AC, the financial asset will be reclassified at its fair value. However, the accumulated gains or losses previously recognized within the other comprehensive income will cease to be recognized within equity and the value of the financial asset will be adjusted by the amount thereof as of the reclassification date. As a result, the financial asset is measured as of the reclassification date as if it had always been measured at amortized cost.

Upon reclassification of a financial asset from the category of measurement at FVTPL t the category of assets measured at FVOCI, the financial asset will continue to be measured at fair value.

In case of a contrary reclassification, from an asset measured at FVOCI to the category of assets measured at FVTPL, the financial asset will continue to be measured at fair value. The accumulated gains or losses previously recognized within the other comprehensive income will be reclassified from equity to the profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Financial Assets and Liabilities (Continued)

Modification and Derecognition of Financial Assets

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

In such situations, the Bank makes quantitative and qualitative analyses and assesses whether there is a significant difference between the contractual cash flows of the original financial asset and the contractual cash flows of the modified or replacement asset. If there is a significant difference, the contractual rights pertaining to the original financial asset will be considered as expired and the new asset, issued under new terms, is to be recognized.

Accordingly, the reclassification date will be treated as the date of the initial recognition date of such a financial asset upon implementation of the impairment requirements to the modified asset.

In the event of a significant modification of a financial instrument, IFRS 9 stipulates derecognition of the original financial asset and recognition of the new one at fair value at the recognition date.

Derecognition results in a permanent gain or loss, which must be recognized within the profit or loss statement, in the amount of the difference between the amortized cost of the original financial asset and the fair value of the new financial asset net of expected credit losses recognized as impairment allowance of the new financial asset.

Purchased or Originated Credit Impaired Assets (POCI)

A financial asset is credit impaired when one or more events have occurred with adverse effects on the estimated contractual cash flows of the financial asset.

At the moment of initial recognition such financial assets will have no impairment but the lifetime expected credit losses need to be included in the calculation of their effective interest rate. Therefore, the Bank includes the initial expected credit losses into the estimate of the future cash flows upon calculation of the credit-adjusted effective interest rate of the financial assets impaired at initial recognition.

Upon initial recognition, expected credit losses (ECL) for POCI assets are always measured as lifetime ECL. However, at the reporting date, the Bank recognizes only cumulative changes in lifetime ECL since the initial recognition as the provision for losses on POCI assets. In other words, at each reporting date, in the income statement the Bank recognizes changes in lifetime ECL as gains or losses on impairment.

Derecognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risk and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualifies for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the balance sheet. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that was previously recognized in other comprehensive income is recognized in profit or loss.

The Bank enters in transactions whereby it transfers assets recognized on its balance sheet, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Financial Assets and Liabilities (Continued)

Offsetting

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Bank has a legal right to offset the recognized amounts and it intends either to settle a liability on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as those in the Bank's trading activity.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

In case of inactive financial market, the Bank determines fair value using the valuation methodology. Valuation methodologies include transactions on market conditions between the willing, willing parties (if available), reference to the existing fair value of other instruments that are substantially the same, discounted cash flow analysis, and other alternative methods.

The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument of based on other available observable market data.

Assets and long positions are measured at bid prices and liabilities and short positions are measured at ask prices. When the Bank has a risk offsetting position, median market prices are used for measuring offsetting or risk-weighted assets, while adjustment to bid or ask prices is applied only to the net open positions. Here the fair value reflects the credit risk of the instrument and includes adjustments reflecting the credit risk of the Bank and the counterparty, where relevant. Fair value assessments based on the valuation models are adjusted for all other factors, such as liquidity risk or uncertainty models, to the extent that the Bank believes that third party market participants may take them into consideration upon determining transaction cost.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is recognized in profit or loss. Otherwise, the difference is not recognized in profit or loss immediately but over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Impairment of the Financial Assets

In accordance with IFRS 9, upon impairment of the financial instruments existence of objective evidence of impairment is not necessary for recognition of credit losses. Expected credit losses are also recognized for unimpaired financial assets, i.e. the Bank calculates provisions for credit losses for credit exposures except for those already measured at fair value through profit or loss (FVTPL) (including both performing and non-performing financial assets).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Financial Assets and Liabilities (Continued)

Impairment of the Financial Assets (Continued)

Expected credit losses are recalculated at each reporting date in order to reflect changes occurred in the credit risk since the initial recognition of the financial instrument. Such an approach results in sooner identification of credit losses.

Upon calculating expected credit losses, the Bank uses forward-looking information and macroeconomic inputs, i.e., the Bank considers not only historical information adjusted so as to reflect the effects of the present conditions and information providing objective evidence of the financial assets being impaired for actual losses incurred, but reasonable and supportable information as well, which includes projections of the future economic conditions upon calculation of expected credit losses, both at individual and at collective levels. The amount of provisions for credit losses will increase with deterioration of the projected economic conditions and decrease with their improvement.

The Bank’s basic principles and rules upon calculation of provisions under IFRS 9 are as follows:

The Bank calculates 12-month expected credit loss or a lifetime expected credit loss of a financial instrument depending on the significance of the change in its credit risk occurred since the instrument’s initial recognition. For these purposes, the Bank uses the following three stages of impairment:

- Stage 1 includes all new financial assets at initial recognition and instruments without significant credit quality deterioration since their initial recognition;
- Stage 2 includes financial instruments with significant credit quality deterioration since their initial recognition yet with no objective evidence of impairment based on credit losses;
- Stage 3 includes financial instruments where objective evidence of impairment exists at the reporting date.

Stages 1 and 2 include only performing financial assets. Stage 3 includes only non-performing financial assets.

In accordance with the foregoing, the Bank calculates an impairment allowance (provision) for a particular instrument in the amount of lifetime expected credit losses if the credit risk of the instrument has increased significantly since its initial recognition or if there is objective evidence of impairment identified (a financial asset classified into Stage 2 or Stage 3, respectively). Impairment allowance is calculated up to the amount of 12-month expected credit losses for all financial instruments with no significant credit risk increase since the initial recognition (financial assets classified into Stage 1).

For impairment allowance calculation purposes, the 12-month expected credit losses are part of the life-time expected credit losses identified and represent cash shortages over the life of an instrument that will occur in the event of default within 12 months from the reporting date or a shorter period, if the expected lifetime of an instrument is shorter than 12 months.

Financial assets are transferred from Stage 1 to Stage 2 when the credit risk has increased significantly since the instruments’ initial recognition. The transfer logic is based on quantitative and qualitative criteria and must be applied to all the financial instruments. Deterioration of the instrument's initial classification is the key parameter underlying the quantitative criterion of the transfer logic. The additional two qualitative criteria applied after the said quantitative parameter are:

- Forbearance status classification results in automatic classification to Stage 2
- 30 days past due – if a transaction reaches 30 days past due, it should be classified as Stage 2.

In the impairment process, the Bank applies a special treatment to the purchases of already impaired assets from the so-called NPL portfolios and to the approval of new loans to the borrowers with already impaired loans within its portfolio, i.e. those already in NPL status. In accordance with the Standard, such assets are defined as POCI (purchased and originated impaired credit assets) and are separately measured through cumulative changes in lifetime expected credit losses of the instruments after their initial recognition. Positive changes in the lifetime expected credit losses of the instrument are recognized as gains on the impairment of instruments if the expected credit loss in lower than the amount of expected credit losses included in the estimated cash flows upon initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.9. Financial Assets and Liabilities (Continued)

Write-Off and Transfer of Receivables from the On-Balance Sheet to the Off-Balance Sheet Items

The Bank (In accordance with the Procedure on the Write-Off and Transfer of Receivables from the On-Balance Sheet to the Off-Balance Sheet Items) writes off certain loans and receivables and securities that have been determined as irrecoverable.

As noted in Note 2.4, in response to the pandemic crisis, the Bank identified the riskiest industries, i.e. the industries it deemed to be most affected by the pandemic, and transferred clients from such industries to Stage 2. In addition, the Bank adjusted the PD (*Probability of default*) for macroeconomic expectations that include the impact of COVID-19.

3.10. Cash and Balances Held with the Central Bank

Cash and balances held with the central bank comprise cash on hand, the Bank's gyro account balance, other cash funds and the obligatory foreign currency reserve held with the central bank. Cash and balances held with the central bank are stated at amortized cost in the Bank's statement of financial position.

Within the statement of cash flows cash and cash equivalents also encompass balances on accounts held with foreign banks, whereas the obligatory foreign currency reserves held with the central bank are not included therein.

3.11. Financial Assets Measured at Amortized Cost

This category includes financial assets meeting the two below listed criteria, if they are not designated upon initial recognition as financial assets measured at FVTPL:

- the objective of the business model in which the assets are held is achieved by collecting the contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

After initial recognitions, such assets are measured at amortized cost using the effective interest rate, net of expected credit losses.

Interest income from these instruments is calculated using the effective interest and presented in the income statement. Impairment losses on financial instruments measured at AC are recognized within the income statement under losses on impairment of financial assets.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. They arise when the Bank provides money or services directly to a customer with no intention of trading the receivable. Loans and receivables comprise loans and receivables to banks and customers.

Loans and receivables are initially measured at fair value. Upon initial recognition, based on the analysis of the business model and characteristics of the contractual cash flows, loans and receivables are measured at amortized cost (AC), fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVTPL).

Following the initial recognition and measurement, loans and receivables due from banks and customers are measured at amortized cost and are stated at the amounts outstanding, taking into account all the discounts and premiums granted upon acquisition, net of the impairment allowances.

Income and receivables per interest calculated on such instruments are recorded within interest income and interest receivables. Fees that are part of the effective interest on these instruments are deferred and recognized within the profit or loss statements under interest income over the life of the instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.11. Financial Assets Measured at Amortized Cost (Continued)

Loans and Receivables (Continued)

Approved RSD loans hedged using a contractual currency clause linked to the RSD/EUR exchange rate, to another foreign currency or consumer price index are converted into dinars at the reporting date in accordance with the terms of the particular loan agreement. The effects of the currency conversion are reported foreign exchange gains and positive currency clause effects, i.e. income and expenses of contracted hedge items.

In accordance with its internally adopted methodology, at each reporting date, the Bank assesses whether there has been a significant increase in credit risk of all of its financial assets and calculated impairment allowance in the amount of lifetime expected credit losses for the financial assets whose credit risk has increased significantly since their initial recognition or if there is objective evidence of their impairment, and, on the other end, in the amount of 12-month expected losses for all those financial assets where the credit risk has not increased significantly since their initial recognition.

For the purposes of the Bank's calculation of impairment allowance, 12-month ECL represent a portion of the lifetime ECL and are in fact losses that will arise if the asset (loan) defaults (if the default status occurs) within 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months), weighted by the probability of default (PD).

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the borrower’s credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement under the item of “Net gains/losses on impairment of financial assets not measured at FVTPL”.

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

Following their initial recognition, these financial assets are measured at fair value. The fair value of the assets is determined in line with the Bank's internally adopted fair value assessment methodology. Gains or losses on the changes in their fair value of these assets, except for impairment losses and foreign exchange gains/losses, until derecognition. Upon derecognition, the accumulated gains or losses previously recognized within the other comprehensive income are reclassified to the profit or loss.

Interest accrued on such assets is recognized under the effective interest method within interest income in the income statement.

The calculated impairment losses (ECL) on these assets are recognized within the other comprehensive income and they do not reduce the carrying value of the financial assets (as is the case with financial assets measured at AC), in other words, the impairment allowance does not affect the carrying value of these assets.

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

Financial assets measured at FVTPL are all those financial assets that are not measured at AC or FVOCI. In line with IFRS 9, such assets are measured at fair value, with the effect of changes in their fair value recorded within profit or loss (income statement).

A financial asset classified into this category is a financial asset held for trading, i.e., an asset acquired primarily for sale or repurchase in the near future, with the aim to earn a profit from short-term price fluctuations and/or dealer’s margin.

Financial instruments (including shares held for trading) in the Bank's trading book are initially recognized at their purchase price. Transaction costs are not included in their value but represent expenses for the period of acquisition. The financial assets held for trading are remeasured- adjusted to the fair value on a daily basis. Gains and/or losses on the sale of such assets are recognized within income or expenses for the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Derivative Instruments

Financial derivatives comprise forward and swap transactions. Financial derivatives are initially recognized at cost and are subsequently measured at market value. Market values are obtained using different valuation techniques, including discounted cash flows.

Financial derivatives are accounted for under assets if their market value is positive and under liabilities if their market value is negative.

Unless designated as hedging instruments, derivatives are treated as held for trading and measured at FVTPL under IFRS 9. Fluctuations in market value of financial derivatives are reported in the income statement within Net gains or losses on the changes in the fair value of financial instruments.

3.14. Equity Instruments

All investments in equity instruments are measured at FVTPL under IFRS 9, with the changes in their fair values recognized in the profit or loss (income) statement, except for those equity investments for which the Bank has elected to recognize fair value changes within OCI.

Dividend income on the equity instruments for which the Bank has elected to recognize fair value changes within OCI, is recognized within the profit or loss (income) statement. Upon derecognition, gains or losses accumulated within OCI are not reclassified to PL. In accordance with IFRS 9, such financial instruments are not tested for impairment.

Moreover, under IFRS 9, if an equity instrument is not held for trading, the Bank may make an irrevocable election, upon initial recognition, to measure such an instrument at FVOCI, with only dividend income recognized within the profit or loss (income) statement. Such instruments are not subject to impairment assessment in accordance with IFRS 9.

3.15. Property and Equipment

Recognition and Measurement

Items of property and equipment are initially measured at cost or purchase price.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of such equipment.

Following the initial recognition, property and equipment are measured at cost less accumulated depreciation and aggregate impairment losses.

Gains or losses arising on disposal of property and equipment are calculated as the difference between the sales proceeds and the carrying values of the assets and are presented within other income/expenses.

Subsequent Expenditures

Costs incurred in replacement of a critical part of equipment are capitalized and recognized as an increase of the carrying value of the fixed asset if it is probable that future economic benefits from the said part will flow to the Bank and if its cost can be measured reliably. The carrying value of the replaced part is derecognized.

The regular equipment maintenance and servicing costs are recognized within expenses as incurred.

Depreciation

Depreciation of property and equipment is calculated on a straight-line basis at the following annual rates in order to write off the cost of assets over their estimated useful lives.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.15. Property and Equipment (Continued)

Depreciation (Continued)

The following depreciation rates were used in the current and previous accounting periods:

Buildings	1.30%
Computer equipment	20.00%
Furniture and other equipment	11.00% - 20.00%
Motor vehicles	15.50%

Calculation of depreciation of property and equipment commences in the month following the month when an asset is placed into use. Depreciation calculation is discontinued for disposed of assets as from the month following the month of asset disposal.

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

3.16. Right-of-use Assets

As of 1 January 2019, the Bank begins applying IFRS 16 Leasing using a modified retrospective approach (the so-called cumulative catch-up approach) in accordance with IFRS 16: C5 (b) and IFRS 16: C8 (b) (ii). Therefore, the Bank did not adjust the comparative information but recognized the right to use the asset in an amount equal to the amount of the lease liability at the date of initial application. The accounting policies for the recognition and measurement of leases applied to the current and prior periods are set out below.

(i) Bank as a Lessee

In accordance with IFRS 16, a lease is defined as a contract or part of a contract that transfers the right to use the property for a specified period of time in exchange for a fee. A qualifying asset is recognized if the following conditions are cumulatively fulfilled:

- if the leased asset can be identified explicitly or implicitly;
- when all material economic benefits from the use of the asset can be realized during the leasing period and
- if the use of the asset can be managed, that is, deciding how and for what purposes the asset will be used throughout the leasing period.

The Bank does not apply IFRS 16 requirements on low value assets, short-term leases (up to one year) and intangible assets. These leases are recognized as an expense on a proportional basis in the income statement (Note 19).

When an analysis of a contract determines that the contract is a lease, the asset with the right to use is recognized in the assets and the liability for the leasing in the liabilities of the balance sheet. An asset with a right of use is initially measured at cost, consisting of:

- the initial amount of the lease liability adjusted for all lease payments incurred on or before the lease begins,
- increased by any initial direct costs incurred and the estimated cost of dismantling and removing the asset or restoring the asset or location to its original condition, and
- reduced for received leasing allowances.

After the initial recognition, the right-of-use asset is measured at cost reduced for impairment loss and adjusted for remeasuring leasing liabilities.

Right-of-use assets are amortized on a straight-line basis. Depreciation starts from the first day of the next month in relation to the month in which the asset is available for use.

The lease liability is initially measured at the present net worth of all future lease payments (excluding value added tax), discounted at the interest rate implicit in the lease, and in the absence thereof, at the incremental borrowing rate. The incremental borrowing rate is determined based on the cost of financing a liability of similar duration and similar security to that provided for in the leasing contract.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.16. Right-of-use Assets (Continued)

(i) Bank as a Lessee (Continued)

Future leasing payments that are included in the value of the lease liability after discounting include:

- fixed payments less any lease incentives received,
- variable leasing payments, that is, index- or rate-dependent payments,
- payments under the residual value guarantee clause of the leased item,
- the purchase price of the redemption option, if there is reasonable possibility for redemption,
- penalties for termination of the contract, if there is reasonable possibility for termination.

After initial recognition, the lease liability is reduced by the lease liability payments made, increased by the imputed interest and adjusted based on:

- changes in future lease payments resulting from a change in the rate or index used to determine the initial lease liability,
- changes in the valuation of the use of the option to purchase the property,
- changes in the amount expected to be paid under the residual value guarantee,
- changes in the leasing period.

Adjusting the value of the lease liability also requires adjusting the asset to its right of use. On a lease basis, the Bank recognizes depreciation expense and interest expense in the income statement.

(ii) Bank as a Lessor

When the Bank appears as a leasing provider, it is assessed whether it is a financial lease or an operating lease. If the Bank estimates that the contract transfers all the risks and benefits arising from the ownership, the lease is classified as financial. Otherwise, it is operating leasing. IFRS 16 does not make any material changes to the accounting treatment of leases with a lessor compared to IAS 17.

3.17. Intangible Assets

Intangible assets are comprised of software, licenses and other intangible assets. Intangible assets acquired by the Bank are stated at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization of intangible assets is calculated on a straight-line basis in order to write off the assets over their estimated useful lives of five years. For intangible assets with contractually defined period of usage amortization rates are determined based on such contractually defined terms.

Amortization methods, useful lives and residual values are reassessed at each financial year-end and adjusted as appropriate.

3.18. Investment Property

Investment property is property (land or a building, part of building or both) held by the owner (or lessee) either to earn rental income or for capital appreciation or for both (IAS 40 “Investment Property”).

Upon acquisition, investment property is measured at cost or purchase price. Upon initial measurement, all acquisition related costs are included in the cost or purchase price of investment property.

For subsequent measurement of investment property, the Bank uses the fair value model. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Gains or losses arising from the fair value adjustment of investment property are recognized as income or expenses in the period when realized/incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.19. Impairment of Non-financial Assets

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

If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of an asset's fair value less costs to sell and value in use. Impairment losses, representing a difference between the carrying amount and the recoverable amount of property, plant and equipment and intangible assets, are recognised in the income statement as required by IAS 36 "Impairment of Assets".

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

3.20. Investments in Subsidiaries

Subsidiaries are subordinate entities under the Bank's control, i.e., those where the Bank is exposed, or has rights, to variable returns from its involvement with the investees and has the ability to affect those returns through its power over the investees.

Investments in the Bank's subsidiaries are recorded in these financial statements at cost in accordance with IAS 27. The historical cost method requires that the investments in subsidiaries be recorded at cost (the amount of investment) and periodically (once a year) tested for impairment in line with IAS 36.

If an equity investment is impaired, i.e., if it is determined upon subsequent measurement that its recoverable amount is lower than its cost (or the carrying value), the cost (the carrying value) of the investment is reduced for the impairment allowance to the recoverable amount. Impairment allowance of equity interests held in subsidiaries are recorded within expenses in the current period's income statement.

Income from equity investments is recognized only if a subsidiary has enacted a relevant decision on profit distribution.

Consolidation of the financial statements is carried out using the full consolidation method, which, inter alia, involves the "line-by-line" summation of the same/corresponding items of assets, liabilities, income and expenses with elimination of all the intragroup balances, transactions, income and expenses.

3.21. Inventories

Inventories include tangible assets acquired in lieu of debt collection.

Tangible assets acquired in lieu of debt collection represent properties initially assigned under mortgage liens in favour of the Bank as collaterals securitizing loan repayment, which the Bank foreclosed in lieu of debt collection.

Such properties are measured at the lower of the carrying values of the respective loans collected from their foreclosure and market prices determined by certified appraisers.

3.22. Managed Funds

The funds that the Bank manages on behalf of and for the account of third parties for a fee are disclosed within off-balance sheet items (Note 39). The Bank bears no risk in respect of repayment of these placements.

3.23. Deposits and Borrowings

Deposits are stated in the amount of deposited funds, which may be increased by interest accrued, depending on the contractual terms agreed between depositors and the Bank.

Deposits and borrowings are initially measured at fair value increased for all directly attributable transaction costs, while they are subsequently measured at amortized cost using the effective interest rate method.

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.24. Provisions, Contingent Liabilities and Contingent Assets

Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Contingent Liabilities and Contingent Assets

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

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

3.25. Financial Guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are reported under off-balance sheet items.

3.26. Employee Benefits

In accordance with the regulations effective in the Republic of Serbia, the Bank is obligated to pay contributions to various state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in the amounts computed by applying the specific, legally prescribed rates, which are withheld from the gross salaries. The Bank also calculates and pays social security contributions charged to the employer.

In accordance with the Labour Law, the Bank is obliged to pay retirement benefits, and in accordance with its acts, it also pays jubilee awards for 10, 20, 30 and 40 years of employment with the Bank.

Long-term liabilities for retirement benefit provisions and jubilee awards in accordance with IAS 19 represent the present value of the expected future payments to employees as determined by actuarial assessment using assumptions disclosed in Note 36.

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

3.27. Equity

The Bank's equity consists of founders' capital, subsequent issue shares, share premium, reserves, fair value reserves, and retained earnings for the current and prior years. The Bank's equity was formed from monetary contributions invested by the Bank's founders. A founder cannot withdraw funds invested in the Bank's equity.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

3.28. Segment Reporting

The Bank monitors and discloses operations per operating segment – business line (Note 7). Most of the Bank's operations ae performed in the territory of the Republic of Serbia.

3.29. Related Party Disclosures

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

Relations between the Bank and its related parties are regulated at contractual basis. Outstanding balances of receivables and liabilities at the reporting date, as well as transactions occurred during the reporting periods with related parties are disclosed separately in notes to the financial statements (Note 40).

4. RISK MANAGEMENT

A risk is the possibility of negative effects on the Bank's capital and financial result as a consequence of transactions performed by the Bank and the macroeconomic environment it operates in. The Bank's long-term goal in risk management is to minimize negative effects on the Bank's financial result and capital due to its risk exposure.

Risks are an integral part of banking operations and it is impossible to eliminate them completely. It is important however to manage risks in such a manner that they are reduced to the levels acceptable for all stakeholders: capital owner i.e. shareholders, creditors, depositors and regulators.

The risk management process implies continued risk identification, measurement, i.e. assessment, undertaking risk mitigation measures, risk monitoring and control, i.e. establishing the risk exposure limit system, as well as reporting on risks in line with the Bank's internal acts and the decisions of the regulators. An adequate risk management system is one of the key elements in ensuring the stability of the Bank's operations.

Risk monitoring and control are primarily based on establishing the procedures and limit system. The established limits reflect the Bank's business strategy and market environment, as well as the risk level that the Bank is willing to accept. The Bank permanently monitors and measures the capacity of the acceptable risk exposure level, taking into account the total exposure to all types of risks and activities.

The Bank continuously monitors all changes in law and bylaw regulations and international standards, analyses the effect on the risk level and undertakes measures for the timely harmonization of its operations with the current regulations.

Risk management system

The Bank has established a comprehensive and reliable risk management system defined by:

- Risk management strategy,
- Capital management strategy and plan,
- Risk management policy,
- Individual risks' management procedures,
- Methodologies by which the Bank defines in detail the methods and approaches used in the individual risk management system and
- Other internal acts of the Bank.

The risk management strategy defines the risk management principles for the purpose of ensuring an adequate assessment of all the risks the Bank is exposed or may be exposed to in its operations, and the adequate capital necessary for supporting the realization of the Bank's strategic goals, in line with the Bank's Business Policy and Strategy.

4. RISK MANAGEMENT (Continued)

Risk management system (Continued)

The risk management strategy defines:

- All the risks that the Bank is or may be exposed to in its operations;
- The long-term goals in risk management, as established by the Bank's Business Policy and Strategy, as well as risk inclination and tolerance determined in line with those goals;
- Basic principles of risk assumption and management;
- Basic principles of the internal capital adequacy assessment process;
- Obligation of regular reporting to the Bank's bodies and the National Bank of Serbia about risk management;
- The criteria for determining the Bank's non-performing loans the basic principles of managing such assets, as well as the highest acceptable level of non-performing loans.

In the Risk Management Policy, the Bank determines the basic principles of risk management, and in particular defines the organization of the risk management process, the basis for the Bank's risk profile assessment, i.e. risk identification and measurement, measures for individual risk mitigation and monitoring, the internal risk management control system, the establishment of the individual risk limit system, as well as actions in the event of exceeding the defined limits, the manner and methodology for implementing the internal capital adequacy assessment process, establishes the framework and frequency of the stress testing of individual types of risks. In addition, Risk Management Policy determines the obligation of regular reporting to the Bank's bodies and the National Bank of Serbia regarding risk management.

In the risk management procedures, the Bank further defines the process or risk identification, measurement, i.e. assessment, as well as the procedure for risk mitigation, monitoring and control, reporting about the risks the Bank is exposed to, as well as the competencies and responsibilities of the Bank's organizational parts in the risk management system.

Moreover, in a separate procedure, the Bank defines activities, rules for the employees' actions, authorities and responsibilities in relation to:

- management of placements in arrears from the corporate, public and financial sectors with days past due under 90 days; and
- non-performing placements of the Bank to corporate customers related to restructuring of their placements, i.e. to all non-performing customers (corporate and retail) related to enforced collection.

Through individual methodologies, the Bank prescribes in detail the methods and approaches applied for measuring exposure to individual risks.

Competencies

The Bank has established a comprehensive and reliable risk management system that is fully integrated into all the Bank's business activities and that ensures that the Bank's risk profile is in line with the Bank's defined risk appetite.

For the purpose of adequate risk management, the Bank has formed an adequate organizational structure that corresponds to the scope, type and complexity of the operations it performs and with the aim of preventing conflicts of interest risk-taking function (front office) Is separated from the risk management function (middle office) and supporting activities (back office). This organizational structure enables the achievement of the determined goals and principles of risk management in practice.

The risk management process includes the following participants:

The Bank's Assembly – adopts the Bank's Business Policy and Strategy that define the Bank's business goals for a minimum period of three years, adopts the Bank's financial statement and decides on the use and distribution of the realized profit i.e. covering losses. In addition, the Assembly decides on increasing capital i.e. capital investments in other entities in the financial sector or other corporate customers, as well as about the amount of investments in fixed assets and investment property.

The Bank's Board of Directors is competent and responsible for establishing a unique risk management system and control over that system, adopting the Risk Management Strategy and Policy, the Capital Management Strategy and Plan, and the Methodology for Internal Capital Requirements Assessment, establishing the internal control system, adopting the Liquidity Contingency Plan and the Bank Recovery Plan, as well as other activities stipulated by the Law on Banks. Moreover, the Board of Directors controls the work of the Executive Board.

4. RISK MANAGEMENT (Continued)

Competencies (Continued)

The Executive Board is competent and responsible for implementing the Bank's Business Policy and Strategy according to the three-year strategic plan, the Risk Management Strategy and Policy, the Capital Management Strategy and Plan, the Internal Control System Policy, the adoption and analysis of the efficiency of individual risk management procedures that further define the process of risk identification, measurement (assessment), mitigating, monitoring and control, as well as reporting on the risks that the Bank is exposed to. The Bank's Executive Board regularly reports to the Board of Directors about the efficiency of the adopted Policy and risk management procedures.

The Monitoring Committee is competent and responsible for adopting the proposed Bank's Strategy and Policy in relation to risk management and implementing the internal control system submitted to the Board of Directors for consideration and adoption. Moreover, this Committee is in charge of analysing and controlling the application and adequate implementation of the adopted internal acts: The Risk Management Strategy and Policy and the Internal Control System Policy. At least once a month, the Board of Directors reports on its activities and established irregularities, and proposes ways to eliminate them.

The Asset and Liability Committee monitors the Bank's risk exposure arising from the structure of its balance sheet liabilities, receivables and off-balance sheet items and proposes measures for managing market risks, interest rate risk and liquidity risk.

The Risk Committee is responsible for monitoring the Bank's exposure to credit risk, liquidity risk, interest rate risk, market risks, operational risk, country risk, concentration, investment risk and other risks, and it proposes measures for managing those risks to the Bank's Executive Board. The Risk Committee meets as prescribed by the Rules of Procedure.

The Client Monitoring Committee is responsible for monitoring the placement quality at the level of individual clients and observing the increased credit risk, i.e. for monitoring the receivables from clients in arrears and clients with a probability of increased credit risk. The role of this Committee is to consider potentially non-performing clients and placements, as well as to undertake certain activities in order to improve the status of these placements/clients. The Committee is also in charge of monitoring the status of previously proposed measures and decisions at the Committee's sessions. The Client Monitoring Committee meets at least once a month and more frequently if necessary.

The Bank's credit committees decide on loan requirements/placements within the frameworks determined in the Bank's acts, and analyse the Bank's exposure to credit, interest rate and market risks. The Bank's Board of Directors makes the Decision on forming credit committees and appointing the members of the following credit committees:

- Credit Committee for Corporate and Finance Sector clients;
- Credit Committee for Retail and SME clients.

The credit risk management divisions (the Corporate, Public and Finance Sector Credit Risk Management Division and the Retail and SME Sector Credit Risk Management Division) identify, measure i.e. assess and manage the credit risk of performing clients in the corporate segment, the public and financial sector, i.e. the segment of retail and small and medium enterprises.

The Monitoring Division monitors, analyses, controls and reports on receivables from potentially problematic clients that are managed by the sales departments in the segments or corporate, public sector, financial institutions, retail and small clients, and it also monitors, controls and reports on the contracted collaterals, the importance of appraisal reports and insurance policies for mortgaged real estate, the validity of data related to the contracted collaterals entered in the Collateral Management System, the status of the contracted subsequent conditions with the Bank's credit clients etc.

The Risk Controlling Sector proposes the risk management strategy, policy, procedures and methodologies for adoption. This Sector is responsible for implementing and maintaining risk-related methodologies and procedures from the aspect of ensuring the independent risk control process. This Sector also ensures the complete inclusion of risks in the measurement and reporting system of the risks that the Bank is exposed to in its operations. The Risk Controlling Sector comprises two divisions:

- Credit Risk Controlling
- Market, Liquidity and Operational Risk Controlling.

4. RISK MANAGEMENT (Continued)

Competencies (Continued)

The Workout Sector – in order to implement the strategy for addressing NPLs, which is an integral part of the Bank's risk management strategy, the Bank set up this Sector within its organization as a separate organizational unit for NPL management so that it is functionally and organizationally separated from the organizational units whose scope of activity includes risk-taking. The main function of the Sector is to manage the collection of non-performing customers – corporate and retail, entrepreneurs and registered agricultural estates, and to manage the early collection of natural persons' placements in arrears.

The Accounting and Reporting Sector is in charge of maintaining books of accounts, the preparation and issue of financial statements and reporting to the National Bank of Serbia and other external users.

The Planning and Controlling Sector provides appropriate support for all participants in the process of planning available internal capital, as well as in preparing the Bank's Financial Plan, which is taken as the basis for planning available internal capital.

The Treasury Sector is responsible for managing assets and liquidity, as well as the Bank's assets and liabilities. Moreover, it participates in the liquidity risk management, interest rate and foreign currency position of the Bank. The operations of this Sector are organized through the work of two units: Trading, Sales and Financial Institutions Relations and Asset/Liability and Liquidity Management.

The Operations Sector, which, through its operations, performs a support function, through the management of the Bank's operations in the areas of business support, payment operations, credit and deposit administration.

The Internal Audit Sector is responsible for the continued monitoring of the implementation of risk management policies and procedures, as well as for the regular assessment of the adequacy, reliability and effectiveness of the internal control system and the compliance function of the Bank.

The Compliance Sector is obligated to identify and monitor compliance risks in the Bank's operations, as well as to manage those risks that particularly relate to the risk of money laundering and terrorist financing, the risk of sanctions by the regulator, the risk of financial losses and reputation risk. The basic function of this Sector is the implementation of an ongoing, adequate and efficient control of the Bank's compliance in a manner that enables indicating the existing and potential compliance risks and management of such risks in order to achieve the highest standards in the Bank's operations.

In its regular course of business, the Bank is particularly exposed to the following risks: credit risk and risks associated with the credit risk, liquidity risk, interest rate risk, market risks, operational risk, exposure risk i.e. concentration risk, investment risk and country risk.

4.1. Credit Risk

Credit risk is the risk of negative effects on the Bank's financial result and capital arising from borrowers' inability to settle matured liabilities to the Bank.

In its internal Credit Policy, loan approval procedures and methodologies, the Bank has defined criteria for loan approval, the alteration of terms of use and the settlement of loans approved, the rescheduling and restructuring of receivables etc. The Credit Policy defines general terms of business with the Bank's clients and basics of crediting the corporate, public sector, retail and SME customer segments and risk management for all the mentioned segments.

The loan approval process depends on the borrower type, loan type, loan characteristics and purpose and the collateral obtained, etc. In order to implement the policy of optimum credit risk exposure, the Bank assesses the creditworthiness, i.e. the financial situation of each borrower upon loan application submission and subsequently, when the same borrower applies for another loan or as part of regular and continuous borrower performance monitoring.

Assessment of the borrower's financial situation and creditworthiness, historical regularity in liability settlement and the assessment of the value of offered collateral on an individual level, i.e. for each individual loan, is performed within the Bank's organizational unit where the application for loan approval has been submitted, while the ultimate credit risk assessment per loan requested is conducted by the Corporate, Public and Finance Sector Credit Risk Management Division or the Retail and SME Sector Credit Risk Management Division, depending on the segment the borrower belongs to.

4. RISK MANAGEMENT (CONTINUED)

4.1. Credit Risk (Continued)

A loan proposal is made based on the assessment of the information from the borrower's financial statements, information on debt from data obtained from the borrowers themselves and from the Credit Bureau, information on account liquidity, information on the business relations of the borrower with the customers and suppliers provided by the borrower along with other supporting documents, information from the borrower's business plan, etc. In such an assessment, the Bank complies with the requirements of the regulations of the National Bank of Serbia, as well as with its internal procedures in order to assess potential risks that may arise from the inability of the borrowers to discharge their liabilities due to the Bank.

In order to mitigate credit risk, the Bank demands certain collaterals upon loan approval. The amount and type of the required collateral depend on the assessed credit risk for each borrower individually. Terms for securitizing loan repayment are defined based on analyses of the borrower's creditworthiness, the type and extent of credit risk exposure, loan maturity and amount.

The Bank manages credit risk at an individual loan level, individual borrower level, as well as at the Bank's entire loan portfolio level.

Credit risk monitoring at an individual borrower level is based on obtaining updated information on the borrower's financial situation and creditworthiness and the value of the collateral, while credit risk monitoring at the portfolio level is performed through the analysis of the change within a group of borrowers with a similar risk level and characteristics in order to determine and manage the balances and quality of assets.

Credit risk monitoring at an individual receivable level, i.e., the level of the individual borrower/group of related entities is performed within the Corporate and Public Sector, the Retail and SME Sector, Credit Risk Management Corporate, Public and Finance sector, Credit Risk Management Retail and SME, Workout and the Monitoring Sector.

Credit risk monitoring on the loan portfolio level is performed by the Monitoring Sector, as well as within the Credit Risk Controlling Sector.

At the credit portfolio level, the Risk Controlling Division/the Credit Risk Controlling assesses/calculates the impairment of on-balance sheet assets and probable loss on off-balance sheet items at least quarterly, i.e. recognizes and measures expected credit losses in accordance with the International Accounting Standards and the International Financial Reporting Standards (IFRS 9). The Bank also classifies its on- and off-balance sheet assets on a quarterly basis in accordance with the National Bank of Serbia Decision on the classification of on-balance sheet assets and off-balance sheet items.

In addition to loans, the Bank issues guarantees and letters of credit to its customers and has potential liabilities in this respect to make payments to third parties. In this way, the Bank is exposed to risks associated with the credit risk, which may be overcome or mitigated by the deployment of the control procedures and processes used for credit risk.

Credit Risk Measurement and Assessment

Credit risk is assessed and measured by applying quantitative and qualitative criteria based on which debtors and their placements are classified into appropriate risk categories, in accordance with:

- the Bank's methodology for the classification of balance sheet assets and off-balance sheet items,
- methodologies for identifying and measuring the credit risk arising from the impact of changes in the dinar exchange rate on the financial position of the borrower; and
- the Bank's methodology for assessing the impairment of on-balance sheet assets and the probable loss on off-balance sheet items in accordance with the IFRS 9.

According to the internally defined methodology for the classification of on balance sheet assets and off-balance sheet items regulated by the Decision of the National Bank of Serbia on the classification of balance sheet assets and off-balance sheet items, the Bank performs a credit risk assessment based on the following basic criteria:

- the timeliness, i.e. delay in the performance of obligations to the bank (current and in the last year);
- estimates of the financial position, i.e. creditworthiness of the debtor; and
- quality of collaterals.

Based on the above criteria, debtors' claims are classified into one of the following categories: A, B, C, D or E.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Placements and Receivables Impairment Assessment

The Bank assesses on-balance and off-balance sheet receivables for impairment in accordance with its accounting policy and the Methodology for Assessing Impairment of Balance Sheet Assets and Probable Losses per Off-Balance Sheet Items under IFRS 9 (hereinafter: “Impairment Methodology”). In accordance with the requirements of the IFRS 9, the Bank has defined criteria for the staging of its on-balance sheet assets and off-balance sheet items (Stages 1, 2 and 3) depending on the level of credit risk increase since the initial recognition, as well as the criteria for transfers of assets/receivables from one stage to another.

Off-balance exposures are included in the EAD calculation with the application of credit conversion factors (CCF) defined in the Decision on capital adequacy issued by National Bank of Serbia.

At least once in three months, for all its financial instruments, the Bank must:

- assess the asset quality and determine whether there is objective evidence of impairment, and
- assess whether there has been a significant increase in the credit risk since the initial recognition and calculate the amount of impairment per expected credit losses (ECL).

In the course of 2021, in the process of impairment calculation, the Bank applied internal ratings for client classification by credit risk level. The internal rating model defines the level of the individual client’s credit quality and, accordingly, the appropriate level of probable non-performance of obligations. The Bank uses the rating scale that includes 10 rating categories, 9 representing non-default status of obligor, while one category marks default status.

The expert rating model has been developed for clients with specific characteristics for which the Bank was unable to develop an adequate statistical PD model, primarily due to the lack of a statistically relevant total number of clients and/or an insignificant number of defaults among these clients. The bank has applied expert ratings for the following portfolios: local self-government, public enterprises, financial institutions, newly-established enterprises and project financing. For other segments, the Bank has developed a statistical PD model consisting of financial and behavioural components. Both components are calculated through the statistical modelling procedure.

EAD-Exposure at default includes balance sheet and off-balance sheet exposure

Off-balance exposures are included in the EAD calculation with the application of credit conversion factors (CCF) defined in the Decision on capital adequacy issued by National Bank of Serbia.

PD – Probability of Default

For the purpose of calculating impairment, the probability of default occurrence (PD) is assessed using transition matrices that show debtors’ transitions from different performing ratings to default in the period between two dates. The starting point is migration matrices calculated by the Bank in terms of annual client migrations by ratings to the default category (per number) for each month in the past 5 years from the calculation date. In order to calculate PD, the through the cycle (ttc) matrix is multiplied by the number of the remaining years until loan maturity.

Based on the model and the parameters, the Bank adjusts the PD curves for the periods for which there are adequate projections of macroeconomic indicators. The Bank determines the adjustment factor for the twelve-month marginal PD, based on which the marginal PD curve will be adjusted and the number of months after which the marginal PD curve is equivalent to the non-adjusted curve.

Effect of macroeconomic trends – Forward-looking PD

When developing the model for determining independent macroeconomic variables, the Bank used statistical models and linear regressions. By analysing assumptions, variables were established with a significant effect on the default rate trends. In this way, the Bank has developed a model with nominal GDP with transformed default rate for the retail segment according to Box-Cox transformations and a VECM model with producer prices, unemployment rate and exchange rate as macroeconomic variables that define long-term trend of default rates, with short-term adjustments with the first and second arrears of the default rate for the corporate segment.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Placements and Receivables Impairment Assessment (Continued)

The Bank includes the forward-looking component through the adjustment of the PD parameters in order to show PD trends depending on macroeconomic indicators trends. For this purpose, the Bank defines the values of the macroeconomic indicators so that for each of them, there are three scenarios: basic, optimistic and pessimistic. Due to COVID-19 pandemic, for the purposes of the PD adjustment the Bank has increased share of pessimistic scenario to 30% (from 20%), whereas the share of basic scenario is decreased to 60% (from 70%).

For the retail model, the Bank uses the following weighted rates:

	2021
Independent variable	**Weighted values/rates**
Nominal GDP	540,810*

* In million RSD per month

These values were obtained using the following values of independent variables and corresponding weights:

2021		
Basic scenario	**Optimistic scenario**	**Pessimistic scenario**
60%	10%	30%
546,272	573,586	518,959

For the corporate model, the Bank uses the following weighted rates:

	2021
Independent variable	**Weighted rates**
Exchange rate	119
Unemployment	11%
Producer prices	16%

These values were obtained using the following values of independent variables and corresponding weights:

2021		
Basic scenario	**Optimistic**	**Pessimistic scenario**
60%	10%	30%
117.57	111.34	124.05
10.50%	8.95%	12.64%
16.7%	3.64%	18.37%

In 2020, the Bank uses the following weighted values/rates for the retail model:

	2020
Independent variable	**Weighted values/rates**
Nominal GDP	438.725*
Inflation rate	1.75%

** In million RSD per month*

These values were obtained using the following values of independent variables and corresponding weights:

2020		
Basic scenario	**Optimistic**	**Pessimistic scenario**
60%	10%	30%
444,136	450,900	423,846
1.70%	1.30%	2.00%

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Placements and Receivables Impairment Assessment (Continued)

For the corporate model, the Bank uses the following weighted rates:

	2020
Independent variable	**Weighted rate**
Referential interest rate	1.38%
Producer prices	-1.84%

These values were obtained using the following values of independent variables and corresponding weights:

2020		
Basic scenario	**Optimistic scenario**	**Pessimistic scenario**
60%	10%	30%
1.25%	1.00%	1.75%
-1.54%	0.68%	-3.30%

LGD – Loss given default

The LGD parameter represents a loss estimation on individual financial instrument level, under the assumption of default, i.e. non-performance status. When estimating credit losses, the Bank wants to reflect the possibility of the collection of cash flows from both the regular cash flows and from collaterals and other security instruments that are directly connected to the financial instrument.

The Bank generally applies the separate calculation concept for the LGD: for the secured portion of the receivables ("LGD secured") and for the unsecured portion of the receivables ("LGD unsecured"), depending on the degree of collateralization of an individual loan for impairment calculation for receivables in Stages 1 and 2. The LGD unsecured for project financing and collateral-based financing is equivalent to 100%.

Objective Evidence of Impairment and Significant Increase in Credit Risk

Upon assessing the expected credit losses for the purpose of impairment allowance calculation, the Bank assesses all its individual financial instruments (at the loan facility level) to determine whether there has been a significant increase in credit risk or default, and performs the following staging accordingly:

- Stage 1 includes all the new financial assets at the moment of initial recognition and assets with no significant deterioration of credit quality since initial recognition at the reporting date;
- Stage 2 includes financial assets with a significant increase in credit risk since initial recognition, but without objective evidence of impairment based on the credit losses; and
- Stage 3 includes financial assets with objective evidence of impairment at the reporting date.

Default, i.e., a default status (failure to settle liabilities), is defined as a material delay in liability settlement of at least 90 days at the individual financial instrument level. Default may also be identified before the 90 days past due if other quantitative and/or qualitative criteria are identified that indicate that there is objective evidence of the impairment of a financial asset. For such purposes, the Bank defined a list of indicators to consider in order to be able to identify the default status.

If the Bank's client is in days past due for less than 90 days, default is assigned to the loan portion if the Bank finds that the debtor's ability to repay the debt has deteriorated and that the debt repayment in its full amount has been questioned. The above-mentioned assessment is performed based on the following criteria:

- if the client's financial position indicates that there is no repayment capacity for the due performance of liabilities, within the days past due up to 90 days, or that the debt repayment in its full amount has been endangered.
- if other creditors have initiated an enforcement procedure over the client's property, significant for the client's business,
- if the client has filed a Reorganization plan prepared in advance to the competent court, and
- if a bankruptcy procedure has been initiated against the client.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Objective Evidence of Impairment and Significant Increase in Credit Risk (Continued)

A non-performing receivable is one based on which the debtor is in arrears for more than 90 days or based on the payment of interest or principal, according to which interest on the debt in the three-month amount (or higher) is capitalized, refinanced or delayed, and based on which the debtor is in arrears for less than 90 days, but the Bank has assessed that the debtor's ability to repay the debt has deteriorated and that the debt repayment in its full amount has been questioned. Other receivables are categorized as performing.

Identification of a Significant Increase in Credit Risk

Stage 2 includes receivables with a significant increase in credit risk in comparison to initial recognition. Criteria of a significant increase in credit risk are:

- over 30 days past due in a materially significant amount,
- substantially deteriorated borrower's internal rating,
- a receivable is restructured due to financial difficulties (forborne status),
- a significant increase in credit risk determined within the monitoring process,
- deterioration of the external rating of an agency that leads to a transition from an investment rating (Aaa-Baa3) to a non-investment rating (Ba-C) when it comes to claims on banks and/or states.

As a consequence of COVID-19 pandemic the Bank took into account the industry in which client operates, as a criterion for a significant increase in credit risk. Taking into account aforementioned the Bank, reclassified the exposures from the clients operating in the most affected industries by pandemic to Stage 2.

According to its Methodology for Impairment Assessment, the Bank calculates impairment allowance in the amount of lifetime expected credit losses (ECL) if the credit risk of a particular financial instrument has significantly increased since the instrument's initial recognition or there is objective evidence of impairment identified (financial assets in Stage 2 and Stage 3), or in the amount of the 12-month ECL for all financial instruments whose credit risk has not significantly increased since initial recognition (financial assets in Stage 1).

Impairment Calculation – Stage 1

For impairment allowance calculation purposes, the 12-month expected credit losses are part of the lifetime expected credit losses identified and represent cash shortages over the life of an instrument that will occur in the event of default within 12 months from the reporting date, weighted by the probability of such default.

Impairment Calculation – Stage 2

Expected losses here represent probability-weighted estimates of credit losses that will arise over the expected life of a financial instrument.

Impairment Calculation – Stage 3

For the impairment allowance calculation, all the exposures in Stage 3 entail:

- all exposures with the identified non-performance status – default status; and
- all financial instruments meeting the definition of POCI assets under IFRS 9.

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

For the purposes of calculating the impairment of purchased or approved financial assets, the Bank will identify objective evidence of impairment at initial recognition, i.e. financial assets that are in the status of POCI to perform the calculation in a way that takes into account the objective circumstances of the possible collection thereof at the time of calculation. Objective circumstances must be based on all facts relevant to the collection of these receivables. This includes possible collection scenarios that take into account the potential source of collection and the deadline within which collection can be expected.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

1) Individual Impairment Assessment

When calculating impairment, the Bank views part of the clients on an individual basis. Individually significant exposure – exposure exceeding 18,000,000 RSD at the corporate client level, or 6,000,000 RSD at the retail client level.

Since, under the relevant standard, expected credit losses (ECL) represent probability-weighted estimates of credit losses, the Bank considers multiple possible collection scenarios upon estimating expected future cash flows: collateral foreclosure, collection from regular cash flows, loan restructuring and rescheduling, bankruptcy of the borrower, sale of receivables, settlement and everything else that is deemed relevant.

Upon the definition of those scenarios, the Bank's starting point is the collection strategy defined by the Workout Sector, the Credit Risk Management Corporate, Public and Finance sector, and the Credit Risk Management Retail and SME in collaboration with the competent Bank’s sales sectors/departments based on, inter alia, conclusions and measures determined by the Client Monitoring Committee.

In defining the probability (percentage) of certain scenarios, the Bank relies on the historical realization and collection of NPLs, as well as individual exposure specificities and all other available information and data that may be relevant in estimating the probability of a certain collection strategy realization.

2) Collective Impairment Assessment

All other exposures are subject to the collective impairment assessment, which entails grouping the remaining financial instruments in Stage 3 per the following sub-segments:

1. corporate customers
2. retail customers – individuals
3. financial institutions
4. exposures to governments and government agencies and institutions

Within each of the above-listed sub-segments, the Bank further classifies borrowers into rating groups from R1 to R10, according to the Bank’s internal rating model. Clients with the rating R10 are clients with a default status.

The approach to the segment of exposures to the states and financial organizations

Since the Bank does not possess an adequate history of migrations and defaults for exposures to governments and government agencies and institutions, upon the assessment of the impairment allowance and default risk of the financial instruments of governments and those of governmental agencies and financial institutions, it relies on the data of an external credit rating agency (Moody’s).

For banks without a rating assigned by Moody’s, the Bank uses as input the ratings of the countries of their domicile.

Impairment Allowance Calculation and Provisioning per Country

The Bank calculates an additional impairment allowance per country risk for customers with significant exposures coming from countries with such credit ratings that automatically classify the customers into credit quality rating 4 or worse (the exposure level defined by the Impairment Assessment Methodology). For such customers, the Bank increases the calculated PD for the PD of their country of origin.

Impairment Calculation for Placements Secured by High Value Collateral

The Bank will apply an impairment rate of 0.5% for placements from the corporate segment and retail segment in the area of housing loans, for placements secured by high value collateral in cases when the receivables in question do not receive impairment. This principle applies to all parties from the above-mentioned segments except those that are considered individually. The amount of exposure to which the said percentage applies consists of the sum of the balance sheet exposure and the off-balance sheet exposure multiplied by the conversion factor.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Provisions for Off-balance Sheet Items

The calculation of provisions for off balance sheet items is performed in the same manner as for balance sheet items, expect for the application of credit conversion factors (CCF). The Bank is using CCF as defined by the Decision on capital adequacy.

Maximum Credit Risk Exposure

The table below represents the maximum credit risk exposure without collaterals or other credit enhancements. The exposure is based on the carrying amounts from the balance sheet statement.

In case of financial instruments measured at fair value (market value), the amounts presented relate to the current credit risk exposure, but not the maximum credit risk exposure that may arise in the future as a result of fair value adjustments.

Breakdown of the Bank's Assets

In RSD thousand
31 December 2021

	Gross exposure	Impairment Allowance	Net exposure
I Balance sheet items	**237,522,191**	**(3,830,866)**	**233,691,325**
Cash and balances with central bank	33,675,473	(4,735)	33,670,738
Derivatives	19,721	-	19,721
Securities	47,788,347	(125,319)	47,663,028
Loans and placements to banks and other financial organizations	35,745,861	(21,953)	35,723,908
Loans and placements to customers	119,973,199	(3,581,112)	116,392,087
Other assets	319,590	(97,747)	221,843
II Off-balance sheet items	**26,614,410**	**(147,366)**	**26,467,044**
Guarantees issued, unsecured letters of credit and acceptances	25,684,626	(147,366)	25,537,260
Irrevocable commitments - per framework loans	929,784	-	929,784
Total	**264,136,601**	**(3,978,232)**	**260,158,369**

In RSD thousand
31 December 2020

	Gross exposure	Impairment Allowance	Net exposure
I Balance sheet items	**213,759,050**	**(4,482,143)**	**209,276,907**
Cash and balances with central bank	38,986,824	(4,824)	38,982,000
Derivatives	47	-	47
Securities	41,432,045	(184,896)	41,247,149
Loans and placements to banks and other financial organizations	18,343,544	(167,098)	18,176,446
Loans and placements to customers	114,740,572	(4,031,364)	110,709,208
Other assets	256,018	(93,961)	162,057
II Off-balance sheet items	**21,660,523**	**(43,421)**	**21,617,102**
Guarantees issued, unsecured letters of credit and acceptances	20,486,719	(40,813)	20,445,906
Irrevocable commitments - per framework loans	1,173,804	(2,608)	1,171,196
Total	**235,419,573**	**(4,525,564)**	**230,894,009**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Portfolio Quality

The table below summarizes the portfolio quality based on the Bank's internal rating as of 31 December 2021 and 2020:

In RSD thousand
31 December 2021

	Placements to clients			Placements to banks			BS assets exposed to credit risk	Off-balance sheet items exposed to credit risk			
Rating	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	Total
R1	28,261,904	52,068	2,044	1,558,013	-	-	29,874,029	17,429,131	100	-	17,429,231
R2	8,236,698	2,933,574	-	-	-	-	11,170,272	1,288,919	-	100	1,289,019
R3	13,779,635	97,221	1	146	-	-	13,877,003	5,920,889	-	1,543	5,922,432
R4	8,668,087	1,610,588	2	-	-	-	10,278,677	419,008	66,408	-	485,416
R5	8,627,511	1,786,601	2,278	38	-	-	10,416,428	445,443	31,073	100	476,616
R6	23,473,688	992,638	4,994	-	-	-	24,471,320	238,601	40,129	500	279,230
R7	12,429,803	1,497,573	-	-	-	-	13,927,376	560,809	57,836	-	618,645
R8	933,092	503,463	-	463,784	-	-	1,900,339	2,206	6,553	600	9,359
R9	36,631	879,784	43	-	-	-	916,458	31,604	14,614	-	46,218
R10	-	-	5,083,329	-	-	-	5,083,329	-	-	3,284	3,284
Other, not covered with models	23,684	-	1,086	-	-	-	24,770	-	-	-	-
Aaa-Aa3	55,179	-	-	2,563,188	-	-	2,618,367	-	-	-	-
A1-A3	-	-	-	17,744,160	-	-	17,744,160	284	-	-	284
Baa1-Baa3	-	-	-	6,742,567	-	-	6,742,567	-	-	-	-
Ba1-Ba3	-	-	-	6,390,515	-	23,667	6,414,182	-	-	-	-
B1-B3	-	-	-	259,783	-	-	259,783	54,676	-	-	54,676
Caa1 and worse	-	-	-	-	-	-	-	-	-	-	-
Total	**104,525,912**	**10,353,510**	**5,093,777**	**35,722,194**	**-**	**23,667**	**155,719,060**	**26,391,570**	**216,713**	**6,127**	**26,614,410**

In RSD thousand
31 December 2020

	Placements to clients			Placements to banks			BS assets exposed to credit risk	Off-balance sheet items exposed to credit risk			
Rating	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	Total
R1	22,203,356	70,786	-	1,201,470	-	-	23,475,612	17,324,603	-	-	17,324,603
R2	10,861,575	79,915	271	-	-	-	10,941,761	693,681	-	-	693,681
R3	9,471,022	54,678	62	745	-	-	9,526,507	949,102	24	625	949,751
R4	6,072,569	1,471,891	292	-	-	-	7,544,752	777,128	107,430	-	884,558
R5	11,929,428	3,765,473	-	-	-	-	15,694,901	944,386	40,089	100	984,575
R6	10,389,411	1,222,404	1,842	-	-	-	11,613,657	42,207	50,349	-	92,556
R7	20,767,807	1,888,250	962	-	-	-	22,657,019	466,862	59,210	-	526,072
R8	5,462,888	3,699,449	3,877	464,257	-	-	9,630,471	159,547	16,064	600	176,211
R9	31,660	1,294,930	17,252	-	-	-	1,343,842	1,625	17,362	-	18,987
R10	-	-	3,977,816	-	-	-	3,977,816	-	-	1,886	1,886
Other, not covered with models	1	-	705	1,754,563	231	51,656	1,807,156	-	-	-	-
Aaa-Aa3	-	-	-	2,005,140	-	-	2,005,140	-	-	-	-
A1-A3	-	-	-	7,668,352	-	-	7,668,352	-	-	-	-
Baa1-Baa3	-	-	-	4,951,846	-	-	4,951,846	-	-	-	-
B1-B3	-	-	-	110,944	-	-	110,944	7,643	-	-	7,643
Caa1 and worse	-	-	-	-	-	134,340	134,340	-	-	-	-
Total	**97,189,717**	**13,547,776**	**4,003,079**	**18,157,317**	**231**	**185,996**	**133,084,116**	**21,366,784**	**290,528**	**3,211**	**21,660,523**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Exposure

The tables below presents the overview of exposure trends by asset classes:

In RSD thousand

Loans and placements to customers	Stage 1	Stage 2	Stage 3	POCI	2020 Total
Gross carrying value as of 31 December 2019	**120,160,592**	**4,372,553**	**3,688,638**	**447,795**	**128,669,578**
Movements of the gross carrying value					
–Transfer to Stage 1	107,020,566	3,426,095	736,302	-	111,182,963
–Transfer to Stage 2	13,016,408	508,198	34,549	-	13,559,155
–Transfer to Stage 3	123,618	438,260	2,917,787	-	3,479,665
–POCI	-	-	-	447,795	447,795
Newly acquired/originated assets	49,953,141	11,021,775	312,923	903	61,288,742
Decreases due to derecognition	(72,945,840)	(1,846,938)	(54,237)	(214,708)	(75,061,723)
Write-offs	(448)	(2)	(154,496)	-	(154,946)
Other adjustments	22,272	388	(23,740)	1	(1,079)
Gross carrying value as of 31 December 2020	**97,189,717**	**13,547,776**	**3,769,088**	**233,991**	**114,740,572**
Impairment allowance as of 31 December 2020	**(2,468,126)**	**(454,225)**	**(1,103,113)**	**(5,900)**	**(4,031,364)**

Loans and placements to customers	Stage 1	Stage 2	Stage 3	POCI	2021 Total
Gross carrying value as of 31 December 2020	**97,189,717**	**13,547,776**	**3,769,088**	**233,991**	**114,740,572**
Movements of the gross carrying value					
–Transfer to Stage 1	91,196,891	6,602,508	1,549,419	698	99,349,516
–Transfer to Stage 2	5,552,460	3,967,807	10,075	-	9,530,342
–Transfer to Stage 3	438,695	2,977,461	2,004,825	7,931	5,428,912
–POCI	1,671	-	204,769	225,362	431,802
Newly acquired/originated assets	53,232,209	2,096,840	4,339,894	118,421	59,787,364
Decreases due to derecognition	(45,861,445)	(5,259,098)	(2,580,520)	(89,244)	(53,790,307)
Write-offs	(44,474)	(31,983)	(695,034)	-	(771,491)
Other adjustments	9,905	(25)	(2,819)	-	7,061
Gross carrying value as of 31 December 2021	**104,525,912**	**10,353,510**	**4,830,609**	**263,168**	**119,973,199**
Impairment allowance as of 31 December 2021	**(2,129,668)**	**(430,824)**	**(1,019,250)**	**(1,370)**	**(3,581,112)**

During 2021, the transition of exposures by stages are the consequences of the following business changes:

- transition to stage 1 from stage 2 and stage 3, is a consequence of the improvement of business parameters according to the financial statements for 2020, i.e. due to the settlement of due liabilities in part or in full (reduction of arrears);
- The transition to stage 2 from stage 1 is due to an increase in credit risk with a certain number of clients. In addition, the Bank reclassified to stage 2 clients operating in industries significantly affected by the COVID 19 pandemic; and
- The transition to stage 3 from stages 1 and 2 is largely due to the identified significant difficulties in the operations of certain clients where the Bank estimated that the client will not be able to meet its obligations in full without the realization of collateral.

NOTES ON THE FINANCIAL STATEMENTS
Year Ended 31 December 2021

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Exposure (Continued)

In RSD thousand

Loans and placements to banks and other financial organizations	Stage 1	Stage 2	Stage 3	POCI	2020 Total
Gross carrying value as of 31 December 2019	**12,177,902**	**-**	**81,370**	**-**	**12,259,272**
Movements of the gross carrying value				-	
–Transfer to Stage 1	12,177,598	-	1,680	-	12,179,278
–Transfer to Stage 2	304	-	-	-	304
–Transfer to Stage 3	-	-	79,690	-	79,690
Newly acquired/originated assets	6,138,347	231	106,305	-	6,244,883
Decreases due to derecognition	(158,932)	-	(1,679)	-	(160,611)
Gross carrying value as of 31 December 2020	**18,157,317**	**231**	**185,996**	**-**	**18,343,544**
Impairment allowance as of 31 December 2020	**(112,711)**	**-**	**(54,387)**	**-**	**(167,098)**

Loans and placements to banks and other financial organizations	Stage 1	Stage 2	Stage 3	POCI	2021 Total
Gross carrying value as of 31 December 2020	**18,157,317**	**231**	**185,996**	**-**	**18,343,544**
Movements of the gross carrying value					
–Transfer to Stage 1	18,141,797	231	185,996	-	18,328,024
–Transfer to Stage 3	15,520	-	-	-	15,520
Newly acquired/originated assets	20,796,805	-	-	-	20,796,805
Decreases due to derecognition	(3,130,330)	(231)	(108,831)	-	(3,239,392)
Write-offs	(101,598)	-	(25,148)	-	(126,746)
Other adjustments	-	-	(28,350)	-	(28,350)
Gross carrying value as of 31 December 2021	**35,722,194**	**-**	**23,667**	**-**	**35,745,861**
Impairment allowance as of 31 December 2021	**(20,607)**	**-**	**(1,346)**	**-**	**(21,953)**

NOTES ON THE FINANCIAL STATEMENTS
Year Ended 31 December 2021

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Exposure (Continued)

In RSD thousand

Securities	Stage 1	Stage 2	Stage 3	POCI	2020 Total
Gross carrying value as of 31 December 2019	**31,066,681**	**37,242**	**199,405**	**-**	**31,303,328**
Movements of the gross carrying value					
–Transfer to Stage 1	31,066,681	37,242	27,268	-	31,131,191
–Transfer to Stage 3	-	-	172,137	-	172,137
Newly acquired/originated assets	27,955,575	-	-	-	27,955,575
Decreases due to derecognition	(17,761,977)	(37,242)	(27,639)	-	(17,826,858)
Gross carrying value as of 31 December 2020	**41,260,279**	**-**	**171,766**	**-**	**41,432,045**
Impairment allowance as of 31 December 2020	**(13,130)**	**-**	**(171,766)**	**-**	**(184,896)**

Securities	Stage 1	Stage 2	Stage 3	POCI	2021 Total
Gross carrying value as of 31 December 2020	**41,260,279**	**-**	**171,766**	**-**	**41,432,045**
Movements of the gross carrying value					
–Transfer to Stage 1	41,100,244	-	61,256	-	41,161,500
–Transfer to Stage 3	160,035	-	110,510	-	270,545
Newly acquired/originated assets	7,737,241	-	-	-	7,737,241
Decreases due to derecognition	(1,319,669)	-	(26)	-	(1,319,695)
Other adjustments	-	-	(61,244)		(61,244)
Gross carrying value as of 31 December 2021	**47,677,851**	**-**	**110,496**	**-**	**47,788,347**
Impairment allowance as of 31 December 2021	**(14,823)**	**-**	**(110,496)**	**-**	**(125,319)**

NOTES ON THE FINANCIAL STATEMENTS
Year Ended 31 December 2021

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Exposure (Continued)

In RSD thousand

Other *	Stage 1	Stage 2	Stage 3	POCI	2020 Total
Gross carrying value as of 31 December 2019	**300,009**	**9,426**	**326,880**	**-**	**636,315**
Movements of the gross carrying value					
–Transfer to Stage 1	293,290	8,486	208,335	-	510,111
–Transfer to Stage 2	6,246	631	5,388	-	12,265
–Transfer to Stage 3	473	309	113,157	-	113,939
Newly acquired/originated assets	38,237	1,157	19,609	-	59,003
Decreases due to derecognition	(233,242)	(3,275)	(101,007)	-	(337,524)
Write-offs	(27)	(8)	(101,697)	-	(101,732)
Other adjustments	3,925	-	(3,922)	-	3
Gross carrying value as of 31 December 2020	**108,902**	**7,300**	**139,863**	**-**	**256,065**
Impairment allowance as of 31 December 2020	**(12,102)**	**(464)**	**(81,395)**	**-**	**(93,961)**

Other *	Stage 1	Stage 2	Stage 3	POCI	2021 Total
Gross carrying value as of 31 December 2020	**108,902**	**7,300**	**139,863**	**-**	**256,065**
Movements of the gross carrying value					
–Transfer to Stage 1	106,000	5,762	26,725	-	138,487
–Transfer to Stage 2	177	335	98	-	610
–Transfer to Stage 3	2,725	1,203	113,039	-	116,967
Newly acquired/originated assets	129,825	20,455	4,497	-	154,777
Decreases due to derecognition	(33,587)	(5,342)	(36,718)	-	(75,647)
Write-offs and FX gains/losses	(242)	(7)	(3,951)	-	(4,200)
Other adjustments	7,721	-	585	-	8,306
Gross carrying value as of 31 December 2021	**212,619**	**22,406**	**104,286**	**-**	**339,311**
Impairment allowance as of 31 December 2021	**(11,838)**	**(1,574)**	**(84,355)**	**-**	**(97,747)**

*****_Other includes the following items: pledged financial assets, receivables per derivatives and other assets._

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Exposure (Continued)

In RSD thousand

Cash and balances with central bank	Stage 1	Stage 2	Stage 3	POCI	2020 Total
Gross carrying value as of 31 December 2019	**28,294,546**	-	-	-	**28,294,546**
Movements of the gross carrying value					
–Transfer to Stage 1	28,294,546	-	-	-	28,294,546
Newly acquired/originated assets	10,692,278	-	-	-	10,692,278
Gross carrying value as of 31 December 2020	**38,986,824**	**-**	**-**	**-**	**38,986,824**
Impairment allowance as of 31 December 2020	**(4,824)**	**-**	**-**	**-**	**(4,824)**

Cash and balances with central bank	Stage 1	Stage 2	Stage 3	POCI	2021 Total
Gross carrying value as of 31 December 2020	**38,986,824**	**-**	**-**	**-**	**38,986,824**
Movements of the gross carrying value					
– Transfer to Stage 1	38,986,824	-	-	-	38,986,824
Newly acquired/originated assets	2,730,698	-	-	-	2,730,698
Decreases due to derecognition	(8,042,049)	-	-	-	(8,042,049)
Gross carrying value as of 31 December 2021	**33,675,473**	**-**	**-**	**-**	**33,675,473**
Impairment allowance as of 31 December 2021	**(4,735)**	**-**	**-**	**-**	**(4,735)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Exposure (Continued)

In RSD thousand

Off-balance sheet items	Stage 1	Stage 2	Stage 3	POCI	2020 Total
Gross carrying value as of 31 December 2019	**16,946,017**	**520,015**	**62,046**	**-**	**17,528,078**
Changes in the gross carrying value					
–Transfer to Stage 1	16,822,264	504,323	24,676	-	17,351,263
–Transfer to Stage 2	122,810	15,500	35,294	-	173,604
–Transfer to Stage 3	943	192	2,076	-	3,211
Newly acquired/originated assets	16,810,458	118,261	-	-	16,928,719
Decreases due to derecognition	(12,389,691)	(347,748)	(58,835)	-	(12,796,274)
Gross carrying value as of 31 December 2020	**21,366,784**	**290,528**	**3,211**	**-**	**21,660,523**
Provision as of 31 December 2020	**(39,509)**	**(2,395)**	**(1,517)**	**-**	**(43,421)**

Off-balance sheet items	Stage 1	Stage 2	Stage 3	POCI	2021 Total
Gross carrying value as of 31 December 2020	**21,366,784**	**290,528**	**3,211**	**-**	**21,660,523**
Changes in the gross carrying value					
–Transfer to Stage 1	21,306,679	200,629	286	-	21,507,594
–Transfer to Stage 2	57,718	89,262	170	-	147,150
–Transfer to Stage 3	2,387	637	2,755	-	5,779
Newly acquired/originated assets	20,612,214	41,887	3,159	-	20,657,260
Decreases due to derecognition	(15,587,428)	(115,702)	(243)	-	(15,703,373)
Gross carrying value as of 31 December 2021	**26,391,570**	**216,713**	**6,127**	**-**	**26,614,410**
Provision as of 31 December 2021	**(143,027)**	**(1,777)**	**(2,562)**	**-**	**(147,366)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Impairment Allowance

The tables below presents the impairment allowance movements during the year by the classes of assets:

In RSD thousand

Loans and placements to customers	Stage 1	Stage 2	Stage 3	POCI	2020 Total
Impairment allowance as of 31 December 2019	**(3,017,538)**	**(168,327)**	**(893,840)**	**(1,996)**	**(4,081,701)**
Movements of the impairment allowance					
–Transfer to Stage 1	(2,794,157)	(117,768)	(155,365)	-	(3,067,290)
–Transfer to Stage 2	(220,112)	(37,608)	(22,869)	-	(280,589)
–Transfer to Stage 3	(3,269)	(12,951)	(715,606)	-	(731,826)
–POCI	-	-	-	(1,996)	(1,996)
Increases due to changes in the credit risk	(148,661)	(22,307)	(131,520)	-	(302,488)
Decreases due to changes in the credit risk	169,331	61,150	80,865	-	311,346
Newly acquired/originated assets	(5,355,736)	(673,849)	(451,572)	(9,193)	(6,490,350)
Decreases due to derecognition	5,905,944	349,507	114,728	5,291	6,375,470
Write-offs and off-balance sheet transfer	448	4	154,496	-	154,948
Exchange rate effect	358	(16)	(10)	(1)	331
Other adjustments	(22,272)	(387)	23,740	(1)	1,080
Impairment allowance as of 31 December 2020	**(2,468,126)**	**(454,225)**	**(1,103,113)**	**(5,900)**	**(4,031,364)**

Loans and placements to customers	Stage 1	Stage 2	Stage 3	POCI	2021 Total
Impairment allowance as of 31 December 2020	**(2,468,126)**	**(454,225)**	**(1,103,113)**	**(5,900)**	**(4,031,364)**
Movements of the impairment allowance					
–Transfer to Stage 1	(2,421,223)	(225,094)	(619,428)	(3)	(3,265,748)
–Transfer to Stage 2	(40,693)	(166,730)	(7,945)	-	(215,368)
–Transfer to Stage 3	(6,202)	(62,401)	(408,678)	(40)	(477,321)
–POCI	(8)	-	(67,062)	(5,857)	(72,927)
Increases due to changes in the credit risk	(66,785)	(119,010)	(152,159)	-	(337,954)
Decreases due to changes in the credit risk	42,207	126,328	113,062	-	281,597
Newly acquired/originated assets	(4,352,123)	(796,994)	(1,009,439)	(284)	(6,158,840)
Decreases due to derecognition	4,670,278	781,580	434,615	4,814	5,891,287
Write-offs and off-balance sheet transfer and sales	44,474	31,983	697,470	-	773,927
Exchange rate effect	407	(486)	314	-	235
Impairment allowance as of 31 December 2021	**(2,129,668)**	**(430,824)**	**(1,019,250)**	**(1,370)**	**(3,581,112)**

During 2021, changes in allowances by stages are the consequences of the following business changes:

- the decrease in impairment in Stage 1 is a consequence of the reduction of exposure in certain clients with a significant amount of impairment, and the improvement of the internal rating in certain clients.; and
- The amount of impairment allowance in Stage 2 and Stage 3 is slightly reduced.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Impairment Allowance (Continued)

In RSD thousand

Loans and placements to banks and other financial organizations	Stage 1	Stage 2	Stage 3	POCI	2020 Total
Impairment allowance as of 31 December 2019	**(119,913)**	**-**	**(54,279)**	**-**	**(174,192)**
Movements of the impairment allowance					
–Transfer to Stage 1	(119,911)	-	(34)	-	(119,945)
–Transfer to Stage 2	(2)	-	1	-	(1)
–Transfer to Stage 3	-	-	(54,246)	-	(54,246)
Newly acquired/originated assets	(73,087)	(17)	(7,114)	-	(80,218)
Decreases due to derecognition	80,125	18	4,925	-	85,068
Exchange rate effect	164	(1)	2,081	-	2,244
Impairment allowance as of 31 December 2020	**(112,711)**	**-**	**(54,387)**	**-**	**(167,098)**

Loans and placements to banks and other financial organizations	Stage 1	Stage 2	Stage 3	POCI	2021 Total
Impairment allowance as of 31 December 2020	**(112,711)**	**-**	**(54,387)**	**-**	**(167,098)**
Movements of the impairment allowance					
–Transfer to Stage 1	(112,644)	-	(54,387)	-	(167,031)
–Transfer to Stage 2	(67)	-	-	-	(67)
–Transfer to Stage 3	(67,155)	-	(1,425)	-	(68,580)
Newly acquired/originated assets	58,459	-	2,891	-	61,350
Write-offs and off-balance sheet transfer and sales	101,598	-	53,498	-	155,096
Exchange rate effect	(798)	-	(1,923)	-	(2,721)
Impairment allowance as of 31 December 2021	**(20,607)**	**-**	**(1,346)**	**-**	**(21,953)**

In RSD thousand

Securities	Stage 1	Stage 2	Stage 3	POCI	2020 Total
Impairment allowance as of 31 December 2019	**(6,493)**	**(1,121)**	**(172,137)**	**-**	**(179,751)**
Movements of the impairment allowance					
– Transfer to Stage 1	(6,493)	(1,121)	-	-	(7,614)
– Transfer to Stage 3	-	-	(172,137)	-	(172,137)
Newly acquired/originated assets	(59,467)	(951)	(3,240)	-	(63,658)
Decreases due to derecognition	52,830	2,072	3,611	-	58,513
Impairment allowance as of 31 December 2020	**(13,130)**	**-**	**(171,766)**	**-**	**(184,896)**

Securities	Stage 1	Stage 2	Stage 3	POCI	2021 Total
Impairment allowance as of 31 December 2020	**(13,130)**	**-**	**(171,766)**	**-**	**(184,896)**
Movements of the impairment allowance					
– Transfer to Stage 1	(13,130)	-	(61,256)	-	(74,386)
– Transfer to Stage 3	-	-	(110,510)	-	(110,510)
Newly acquired/originated assets	(20,115)	-	-	-	(20,115)
Decreases due to derecognition	18,422	-	26	-	18,448
Write-offs and off-balance sheet transfer and sales	-	-	61,244	-	61,244
Impairment allowance as of 31 December 2021	**(14,823)**	**-**	**(110,496)**	**-**	**(125,319)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Impairment Allowance (Continued)

In RSD thousand

Other	Stage 1	Stage 2	Stage 3	POCI	2020 Total I
Impairment allowance as of 31 December 2019	**(10,122)**	**(690)**	**(193,829)**	**-**	**(204,641)**
Movements of the impairment allowance					
–Transfer to Stage 1	(10,060)	(606)	(114,558)	-	(125,224)
–Transfer to Stage 2	(61)	(20)	(5,027)	-	(5,108)
–Transfer to Stage 3	(1)	(64)	(74,244)	-	(74,309)
Newly acquired/originated assets	(15,963)	(7,087)	1,139	-	(21,911)
Decreases due to derecognition	17,880	7,305	5,667	-	30,852
Write-offs	26	8	101,697	-	101,731
Exchange rate effect	2	-	9	-	11
Other adjustments	(3,925)	-	3,922	-	(3)
Impairment allowance as of 31 December 2020	**(12,102)**	**(464)**	**(81,395)**	**-**	**(93,961)**

In RSD thousand

Other	Stage 1	Stage 2	Stage 3	POCI	2021 Total
Impairment allowance as of 31 December 2020	**(12,102)**	**(464)**	**(81,395)**	**-**	**(93,961**
Movements of the impairment allowance					
–Transfer to Stage 1	(12,073)	(372)	(13,749)	-	(26,194)
–Transfer to Stage 2	(2)	(22)	(88)	-	(112)
–Transfer to Stage 3	(27)	(70)	(67,558)	-	(67,655)
Newly acquired/originated assets	(40,663)	(4,645)	(12,878)	-	(58,186)
Decreases due to derecognition	48,404	3,528	6,572	-	58,504
Write-offs	242	7	12,274	-	12,523
Exchange rate effect	2	-	(8,323)	-	(8,321)
Other adjustments	(7,721)	-	(585)	-	(8,306)
Impairment allowance as of 31 December 2021	**(11,838)**	**(1,574)**	**(84,335)**	**-**	**(97,747)**

In RSD thousand

Cash and balances with central bank	Stage 1	Stage 2	Stage 3	POCI	2020 Total
Impairment allowance as of 31 December 2019	**(4,692)**	**-**	**-**	**-**	**(4,692)**
Movements of the impairment allowance					
– Transfer to Stage 1	(4,692)	-	-	-	(4,692)
Newly acquired/originated assets	(4,751)	-	-	-	(4,751)
Decreases due to derecognition	4,619	-	-	-	4,619
Impairment allowance as of 31 December 2020	**(4,824)**	**-**	**-**	**-**	**(4,824)**

Cash and balances with central bank	Stage 1	Stage 2	Stage 3	POCI	2021 Total
Impairment allowance as of 31 December 2020	**(4,824)**	**-**	**-**	**-**	**(4,824)**
Movements of the impairment allowance					
– Transfer to Stage 1	(4,824)	-	-	-	(4,824)
Newly acquired/originated assets	(4,566)	-	-	-	(4,566)
Decreases due to derecognition	4,656	-	-	-	4,656
Exchange rate effect	(1)	-	-	-	(1)
Impairment allowance as of 31 December 2021	**(4,735)**	**-**	**-**	**-**	**(4,735)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Impairment Allowance (Continued)

In RSD thousand

Off-balance sheet items	Stage 1	Stage 2	Stage 3	POCI	2020 Total
Provision as of 31 December 2019	**(66,410)**	**(1,144)**	**(1,983)**	**-**	**(69,537)**
Movements of the impairment allowance					
–Transfer to Stage 1	(66,120)	(1,127)	(972)	-	(68,219)
–Transfer to Stage 2	(288)	(16)	(6)	-	(310)
–Transfer to Stage 3	(2)	(1)	(1,005)	-	(1,008)
Newly acquired/originated assets	(251,166)	(1,262)	(176)	-	(252,604)
Decreases due to derecognition	275,401	11	642	-	276,054
Exchange rate effect	2,666	-	-	-	2,666
Provision as of 31 December 2020	**(39,509)**	**(2,395)**	**(1,517)**	**-**	**(43,421)**

Off-balance sheet receivables	Stage 1	Stage 2	Stage 3	POCI	2021 Total
Provision as of 31 December 2020	**(39,509)**	**(2,395)**	**(1,517)**	**-**	**(43,421)**
Movements of the impairment allowance					
–Transfer to Stage 1	(39,404)	(1,738)	(114)	-	(41,256)
–Transfer to Stage 2	(97)	(642)	(62)	-	(801)
–Transfer to Stage 3	(8)	(15)	(1,341)	-	(1,364)
Newly acquired/originated assets	(386,637)	(2,218)	(1,344)	-	(390,199)
Decreases due to derecognition	279,865	2,836	299	-	283,000
Exchange rate effect	3,254	-	-	-	3,254
Provision as of 31 December 2021	**(143,027)**	**(1,777)**	**(2,562)**	**-**	**(147,366)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Loans and placements to customers, banks and other financial institutions by risk level

In RSD thousand
31 December 2021

	Exposure				Impairment allowance			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Corporate	90,669,722	8,155,108	4,011,922	102,836,752	(2,028,884)	(277,182)	(463,445)	(2,769,511)
Entrepreneurs	547,263	132,754	79,156	759,173	(6,998)	(10,198)	(29,454)	(46,650)
Total Corporate	**91,216,985**	**8,287,862**	**4,091,078**	**103,595,925**	**(2,035,882)**	**(287,380)**	**(492,899**	**(2,816,161)**
Cash loans	7,089,807	1,153,277	446,474	8,689,558	(65,964)	(121,071)	(350,631)	(537,666)
Credit cards	339,708	64,915	16,504	421,127	(5,769)	(4,389)	(14,394)	(24,552)
Current accounts-overdraft	301,135	23,241	3,361	327,737	(2,155)	(1,106)	(3,087)	(6,348)
Housing loans	5,216,449	735,553	485,699	6,437,701	(18,660)	(10,300)	(138,595)	(167,555)
Agricultural loans	338,098	88,662	49,575	476,335	(1,189)	6,578)	(20,128)	(27,895)
Other	46	-	-	46	-	-	-	-
Total Retail	**13,285,243**	**2,065,648**	**1,001,613**	**16,352,504**	**(93,737)**	**(143,444)**	**(526,835)**	**(764,016)**
Total	**104,502,228**	**10,353,510**	**5,092,691**	**119,948,429**	**(2,129,619)**	**(430,824)**	**(1,019,734)**	**(3,580,177)**
Receivables from banks	**35,722,194**	**-**	**23,667**	**35,745,861**	**(20,607)**	**-**	**(1,346)**	**(21,953)**
Other – not covered with models	**23,684**	**-**	**1,086**	**24,770**	**(49)**	**-**	**(886)**	**(935)**

In RSD thousand
31 December 2020

	Exposure				Impairment allowance			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Corporate	84,190,150	10,538,863	3,089,069	97,818,082	(2,377,315)	(247,915)	(747,683)	(3,372,913)
Entrepreneurs	429,623	217,963	64,385	711,971	(4,810)	(8,475)	(6,757)	(20,042)
Total Corporate	**84,619,773**	**10,756,826**	**3,153,454**	**98,530,053**	**(2,382,125)**	**(256,390)**	**(754,440)**	**(3,392,955)**
Cash loans	7,210,978	1,603,980	383,169	9,198,127	(61,302)	(147,841)	(255,113)	(464,256)
Credit cards	429,062	91,965	10,342	531,369	(5,830)	(5,998)	(7,051)	(18,879)
Current accounts-overdraft	291,466	41,419	4,161	337,046	(1,758)	(1,798)	(3,586)	(7,142)
Housing loans	4,325,807	949,984	389,954	5,665,745	(14,743)	(35,519)	(65,948)	(116,210)
Agricultural loans	312,585	103,602	61,294	477,481	(2,368)	(6,679)	(22,875)	(31,922)
Other	45	-	-	45	-	-	-	-
Total Retail	**12,569,943**	**2,790,950**	**848,920**	**16,209,813**	**(86,001)**	**(197,835)**	**(354,573)**	**(638,409)**
Total	**97,189,716**	**13,547,776**	**4,002,374**	**114,739,866**	**(2,468,126)**	**(454,225)**	**(1,109,013)**	**(4,031,364)**
Receivables from banks	**18,157,317**	**231**	**185,996**	**18,343,544**	**(112,711)**	**-**	**(54,387)**	**(167,098)**
Other – not covered with models	**1**	**-**	**705**	**706**	**-**	**-**		**-**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

The Bank classified the risk categories based on the receivables' classification in line with the Decision of the National Bank of Serbia on the classification of balance sheet assets and off-balance sheet items. The receivables classified in categories A and B are considered as low; the receivables classified in categories C and D are included in medium risk, while high risk covers the receivables classified in category E.

The tables below analyse an overview of exposure trends by the classes of assets and risk levels:

In RSD thousand

			31 December 2021
Cash and balances with central bank	**Stage 1**	**Stage 2**	**Stage 3**
Low	33,675,473	-	-
Total gross carrying value	**33,675,473**	**-**	**-**
Impairment allowance	**(4,735)**	**-**	**-**

			31 December 2020
Cash and balances with central bank	**Stage 1**	**Stage 2**	**Stage 3**
Low	38,986,824	-	-
Total gross carrying value	**38,986,824**	**-**	**-**
Impairment allowance	**(4,824)**	**-**	**-**

In RSD thousand

			31 December 2021
Securities	**Stage 1**	**Stage 2**	**Stage 3**
Low	47,343,380	-	-
Medium	333,191	-	-
High	1,280	-	110,496
Total gross carrying value	**47,677,851**	**-**	**110,496**
Impairment allowance	**(14,823)**	**-**	**(110,496)**

			31 December 2020
Securities	**Stage 1**	**Stage 2**	**Stage 3**
Low	40,803,176	-	-
Medium	452,226	-	-
High	4,877	-	171,766
Total gross carrying value	**41,260,279**	**-**	**171,766**
Impairment allowance	**(13,130)**	**-**	**(171,766)**

In RSD thousand

			31 December 2021
Loans and placements to banks and other financial organizations	**Stage 1**	**Stage 2**	**Stage 3**
Low	35,722,156	-	2,991
Medium	-	-	20,676
High	38	-	-
Total gross carrying value	**35,722,194**	**-**	**23,667**
Impairment allowance	**(20,607)**	**-**	**(1,346)**

			31 December 2020
Loans and placements to banks and other financial organizations	**Stage 1**	**Stage 2**	**Stage 3**
Low	18,146,851	231	134,340
Medium	10,466	-	-
High	-	-	51,656
Total gross carrying value	**18,157,317**	**231**	**185,996**
Impairment allowance	**(112,711)**	**-**	**(54,387)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

In RSD thousand

			31 December 2021	
Loans and placements to customers	Stage 1	Stage 2	Stage 3	POCI
Low	68,477,074	6,432,395	378,662	-
Medium	35,727,171	3,753,282	2,642,156	-
High	321,667	167,833	1,809,791	263,168
Total gross carrying value	**104,525,912**	**10,353,510**	**4,830,609**	**263,168**
Impairment allowance	**(2,129,668)**	**(430,824)**	**(1,019,250)**	**(1,370)**

			31 December 2020	
Loans and placements to customers	Stage 1	Stage 2	Stage 3	POCI
Low	58,925,321	8,749,911	580,919	-
Medium	36,861,376	4,640,817	788,108	-
High	1,403,020	157,048	2,400,061	233,991
Total gross carrying value	**97,189,717**	**13,547,776**	**3,769,088**	**233,991**
Impairment allowance	**(2,468,126)**	**(454,225)**	**(1,103,113)**	**(5,900)**

In RSD thousand

			31 December 2021
Other assets	Stage 1	Stage 2	Stage 3
Low	138,684	686	17,416
Medium	47,672	21,431	5,607
High	26,263	289	81,263
Total gross carrying value	**212,619**	**22,406**	**104,286**
Impairment allowance	**(11,838)**	**(1,574)**	**(84,335)**

			31 December 2020
Other assets	Stage 1	Stage 2	Stage 3
Low	26,808	1,442	43,750
Medium	60,500	5,539	2,776
High	21,594	319	93,337
Total gross carrying value	**108,902**	**7,300**	**139,863**
Impairment allowance	**(12,102)**	**(464)**	**(81,395)**

In RSD thousand

			31 December 2021
Off-balance sheet receivables	Stage 1	Stage 2	Stage 3
Low	22,242,045	169,452	848
Medium	4,077,724	46,516	434
High	71,801	745	4,845
Total gross carrying value	**26,391,570**	**216,713**	**6,127**
Impairment allowance	**(143,027)**	**(1,777)**	**(2,562)**

			31 December 2020
Off-balance sheet receivables	Stage 1	Stage 2	Stage 3
Low	16,595,628	230,695	8
Medium	4,716,864	59,089	100
High	54,292	744	3,103
Total gross carrying value	**21,366,784**	**290,528**	**3,211**
Impairment allowance	**(39,509)**	**(2,395)**	**(1,517)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Loans with Renegotiated (Modified) Initially Agreed Terms

Loans with renegotiated initially agreed terms are loans rescheduled and/or restructured (forborne) due to the borrowers' deteriorated financial situation or difficulties in servicing liabilities at their due date.

Restructuring loan agreements stipulate terms significantly different from those originally defined and contracted and all the receivables (or their major portion) are replaced by a new loan.

Significantly different terms are deemed in particular to be the following: extension of the repayment due date for the principal and interest, reduction of the interest rate or amount receivable (write-off of part of the principal referring to the derecognition of that part in the balance sheet, write-off of part of the calculated interest), change in the due date for principal and/or interest, change in the valuation manner and other changes facilitating the borrower's position.

Loan restructuring (forbearance) is only acceptable to the Bank if it refers to loans that are otherwise not likely collectable and if the loan restructuring according to the financial consolidation program enables, within a period acceptable to the Bank, significant improvement in the financial situation of the borrower, with a high probability of loan collection in the agreed amount and the newly defined maturity, and additional collaterals or security – in the form of co-sureties adhering to debt or in the form of a pledge lien registered over the movable and immovable property of third parties, improving the quality of assets.

Upon loan restructuring, the Bank performs financial analysis of the borrowers, and if it estimates that, after restructuring, the borrower will realize cash flows sufficient for principal and interest repayment, the Bank decides on loan restructuring.

In RSD thousand

	Restructured		Rescheduled	
	31 December 2021	**31 December 2020**	**31 December 2021**	**31 December 2020**
Corporate clients	2,449,716	2,935,224	141,249	231,619
Retail	152,882	191,115	22,545	30,082
Total	**2,602,598**	**3,126,339**	**163,794**	**261,701**

Concentration Risk

The Bank manages concentration risk by establishing a system of limits to the exposures with the same or similar risk factors (industry sectors/activities, geographic regions, single borrowing entities or groups of related entities, collaterals, etc.).

Net loans and placements to customers, banks and other financial organizations by sectors

In RSD thousand

	31 December 2021	**31 December 2020**
Finance and insurance	35,723,908	18,176,446
Public enterprises	8,894,041	8,060,841
Corporate	78,434,221	79,864,024
Entrepreneurs	448,440	691,907
Public sector	3,195,570	3,860,671
Retail sector	15,046,300	15,090,525
Foreign entities	9,249,232	1,909,484
Private households with employed persons and registered agricultural producers	712,521	445,560
Other clients	411,762	786,196
Balance as of	**152,115,995**	**128,885,654**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Concentration Risk (Continued)

Loans and receivables due from customers, banks and other financial organizations by geographic regions

In RSD thousand

	Serbia	Europe	Other	31 December 2021 Total
Loans and placements to banks and other financial organizations	7,913,400	25,089,245	2,721,263	35,723,908
Loans and placements to customers	107,142,855	9,190,722	58,510	116,392,087
TOTAL ASSETS	**115,056,255**	**34,279,967**	**2,779,773**	**152,115,995**

	Serbia	Europe	Other	31 December 2020 Total
Loans and placements to banks and other financial organizations	3,079,177	13,000,760	2,096,509	18,176,446
Loans and placements to customers	108,799,724	1,559,644	349,840	110,709,208
TOTAL ASSETS	**111,878,901**	**14,560,404**	**2,446,349**	**128,885,654**

Loans and placements to customers by industries

In RSD thousand

	31 December 2021			31 December 2020		
Industry	**Gross exposure**	**Share**	**Impairment**	**Gross exposure**	**Share**	**Impairment**
Real estate	19,925,782	17%	(431,314)	15,453,802	13%	(591,713)
Wholesale and retail trade, repair of motor vehicles and motorcycles	19,968,331	17%	(1,052,896)	15,549,030	14%	(1,397,806)
Manufacturing industry	16,409,807	14%	(384,762)	14,080,975	12%	(409,095)
Retail	16,352,504	14%	(764,016)	16,209,814	14%	(638,410)
Construction	11,569,322	10%	(272,402)	11,276,253	10%	(184,238)
Transportation and storage	9,203,313	8%	(193,940)	6,471,101	6%	(98,360)
Administration and ancillary activities	6,338,156	5%	(179,574)	7,734,253	7%	(309,297)
Information and communication	5,344,843	4%	(70,495)	896,326	1%	(19,524)
Supply of electricity, gas, steam and air conditioning	5,037,858	4%	(58,517)	7,252,837	6%	(38,556)
Accommodation and catering	4,160,150	3%	(35,521)	4,880,354	4%	(86,521)
Finance and insurance	1,152,957	1%	(3,909)	8,121,622	7%	(91,965)
Agriculture, forestry and fishing	1,004,886	1%	(24,544)	1,470,973	1%	(68,437)
Arts, entertainment and recreation	866,579	1%	(79,789)	425,343	0%	(10,234)
Public administration and defence, compulsory social security	763,080	1%	(9,217)	1,915,970	2%	(18,545)
Education	656,649	1%	(400)	605,291	1%	(159)
Professional, scientific, innovative and technical activities	545,824	0%	(5,085)	1,206,900	1%	(57,080)
Water supply, wastewater management, control of waste disposal processes and similar activities	356,845	0%	(4,697)	705,696	1%	(4,667)
Other service activities	206,009	0%	(8,655)	467,977	0%	(6,557)
Mining	79,041	0%	(1,248)	1,736	0%	(29)
Health and social protection	31,263	0%	(131)	14,319	0%	(171)
TOTAL	**119,973,199**	**100%**	**(3,581,112)**	**114,740,572**	**100%**	**(4,031,364)**

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Credit Risk Hedges (Collaterals)

For the purpose of protection against credit risk, in addition to the regular monitoring of the customer business operations, the Bank most commonly obtains collaterals to secure the collection of receivables and minimize credit risk.

As a standard type of loan collateral, the Bank demands and receives from clients contractual authorizations for account withdrawals and bills of exchange, whereas, additional collaterals agreed upon include the following: mortgages assigned over property; pledge liens assigned over movable assets; partial or full loan coverage with deposits; obtaining guarantees from another bank or a legal entity, adequate securities, arranging co-surety or debt adherence whereby another legal entity becomes a co-debtor; and when housing loans are at issue, insurance of the National Mortgage Insurance Corporation.

If the Bank arranges for a mortgage or pledge lien, assigned over property or movable assets, the Bank always demands an appraisal performed by a certified independent appraiser in order to minimize the potential risks.

In the following breakdown, the value of collaterals is presented as the fair value of collaterals so that it is shown only up to the extent of the gross loan amount (when the collateral value exceeds the loan amount). In instances of collateral values below the gross loan amounts, the fair value of the collateral is stated.

The values of collaterals and guarantees received in order to mitigate credit risk exposure inherent in the loans approved to customers are provided in the tables below:

In RSD thousand
31 December 2021

	Mortgages	Guarantees	Deposits	Other	Total
Corporate clients	42,603,531	-	6,258,824	29,097,005	77,959,360
Entrepreneurs	402,211	-	75,847	8,552	486,610
Corporate total	**43,005,742**	**-**	**6,334,671**	**29,105,557**	**78,445,970**
Cash loans	127,751	-	333,535	-	461,286
Credit cards	200	-	287,003	-	287,203
Current account overdrafts	-	-	7,191	-	7,191
Housing loans	5,807,254	-	156,767	-	5,964,021
Agricultural loans	194,037	-	29,721	217	223,975
Other	74,797	-	38,166	982	113,945
Retail total	**6,204,039**	**-**	**852,383**	**1,199**	**7,057,621**
Total	**49,209,781**	**-**	**7,187,054**	**29,106,756**	**85,503,591**

Note: A portion of the housing loans securitized with properties is insured with the National Mortgage Insurance Corporation (December 2021: RSD 1,040,074 thousand).

Other collaterals include pledge liens assigned over goods, receivables, equipment, shares and precious metals.

4. RISK MANAGEMENT (Continued)

4.1. Credit Risk (Continued)

Credit Risk Hedges (Collaterals) (Continued)

The loan amount relative to the revalued amount of the property held as collateral is monitored as the loan to value ratio (LTV ratio).

Overview of housing loans by LTV ratio range

In RSD thousand

	31 December 2021	31 December 2020
<50%	1,979,971	1,487,083
51% - 70%	1,764,852	1,797,677
71% - 100%	2,539,411	2,184,670
100% - 150%	57,720	109,621
>150%	93,138	24,248
Total	**6,435,092**	**5,603,299**
Average LTV ratio	55%	57%

Assets acquired in the process of debt collection

Assets representing security instruments (collaterals) acquired by the Bank in the process of debt collection are provided in the table below:

In RSD thousand

	31 December 2021	31 December 2020
Commercial buildings (Note 33)	728,086	836,049
Non-current assets held for sale	5,537	5,537
Equipment (Note 33)	20,102	20,101
Total	**753,725**	**861,687**

4.2. Liquidity Risk

Liquidity risk is the risk of adverse effects on the Bank’s financial result and equity due to its inability to discharge its liabilities when they are due arising from:

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

Liquidity risk is manifested as a daily mismatch of the inflows and outflows, a maturity mismatch of assets and liabilities, a mismatch of RSD and foreign currency inflows and outflows, i.e., assets and liabilities, a mismatch of cash and non-cash flows or a disproportion in the amounts and structures of balance sheet and off-balance sheet assets and liabilities or components thereof. In that respect, the Bank’s liquidity entails consideration of the total liquidity in several ways (long-term and short-term, liquidity in cash operations, liquidity in non-cash operations, in RSD and foreign exchange operations, etc.).

The liquidity risk management process is implemented through the identification, measurement, mitigation, monitoring and control of, as well as reporting on the liquidity risk.

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

In order to identify liquidity risk, the Bank regularly monitors:

- balances on RSD and foreign currency accounts,
- balances and relations between the balance sheet items,
- changes in relations among balance sheet assets,
- absolute and average amounts of deposits,
- changes in the quality of the loan portfolio,
- volatility and trends in deposits placed by major depositors,
- off-balance sheet items in order to determine potential outflows of funds,
- mutual connection of the liquidity risk of sources of assets and the market liquidity risk,
- reports on liquidity ratio and narrow liquidity ratio;
- Liquidity coverage ratio (LCR),
- Net stable funding ratio (NSFR), and
- plans for the inflows and outflows of funds.

The basic method of measuring liquidity risk entails the assessment and comparison of all future cash inflows and outflows per balance sheet and off-balance sheet items at different time intervals, in order to determine potential liquid asset shortages, both in the regular course of business and in stress events, i.e. liquidity crises. For the purposes of monitoring and measuring liquidity risk, the Bank has established the processes of:

- daily planning and monitoring of the realization of all planned inflows and outflows of funds, in RSD and in aggregate for all foreign currencies and
- monitoring the balances and changes in balances of assets and liabilities over their outstanding maturities and per significant currencies, individually and in aggregate for all currencies.

Liquidity risk measurement is performed through the calculation and monitoring of liquidity ratios and the monitoring of departures of the Bank's actual ratios from the internally defined and regulatory limits. In order to protect itself against liquidity risk and for its measurement, the Bank performs GAP analysis and stress testing.

Liquidity risk is mitigated through the diversification, transfer, reduction and/or avoidance of risks that may arise from the Bank's liquidity risk exposure. In order to minimize liquidity risk, the Bank uses long-term and short-term protection measures against liquidity risk. In addition, the Bank analyses the behaviour of the depositors and identifies sources of funds that are stable under various circumstances, as well as those that will be gradually drawn with the problems arising and those that will be drawn down as soon as the first problem signals appear. Accordingly, the Bank reduces its reliance on sources of funds that are unstable or volatile.

The Bank reconciles its operations with current liquidity ratios and quick liquidity ratios prescribed by the regulator that were well above the prescribed limits in 2021:

	Current liquidity ratio		Quick liquidity ratio		Liquidity coverage ratio	
	2021	2020	2021	2020	2021	2020
As of 31 December	2.44	2.90	2.22	2.74	197%	194%
Average for the year	3.03	2.47	2.72	2.21	197%	178%
MAX	4.20	3.45	3.90	3.05	272%	195%
MIN	2.34	1.71	2.08	1.36	152%	149%
Regulatory limit	**1.00**		**0.70**		**100%**	

In the process of liquidity risk measurement, the Bank uses GAP analysis by grouping on balance sheet and off-balance sheet items per time brackets according to the contractually defined maturity dates, i.e. expected time for generating cash flows that may be manifest as inflows or outflows. Upon the preparation of the internal liquidity GAP report, the Bank considers the overall assets, liabilities and off-balance sheet items giving rise to potential outflows of funds and sorts these into several time brackets.

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

Based on the internal liquidity GAP report, the Bank defines internal limits for cumulative GAP values inclusive of the counterbalancing capacity (CBC). The CBC comprises liquidity buffers, highly liquid assets suitable for pledge liens, which can easily be converted into cash within a day.

Moreover, for the liquidity GAP related to the critical liquidity scenario (stress test), the Bank has set the internal time-to-wall limit demonstrating the maximum liquidity time horizon, i.e. the number of days with cumulative GAP above 0. In 2021 the Bank complied with internally defined GAP liquidity limits and the time-to-wall limit.

At least annually, the Bank tests the Liquidity Contingency Plan and checks the survival period and the way of accessing available or potential liquidity sources, particularly the sources not used in the ordinary course of business.

The Liquidity Contingency Plan contains procedures for the early detection of possible problems regarding the Bank's liquidity, including early warning signs, the names and functions of the persons responsible for problem identification and the persons that need to be informed thereof.

A breakdown of the maturity structure of monetary assets and monetary liabilities as of 31 December 2021 and 2020 is provided in the following tables. The monetary items are grouped by outstanding maturity. The Bank applied a rather conservative assumption on the transaction deposits and demand deposits, which, accordingly, were allocated to the time bracket of up to one-month maturity.

NOTES ON THE FINANCIAL STATEMENTS
Year Ended 31 December 2021

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

In RSD thousand
31 December 2021

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Cash and balances with central bank	33,670,738	-	-	-	-	-	33,670,738
Derivative	19,721	-	-	-	-	-	19,721
Securities	11,103,105	2,912,436	1,203,696	227,770	16,436,766	15,779,255	47,663,028
Loans and placements to banks and other financial organizations	30,547,386	822,862	145,769	-	458,238	3,749,653	35,723,908
Loans and placements to customers	1,963,369	5,401,589	9,759,072	15,681,421	68,218,332	15,368,304	116,392,087
Other assets	12,405	24,811	-	-	71,925	112,702	221,843
TOTAL ASSETS	**77,316,724**	**9,161,698**	**11,108,537**	**15,909,191**	**85,185,261**	**35,009,914**	**233,691,325**
Deposits and other liabilities due to banks, other financial organizations and central bank	14,841,785	276,732	1,245,735	1,430,777	6,038	-	17,801,067
Deposits and other liabilities due to customers	98,130,872	22,123,338	10,139,155	23,933,876	25,952,307	1,390,845	181,670,393
Other liabilities	1,198,072	72,228	59,396	111,579	424,748	24,700	1,890,723
TOTAL LIABILITIES	**114,170,729**	**22,472,298**	**11,444,286**	**25,476,232**	**26,383,093**	**1,415,545**	**201,362,183**
Net liquidity gap as of 31 December 2021	**(36,854,005)**	**(13,310,600)**	**(335,749)**	**(9,567,041)**	**58,802,168**	**33,594,369**	**32,329,142**
Cumulative net liquidity gap as of 31 December 2021	**(36,854,005)**	**(50,164,605)**	**(50,500,354)**	**(60,067,395)**	**(1,265,227)**	**32,329,142**	**-**

NOTES ON THE FINANCIAL STATEMENTS
Year Ended 31 December 2021

4. RISK MANAGEMENT (Continued)

4.2. Liquidity Risk (Continued)

In RSD thousand
31 December 2020

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total
Cash and balances with central bank	38,982,000	-	-	-	-	-	38,982,000
Derivative	47	-	-	-	-	-	47
Securities	7,247,204	1,737,610	1,324,027	1,189,441	16,169,814	13,579,053	41,247,149
Loans and placements to banks and other financial organizations	13,755,652	389,633	33,146	505	456,981	3,540,529	18,176,446
Loans and placements to customers	5,061,825	6,282,679	6,616,505	19,153,463	64,833,792	8,760,944	110,709,208
Other assets	24,928	49,857	-	-	748	86,524	162,057
TOTAL ASSETS	**65,071,656**	**8,459,779**	**7,973,678**	**20,343,409**	**81,461,335**	**25,967,050**	**209,276,907**
Derivatives	569	-	-	-	-	-	569
Deposits and other liabilities due to banks, other financial organizations and central bank	10,034,177	3,669,965	360,535	583,566	45,934	-	14,694,177
Deposits and other liabilities due to customers	89,932,975	22,362,748	7,832,370	22,363,809	20,815,520	1,133,506	164,440,928
Other liabilities	1,358,982	66,072	51,339	94,127	441,714	3,244	2,015,478
TOTAL LIABILITIES	**101,326,703**	**26,098,785**	**8,244,244**	**23,041,502**	**21,303,168**	**1,136,750**	**181,151,152**
Net liquidity gap as of 31 December 2020	**(36,255,047)**	**(17,639,006)**	**(270,566)**	**(2,698,093)**	**60,158,167**	**24,830,300**	**28,125,755**
Cumulative net liquidity gap as of 31 December 2020	**(36,255,047)**	**(53,894,053)**	**(54,164,619)**	**(56,862,712)**	**3,295,455**	**28,125,755**	**-**

Liquidity risk reporting includes internal and external reporting, which is performed on a daily basis according to the established schedule and in compliance with the system in place.

4. RISK MANAGEMENT (Continued)

4.3. Market Risks

Market risks are the possibility of negative effects on financial result and capital arising from changes in the value of balance sheet and off-balance sheet items of the Bank arising from price movements on the market. Market risks in the narrow sense include foreign exchange risks for all banking operations, equity price risk per items in the trading book and commodity risk. In the broader sense, market risk also includes the risk of changes in interest rates within the banking book.

The objective of market risk management entails the maintenance of the level of exposure to the aforesaid risks acceptable to the Bank and the simultaneous maximizing of financial performance through establishing market positions in respect of existing and new products. For adequate market risk management, the Bank has established an organizational structure suitable for the volume, type and complexity of its operations, and ensured the separation of functions assuming the risk from those in charge of support and control.

In 2021 the Bank complied with the internally and externally defined foreign exchange risk exposure limits.

As of 31 December 2021, the Bank had bank and corporate shares with a total market value of RSD 4.6 billion in its trading book. As of Q4 2018, the Bank started calculating capital requirements for the equity price risk in line with the National Bank of Serbia's Decision on the Capital Adequacy of Banks.

In 2021 the Bank was not exposed to the commodity price risk as it did not possess items in kind.

4.3.1. Foreign Exchange Risk

Foreign exchange risk is the possibility of negative effects on the Bank's financial result and equity due to fluctuations in exchange rates. All the Bank's items denominated in a foreign currency and gold, including dinar items indexed with a foreign currency clause are exposed to the foreign exchange risk.

The process of foreign exchange risk management entails identifying, measuring, minimizing, monitoring, control and foreign exchange risk reporting.

The Bank identifies its exposure to the foreign exchange risk by means of open positions in a certain currency and for all currencies it operates with in aggregate. The Bank's open foreign currency position is the difference between foreign currency assets and liabilities in a particular currency, as well as between RSD assets and liabilities indexed to a currency clause (including the absolute value of the net open positions in gold).

The measurement of foreign exchange risk entails an assessment of the Bank's exposure thereto using the regulatory limits (foreign exchange risk ratio) and internally defined methods. The basis of the measurement and assessment of the Bank's exposure to the foreign exchange risk is the calculation of the foreign currency position per all individually significant currencies and all other currencies stated in aggregate.

Foreign exchange risk monitoring includes projections of foreign exchange risk in order to reduce the Bank's exposure thereto. Such projections allow defining precautionary measures for reducing the Bank's exposure to the foreign exchange risk. Foreign exchange risk measurement and monitoring is performed on a daily basis with the obligatory preparation of detailed reports on the foreign exchange risk ratio in accordance with the Bank's internal bylaws in the following instances:

- the difference between two consecutive foreign exchange risk ratios is 2 percentage points;
- the sum of five consecutive absolute differences between consecutive foreign exchange risk ratios exceeds 5 percentage points.

In 2021 the Bank's foreign exchange risk ratio was within the internally and legally prescribed limits:

	2021	2020
As of 31 December	3.34%	3.42%
MAX	11.44%	17.04%
MIN	0.02%	0.02%
Regulatory limit	Maximum 20%	Maximum 20%

In order to ensure efficient foreign exchange risk control, the Bank pays close attention to the compliance of the foreign exchange ratio, monitors the foreign currency position and departures from the internally and regulatory limits.

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.1. Foreign Exchange Risk (Continued)

The table below presents the Bank's exposure to foreign exchange risk, i.e. the net open foreign exchange position per currencies as of 31 December 2021:

In RSD thousand
31 December 2021

	EUR	USD	CHF	Other currencies	Foreign currency total
Cash and balances with central bank	16,050,350	137,511	264,372	25,592	16,477,825
Securities	10,415,029	-	-	-	10,415,029
Loans and placements to banks and other financial organizations	25,879,176	2,993,943	88,750	64,698	29,026,567
Loans and placements to customers	81,052,013	1,259,757	25,629	-	82,337,399
Other assets	1,796,003	94	1	-	1,796,098
TOTAL ASSETS	**135,192,571**	**4,391,305**	**378,752**	**90,290**	**140,052,918**
Deposits and other liabilities due to banks, other financial organizations and central bank	16,092,146	37,935	92	-	16,130,173
Deposits and other liabilities due to customers	108,281,930	4,486,328	3,127,853	90,164	115,986,275
Provisions	43,542	2,706	-	-	46,248
Other liabilities	648,486	31,421	1,679	1,547	683,133
TOTAL LIABILITIES	**125,066,104**	**4,558,390**	**3,129,624**	**91,711**	**132,845,829**
Off-balance sheet - Net spot position	(8,895,086)	170,653	2,744,741	-	(5,979,692)
Long foreign currency position	1,231,381	3,568	-	2,033	1,236,982
Short foreign currency position	-	-	6,131	3,454	9,585
Net open foreign exchange position as of 31 December 2021	**1,231,381**	**3,568**	**(6,131)**	**(3,454)**	**1,236,982**

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.1. Foreign Exchange Risk (Continued)

In RSD thousand
31 December 2020

	EUR	USD	CHF	Other currencies	Foreign currency total
Cash and balances with central bank	15,016,640	112,158	537,563	32,035	15,698,396
Securities	12,343,312	-	-	-	12,343,312
Loans and placements to banks and other financial organizations	13,814,464	2,478,386	76,521	100,649	16,470,020
Loans and placements to customers	70,161,753	1,306,448	40,964	-	71,509,165
Other assets	1,164,984	39	1	-	1,165,024
TOTAL ASSETS	**112,501,153**	**3,897,031**	**655,049**	**132,684**	**117,185,917**
Deposits and other liabilities due to banks, other financial organizations and central bank	12,615,058	74,503	90	-	12,689,651
Deposits and other liabilities due to customers	96,982,643	4,571,347	2,171,982	125,627	103,851,599
Provisions	16,075	1,912	-	-	17,987
Other liabilities	688,557	32,861	1,602	1,450	724,470
TOTAL LIABILITIES	**110,302,333**	**4,680,623**	**2,173,674**	**127,077**	**117,283,707**
Off-balance sheet - Net spot position	(3,473,554)	778,395	1,518,742	-	(1,176,417)
Long foreign currency position	-	-	117	7,161	7,278
Short foreign currency position	1,274,734	5,197	-	1,554	1,281,485
Net open foreign exchange position as of 31 December 2020	**(1,274,734)**	**(5,197)**	**117**	**7,161**	**(1,281,485)**

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.1. Foreign Exchange Risk (Continued)

The Bank performs regular foreign exchange risk stress testing in order to estimate the impact of extraordinary circumstances and stress events on the Bank's financial result, equity and foreign exchange risk ratio. The table below shows the impact of changes in the exchange rates on the foreign exchange ratio and open foreign currency position:

		31 December 2021
	Foreign exchange ratio (%)	**Open foreign currency position (000 RSD)**
RSD depreciation (15%)	3.84%	185,547

Foreign exchange risk reporting includes internal and external reporting performed on a daily basis.

For the purpose of further monitoring and the assessment of foreign exchange risk, from the beginning of 2020 the Bank also began applying the VaR (value-at-risk) model of the open foreign exchange position monitored on a daily basis. VaR is a measure of the greatest expected loss the Bank can suffer under normal market conditions, in a set time period for a defined level of confidence (probability). The three basic parameters taken into account when assessing VaR are: time period, probability (confidence interval) and currency.

The Bank applies the following parameters in the assessment of VaR:

- period of time – one day,
- probability (confidence interval) – 99%, and
- currency (all currencies in which the Bank has an open foreign exchange position).

The Bank calculates the VaR of the open foreign exchange position on a daily basis (taking into account the net long or short position in each currency) on the one hand, and the realized profit/loss compared to the previous day, depending on the rate of exchange fluctuations, on the other hand. The Bank has also established the internal limit system – "VaR limit".

The internal limits for monitoring VaR open foreign exchange position are not quantified exactly in absolute amounts, but exceeded limits are seen in relation to the calculated VaR - which represents the upper limit of the allowed loss from the Bank's perspective. In that respect, the Bank is considered to have exceeded the VaR limit if the realized daily loss per foreign exchange position is lower than the maximum estimated loss based on the calculated VaR of the open foreign exchange position.

Moreover, the Bank monitors the maximum profit limit, which is considered to be exceeded if the realized daily profit per foreign exchange position is lower than the maximum estimated profit based on the calculated VaR of the open foreign exchange position.

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.2 Interest Rate Risk

Interest rate risk is the probability of negative effects on the Bank's financial result and equity through items of the banking general ledger due to adverse interest rate fluctuations. Movements in interest rates directly affect the generation of interest income due to mismatching between the aggregate interest-bearing assets and interest-bearing liabilities or fixed prices of interest-bearing instruments.

The types of interest risk are as follows:

- risk of temporal mismatch between maturity and repricing (repricing risk);
- yield curve risk due to changes in the yield curve shape (yield curve risk);
- the basis risk, to which the Bank is exposed due to different reference interest rates for interest rate sensitive items with similar maturity or repricing characteristics (basis risk);
- optionality risk, to which the Bank is exposed due to contractually agreed option terms, such as loans with an option of early repayment, deposits with an option of early withdrawal, etc. (optionality risk).

The process of interest rate risk management consists of identification, measurement, minimizing, monitoring, control and interest rate risk reporting.

The Bank identifies, measures and manages interest rate risk on a monthly basis for all significant currencies in the banking book.

The identification of interest rate risk relates primarily to the identification of the form of the interest rate risk that the Bank is exposed to, extent of exposure to each individual form of interest rate risk and establishing opportunities for the measurement of each individual form of interest rate risk.

Interest rate risk measurement entails measuring the impact of the changes in interest rates on the financial performance and economic value of the equity of the Bank. The bank uses the following techniques for interest rate risk measurement: GAP analysis (modified duration method), basis point value method – BPV methodology, ratio analysis and stress testing.

Interest rate risk monitoring primarily includes analysis of the balances, movements and trends in the Bank's interest rate risk exposure. The Bank manages the interest rate risk using the defined limits and prescribed protection measures against interest rate risk.

Minimizing interest rate risk means maintaining this risk at a level that is acceptable for the Bank's risk profile.

The Bank defines the internal limits to interest rate risk exposure based on the internal interest rate GAP report. These internal limits include BPV effect exposure limits (per currency and in total), mismatch ratio limit, and interest rate GAP – modified duration GAP at a standard interest rate shock of 200 basis points relative to the Bank's regulatory capital. In 2021, the Bank complied with the internally defined limits.

The table below provides an overview of internal limits as of 31 December 2021 and 2020:

	Limits	31 December 2021	31 December 2020
Disparity coefficient	0.9-1.5	1.03	0.98
The Bank's exposure to interest risk – BPV methodology total exposure (000 RSD)	35,000	5.813	4,819
The Bank's exposure to interest risk – Gap modified length with interest shock of 200bp (%)	Max 20%	1.87%	1.18%

Interest risk exposure is perceived based on the report on interest GAP, which includes an overview of the monetary assets and liabilities as shown below:

NOTES ON THE FINANCIAL STATEMENTS
Year Ended 31 December 2021

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.2. Interest Rate Risk (Continued)

In RSD thousand
31 December 2021

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total interest-bearing	Non-interest-bearing	Total
Cash and balances with central bank	13,285,331	-	-	-	-	-	13,285,331	20,385,407	33,670,738
Derivatives	-	-	-	-	-	-	-	19,721	19,721
Securities	7,068,649	6,897,557	937,434	-	11,884,160	15,404,917	42,192,717	5,470,311	47,663,028
Loans and placements to banks and other financial organizations	30,238,121	818,617	146,714	-	458,570	3,717,234	35,379,256	344,652	35,723,908
Loans and placements to customers	22,252,688	11,485,362	8,613,336	10,107,394	56,735,949	6,972,761	116,167,490	224,597	116,392,087
Other assets	-	-	-	-	-	-	-	221,843	221,843
TOTAL ASSETS	**72,844,789**	**19,201,536**	**9,697,484**	**10,107,394**	**69,078,679**	**26,094,912**	**207,024,794**	**26,666,531**	**233,691,325**
Deposits and other liabilities due to banks, other financial organizations and central bank	14,809,600	272,881	1,242,318	1,416,287	21,541	-	17,762,627	38,440	17,801,067
Deposits and other liabilities due to customers	94,965,245	24,279,764	10,357,962	23,820,387	26,038,026	1,306,483	180,767,867	902,526	181,670,393
Other liabilities	-	-	-	-	-	-	-	1,890,723	1,890,723
TOTAL LIABILITIES	**109,774,845**	**24,552,645**	**11,600,280**	**25,236,674**	**26,059,567**	**1,306,483**	**198,530,494**	**2,831,689**	**201,362,183**
Net gap as of 31 December 2021	**(36,930,056)**	**(5,351,109)**	**(1,902,796)**	**(15,129,280)**	**43,019,112**	**24,788,429**	**8,494,300**	**23,834,842**	**32,329,142**
Cumulative net gap as of 31 December 2021	**(36,930,056)**	**(42,281,165)**	**(44,183,961)**	**(59,313,241)**	**(16,294,129)**	**8,494,300**	**8,494,300**	**23,834,842**	**32,329,142**

NOTES ON THE FINANCIAL STATEMENTS
Year Ended 31 December 2021

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.2. Interest Rate Risk (Continued)

In RSD thousand
31 December 2020

	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Total interest-bearing	Non-interest-bearing	Total
Cash and balances with central bank	20,095,354	-	-	-	-	-	20,095,354	18,886,646	38,982,000
Pledged financial assets	-	-	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-	47	47
Securities	4,518,226	5,780,854	997,160	958,062	12,774,873	12,203,158	37,232,333	4,014,816	41,247,149
Loans and placements to banks and other financial organizations	14,871,627	382,295	32,811	-	458,563	2,350,863	18,096,159	80,287	18,176,446
Loans and placements to customers	2,289,547	7,099,065	5,980,582	17,363,687	68,204,074	8,373,472	109,310,427	1,398,781	110,709,208
Other assets	-	-	-	-	-	-	-	162,057	162,057
TOTAL ASSETS	**41,774,754**	**13,262,214**	**7,010,553**	**18,321,749**	**81,437,510**	**22,927,493**	**184,734,273**	**24,542,634**	**209,276,907**
Derivatives	-	-	-	-	-	-	-	569	569
Deposits and other liabilities due to banks, other financial organizations and central bank	13,549,434	142,983	352,591	583,061	45,934	-	14,674,003	20,174	14,694,177
Deposits and other liabilities due to customers	90,018,012	23,077,592	7,728,276	22,011,336	20,078,505	684,440	163,598,161	842,767	164,440,928
Other liabilities	-	-	-	-	-	-	-	2,015,478	2,015,478
TOTAL LIABILITIES	**103,567,446**	**23,220,575**	**8,080,867**	**22,594,397**	**20,124,439**	**684,440**	**178,272,164**	**2,878,988**	**181,151,152**
Net gap as of 31 December 2020	**(61,792,692)**	**(9,958,361)**	**(1,070,314)**	**(4,272,648)**	**61,313,071**	**22,243,053**	**6,462,109**	**21,663,646**	**28,125,755**
Cumulative net gap as of 31 December 2020	**(61,792,692)**	**(71,751,053)**	**(72,821,367)**	**(77,094,015)**	**(15,780,944)**	**6,462,109**	**6,462,109**	**21,663,646**	**28,125,755**

4. RISK MANAGEMENT (Continued)

4.3. Market Risks (Continued)

4.3.2. Interest Rate Risk (Continued)

In the process of interest rate risk measurement, the Bank uses GAP analysis encompassing all interest-bearing balance and off-balance sheet items in accordance with:

- Re-fixing the interest rate (in instances of variable interest rates) – all assets and liabilities maturing prior to the date of re-fixing the interest rate are grouped in time brackets based on the remaining maturity. In instances of administrative interest rates (e.g. key policy rate, discount rate) for which the re-fixing date is not known, classification into appropriate time brackets is performed based on historical data analysis;
- Remaining maturities of respective items (in case of fixed interest rates) – classification in the time brackets is performed according to the repayment schedule.

One of the segments of interest rate risk management entails considering interest rate risk exposure under stress circumstances. The Bank performs stress testing on a monthly basis in order to identify and measure interest rate risk under extraordinary circumstances, by analysing the possible impact on the Bank's financial result and equity. The results of the conducted stress testing are considered against the internally set limits for their impact on the Banks profit or loss and equity. In 2021, the Bank was in full compliance with all the set limits.

The standard stress test entails scenarios based on the assumed movements in domestic and foreign reference interest rates:

- Scenario 1 – Decrease of the variable interest rates by 200bp;
- Scenario 2 – A more rapid increase of borrowing interest rates than that of lending interest rates (100bp/50bp).

	Limit (%)	Scenario 1 impact (in 000 RSD) as of 31 December 2021	Scenario 2 impact (in 000 RSD) as of 31 December 2021
On profit	± 50%	-5.17%	-4.19%
On net assets	± 10%	-0.13%	-0.16%
On equity	± 10%	-0.90%	-1.13%

In addition, the Bank separately considers optionality risk, i.e., the impact of early loan repayment and early deposit withdrawal by analysing the historical behaviour of the Bank's clients and using expert assessment. For certain items where there is no defined maturity date or interest rate repricing date, the Bank assesses movements and trends and deploys appropriate models.

4.3.3. Price Risk

As of 31 December 2021, the Bank had bank and corporate shares of the total market value of RSD 4.6 billion in its trading book. Given that the value of the Bank's trading book items exceeded RSD 1.8 billion for over three consecutive working days in a calendar month and that at one point the said value was in excess of RSD 2.4 billion (Article 310, Paragraph 4 of the National Bank of Serbia's Decision on the Capital Adequacy of Banks), the Bank calculated the capital requirement for general and specific price risks as of 31 December 2021.

The Bank's trading book was in compliance with the Bank's internally defined limits during the entire year.

As of 31 December 2021, the Bank's capital requirement for general and specific price risk based on equity securities amounted to RSD 729.4 million.

The Bank did not contract any forward transactions.

4. RISK MANAGEMENT (Continued)

4.4. Operational Risk

Operational risk is the possibility of negative effects on the Bank’s financial result and equity due to employee errors (intentional or accidental), inadequate procedures and processes in the Bank, the inadequate management of information and other systems in the Bank, as well as the occurrence of unforeseen external events. Operational risk includes legal risk.

The operational risk management process also covers risks connected to the processing of personal data, such as accidental or unlawful destruction, loss, alteration, unauthorized disclosure or access to personally identifiable information that is transferred, stored or otherwise processed.

Operational risks are identified for all significant products, service outsourcing, processes, systems and external factors. Operational risk identification throughout the Bank is performed through a combination of mapping operational risks, the performance of self-assessment and risk control, as well as the collection of information on events deemed to constitute operational risks.

The Bank monitors operational risk events per the following business lines: corporate financing, trading and sales, broker-dealer operations with retail customers, banking operations involving corporate customers, banking operations involving retail customers, payment transfers, agency services and asset management services.

The Bank classifies identified events into predefined categories of events giving rise to losses: internal and external fraud, omissions in relations with employees and the system of safety at work, omissions and irregularities in relations with customers, in respect of the products and operating procedures, damage to tangible assets, interruptions in operations and errors in the Bank’s systems, omissions in the performance of transactions and deliveries and process management in the Bank.

The Bank performs both quantitative and qualitative measurements of its operational risk exposure. The measurement includes risk assessment, risk early warning indicators, scenario analysis and the collection of information and data on operational risk events. The Bank measures/assesses operational risk exposure taking into account the possibility (frequency) of such risk occurrence, as well as its potential effects on the Bank’s financial result, with a particular focus on events assessed as unlikely to occur, but assumed or known to be able to cause huge material losses should they occur after all. Upon the measurement and assessment of operational risk, the Bank particularly estimates whether it is or may be exposed to this type of risk with regard to the introduction of new products, activities, processes and systems and whether and how its outsourced activities (if any) may affect the operational risk level.

The control, monitoring of and reporting on the identified and assessed sources of risk, as well as undertaking measures to alleviate the possible adverse effect of these risks are an integral part of the operational risk management process.

The Bank’s Board of Directors has adopted the Business Continuity Plan, as well as the Disaster Recovery Plan and the Executive Board is responsible for their implementation, the training and testing of employees and introducing the employees to their roles and responsibilities in the event of an emergency.

In order to ensure the continuity of its operations, the Bank has determined the key activities (including third party activities), resources and systems required for conducting business processes, critical times for certain processes, and risks that may disrupt the continuity of operations, while its Recovery Strategy defines the key goals that the Bank needs to achieve in the event of interrupted operations.

Bank's capital requirement for operational risk as of 31 December 2021 and 31 December 2020 amounted to RSD 1.99 million and RSD 1.76 million respectively.

4.5. Investment Risk

The Bank’s investment risks include risks of the Bank’s investments in other legal entities and capital expenditures, where:

- the Bank’s investment in a single non-financial-sector entity may not exceed 10% of its own assets (the Bank's acquisition of shares or equity interest in a non-FS entity); and
- the sum of the total Bank’s investments in non-FS entities and capital expenditures may not exceed 60% of the Bank’s equity; this restriction, however, does not apply to the acquisition of shares for further sale within 6 months of the acquisition date.

The Bank’s exposure to the investment risk was within the prescribed limits in 2021.

4. RISK MANAGEMENT (Continued)

4.6. Exposure Risk

The risk of the Bank's exposure to the same or similar risk source or the same or similar risk type – concentration risk – refers to the Bank's large exposure to a single party or a group of related parties of over 10% of its equity, which is the sum of the Bank's stake capital and supplementary capital up to one third of its stake capital and in accordance with the National Bank of Serbia's Decision on Risk Management by Banks. The Bank's exposures to a single party or a group of related parties cannot exceed 25% of the Bank's capital, and the aggregate sum of all exposures cannot exceed 400% of the Bank's capital calculated in the above-explained manner.

The Bank controls the exposure risk using pre-defined exposure limits that enable loan portfolio diversification and the use of tangible and intangible collaterals in accordance with the National Bank of Serbia's Decision on the Capital Adequacy of Banks.

The Bank's largest exposure to a single party or a group of related parties as of 31 December 2021 was 30.02% (which the National Bank of Serbia was informed about), whereas the sum of large exposures was 235.06%. The Bank's exposure indicator to a single party or a group of related parties was reconciled on the next business day, i.e. on 4 January 2022.

4.7. Country Risk

Country risk is the risk that relates to:

- the risk of the country of origin of an entity with which the Bank has concluded a business transaction; and
- the risk of the occurrence of negative effects on the Bank's financial result and equity due to its inability to collect receivables from the said entity/entities caused by political, economic and social circumstances in the country of origin of the said entity/entities.

Country risk includes:

- political and economic risk (Bank's inability to collect receivables due to limitations stipulated by government regulations of the borrower's country of origin or due to other general and systemic circumstance in the given country); and
- transfer risk (inability to collect receivables denominated in a currency that is not the official currency of the borrower's country of origin due to limitations of liability settlement towards creditors from other countries in a specific currency, which are stipulated by government regulations of the borrower's country of origin).

The Bank manages country risk by defining and monitoring the exposure limits, which are determined individually as per the customer's country of origin. The Bank uses internationally defined and recognized standards for country risk assessment and measurement. In order to secure its operations from country risk, the Bank applies the Risk Management Policy and the Country Risk Management Procedure.

The Bank's exposure to the country risk was within the prescribed limits in 2021.

4.8. Capital Management

The Bank has established a risk management system in accordance with the volume and structure of its business activities and the capital management is aimed at the unhindered achievement of the Bank's business strategy goals.

The Bank defines its business strategy goals and periods for their realization in its Business Policies and Business Strategy with a three-year strategic plan.

The calculation of the amount of capital and the capital adequacy ratio is performed in accordance with Basel III Standard.

4. RISK MANAGEMENT (Continued)

4.8. Capital Management (Continued)

The key objectives of capital management are:

- maintaining the minimum amount of capital of EUR 10 million in RSD equivalent at the official median exchange rate;
- maintaining the minimum levels of the Bank's regulatory capital adequacy ratios in accordance with the National Bank of Serbia's Decision on Capital Adequacy of Banks, maintaining trust in the safety and stability of its operations,
- achieving business and financial plans that can support the expected increase in loans, future sources of funds and their usage, and
- implementing its dividend policy.

The Bank's strategic objective is to maintain capital adequacy ratios at a level above the prescribed minimum (4.5% of the share capital adequacy ratio, 6% of the stake capital adequacy ratio and 8% of the capital adequacy ratio) and minimum at a level that allows coverage of the requirement for the combined capital buffer in accordance with the National Bank of Serbia's Decision on the Capital Adequacy of Banks. As of 31 December 2021, the Bank calculated the share capital adequacy ratio, the stake capital adequacy ratio and the total capital adequacy ratio in accordance with the National Bank of Serbia's Decision on the Capital Adequacy of Banks.

4.9. Capital Adequacy Ratio

	In RSD thousand 31 December 2021
Share capital	36,818,798
Supplementary capital	267,928
Equity	37,086,726
Credit risk-weighted assets	146,839,827
Risk-weighted assets based on market risk exposure	10,354,757
Risk-weighted assets based on operational risk exposure	24,839,304
Risk-weighted assets based on credit risk adjustment	18,471
Share capital adequacy ratio (min. 4.5%)	***20.22%***
Stake capital adequacy ratio (min. 6%)	***20.22%***
Capital adequacy ratio (min. 8%)	***20.37%***

	31 December 2020
Share capital	37,175,138
Supplementary capital	267,966
Equity	37,443,104
Credit risk-weighted assets	137,956,819
Risk-weighted assets based on market risk exposure	8,005,659
Risk-weighted assets based on operational risk exposure	22,002,039
Risk-weighted assets based on credit risk adjustment	5,795
Share capital adequacy ratio (min. 4.5%)	***22.13%***
Stake capital adequacy ratio (min. 6%)	***22.13%***
Capital adequacy ratio (min. 8%)	***22.29%***

In 2021, the capital adequacy ratio was well in excess of the prescribed regulatory limit of 8%.

The amount and structure of the Bank's capital always need to provide coverage of the minimum capital requirements and internal capital requirements regarding the risks that the Bank is exposed to in its operations, in full compliance with the Risk Management Strategy and Policy.

4. RISK MANAGEMENT (Continued)

4.9. Capital Adequacy Ratio (Continued)

By implementing the Capital Management Strategy and Plan, the Bank performs the process of internal capital adequacy assessment, i.e. determines the amount of internal capital in accordance with its risk-weighted portfolio, thereby computing the capital requirements for risks that it has identified as materially significant.

The Bank's Capital Management Strategy and Plan ensures that at all times the Bank has at its disposal such a level and such a structure of internal capital so as to provide the Bank's compliance with all its legal obligations, maintenance of the trust of its shareholders and depositors in the security and stability of its operations, realization of the Bank's business and financial plans, which can support the expected growth of the Bank's loans and investments, future sources of funds and their deployment, dividend policy and all changes to the prescribed minimum amount of capital.

The Bank's Capital Management Strategy and Plan contains:

- Organization of the internal capital management process, which includes the competencies and responsibilities of the Bank's bodies and boards: Bank's Assembly, Board of Directors, Executive Board, other Bank's committees and competent divisions and departments: Risk Control Department, Treasury, Compliance Division, Planning and Analysing Division and Internal Audit Unit;
- Procedures for planning adequate internal capital levels;
- Definition of Bank's capital – stake capital, supplementary capital and deductible items;
- Internal capital adequacy assessment process (described in detail in the Methodology for Internal Capital Requirement Assessment);
- Calculation of the capital requirements for credit risk (determining credit risk-weighted assets, capital requirements for settlement risk and counterparty risk);
- Calculation of the capital requirements for market risks,
- Calculation of the capital requirements for operational risks;
- Main principles of the internal capital adequacy assessment process;
- Available internal capital management, and
- Business continuity plan in case of the occurrence of unforeseen events that could affect the amount of the Bank's internal capital.

5. USE OF ESTIMATES AND JUDGMENTS

The preparation and presentation of the financial statements in accordance with IFRS requires the Bank's management to make judgments, estimates and assumptions that affect the application of the accounting policies and amounts of assets and liabilities and income and expenses presented in the financial statements. Actual results may vary from these estimates. Estimates and assumptions are subject to constant review and are based on previous (historical) experience and other factors, including anticipation of future events deemed reasonable under the current circumstances. Revised accounting estimates are recognized in the period in which the revisions were made, as well as in those future periods affected by the revisions of the estimates.

Assumptions and other sources of uncertainty estimate on the balance sheet date that have a significant risk of causing a material adjustment to items in the financial statements within the next financial year are provided below.

5.1. Key Sources of Estimate Uncertainty

Provisions for Credit Losses

Impairment of assets carried at amortized cost is estimated in the manner described in the accounting policy in Note 3.9. - Impairment Identification and Measurement.

A separate counterparty element in the aggregate impairment provision is applied to financial assets subject to individual-level impairment assessment, and is based on the management's best estimate of the present value of expected future cash flows. Upon estimating such cash flows, the management makes estimates on the financial standing of the counterparty and on the net realizable value of the existing collateral. Each impaired asset is assessed in terms of quality and output strategy, where the Bank's Credit Risk Function independently approves the estimate of the cash flows considered to be recoverable.

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

5.1. Key Sources of Estimate Uncertainty (Continued)

Provisions for Credit Losses (Continued)

Provisions assessed on a group level cover credit losses inherent in the portfolios of loans and receivables and securities held to maturity sharing similar credit risk characteristics due to the objective evidence of impaired items that are no yet identifiable. Upon estimating the need for forming group-level provisions for losses, the management takes into accounts factors such as loan quality, size of the portfolio, risk concentration and economic factors.

In order to estimate the required provision, the management makes assumptions to define the manner for modelling losses inherent in the portfolio and determine the necessary inputs, based on historical experience and current economic circumstances. The accuracy of provision depends on the estimated cash flows for individual counterparty provisions, as well as on the assumptions and inputs of the model used in determining the amount of group-level provision.

Fair Value Assessment

Determining the fair value of financial assets and liabilities for which there is no observable market price requires uses estimation techniques described in the accounting policy in Note 3.9. - Fair Value Measurement. Fair values of financial instruments which are rarely traded and the prices of which are not very transparent are less objective and require estimating to a greater extent, depending on the liquidity, concentration, uncertainty of the market factors, assumptions on pricing and other risks related to the specific instruments.

Retirement Benefits

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

As these plans are long-term ones, significant uncertainties influence the outcome of the assessment. Additional information is disclosed in Note 36 to the financial statements.

5.2. Key Accounting Estimates in the Application of Bank's Accounting Policies

Measurement of Financial Instruments

The Bank's accounting policy on the fair value measurement is disclosed in Note 3.9.

The Bank measures fair value of financial assets using the following fair value hierarchy of the quality of the inputs used in measurement of the inputs used in measurement:

- Level 1 - Quoted prices (unadjusted) on active markets for identical instruments.
- Level 2: Valuation techniques based on inputs that are not quoted prices for identical instruments but are information available and determinable either directly (e.g. prices) or indirectly (e.g. derived from prices). This level includes instruments measured using the official active market prices of instruments with similar characteristics, official market prices of identical instruments or instruments with similar characteristics in a market deemed less active or using other measurement techniques with all significant inputs directly or indirectly available on the market.
- Level 3: Valuation techniques that use unavailable and undeterminable inputs. This level includes all instruments the fair values of which are assessed based on unavailable or unobservable input data, which therefore have significant effects on the instrument's fair value measurement. Such instruments are measured based on the official market prices for instruments with the similar characteristics, where significant adjustment or assumptions are required to reflect the differences between the instruments.

Fair values of financial assets and financial liabilities traded in an active market are based on the market prices. The Bank determines the fair values of all other financial instruments using valuation techniques.

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

5.2. Key Accounting Estimates in the Application of Bank's Accounting Policies (Continued)

Measurement of Financial Instruments (Continued)

Valuation techniques include the net present value and discounted cash flows, comparison to similar instruments for which observable market prices are available and other methods. Assumptions and inputs used in valuation techniques include risk-free and key policy interest rates, credit spreads and other factors used in estimating discount rates, prices of bonds or equity, foreign exchange rates, equity and equity price indexes and the expected instability of prices and correlations. The objective of the use of valuation techniques is to determine the fair value that reflects the price of a financial instrument at the reporting date, which would be determined by market participants in an arm's length transaction.

The Bank uses generally accepted models for determining the fair values of regular and common financial instruments such as interest and currency swaps, for which exclusively observable inputs are used, requiring less estimates and assumptions to be made by the management. Observable model inputs are mostly available on the market of the quoted debt and equity instruments, trading derivatives and simple derivatives such as interest rate swaps.

Availability of observable market prices and model inputs reduces the need for estimates and assumptions made by management and reduces uncertainty associated with determining fair value. Availability of observable market prices and inputs varies depending on the products and market; it is prone to changes caused by various events and general conditions prevailing in the future markets.

Accounting Estimates related to the Assessment whether the Bank has Control over Legal Entities

In accordance with the requirements of IFRS 10 "Consolidated Financial Statements" and IFRS 12 "Disclosure of Interests in Other Entities", the Bank reassesses whether it truly exercises control over its investee and considers all the facts, events, and circumstances indicating that there may have been a change in one or more of the three elements of control. The Bank also considers changes that affect its exposure to or rights to variable returns from its involvement with the investee. The Bank's initial assessment of control does not change merely due to the occurrence of different market conditions (e.g., change in the returns from the investee triggered by market conditions), unless such changes in market conditions cause changes in one or more of the three elements of control or the entire relationship with the investee has changed.

Under IFRS 10, control over an investee is achieved when the investor has exposure, or rights, to variable returns from its involvement with the investee and has the ability the ability to use its power over the investee to affect the amount of returns. Hence, the investor controls the investee only and only if the all of the following criteria are met:

(a) power over the investee;
(b) exposure or rights to variable returns from its involvement with the investee, and
(c) the ability to use its power over the investee to affect the amount of returns.

Taking into consideration the requirements of the aforesaid standards, and based on its own assessment, the Bank determined that it had acquired control over an investee in 2018, but it is not required to prepare consolidated financial statements as of 31 December 2021 and 2020 since it meets all requirements under IFRS 10.4 and Article 32 of the Law on Accounting.

Useful Life of Intangible Assets, Property, Plant and Equipment

The determination of the useful lives of intangible assets, property, plant and equipment is based on historical experience with similar assets, as well as the anticipated technical development and changes affected by numerous economic and industrial factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions.

6. FINANCIAL ASSETS AND LIABILITIES – ACCOUNTING CLASSIFICATION AND FAIR VALUE

The following table provides a breakdown of financial instruments measured at fair value at the end of the reporting period per fair value hierarchy levels based on which fair value measurement is categorized.

In RSD thousand
31 December 2021

	Level 1	Level 2	Level 3	Total assets/liabilities at fair value
Assets				
Derivatives	-	-	19,721	19,721
Securities measured at FVTPL	10,270,858	-	-	10,270,858
Securities measured at FVOCI	-	36,533,272	-	36,533,272
Total	**10,270,858**	**36,533,272**	**19,721**	**46,823,851**

Level 1 includes financial instruments traded on the stock exchange, while Level 2 includes securities the fair values of which are assessed based on the internally developed models based on the information from auctions on the secondary securities market. Fair values of assets determined based on the prices from the stock market for instruments with similar characteristics are allocated to Level 3.

The carrying values and fair values of financial assets and liabilities not measured at fair value are presented in the table below:

In RSD thousand
31 December 2021

	Carrying value	Fair value	Level 1	Level 2	Level 3
Financial assets					
Loans and placements to customers	116,392,087	121,286,290	-	-	121,286,290
Securities measured at amortised cost	858,898	892,878	-	-	892,878
Financial liabilities					
Deposits and other liabilities due to customers	181,670,393	182,176,669	-	-	182,176,669

The methodology and assumptions used for calculating fair values of the aforesaid financial assets and liabilities not stated at fair value in the financial statements are as follows:

Assets whose fair values approximate their carrying values

For highly liquid financial assets and liabilities with short-term maturities (up to a year) it is assumed that their carrying values approximate their fair values. This assumption is also used for demand deposits, savings deposits without a defined maturity and all financial instruments at variable interest rates.

Fixed rate financial instruments

The fair value of financial assets and liabilities at fixed interest rates carried at amortized cost is assessed by comparing the market interest rates upon initial recognition to the current interest rates prevailing on the market for financial assets with similar characteristics.

The estimated fair values of financial instruments at fixed interest rates is based on the cash flows discounted using the interest rate prevailing on the money market for financial instruments with similar credit risk characteristics and maturities.

Financial assets held to maturity, loans and deposits include a portion of the fixed interest rate portfolio, which gives rise to the differences between their carrying values and fair values.

7. SEGMENT REPORTING

7.1. The Bank's Income Statement per Segment

In RSD thousand

Item	Corporate	Public	SME	Retail	Other	2021 Total
Interest income	4,454,368	689,524	304,161	1,117,897	1,176,415	7,742,365
Interest expenses	(289,262)	(211,205)	(35,631)	(781,621)	(318,870)	(1,636,589)
Net interest income	**4,165,106**	**478,319**	**268,530**	**336,276**	**857,545**	**6,105,776**
Fee and commission income	711,522	160,643	516,777	583,359	378,404	2,350,705
Fee and commission expenses	(61,293)	(247)	(28,206)	(9,128)	(571,334)	(670,208)
Net fee and commission income	**650,229**	**160,396**	**488,571**	**574,231**	**(192,930)**	**1,680,497**
Net gains from changes in fair value of financial instruments	-	-	-	-	1,705,757	1,705,757
Net gains from derecognition of financial instruments measured at fair value	-	-	-	-	1,417	1,417
Net foreign exchange (losses) and effects of contracted foreign currency clause	-	-	-	-	(119,901)	(119,901)
Net gains from reversal of impairment on financial assets not measured at fair value through profit or loss	-	-	-	-	643,390	643,390
Net gains from derecognition of financial instruments measured at amortized cost	-	-	-	-	21,539	21,539
Other operating income	251,022	4,711	68,700	29,822	132,315	486,570
Total operating income	**5,416,912**	**854,878**	**889,638**	**1,731,078**	**4,059,237**	**12,951,743**
Total operating expenses	**(350,555)**	**(211,452)**	**(63,837)**	**(790,749)**	**(1,010,105)**	**(2,426,698)**
Total operating income, net	**5,066,357**	**643,426**	**825,801**	**940,329**	**3,049,132**	**10,525,045**
Salaries, compensations and other personal expenses	-	-	-	-	(1,321,584)	(1,321,584)
Depreciation and amortization expenses	-	-	-	-	(475,356)	(475,356)
Other income	-	-	-	-	460,049	460,049
Other expenses	-	-	-	-	(2,661,978)	(2,661,978)
Profit/(loss) before tax	**5,066,357**	**643,426**	**825,801**	**940,329**	**(949,737)**	**6,526,176**
Profit before tax (the Bank)						**6,526,176**

* The column "Other" includes all income/expenses that do not relate to the previously mentioned segments, it includes the Treasury and other items not directly categorised for the presented segments.

7. SEGMENT REPORTING (Continued)

7.1. The Bank's Income Statement per Segment (Continued)

In RSD thousand

Item	Corporate	Public	SME	Retail	Other	2020 Total
Interest income	4,817,074	805,133	331,274	1,301,756	924,107	8,179,344
Interest expenses	(300,707)	(233,809)	(69,060)	(820,980)	(263,087)	(1,687,643)
Net interest income	**4,516,367**	**571,324**	**262,214**	**480,776**	**661,020**	**6,491,701**
Fee and commission income	570,117	139,106	468,962	517,753	269,816	1,965,754
Fee and commission expenses	(31,360)	(230)	(38,810)	(7,653)	(443,982)	(522,035)
Net fee and commission income / (expense)	**538,757**	**138,876**	**430,152**	**510,100**	**(174,166)**	**1,443,719**
Net losses from changes in fair value of financial instruments	-	-	-	-	(90,467)	(90,467)
Net gains from derecognition of financial instruments measured at fair value	-	-	-	-	683,487	683,487
Net gains from hedging	-	-	-	-	19	19
Net foreign exchange gains and effects of contracted foreign currency clause	-	-	-	-	123,361	123,361
Net gains from reversal of impairment on financial assets not measured at fair value through profit or loss	-	-	-	-	597,692	597,692
Net gains from derecognition of financial instruments measured at amortized cost	-	-	-	-	17,851	17,851
Other operating income	256,640	3,146	87,911	22,114	4,805,773	5,175,584
Total operating income	**5,643,831**	**947,385**	**888,147**	**1,841,623**	**7,422,106**	**16,743,092**
Total operating expenses	**(332,067)**	**(234,039)**	**(107,870)**	**(828,633)**	**(797,536)**	**(2,300,145)**
Total operating income, net	**5,311,764**	**713,346**	**780,277**	**1,012,990**	**6,624,570**	**14,442,947**
Salaries, compensations and other personal expenses	-	-	-	-	(1,343,772)	(1,343,772)
Depreciation and amortization expenses	-	-	-	-	(443,992)	(443,992)
Other income	-	-	-	-	404,339	404,339
Other expenses	-	-	-	-	(2,498,365)	(2,498,365)
Profit before tax	**5,311,764**	**713,346**	**780,277**	**1,012,990**	**2,742,780**	**10,561,157**
Profit before tax (the Bank)						**10,561,157**

NOTE: The arrangement of the Income Statement and Balance Sheet items was made based on the internal customer segmentation. The allocation of income and expenses per segments was performed for interest income and expense, fee and commission income and expenses, net income/expenses from the impairment of financial assets and credit risk-weighted off-balance sheet items.

7. SEGMENT REPORTING (Continued)

7.2. The Bank's Balance Sheet per Segment

In RSD thousand
31 December 2021

Item	Corporate	Public	SME	Retail	Other	Total
Cash and balances with central bank	-	-	-	-	33,670,738	33,670,738
Derivatives	-	-	-	-	19,721	19,721
Securities	-	-	-	-	47,663,028	47,663,028
Loans and placements to banks and other financial organizations	-	-	-	-	35,723,908	35,723,908
Loans and placements to customers	83,050,372	11,902,220	6,244,282	15,140,045	55,168	116,392,087
Investments in subsidiaries	-	-	-	-	11,923,810	11,923,810
Intangible assets	-	-	-	-	475,749	475,749
Property, plant and equipment	-	-	-	-	1,248,435	1,248,435
Investment property	-	-	-	-	5,603,528	5,603,528
Current tax assets	-	-	-	-	1,166,336	1,166,336
Deferred tax assets	-	-	-	-	327,475	327,475
Non-current assets held for sale and assets from discontinued operations	-	-	-	-	5,537	5,537
Other assets	1,785,374	19,869	53,785	54,144	828,577	2,741,749
TOTAL ASSETS	**84,835,746**	**11,922,089**	**6,298,067**	**15,194,189**	**138,712,010**	**256,962,101**
LIABILITIES AND EQUITY	**36,802,206**	**15,758,263**	**12,913,639**	**111,130,334**	**80,357,659**	**256,962,101**
Derivatives	-	-	-	-	-	-
Deposits and other liabilities due to banks, other financial organizations and central bank	-	-	-	-	17,801,067	17,801,067
Deposits and other liabilities due to customers	36,245,107	15,570,315	12,460,833	110,612,931	6,781,207	181,670,393
Provisions	100,929	132,240	30,290	82,127	200,733	546,319
Other liabilities	456,170	55,708	422,516	435,276	521,053	1,890,723
TOTAL LIABILITIES	**36,802,206**	**15,758,263**	**12,913,639**	**111,130,334**	**25,304,060**	**201,908,502**
EQUITY	**-**	**-**	**-**	**-**	**55,053,599**	**55,053,599**
Share capital	-	-	-	-	27,195,730	27,195,730
Profit	-	-	-	-	13,237,614	13,237,614
Reserves	-	-	-	-	14,620,255	14,620,255

7. SEGMENT REPORTING (Continued)

7.2. The Bank's Balance Sheet per Segment (Continued)

In RSD thousand
31 December 2020

Item	Corporate	Public	SME	Retail	Other	Total
Cash and balances with central bank	-	-	-	-	38,982,000	38,982,000
Derivatives	-	-	-	-	47	47
Securities	-	-	-	-	41,247,149	41,247,149
Loans and placements to banks and other financial organizations	-	-	-	-	18,176,446	18,176,446
Loans and placements to customers	79,556,765	10,723,117	5,276,848	15,125,844	26,634	110,709,208
Investments in subsidiaries	-	-	-	-	11,923,810	11,923,810
Intangible assets	-	-	-	-	509,550	509,550
Property, plant and equipment	-	-	-	-	2,220,821	2,220,821
Investment property	-	-	-	-	8,417,955	8,417,955
Current tax assets	-	-	-	-	419,893	419,893
Deferred tax assets	-	-	-	-	78,693	78,693
Non-current assets held for sale and assets from discontinued operations	-	-	-	-	5,537	5,537
Other assets	1,197,950	15,485	54,607	67,686	904,790	2,240,518
TOTAL ASSETS	**80,754,715**	**10,738,602**	**5,331,455**	**15,193,530**	**122,913,325**	**234,931,627**
LIABILITIES AND EQUITY	**28,129,450**	**21,990,588**	**12,610,691**	**97,255,650**	**74,945,248**	**234,931,627**
Derivatives	-	-	-	-	569	569
Deposits and other liabilities due to banks, other financial organizations and central bank	-	-	-	-	14,694,177	14,694,177
Deposits and other liabilities due to customers	27,484,907	21,547,010	12,174,060	96,676,494	6,558,457	164,440,928
Provisions	194,077	86,381	75,877	72,756	245,278	674,369
Other liabilities	450,466	357,197	360,754	506,400	340,661	2,015,478
TOTAL LIABILITIES	**28,129,450**	**21,990,588**	**12,610,691**	**97,255,650**	**21,839,142**	**181,825,521**
EQUITY	-	-	-	-	**53,106,106**	**53,106,106**
Share capital	-	-	-	-	27,195,730	27,195,730
Profit	-	-	-	-	10,920,167	10,920,167
Reserves	-	-	-	-	14,990,209	14,990,209

7. SEGMENT REPORTING (Continued)

7.3. The Bank's Income Statement per Geographic Segment

In RSD thousand

Item	Belgrade	Novi Sad	Kragujevac	Nis	Head Office	2021 Total
Interest income	1,015,108	545,923	230,570	521,500	5,429,264	7,742,365
Interest expenses	(393,147)	(131,844)	(102,846)	(276,754)	(731,998)	(1,636,589)
Net interest income	**621,961**	**414,079**	**127,724**	**244,746**	**4,697,266**	**6,105,776**
Fee and commission income	494,901	202,861	126,102	391,089	1,135,752	2,350,705
Fee and commission expenses	(6,384)	(1,294)	(1,089)	(4,423)	(657,018)	(670,208)
Net fee and commission income / (expense)	**488,517**	**201,567**	**125,013**	**386,666**	**478,734**	**1,680,497**
Net gains from changes in fair value of financial instruments	-	-	-	-	1,705,757	1,705,757
Net gains from derecognition of financial instruments measured at fair value	-	-	-	-	1,417	1,417
Net foreign exchange gains and effects of contracted foreign currency clause	-	-	-	-	(119,901)	(119,901)
Net gains from reversal of impairment on financial assets not measured at fair value through profit or loss	-	-	-	-	643,390	643,390
Net gains from derecognition of financial instruments measured at amortized cost	-	-	-	-	21,539	21,539
Other operating income	11,796	4,073	2,937	4,527	463,237	486,570
Total operating income	**1,521,805**	**752,857**	**359,609**	**917,116**	**9,400,356**	**12,951,743**
Total operating expenses	**(399,531)**	**(133,138)**	**(103,935)**	**(281,177)**	**(1,508,917)**	**(2,426,698)**
Total net operating income/expenses	**1,122,274**	**619,719**	**255,674**	**635,939**	**7,891,439**	**10,525,045**
Salaries, compensations and other personal expenses	-	-	-	-	(1,321,584)	(1,321,584)
Depreciation and amortization expenses	-	-	-	-	(475,356)	(475,356)
Other income	-	-	-	-	460,049	460,049
Other expenses	-	-	-	-	(2,661,978)	(2,661,978)
Profit before tax	**1,122,274**	**619,719**	**255,674**	**635,939**	**3,892,570**	**6,526,176**
Profit before tax (the Bank)						**6,526,176**

NOTES ON THE FINANCIAL STATEMENTS
Year Ended 31 December 2021

7. SEGMENT REPORTING (Continued)

7.3. The Bank's Income Statement per Geographic Segment (Continued)

In RSD thousand
2020

Item	Belgrade	Novi Sad	Kragujevac	Nis	Head Office	Total
Interest income	1,245,527	531,090	260,831	605,900	5,535,996	8,179,344
Interest expenses	(404,248)	(172,743)	(110,459)	(302,009)	(698,184)	(1,687,643)
Net interest income	**841,279**	**358,347**	**150,372**	**303,891**	**4,837,812**	**6,491,701**
Fee and commission income	427,967	194,558	108,183	353,489	881,557	1,965,754
Fee and commission expenses	(5,434)	(1,662)	(1,399)	(8,233)	(505,307)	(522,035)
Net fee and commission income	**422,533**	**192,896**	**106,784**	**345,256**	**376,250**	**1,443,719**
Net losses from changes in fair value of financial instruments	-	-	-	-	(90,467)	(90,467)
Net gains from derecognition of financial instruments measured at fair value	-	-	-	-	683,487	683,487
Net losses from hedging	-	-	-	-	19	19
Net foreign exchange gains and effects of contracted foreign currency clause	-	-	-	-	123,361	123,361
Net gains from reversal of impairment on financial assets not measured at fair value through profit or loss	-	-	-	-	597,692	597,692
Net gains from derecognition of financial instruments measured at amortized cost	-	-	-	-	17,851	17,851
Other operating income	9,669	8,458	2,103	3,219	5,152,135	5,175,584
Total operating income	**1,683,163**	**734,106**	**371,117**	**962,608**	**12,992,098**	**16,743,092**
Total operating expenses	**(409,682)**	**(174,405)**	**(111,858)**	**(310,242)**	**(1,293,958)**	**(2,300,145)**
Total net operating income/expenses	**1,273,481**	**559,701**	**259,259**	**652,366**	**11,698,140**	**14,442,947**
Salaries, compensations and other personal expenses	-	-	-	-	(1,343,772)	(1,343,772)
Depreciation and amortization expenses	-	-	-	-	(443,992)	(443,992)
Other income	-	-	-	-	404,339	404,339
Other expenses	-	-	-	-	(2,498,365)	(2,498,365)
Profit before tax	**1,273,481**	**559,701**	**259,259**	**652,366**	**7,816,350**	**10,561,157**
Profit before tax (the Bank)						**10,561,157**

7. SEGMENT REPORTING (Continued)

7.4. The Bank's Balance Sheet per Geographic Region

In RSD thousand
31 December 2021

Item	Belgrade	Novi Sad	Kragujevac	Nis	Head Office	Total
Cash and balances with central bank	-	-	-	-	33,670,738	33,670,738
Derivatives	-	-	-	-	19,721	19,721
Securities	-	-	-	-	47,663,028	47,663,028
Loans and placements to banks and other financial organizations	-	-	-	-	35,723,908	35,723,908
Loans and placements to customers	17,376,302	8,534,736	3,575,802	6,321,613	80,583,634	116,392,087
Investments in subsidiaries	-	-	-	-	11,923,810	11,923,810
Intangible assets	-	-	-	-	475,749	475,749
Property, plant and equipment	-	-	-	-	1,248,435	1,248,435
Investment property	-	-	-	-	5,603,528	5,603,528
Current tax assets	-	-	-	-	1,166,336	1,166,336
Deferred tax assets	-	-	-	-	327,475	327,475
Non-current assets held for sale and assets from discontinued operations	-	-	-	-	5,537	5,537
Other assets	38,447	6,367	7,918	20,742	2,668,275	2,741,749
TOTAL ASSETS	**17,414,749**	**8,541,103**	**3,583,720**	**6,342,355**	**221,080,174**	**256,962,101**
LIABILITIES AND EQUITY	**65,228,152**	**17,517,473**	**13,639,542**	**39,451,027**	**121,125,907**	**256,962,101**
Derivatives	-	-	-	-	-	-
Deposits and other liabilities due to banks, other financial organizations and central bank	-	-	-	-	17,801,067	17,801,067
Deposits and other liabilities due to customers	64,763,057	17,352,695	13,560,760	39,267,394	46,726,487	181,670,393
Provisions	6,851	1,648	558	1,308	535,954	546,319
Other liabilities	458,244	163,130	78,224	182,325	1,008,800	1,890,723
TOTAL LIABILITIES	**65,228,152**	**17,517,473**	**13,639,542**	**39,451,027**	**66,072,308**	**201,908,502**
EQUITY	-	-	-	-	**55,053,599**	**55,053,599**
Share capital	-	-	-	-	27,195,730	27,195,730
Profit	-	-	-	-	13,237,614	13,237,614
Reserves	-	-	-	-	14,620,255	14,620,255

7. SEGMENT REPORTING (Continued)

7.4. The Bank's Balance Sheet per Geographic Region (Continued)

In RSD thousand
31 December 2020

Item	Belgrade	Novi Sad	Kragujevac	Nis	Head Office	Total
Cash and balances with central bank	-	-	-	-	38,982,000	38,982,000
Derivatives	-	-	-	-	47	47
Securities	-	-	-	-	41,247,149	41,247,149
Loans and placements to banks and other financial organizations	-	-	-	-	18,176,446	18,176,446
Loans and placements to customers	17,587,411	9,252,030	3,585,957	7,447,242	72,836,568	110,709,208
Investments in subsidiaries	-	-	-	-	11,923,810	11,923,810
Intangible assets	-	-	-	-	509,550	509,550
Property, plant and equipment	-	-	-	-	2,220,821	2,220,821
Investment property	-	-	-	-	8,417,955	8,417,955
Current tax assets	-	-	-	-	419,893	419,893
Deferred tax assets	-	-	-	-	78,693	78,693
Non-current assets held for sale and assets from discontinued operations	-	-	-	-	5,537	5,537
Other assets	32,317	10,015	15,415	26,517	2,156,254	2,240,518
TOTAL ASSETS	**17,619,728**	**9,262,045**	**3,601,372**	**7,473,759**	**196,974,723**	**234,931,627**
LIABILITIES AND EQUITY	**50,315,842**	**18,322,960**	**12,530,385**	**37,126,481**	**116,635,959**	**234,931,627**
Derivatives	-	-	-	-	569	569
Deposits and other liabilities due to banks, other financial organizations and central bank	-	-	-	-	14,694,177	14,694,177
Deposits and other liabilities due to customers	49,898,817	18,192,964	12,450,320	36,869,016	47,029,811	164,440,928
Provisions	4,304	792	556	1,521	667,196	674,369
Other liabilities	412,721	129,204	79,509	255,944	1,138,100	2,015,478
TOTAL LIABILITIES	**50,315,842**	**18,322,960**	**12,530,385**	**37,126,481**	**63,529,853**	**181,825,521**
EQUITY	-	-	-	-	**53,106,106**	**53,106,106**
Share capital	-	-	-	-	27,195,730	27,195,730
Profit	-	-	-	-	10,920,167	10,920,167
Reserves	-	-	-	-	14,990,209	14,990,209

NOTE: The classification of the Bank's Income Statement and Balance Sheet per Geographic Segment is prepared based on the customer segmentation criteria, i.e. customers classified as Corporate - large, Public – central authorities, banks and financial institutions are managed by the Head Office. Other customers are classified based on the territorial affiliation of a competent organizational unit.

8. INTEREST INCOME AND EXPENSES

Interest income and expenses according to financial instrument classes are presented below:

	In RSD thousand Year Ended 31 December 2021	2020
Interest income		
Loans and placements to customers	6,347,211	7,132,033
Loans and placements to banks	120,773	128,429
Deposits held with the National Bank of Serbia	12,444	45,138
Securities:		
- repo transactions	17,752	29,899
- Republic of Serbia's RSD bonds	771,997	481,927
- Republic of Serbia's RSD bills	-	12,693
- Corporate RSD bonds	176,758	56,067
- Republic of Serbia's foreign currency bonds	249,147	247,149
Interest on investments in promissory notes	46,283	46,009
Total	**7,742,365**	**8,179,344**
Interest expenses		
Customer borrowings	(92,313)	(72,642)
Deposit liabilities due to customers	(1,310,427)	(1,424,930)
Deposit liabilities due to banks	(184)	(58,326)
On securities	(224,167)	(121,446)
On lease liabilities (Note 37.1)	(9,388)	(10,002)
Other interest expenses	(110)	(297)
Total	**(1,636,589)**	**(1,687,643)**
Net interest income	**6,105,776**	**6,491,701**

9. FEE AND COMMISSION INCOME AND EXPENSES

	In RSD thousand Year Ended 31 December 2021	2020
Fee and commission income		
Fees per payment card operations	795,136	673,659
Fees for payment transaction services	989,114	925,810
Fees on issued guarantees	265,926	227,996
Realised foreign exchange gains/losses	151,850	-
Other fees and commissions	148,679	138,289
Total	**2,350,705**	**1,965,754**
Fee and commission expenses		
Fees per payment card operations	(489,593)	(340,716)
Fees for payment transaction services	(160,280)	(161,055)
Realised foreign exchange gains/losses	(210)	-
Other fees and commissions	(20,125)	(20,264)
Total	**(670,208)**	**(522,035)**
Net fee and commission income	**1,680,497**	**1,443,719**

Fees for realised foreign exchange gains/losses in 2021, except for those realised foreign exchange gains/losses related to currency derivative transactions, were reclassified in the total recorded amount in 2021 from 'Net Foreign Exchange (Losses)/Gains and Effects of Contracted Foreign Currency Clause' to 'Fee and Commission Income and Expenses'. The said reclassification was not done in comparative figures due to its immateriality. Fees for realised foreign exchange gains/losses in 2020 in the amount of net income of RSD 111,429 thousand (out of which total income amounts to RSD 114,915 thousand and total expenses amount to RSD 3,486 thousand) are disclosed in Note 12.

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

In RSD thousand

	Year Ended 31 December 2021	2020
Changes in the fair value of held-for-trading securities	1,523,787	(165,276)
Changes in the fair value of investment units	32,426	77,991
Changes in the fair value of derivatives	149,544	(3,182)
Net gains/(losses)	**1,705,757**	**(90,467)**

Realised foreign exchange gains/losses related to currency derivative transactions in the total recorded amount in 2021 were reclassified from 'Net Foreign Exchange (Losses)/Gains and Effects of Contracted Foreign Currency Clause' to 'Net Gains/(Losses) from Changes in Fair Value of Financial Instruments'. The said reclassification was not done in comparative figures due to its immateriality. Realised foreign exchange gains/losses in 2020 in the amount of net expenses of RSD 7,219 thousand (out of which total income amounts to RSD 450,482 thousand and total expenses amount to RSD 457,701 thousand) are disclosed in Note 12.

11. NET GAINS FROM DERECOGNITION OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

In RSD thousand

	Year Ended 31 December 2021	2020
Losses from the sale of securities measured at FVTPL	(596)	(145,274)
Gains from the sale of securities measured at FVOCI	2,013	828,761
Net gains	**1,417**	**683,487**

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

In RSD thousand

	Year Ended 31 December 2021	2020
Foreign exchange gains		
Foreign exchange gains	936,705	1,614,197
Positive effects of contracted foreign currency clause application	277,304	184,401
Total foreign exchange gains	**1,214,009**	**1,798,598**
Foreign exchange losses		
Foreign exchange losses	(1,162,710)	(1,370,626)
Negative effects of contracted foreign currency clause application	(171,200)	(304,611)
Total foreign exchange losses	**(1,333,910)**	**(1,675,237)**
Net foreign exchange (losses)/gains	**(119,901)**	**123,361**

NOTES ON THE FINANCIAL STATEMENTS
Year Ended 31 December 2021

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

	In RSD thousand Year Ended 31 December 2021	2020
Net gains from derecognition of financial instruments – loan sales	57,579	18,529
Net losses from derecognition of financial instruments – other effects	(36,040)	(678)
Net gains	**21,539**	**17,851**

14. OTHER OPERATING INCOME

	In RSD thousand Year Ended 31 December 2021	2020
Rental income (business premises)	255,172	285,497
Cost refunds	92,148	97,614
Dividend income	115,037	4,745,093
Other operating income	24,213	47,380
Total	**486,570**	**5,175,584**

Rental income from the lease of business premises in 2021 in the amount of RSD 255,172 thousand (2020: RSD 285,497 thousand) is related to the income from the lease of investment property to third parties (Note 30).

Income from cost refunds in 2021 in the amount of RSD 92,148 thousand (2020: RSD 97,614 thousand) is mainly related to the cost refunds of leased property in the amount of RSD 38,414 thousand (2020: RSD 45,486 thousand).

Dividend income in 2021 is mainly related to the realized dividend from Nova Ljubljanska Banka d.d. Ljubljana, Slovenia, in the amount of RSD 87,258 thousand. Dividend income in 2020 in the total amount of RSD 4,745,093 thousand mainly related to dividends received from Gorenjska banka d.d. Kranj in the amount of RSD 4,580,980 thousand.

15. NET GAINS FROM REVERSAL OF IMPAIRMENT ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	In RSD thousand Year Ended 31 December 2021	2020
Losses from reversal of impairment of financial assets measured at amortised cost		
Cash and balances with central bank (Note 21)	(4,566)	(4,751)
Securities measured at amortized cost (Note 23)	(20,115)	(63,658)
Loans and placements to banks (Note 24)	(68,580)	(80,218)
Loans and placements to customers (Note 25)	(6,173,793)	(6,384,920)
Other assets (Note 33)	(58,186)	(36,888)
	(6,325,240)	**(6,570,435)**
Provisions for off-balance sheet items (Note 36)	**(390,199)**	**(252,604)**
Losses from impairment of financial assets measured at FVOCI (Note 38.1(ii))	**(19,018)**	**(67,406)**
Losses from write-off of irrecoverable receivables		
Loans and placements to customers	(1,678)	(361)
Other assets	-	(2,086)
	(1,678)	**(2,447)**
Losses arising from the modification of financial instruments	**(4,588)**	**-**
Total losses	**(6,740,723)**	**(6,892,892)**
Gains from reversal of impairment of balance sheet items		
Cash and balances with central bank (Note 21)	4,656	4,619
Securities measured at amortized cost (Note 23)	18,448	58,513
Loans and placements to banks (Note 24)	61,350	85,068
Loans and placements to customers (Note 25)	5,891,287	6,375,470
Other assets (Note 33)	58,504	44,590
	6,034,245	**6,568,260**
Release of provision for off-balance sheet items (Note 36)	**283,000**	**276,054**
Reversal of impairment losses on financial assets measured at fair value through other comprehensive income (Note 38.1(ii))	**23,614**	**25,104**
Recovered receivables previously provided for		
Loans and placements to customers	1,043,242	620,647
Other assets	-	519
	1,043,242	**621,166**
Gains from the modification of financial instruments	**12**	**-**
Total gains	**7,384,113**	**7,490,584**
Net gains from impairment of financial assets and credit risk-weighted off-balance sheet items	**643,390**	**597,692**

15. NET GAINS FROM REVERSAL OF IMPAIRMENT ON FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

(b) Movements in the Impairment Allowance and Provisions for Credit Risk-weighted Off-balance Sheet Items

	Cash and balances with central bank (Note 21)	Loans and and placements to banks (Note 24)	Loans and placements to customers (Note 25)	Securities at amortised cost (Note 23.3.)	Other assets (Note 33)	Off-balance sheet liabilities (Note 36)	Total
Balance as of 1 January 2020	**4,692**	**174,192**	**4,081,701**	**179,751**	**228,888**	**69,537**	**4,738,761**
Impairment allowance increase	4,751	80,218	6,384,920	63,658	36,888	252,604	6,823,039
Impairment allowance decrease	(4,619)	(85,068)	(6,375,470)	(58,513)	(44,590)	(276,054)	(6,844,314)
Impairment of interest on impaired loans	-	-	96,572	-	-	-	96,572
Write-off	-	-	(446)	-	(102,968)	-	(103,414)
Transfer to off-balance sheet records	-	-	(154,502)	-	(1)	-	(154,503)
Foreign exchange gains/losses	-	(2,244)	(331)	-	(10)	(2,666)	(5,251)
Other / derecognition of financial instruments	-	-	(1,080)	-	3		(1,077)
Balance as of 31 December 2020	**4,824**	**167,098**	**4,031,364**	**184,896**	**118,210**	**43,421**	**4,549,813**
Balance as of 1 January 2021	**4,824**	**167,098**	**4,031,364**	**184,896**	**118,210**	**43,421**	**4,549,813**
Impairment allowance increase	4,566	68,580	6,173,793	20,115	58,186	390,199	6,715,439
Impairment allowance decrease	(4,656)	(61,350)	(5,891,287)	(18,448)	(58,504)	(283,000)	(6,317,245)
Impairment of interest on impaired loans	-	-	41,404	-	-	-	41,404
Write-off	-	(126,746)	(4,478)	-	(12,523)	-	(143,747)
Transfer to off-balance sheet records	-	(28,350)	(305,159)	-	-	-	(333,509)
Foreign exchange gains/losses	1	2,721	(235)	-	8,323	(3,254)	7,556
Other / derecognition of financial instruments	-	-	(464,290)	(61,244)	8,317	-	(517,217)
Balance as of 31 December 2021	**4,735**	**21,953**	**3,581,112**	**125,319**	**122,009**	**147,366**	**4,002,494**

16. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

In RSD thousand

	Year Ended 31 December 2021	2020
Salaries	668,112	664,463
Compensations	108,506	120,174
Payroll taxes and contributions	460,093	456,783
Other personal expenses for temporary jobs	36,934	53,683
Provisions for long-term employee benefits (Note 36)	47,939	48,827
Reversal of provisions for long-term employee benefits (Note 36)	-	(158)
Total	**1,321,584**	**1,343,772**

17. DEPRECIATION AND AMORTIZATION EXPENSES

	In RSD thousand Year Ended 31 December 2021	2020
Depreciation of buildings (Note 28)	22,188	25,797
Depreciation of equipment and other assets (Note 28)	105,794	103,317
Amortisation of intangible assets (Note 27)	159,775	124,996
Depreciation of right-of-use assets (Note 29)	187,599	189,882
Total	**475,356**	**443,992**

18. OTHER INCOME

	In RSD thousand Year Ended 31 December 2021	2020
Release of provision for litigations (Note 36)	72,730	138,804
Release of other unused provisions (Note 36)	8,449	-
Gains from the sale of property, plant and equipment and small inventory	196,999	178,790
Liabilities waived	44,332	27,587
Recovery of receivables provided for	92,852	22,644
Other income	35,371	2,967
Gains from changes in the value of investment property (Note 30)	9,316	33,547
Total	**460,049**	**404,339**

Gains from the sale of property, plant and equipment and small inventory generated in 2021 in the total amount of RSD 196,999 thousand (2020: RSD 178,790 thousand) are mainly related to the gains from the sale of buildings in the amount of RSD 162,938 thousand (2020: RSD 87,828 thousand) (Note 28), the sale of repossessed property following the foreclosure in the amount of RSD 16,107 thousand (2020: RSD 37,089 thousand) (Note 33) and the sale of investment property in the amount of RSD 16,865 thousand (2020: RSD 52,702 thousand) (Note 30).

19. OTHER EXPENSES

	In RSD thousand Year Ended 31 December 2021	2020
Cost of materials	94,310	138,026
Rental costs and other costs related to leased business premises	109,339	102,252
Telecommunications and postage services	315,417	308,561
Other services	20,453	15,227
Property maintenance	194,110	165,685
Marketing and advertising fees	125,795	61,957
Donations and sponsorships	13,967	45,568
Entertainment	18,939	10,023
Audit and expertise costs	104,837	34,050
Insurance premiums	595,548	588,928
Membership fees	4,429	4,459
Lawyer, appraiser and expert fees	145,248	117,508
Court and other fees	32,258	31,194
Broker and Central Depository fees	25,588	23,065
Security	85,831	81,656
Other non-material costs	178,606	130,014
Taxes and contributions	71,017	104,191
Re-invoiced costs	37,610	48,535
Provisions for litigations (Note 36)	141,810	271,361
Losses from the sale of tangible assets	86,299	16,700
Other expenses	214,448	85,324
Losses from changes in property value	46,119	114,081
Total	**2,661,978**	**2,498,365**

Losses from changes in property value in 2021 in the amount of RSD 46,119 thousand (2020: RSD 114,081 thousand) relate to the posting of negative effects of investment property valuation in the amount of RSD 34,858 thousand (2020: RSD 97,120 thousand) (Note 30) and the impairment of repossessed property following the foreclosure in the amount of RSD 11,261 thousand (2020: RSD 16,961 thousand) (Note 33).

20. INCOME TAXES

20.1. Components of Income Taxes

	2021	2020
		In RSD thousand
Current income tax expense	(765,499)	(737,952)
Deferred tax income/(expenses)	183,497	(21,619)
Total income tax expense	**(582,002)**	**(759,571)**

20.2. Numerical Reconciliation of Income Tax Recognised in the Income Statement and Profit for the Year Before Tax Multiplied by the Statutory Income Tax Rate

	2021	2020
		In RSD thousand
Profit before tax	**6,526,176**	**10,561,157**
Income tax at the statutory tax rate (15%)	**978,926**	**1,584,174**
Tax effects of unrecognized expenses	(127,111)	86,541
Tax effects of the net capital gains/losses	67,613	2,042
Tax effects of income reconciliation	(11,340)	(45,161)
Tax effects of interest income on debt securities issued by the Republic of Serbia	(118,628)	(93,048)
Utilization of tax credits	(23,961)	(796,596)
Effects of other temporary differences	(183,497)	21,619
Tax income reported in the income statement	**582,002**	**759,571**
Effective tax rate	***8.92%***	***7.19%***

The accrued income tax liability for 2021 amounts to RSD 765,499 thousand (2020: RSD 737,952 thousand). It was fully offset against monthly advance tax payments made in 2021 in the amount of RSD 765,499 thousand (2020: RSD 737,952 thousand).

NOTES ON THE FINANCIAL STATEMENTS
Year Ended 31 December 2021

21. CASH AND BALANCES WITH CENTRAL BANK

In RSD thousand

	31 December 2021	31 December 2020
In RSD:		
Gyro account	13,287,633	12,095,354
Cash on hand	3,907,156	3,190,220
Surpluses of liquid assets deposited with the National Bank of Serbia	-	8,000,000
Accruals per funds held with the central bank	426	398
	17,195,215	**23,285,972**
In foreign currencies:		
Cash on hand	2,439,337	3,150,102
Foreign currency required reserve held with the National Bank of Serbia	14,040,921	12,550,750
	16,480,258	**15,700,852**
	33,675,473	**38,986,824**
Less: Allowance for impairment	(4,735)	(4,824)
Balance as of	**33,670,738**	**38,982,000**
Adjustments to cash and cash equivalents for the purpose of preparing the Statement of Cash Flows		
Foreign currency accounts held with foreign banks (Note 24)	23,370,331	11,133,103
Deposited surpluses of liquid assets	-	(8,000,000)
Accruals per funds held with the central bank	(426)	(397)
Required foreign currency reserve held with the National Bank of Serbia	(14,040,921)	(12,550,750)
	9,328,984	**(9,418,044)**
Cash and cash equivalents reported in the Statement of Cash Flows	**43,004,457**	**29,568,780**

Movements in the allowance for impairment during the year were as follows:

In RSD thousand

	2021	2020
Balance as of 1 January	(4,824)	(4,692)
Charge for the year (Note 15)	(4,566)	(4,751)
Gains from release of provision (Note 15)	4,656	4,619
Write-off and foreign exchange effects	(1)	-
Balance as of 31 December	**(4,735)**	**(4,824)**

For the purpose of the Statement of Cash Flows, cash and cash equivalents include: cash at the gyro account held with the National Bank of Serbia, cash on hand in RSD and foreign currencies, cash at accounts held with foreign banks and cash at the account held with the Central Securities Depository and Clearing House.

Banks deposit the required RSD reserve on their gyro accounts held with the National Bank of Serbia. The required RSD reserve is the minimum RSD reserve set aside in accordance with the National Bank of Serbia's Decision on Required Reserves of Banks with the National Bank of Serbia ("RS Official Gazette", No. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012, 62/2013, 125/2014, 135/2014, 4/2015, 78/2015, 102/2015 and 76/2018).

21. CASH AND BALANCES WITH CENTRAL BANK (Continued)

The Bank is obliged to calculate and set aside the required dinar reserve against the average daily balance of the liabilities in RSD during the preceding calendar month applying the rate of 5% to liabilities maturing within 2 years, i.e. within 730 days, and 0% to liabilities maturing in a period of over 2 years, i.e. over 730 days (2020: 5% and 0%).

In addition, the required dinar reserve includes 38% and 30% of the RSD equivalent of the required foreign currency reserve (2020: 38% and 30%).

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

The calculated required dinar reserve that was to be maintained on the gyro account from 18 December 2021 to 17 January 2022 amounted to RSD 10,962,115 thousand (from 18 December 2020 17 January 2021: RSD 10,233,925 thousand) and was in compliance with the Decision of the National Bank of Serbia.

Pursuant to the Decision on Banks' Required Reserves with the National Bank of Serbia ("RS Official Gazette", No. 3/2011, 31/2012, 57/2012, 78/2012, 87/2012, 107/2012, 62/2013, 125/2014, 135/2014, 4/2015, 78/2015, 102/2015 and 76/2018), the Bank calculates and allocates the obligatory foreign currency reserve against the average daily balance of foreign currency liabilities from the preceding month at a rate of 20% applied to liabilities with contracted maturities of up to 2 years, i.e. within 730 days , at a rate of 13% applied to liabilities with contracted maturities of over 2 years, i.e. over 730 days (2020: 20% and 13%), and at a rate of 100% applied to the average daily balance of RSD liabilities with a currency clause index (2020: 100%).

The Bank allocates the obligatory foreign currency reserve to foreign currency accounts of the National Bank of Serbia. Out of the total calculated required foreign currency reserve, 62% (for liabilities maturing within two years, i.e. up to 730 days), i.e. 70% (for the liabilities with maturities over 2 years, i.e. over730 days) is allocated in foreign currencies, and the remaining 38%, i.e. 30%, is allocated in RSD to the gyro account.

The Bank is obliged to maintain the average daily balance of the required foreign currency reserve during the accounting period in the amount of the calculated required foreign currency reserve. The calculated required foreign currency reserve for the accounting period from 18 December 2021 to 17 January 2022 amounted to EUR 118,537 thousand (from 18 December 2020 17 January 2021: EUR 104,784 thousand), and was in compliance with the Decision of the National Bank of Serbia.

22. DERIVATIVES

In RSD thousand

	31 December 2021	31 December 2020
Derivative receivables - currency swaps and forwards	19,721	47
Balance as of	**19,721**	**47**

Financial receivables arising from held-for-trading derivatives are related to the effect resulting from the fair value of instruments whose nominal value is stated within off-balance sheet items (Note 39.2).

23. SECURITIES

In RSD thousand

	31 December 2021	31 December 2020
Securities measured at fair value through profit or loss	10,270,858	7,042,559
Securities measured at fair value through other comprehensive income	36,533,272	33,339,609
Securities measured at amortised cost	858,898	864,981
Balance as of	**47,663,028**	**41,247,149**

23.1. Securities Measured at Fair Value through Profit or Loss

In RSD thousand

	31 December 2021	31 December 2020
In RSD:		
Securities held for trading – shares	2,305,281	1,598,796
Securities initially recognized at fair value	5,711,965	3,680,467
	8,017,246	**5,279,263**
In foreign currencies:		
Securities held for trading – shares	2,253,612	1,763,296
	2,253,612	**1,763,296**
Balance as of	**10,270,858**	**7,042,559**

The Bank's investments in RSD securities held for trading totalling RSD 2,305,281 thousand as of 31 December 2021 (31 December 2020: RSD 1,598,796 thousand) are related to the purchased shares of the following companies: Komercijalna banka a.d. Belgrade in the amount of RSD 1,582,392 thousand (31 December 2020: RSD 817,225 thousand) and Fintel energija a.d. Belgrade in the amount of RSD 722,889 392 thousand (31 December 2020: RSD 781,571 thousand).

The Bank's investments in securities initially recognized at fair value - investment units in RSD in the amount of RSD 5,711,965 thousand as of 31 December 2021 (31 December 2020: RSD 3,680,467 thousand) are related to investment units: Raiffeisen Cash in the amount of RSD 4,608,342 thousand (31 December 2020: RSD 3,135,749 thousand), Kombank Cash Fund in the amount of RSD 1,103,623 thousand (31 December 2020: RSD 493,851 thousand) and Ilirika Cash in the amount of RSD 50,867 thousand as of 31 December 2020.

The Bank's investment in securities held for trading in foreign currencies, which amounted to RSD 2,253,612 thousand as of 31 December 2021 (31 December 2020: RSD 1,763,296 thousand), are mainly, i.e. in the amount of RSD 1,904,200 thousand, related to purchased GDR instruments of NLB d.d. Ljubljana (31 December 2020: RSD 1,388,918 thousand). Based on these instruments, the Bank’s interest in NLB d.d. Ljubljana as of 31 December 2021 is 1.08% (31 December 2020: 1.31%).

23. SECURITIES (Continued)

23.2. Securities Measured at Fair Value through Other Comprehensive Income

In RSD thousand

	31 December 2021	31 December 2020
In RSD:		
Republic of Serbia's bonds	23,781,823	17,176,284
Republic of Serbia's treasury bills	-	997,160
Corporate bonds	4,593,201	4,594,479
	28,375,024	**22,767,923**
In foreign currencies:		
Republic of Serbia's bonds	8,158,248	10,571,686
	8,158,248	**10,571,686**
Balance as of	**36,533,272**	**33,339,609**

As of 31 December 2021, the Bank had investments in RSD bonds of the Republic of Serbia at a fixed interest rate. Treasury bonds with fixed interest rates have maturities from 24 to 144 months and a yield ranging from 1.6% to 12.34% p.a. (31 December 2020: maturities from 24 to 144 months and a yield ranging from 1.95% to 12.34% p.a.).

Bank's investments in the Republic of Serbia's foreign currency bonds as of 31 December 2021 have maturities from 60 to 180 months and a yield ranging from 1.6% to 3.38% p.a. (31 December 2020: maturities from 36 to 180 months and a yield ranging from 1.28% to 3.38% p.a.).

Bank's investments in corporate bonds as of 31 December 2021 are related to bonds of JP Jugoimport – SDPR, Belgrade at a variable interest rate and with a five-year maturity (31 December 2020: RSD 4,594,479 thousand).

23.3. Securities Measured at Amortised Cost

In RSD thousand

	31 December 2021	31 December 2020
In RSD:		
Corporate bills of exchange	981,040	1,041,503
	981,040	**1,041,503**
In foreign currencies:		
Corporate bills of exchange	3,177	8,374
	3,177	**8,374**
Less: Allowance for impairment	(125,319)	(184,896)
Balance as of	**858,898**	**864,981**

Movements in the impairment allowance for securities were as follows:

In RSD thousand

	2021	2020
Balance as of 1 January	**(184,896)**	**(179,751)**
Charge for the year (Note 15)	(20,115)	(63,658)
Gains from release of provision (Note 15)	18,448	58,513
Sales	61,244	-
Balance as of 31 December	**(125,319)**	**(184,896)**

Interest rates used for discounting bills of exchange during 2021 ranged from 0.5% to 0.64% (2020: 0.4% to 0.75%) on a monthly basis.

24. LOANS AND PLACEMENTS TO BANKS AND OTHER FINANCIAL ORGANIZATIONS

In RSD thousand

	31 December 2021	31 December 2020
RSD loans:		
Receivables from REPO transactions	5,000,000	1,615,380
Overnight loans	600,000	-
Other loans	99,729	33,642
Other non-earmarked deposits	700,000	-
Other placements	305,125	59,067
Interest and fee receivables	391	8,819
Deferred fee income as part of the effective interest rate	(1,696)	(3,180)
	6,703,549	**2,174,123**
Foreign currency loans:		
Foreign currency accounts held with foreign banks - nostro	23,370,331	11,133,103
Loans per REPO transactions	1,036,027	955,422
Investment loans	458,570	460,395
Overnight deposits	415,705	382,655
Other foreign currency loans	2,351,642	2,351,604
Earmarked deposits in accordance with the applicable regulations	4,703	4,703
Other earmarked deposits	192,821	164,652
Other placements	1,202,120	1,171,860
Interest and fee receivables	10,393	5,422
	29,042,312	**16,169,421**
Gross loans and advances	**35,745,861**	**18,343,544**
Less: Allowance for impairment	(21,953)	(167,098)
Balance as of 31 December	**35,723,908**	**18,176,446**

Movements in the impairment allowance for loans and advances were as follows:

In RSD thousand

	2021	2020
Balance as of 1 January	**(167,098)**	**(174,192)**
Charge for the year (Note 15)	(68,580)	(80,218)
Gains from release of provision (Note 15)	61,350	85,068
Write-off, foreign exchange gains/losses and other movements	124,025	2,244
Transfer to off-balance sheet items	28,350	-
Balance as of 31 December	**(21,953)**	**(167,098)**

In 2021 the Bank invested funds in RSD repo transactions with the National Bank of Serbia at interest rates ranging from 0.11 % to 0.51% per annum, while repo transactions as of 31 December 2021 were invested at an interest rate of 0.51% p.a. In 2021 funds in repo transactions with other customers and in foreign currencies were placed at an interest rate of 1.3% per annum. The Bank invested funds at an interest rate ranging from 0.11% to 0.85% per annum in repo transactions with other banks in 2021.

As of 31 December 2021, the Bank placed overnight funds in USD at an interest rate of 0.05% per annum.

In 2021 the Bank placed RSD funds at interest rates from 0.10% to 1.00%, EUR funds at interest rates from 0.05 to 0.06% and USD funds at interest rates from 0.05% to 0.20% per annum (2020: RSD funds from 0.15% to 2.50%, EUR funds at a rate of 0.05% and USD funds from 0.05% to 0.25% annually). Apart from short-term investments, the Bank placed long-term investments in 2021 in the amount of RSD 2,351,642 thousand at an interest rate of 5% annually.

Other foreign currency investments in the total amount of RSD 1,202,120 thousand as of 31 December 2021 (31 December 2020: RSD 1,171,860 thousand) are mainly, i.e. in the amount of RSD 1,095,275 thousand (2020: RSD 899,242 thousand), related to other long-term sureties – coverage for Bank's confirmed guarantees and letters of credit.

NOTES ON THE FINANCIAL STATEMENTS
Year Ended 31 December 2021

25. LOANS AND PLACEMENTS TO CUSTOMERS

	31 December 2021	In RSD thousand 31 December 2020
Corporate customers:		
Transaction account loans	685,099	1,539,922
Working capital loans	14,980,104	18,031,791
Investment loans	74,606,409	72,884,453
Deposits placed	863	863
Foreign currency loans	9,375,222	1,962,263
Advances per guarantees and acceptances	21,937	21,937
Factoring receivables	3,266,528	1,968,501
Other loans and advances	615,182	1,543,944
Interest and fee receivables	573,925	1,019,008
Deferred fee income as part of the effective interest rate	(504,570)	(441,925)
	103,620,699	**98,530,757**
Retail customers:		
Transaction account loans	239,843	242,288
Consumer loans	9,045	12,829
Housing loans	6,282,759	5,564,012
Cash loans	8,242,657	8,581,152
Other loans and advances	1,337,651	1,418,730
Interest and fee receivables	299,575	487,120
Deferred fee income as part of the effective interest rate	(59,030)	(96,316)
	16,352,500	**16,209,815**
Gross loans and advances	**119,973,199**	**114,740,572**
Less: Allowance for impairment	(3,581,112)	(4,031,364)
Balance as of 31 December	**116,392,087**	**110,709,208**

Movements in the impairment allowance of loans and advances to customers were as follows:

	2021	In RSD thousand 2020
Balance as of 1 January	**(4,031,364)**	**(4,081,701)**
Charge for the year (Note 15)	(6,173,793)	(6,384,920)
Gains from release of provision (Note 15)	5,891,287	6,375,470
Impaired loan interest adjustment	(41,404)	(96,572)
Write-off, foreign exchange gains/losses	4,713	777
Transfer to off-balance sheet items	305,159	154,502
Other/derecognition of financial instruments	464,290	1,080
Balance as of 31 December	**(3,581,112)**	**(4,031,364)**

Short-term RSD loans were approved to corporate customers and entrepreneurs for a period of up to 12, predominantly at nominal interest rates ranging from 3.00% to 24% annually (effective interest rates from 3.23% to 27.54% p.a.).

Short-term foreign-currency indexed loans were approved to corporate customers at interest rates between 1.2% and 11% annually (effective interest rates from 1.35% to 12.04% p.a.).

Long-term RSD loans were approved to corporate customers at interest rates between 2.70% and 16% annually (effective interest rates from 2.85% to 22.63% p.a.).

Long-term RSD loans (with a currency clause index) were approved to corporate customers and entrepreneurs at an interest rate ranging from 2.4% to 10.65% annually (effective interest rates from 2.55% to 14.21% p.a.).

25. LOANS AND PLACEMENTS TO CUSTOMERS (Continued)

Loans and placements to entrepreneurs are granted under the same terms and conditions applicable to legal entities from the SME segment.

Short-term RSD loans were extended to retail customers at a fixed nominal interest rate of 8.95%, i.e. at a variable annual rate of 6m BELIBOR + 5.88%.

Short-term RSD loans were approved to registered agricultural households at nominal interest rates from 1% to 14% annually (effective interest rates from 2.05% to 23.59% p.a.).

Long-term RSD loans were extended to retail customers at a fixed nominal interest rate of 8.95% per annum, i.e. at a variable annual rate of 6M Belibor + 4.88%. Long-term RSD loans with a currency clause index (to EUR) were extended at a variable nominal interest rate of 6-month EURIBOR + 1.91% per annum, i.e. at a fixed annual nominal rate of 4.10%.

Short-term foreign currency loans were approved to registered agricultural households that are retail customers at nominal interest rates from 7.5% to 9.5% annually (effective interest rates from 9.61% to 11.80% p.a.).

Long-term RSD loans were extended to registered agricultural households that are retail customers at nominal interest rates from 1% to 14% annually (effective interest rates from 2.50% to 15.81% p.a.) and at a nominal variable interest rate against the National Bank of Serbia's key policy rate + an interest rate ranging from 3.5% to 9.5% (effective interest rates from 8.16% to 16.04% p.a.).

Long-term RSD loans with a currency clause index were extended to registered agricultural households at nominal fixed interest rates from 5.5% to 9% annually (effective interest rates from 6.49% to 10.92% p.a.) and at a nominal variable interest rate of 3M Euribor + 3.11% (an effective annual interest rate of 3.04%).

As regards loans based on earmarked term deposits, interest rates were formed using appropriate interest margins against the interest rates applied to earmarked term deposits.

26. INVESTMENTS IN SUBSIDIARIES

In RSD thousand

	31 December 2021	31 December 2020
Investments in subsidiaries	11,923,810	11,923,810
Balance as of 31 December	**11,923,810**	**11,923,810**

Bank's total investments in subsidiaries as of 31 December 2021 in the amount of RSD 11,923,810 thousand (31 December 2020: RSD 11,923,810 thousand) are related to the contribution to Gorenjska banka d.d. Kranj.

As of 31 December 2021 and 2020, the Bank has equity interest of 91.70% in Gorenjska banka d.d. Kranj, i.e. voting interest of 100%. The remaining portion of 8.3% represents the purchased own shares of Gorenjska banka d.d. Kranj.

A breakdown of key financial information of Gorenjska banka d.d. Kranj is provided in the table below:

In RSD thousand

	2021	2020
Total assets as of 31 December	267,468,471	251,332,014
Total equity as of 31 December	29,221,856	25,573,894
Profit for the period from 1 January to 31 December	3,333,447	2,612,145

27. INTANGIBLE ASSETS

In RSD thousand

	31 December 2021	31 December 2020
Cost		
Patents, licenses and software	1,221,705	1,087,307
Intangible assets under construction	-	8,786
Other intangible rights	163,898	163,898
	1,385,603	**1,259,991**
Less: accumulated amortisation	(909,854)	(750,441)
Carrying value as of	**475,749**	**509,550**

Movements in intangible assets in 2020 and 2021 were as follows:

In RSD thousand

	Patents, licenses and software	Intangible assets under construction	Other intangible rights	Total
COST				
As of 1 January 2020	**665,474**	**220,134**	**163,898**	**1,049,506**
Additions	210,485	-	-	210,485
Own-work and goods capitalised	211,348	(211,348)	-	-
Balance as of 31 December 2020	**1,087,307**	**8,786**	**163,898**	**1,259,991**
Additions	125,974	-	-	125,974
Write-off and disposals	(362)	-	-	(362)
Own-work and goods capitalised	8,786	(8,786)	-	-
Balance as of 31 December 2021	**1,221,705**	**-**	**163,898**	**1,385,603**
ACCUMULATED AMORTISATION				
As of 1 January 2020	**461,547**	**-**	**163,898**	**625,445**
Amortisation charge (Note 17)	124,996	-	-	124,996
Balance as of 31 December 2020	**586,543**	**-**	**163,898**	**750,441**
Amortisation charge (Note 17)	159,775	-	-	159,775
Write-off and disposals	(362)	-	-	(362)
Balance as of 31 December 2021	**745,956**	**-**	**163,898**	**909,854**
Carrying value as of:				
- 31 December 2021	**475,749**	**-**	**-**	**475,749**
- 31 December 2020	**500,764**	**8,786**	**-**	**509,550**

28. PROPERTY, PLANT AND EQUIPMENT

In RSD thousand

	31 December 2021	31 December 2020
Cost		
Buildings	412,380	1,956,360
Equipment	1,933,861	1,935,775
PPE in progress	113,490	110,600
Right-of-use assets (Note 29)	859,959	750,293
Leasehold improvements	150,365	144,347
	3,470,055	**4,897,375**
Less: Accumulated depreciation	(2,221,620)	(2,676,554)
Carrying value as of	**1,248,435**	**2,220,821**

Movements in property and equipment in 2020 and 2021 were as follows:

In RSD thousand

	Buildings	Equipment and other assets	PPE in progress	Leasehold improvements	Right-of-use assets	Total
COST						
As of 1 January 2020	**2,124,925**	**1,895,532**	**110,600**	**148,522**	**751,133**	**5,030,712**
Additions	3,798	165,038	-	22,776	102,470	294,082
Write-off and disposals	(172,363)	(124,795)	-	(26,951)	(181,107)	(505,216)
Lease contract modifications	-	-	-	-	77,797	77,797
Balance as of 31 December 2020	**1,956,360**	**1,935,775**	**110,600**	**144,347**	**750,293**	**4,897,375**
Additions	2,969	75,139	2,890	6,491	144,474	231,963
Write-off and disposals	(1,546,949)	(77,053)	-	(473)	(32,712)	(1,657,187)
Lease contract modifications	-	-	-	-	(2,096)	(2,096)
Balance as of 31 December 2021	**412,380**	**1,933,861**	**113,490**	**150,365**	**859,959**	**3,470,055**
ACCUMULATED DEPRECIATION						
1 As of 1 January 2020	**747,312**	**1,633,116**	**-**	**121,392**	**188,035**	**2,689,855**
Depreciation charge (Note 17)	25,797	90,894	-	12,423	189,882	318,996
Write-off and disposals	(35,782)	(116,740)	-	(26,827)	(69,087)	(248,436)
Lease contract modifications	-	-	-	-	(83,861)	(83,861)
Balance as of 31 December 2020	**737,327**	**1,607,270**	**-**	**106,988**	**224,969**	**2,676,554**
Depreciation charge (Note 17)	22,188	93,644	-	12,150	187,599	315,581
Write-off and disposals	(665,760)	(76,111)	-	(473)	(28,103)	(770,447)
Lease contract modifications	-	-	-	-	(68)	(68)
Balance as of 31 December 2021	**93,755**	**1,624,803**	-	**118,665**	**384,397**	**2,221,620**
Carrying value as of:						
- 31 December 2021	**318,625**	**309,058**	**113,490**	**31,700**	**475,562**	**1,248,435**
- 31 December 2020	**1,219,033**	**328,505**	**110,600**	**37,359**	**525,324**	**2,220,821**

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28. PROPERTY, PLANT AND EQUIPMENT (Continued)

The Bank does not have mortgaged buildings for the purpose of securing loan repayments.

In 2021 the Bank sold 5 buildings, whose total net book value was RSD 881,189 thousand:

- Business premises in Belgrade, at Kralja Milana 11, net book value of RSD 782,789 thousand;
- Business premises in Sabac, at Vlade Jovanovica 22, net book value of RSD 32,335 thousand;
- Business premises in Zajecar, at Trg Oslobodjenja bb, net book value of RSD 31,012 thousand;
- Business premises in Kragujevac, at Trg Radomira Putnika 3, net book value of RSD 30,913 thousand;
- Business premises in Zajecar, at Pana Djukića BB, net book value of RSD 4,140 thousand.

The Bank generated gains in the amount of RSD 162,938 thousand from the sale of buildings in 2021 (Note 18).

Under the requirements of IAS 36 “Impairment of Assets“ and based on certified appraiser’s valuations, the Bank evaluated buildings that were not impaired as of 31 December 2021.

As of 31 December 2021, the Bank did not have title deeds for two real estates classified as buildings, whose net book value is RSD 7,044 thousand. The Bank’s management is undertaking all actions necessary to obtain the title deeds.

29. RIGHT-OF-USE ASSETS

29.1. Right-of-use Assets

Right-of-use assets include:

In RSD thousand

	31 December 2021	31 December 2020
Business premises	453,929	505,726
Parking places	4,665	4,545
ATM space	16,968	15,053
Carrying value as of	**475,562**	**525,324**

29.2. Movements in Right-of-use Assets

Movements in right-of-use assets in 2020 and 2021 were as follows:

In RSD thousand

	Business premises	Parking places	ATM space	Total
GROSS CARRYING VALUE				
As of 1 January 2020	**702,351**	**11,318**	**37,464**	**751,133**
Additions	99,740	-	2,730	102,470
Inactive contracts	(177,313)	-	(3,794)	(181,107)
Lease contract modifications - increases/(decreases)	82,174	(2,816)	(1,561)	77,797
Balance as of 31 December 2020	**706,952**	**8,502**	**34,839**	**750,293**
Additions	140,754	8,270	5,176	154,200
Inactive contracts	(20,505)	-	(1,162)	(21,667)
Lease contract modifications - decreases	(9,599)	(8,270)	(4,998)	(22,867)
Balance as of 31 December 2021	**817,602**	**8,502**	**33,855**	**859,959**
ACCUMULATED DEPRECIATION				
As of 1 January 2020	**178,242**	**2,312**	**7,481**	**188,035**
Depreciation charge (Note 17)	174,910	1,592	13,380	189,882
Inactive contracts	(67,690)	-	(1,397)	(69,087)
Lease contract modifications - increases/(decreases)	(84,236)	53	322	(83,861)
Balance as of 31 December 2020	**201,226**	**3,957**	**19,786**	**224,969**
Depreciation charge (Note 17)	177,964	2,193	7,442	187,599
Inactive contracts	(8,170)	-	(1,090)	(9,260)
Lease contract modifications - decreases	(7,347)	(2,313)	(9,251)	(18,911)
Balance as of 31 December 2021	**363,673**	**3,837**	**16,887**	**384,397**
Carrying value as of:				
- 31 December 2021	**453,929**	**4,665**	**16,968**	**475,562**
- 31 December 2020	**505,726**	**4,545**	**15,053**	**525,324**

30. INVESTMENT PROPERTY

	31 December 2021	In RSD thousand 31 December 2020
Investment property	5,603,528	8,417,955
Balance as of 31 December	**5,603,528**	**8,417,955**

Movements in investment property in 2020 and 2021 were as follows:

	In RSD thousand
Balance as of 1 January 2020	9,409,351
Additions	5,986
Sales	(933,809)
Changes in assets' value (Notes 18 and 19)	(63,573)
Carrying value as of 31 December 2020	**8,417,955**
Additions	8,069
Sales	(2,796,954)
Changes in assets' value (Notes 18 and 19)	(25,542)
Carrying value as of 31 December 2021	**5,603,528**

In 2021 the Bank sold 6 buildings classified as investment property, whose total net book value amounts to RSD 2,796,954 thousand, and realized a total gain of RSD 16,865 thousand (Note 18) and a total loss in the amount of RSD 85,142 thousand (Note 19).

The total net book value of the sold investment property in the amount of RSD 2,796,954 thousand is mainly related to the following investment property:

- Commercial complex in Belgrade, Zmaj II, at Autoput 18, net book value of RSD 1,671,006 thousand;
- Commercial complex with equipment "Glavna" in Back Topola, net book value of RSD 900,782 thousand; and
- Aleksandar Hotel in Vrnjacka Banja, net book value of RSD 215,172 thousand.

According to certified appraiser's valuations, the Bank performed impairment of investment property in 2021 in the total net amount of RSD 25,542 thousand, out of which, positive valuation effects amount to RSD 9,316 thousand (Note 18), whereas the negative effects of valuations amount to RSD 34,858 thousand (Note 19).

Bank's income from leased investment property in 2021 amounts to RSD 255,172 thousand (Note 14).

As of 31 December 2021, the Bank did not have title deeds for five buildings classified as investment property, whose net book value is RSD 21,165 thousand. The Bank's management is undertaking all actions necessary to obtain the title deeds.

31. CURRENT TAX ASSETS

	31 December 2021	In RSD thousand 31 December 2020
Current tax assets	1,166,336	419,893
Balance as of	**1,166,336**	**419,893**

32. DEFERRED TAX ASSETS

32.1. Balances of Deferred Tax Assets and Liabilities

In RSD thousand

2021	Tax assets	Tax liabilities	Net tax effect – deferred assets
Buildings and equipment	48,422	-	48,422
Impairment of assets	396,649	-	396,649
Securities at FVOCI	-	(117,496)	(117,496)
Actuarial losses	-	(100)	(100)
Balance as of 31 December 2021	**445,071**	**(117,596)**	**327,475**

2020	Tax assets	Tax liabilities	Net tax effect – deferred assets
Buildings and equipment	-	(196,287)	(196,287)
Impairment of assets	457,861	-	457,861
Securities at FVOCI	-	(182,821)	(182,821)
Actuarial losses	-	(60)	(60)
Balance as of 31 December 2020	**457,861**	**(379,168)**	**78,693**

32.2. Movements in Net Deferred Tax Assets

In RSD thousand

	Balance as of 1 January	Stated in Income Statement	Stated within equity	Balance as of 31 December
2021				
Buildings and equipment	(196,287)	244,709	-	48,422
Impairment of assets	457,861	(61,212)	-	396,649
Unrealized (losses)/gains from securities at FVOCI	(182,821)	-	65,325	(117,496)
Actuarial losses (Note 38.1(iii))	(60)	-	(40)	(100)
Total	**78,693**	**183,497**	**65,285**	**327,475**
2020				
Buildings and equipment	(196,252)	(35)	-	(196,287)
Impairment of assets	479,445	(21,584)	-	457,861
Unrealized losses from securities at FVOCI	(166,464)	-	(16,357)	(182,821)
Actuarial losses (Note 38.1(iii))	73	-	(133)	(60)
Total	**116,802**	**(21,619)**	**(16,490)**	**78,693**

33. OTHER ASSETS

In RSD thousand

	31 December 2021	31 December 2020
Other RSD receivables:		
Fee receivables per other assets	42,107	45,352
Receivables per advances paid for working capital	78,042	34,116
Receivables per advances paid for capital expenditures	14,294	3,374
Other accounts receivable	105,761	110,190
Receivables in settlement	622	50,467
	240,826	**243,499**
Other foreign currency receivables		
Fee receivables per other assets	4,146	19
Receivables per advances paid for working capital	643	266
Other accounts receivable in foreign currencies	73,975	12,234
	78,764	**12,519**
Other investments:		
Equity investments (a)	1,746,198	1,189,447
	1,746,198	**1,189,447**
Prepayments and accrued income:		
Accrued interest expense	23,593	47,589
Other accrued expenses	26,106	9,441
	49,699	**57,030**
Inventories:		
Other inventories	83	82
Repossessed property following the foreclosure (b)	748,188	856,151
	748,271	**856,233**
Other receivables, gross	**2,863,758**	**2,358,728**
***Less:* Allowance for impairment**		
Other RSD receivables	(92,926)	(89,663)
Other foreign currency receivables	(4,821)	(4,298)
Equity investments	(24,243)	(24,243)
Prepayments and accrued income	(19)	(6)
	(122,009)	**(118,210)**
Balance as of 31 December	**2,741,749**	**2,240,518**

Movements in the impairment allowance for other assets were as follows:

In RSD thousand

	2021	2020
Balance as of 1 January	**(118,210)**	**(228,888)**
Charge for the year (Note 15)	(58,186)	(36,888)
Gains from release of provision (Note 15)	58,504	44,590
Write-off and foreign exchange gains/losses	4,200	102,978
Transfer to off-balance sheet items	-	1
Other	(8,317)	(3)
Balance as of 31 December	**(122,009)**	**(118,210)**

33. OTHER ASSETS (Continued)

(a) As of 31 December 2021 and 2020, the Bank had equity investments in the following legal entities:

	31 December 2021	In RSD thousand 31 December 2020
Equity investments from 10% to 20%		
HG Budvanska rivijera a.d. Budva	1,140,526	697,316
Sveti Stefan hoteli a.d. Budva	571,637	459,208
	1,712,163	**1,156,524**
Equity investments up to 10%		
Univerzal Banka a.d. Belgrade – in bankruptcy	14,381	14,381
PB Agrobanka a.d. Belgrade – in bankruptcy	9,825	9,825
Yu trade Zeleznik d.o.o. Belgrade	3,171	3,171
Beogradska berza a.d. Belgrade	2,114	2,114
Politika a.d. Belgrade	1,568	965
Zvezda film a.d. Novi Sad	972	972
Other equity investments	2,004	1,495
	34,035	**32,923**
Gross equity investments	**1,746,198**	**1,189,447**
Less: Impairment allowance of equity investments	(24,243)	(24,243)
Balance as of 31 December	**1,721,955**	**1,165,204**

The Bank's equity interest as of 31 December 2021 in Hotel Group Budvanska Rivijera a.d. Budva was 19.92%, i.e. 19.98% in the company Sveti Stefan Hoteli a.d. Budva (31 December 2020: 15.23% in Hotel Group Budvanska Rivijera a.d. Budva and 19.98% in Sveti Stefan Hoteli a.d. Budva).

(b) Repossessed property following the foreclosure include:

	31 December 2021	In RSD thousand 31 December 2020
Buildings	728,086	836,049
Equipment	20,102	20,102
Total	**748,188**	**856,151**

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

	2021	In RSD thousand 2020
Balance as of 1 January	**856,151**	**1,333,637**
Assets acquired during the year	332	2,314
Sales	(97,034)	(462,839)
Impairment (Note 19)	(11,261)	(16,961)
Balance as of 31 December	**748,188**	**856,151**

33. OTHER ASSETS (Continued)

According to the independent appraiser's report from 2021, repossessed property following the foreclosure is charged to the Income Statement in the total amount of RSD 11,261 thousand (Note 19).

In 2021 the Bank sold 10 repossessed property items following the foreclosure, whose total net book value amounts to RSD 97,034 thousand, out of which, the largest portion is related to a villa in Belgrade, located at Solina 6, whose present value amounts to RSD 90,578 thousand.

The Bank realized a gain from the sale of repossessed property in 2021 in the amount of RSD 16,107 thousand (Note 18) and a loss amounting to RSD 1,081 thousand (Note 19).

The Bank's management is undertaking all necessary measures to sell the acquired assets.

As of 31 December 2021, the Bank did not have title deeds for three buildings classified as repossessed property following the foreclosure, whose carrying value amounts to RSD 10,392 thousand. The Bank's management is undertaking all actions necessary to obtain the said title deeds.

34. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK

		In RSD thousand
	31 December 2021	**31 December 2020**
Transaction deposits	1,431,036	1,390,498
Deposits for issued loans	13,898	35,352
Earmarked deposits	61,454	1,422,095
Other deposits	8,025,495	11,826,058
Overnight deposits	8,230,747	-
Other financial liabilities	6,694	4,917
Interest payable, accrued interest and fees	31,743	15,257
Balance as of 31 December	**17,801,067**	**14,694,177**

In 2021 the Bank paid an annual interest rate ranging from 0.08% to 0.20% (2020: 1.03% to 1.05% p.a.) on RSD overnight funds received from banks. A negative interest rate is contracted for borrowed funds in EUR.

Other deposits from banks as of 31 December 2021 include foreign currency deposits received from foreign banks in the amount of RSD 11,758 thousand (31 December 2020: RSD 10,582,218 thousand) with a maturity of up to 90 days.

In 2021 the Bank paid an annual interest rate ranging from 0.08% to 0.27% on borrowed funds in RSD with maturities of over one day (2020: 0.1% to 0.4% on borrowed RSD funds and 1.2% to 1.90% on USD funds p.a.).

In 2021 the Bank paid an annual interest rate ranging from 1.25% to 1.91% on funds received from financial institutions maturing within one year, i.e. from 1.55% to 2.60% in 2020. The Bank paid an annual interest rate of 0.95% on EUR funds from financial institutions maturing within one year.

35. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

In RSD thousand

	31 December 2021	31 December 2020
Corporate customers		
Transaction deposits	23,166,727	26,655,873
Deposits for issued loans	6,045,060	4,659,059
Earmarked deposits	1,066,607	1,368,808
Other deposits	37,851,077	31,647,875
Overnight deposits	64,768	394,786
Borrowings	2,090,453	2,383,186
Other financial liabilities	269,867	162,244
Interest payable, accrued interest and fees	75,252	136,932
	70,629,811	**67,408,763**
Retail customers		
Transaction deposits	29,223,885	19,943,596
Savings deposits	76,755,795	73,934,241
Deposits for issued loans	1,887,828	1,873,869
Earmarked deposits	110,359	104,314
Other deposits	2,505,309	632,249
Other financial liabilities	76,409	66,583
Interest payable, accrued interest and fees	480,997	477,313
	111,040,582	**97,032,165**
Balance as of 31 December	**181,670,393**	**164,440,928**

The Bank paid an annual interest rate between 0% and 1% on RSD transaction deposits of corporate customers. The Bank paid an annual interest rate between 0% and 1.90% on RSD transaction deposits of public sector entities. The Bank paid an annual interest rate on EUR between 0% and 0.06% and a rate from 0% to 0-06% on USD on foreign currency transaction deposits of corporate and public sector customers.

Interest rates on RSD term deposits of corporate customers ranged from 0% to 2.4% annually. The term deposits were placed between one day and over one year. Interest rates on RSD term deposits of public sector entities ranged from 0% to 2.45% per annum. The term deposits were placed between one day and over one year.

Interest rates on EUR term deposits of corporate customers ranged from 0% to 1.50% annually. The term deposits were placed between one day and over one year. Interest rates on EUR term deposits of public sector entities ranged from 0% to 1.25% per annum. The term deposits were placed between one day and over one year.

As of 31 December 2021, the Bank had borrowings obtained from the European Investment Bank (EIB) and the Revolving Credit Fund in the amount of RSD 2,090 million. The loan received from the EIB through the Republic of Serbia Government in the amount of EUR 16,056 thousand is related to APEX loan agreements concluded with the National Bank of Serbia, which will mature by 2031, while loans from the Revolving Credit Fund amount to EUR 1,722 thousand and will mature by 2026.

Transaction deposits from retail customers in RSD and foreign currencies are non-interest bearing.

A nominal interest rate on sight savings deposits in EUR of retail customers amounted to 0.05% per annum, whereas an interest rate on savings in CHF and USD amounted to 0.01% p.a. and 0.1% on RSD savings.

Annual nominal interest rates on standard term savings deposits in EUR maturing within one year ranged from 0.10% to 1%, i.e. from 0.05% to 0.10% on CHF deposits and from 0.55% to1.50% on USD deposits. Annual nominal interest rates on standard term savings deposits in EUR with maturities of over one year (over 12 months but up to 36 months) ranged from 1.20% to 1.50%%, whereas other currencies were not obtained for maturities over 12 months.

Annual nominal interest rates on term savings deposits in RSD maturing within one year ranged from 1.00% to 2.50%. An annual nominal interest rate on term savings deposits in RSD with maturities of over one year (18 months) was 2.75%.

36. PROVISIONS

In RSD thousand

	31 December 2021	31 December 2020
Provisions for litigations (a)	327,245	549,934
Provisions for employee benefits (b)	71,708	72,565
Provisions for losses per off-balance sheet items (c)	147,366	43,421
Other provisions	-	8,449
Balance as of 31 December	**546,319**	**674,369**

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

In RSD thousand

	2021	2020
Balance as of 1 January	**549,934**	**441,002**
Charge for the year (Note 19)	141,810	271,361
Release of provisions (Note 18)	(72,730)	(138,804)
Used provisions	(291,769)	(23,625)
Balance as of 31 December	**327,245**	**549,934**

(b) Movements in provisions for employee benefits (retirement benefits, jubilee awards and other benefits) during the year were as follows:

In RSD thousand

	2021	2020
Balance as of 1 January	**72,565**	**58,520**
Charge for the year (Note 16)	47,939	48,827
Actuarial losses	(262)	(886)
Release of provisions (Note 16)	-	(158)
Used provisions	(48,534)	(33,738)
Balance as of 31 December	**71,708**	**72,565**

Main actuarial assumptions used in the calculation of provisions for retirement benefits were as follows:

	31 December 2021	31 December 2020
Discount rate	4.5%	4.5%
Bank's salary growth rate	6.5%	5%
Employee turnover rate	11%	9%

36. PROVISIONS (Continued)

(c) Movements in provisions for per off-balance sheet items during the year were as follows:

	2021	In RSD thousand 2020
Balance as of 1 January	**43,421**	**69,537**
Charge for the year (Note 15)	390,199	252,604
Release of provisions (Note 15)	(283,000)	(276,054)
Foreign exchange gains/losses	(3,254)	(2,666)
Balance as of 31 December	**147,366**	**43,421**

37. OTHER LIABILITIES

	31 December 2021	In RSD thousand 31 December 2020
Other liabilities:		
Trade payables	107,807	203,226
Advances received	21,174	14,970
Lease liabilities (Note 37.1)	491,029	533,792
Liabilities for guarantees and acceptances called on	176	143
Profit liabilities	131,460	159,960
Liabilities for managed funds	11,817	11,671
Other liabilities from operating activities	364,692	612,738
Liabilities in settlement	303,017	48,277
Payable-through account and temporary accounts	6,751	6,729
Liabilities to employees	-	7,075
Other foreign currency liabilities	195,582	183,569
	1,633,505	**1,782,150**
Tax liabilities:		
Value added tax	9,826	11,930
Other taxes and contributions	10,357	11,196
	20,183	**23,126**
Accruals and deferred income:		
Deferred liabilities for other accrued expenses	71,675	76,982
Accrued income	73,786	65,878
Other deferred income	91,574	67,342
	237,035	**210,202**
Balance as of 31 December	**1,890,723**	**2,015,478**

37.1. Lease Liabilities

The maturity structure of lease liabilities is provided in the following table:

	31 December 2021	In RSD thousand 31 December 2020
Maturity:		
- up to 1 year	185,219	173,208
- up to 2 years	140,989	160,998
- up to 3 years	78,417	119,698
- up to 4 years	46,447	56,093
- up to 5 years	16,352	23,483
- over 5 years	23,605	312
Total	**491,029**	**533,792**

37. OTHER LIABILITIES (Continued)

37.1. Lease Liabilities (Continued)

The maturity structure of undiscounted - expected cash outflows arising from lease liabilities (including interest rate outflows) is provided in the following table:

	31 December 2021	In RSD thousand 31 December 2020
Maturity:		
- up to 1 year	190,318	175,570
- up to 2 years	144,870	165,988
- up to 3 years	80,575	125,206
- up to 4 years	47,125	58,826
- up to 5 years	16,802	24,930
- over 5 years	24,255	341
Total	**503,945**	**550,861**

The structure of total lease payments and outflows reported in cash flows in 2021 and 2020 is provided in the following table:

	2021	2020
Fixed payments	196,436	190,557
Variable payments	5,172	4,735
Total	**201,608**	**195,292**

Variable payments that are included in the value of a lease liability are index dependent payments. Out of the total outflows of RSD 201,608 thousand in 2021 (2020: RSD 195,292 thousand), an amount of RSD 192,220 thousand is related to the payment of principal (2020: RSD 186,835 thousand), which is reported under cash flows from financing activities, whereas an amount of RSD 9,388 thousand is related to the interest payment (2020: RSD 8,457 thousand), which is stated under cash flows from operating activities in the statement of cash flows.

The structure of rental income and expenses in 2021 and 2020 was as follows:

	2021	2020
Depreciation of right-of-use assets (Note 29.2)	(187,599)	(189,882)
Interest expense on lease liabilities (Note 8)	(9,388)	(10,002)
Rental costs (Note 19)	(109,339)	(102,252)
Total	**(306,326)**	**(302,136)**

38. EQUITY

38.1. Equity Structure

In RSD thousand

	31 December 2021	31 December 2020
Share capital:		
Ordinary shares	17,320,083	17,320,083
Preference (priority) shares	2,442,512	2,442,512
	19,762,595	**19,762,595**
Share premium	7,433,135	7,433,135
	27,195,730	**27,195,730**
Profit reserves and other reserves	13,953,877	13,953,877
Gains from value changes of equity instruments	493,459	263,583
Gains from value changes of debt instruments	172,356	772,408
Actuarial gains based on defined employee benefit plans	563	341
	14,620,255	**14,990,209**
Profit	13,237,614	10,920,167
Balance as of	**55,053,599**	**53,106,106**

(i) Share Capital

Shareholder Structure:

The Bank's shareholder structure with a share above 1% as of 31 December 2021 and 2020 was as follows:

In RSD thousand

31 December 2021

	Total share capital	Share in %	Controlling capital	Share %
M&V Investments a.d. Belgrade	19,284,006	97.58	17,320,083	100.00
BDD M&V Investments – 80200ZMVI0008	252,968	1.28	-	-
BDD M&V Investments - 80200Z	225,621	1.14	-	-
Total	**19,762,595**	**100.00**	**17,320,083**	**100.00**

31 December 2020

	Total Share Capital	Share %	Controlling Capital	Share %
M&V Investments a.d. Belgrade	19,284,006	97.58	17,320,083	100.00
BDD M&V Investments – 80200ZMVI0008	252,968	1.28	-	-
BDD M&V Investments - 80200Z	225,621	1.14	-	-
Total	**19,762,595**	**100.00**	**17,320,083**	**100.00**

The total number of the Bank's subscribed and paid in shares as of 31 December 2021 amount to 9,453,797 shares, which are comprised of 8,285,377 ordinary shares and 1,168,420 preference shares, whose par value is RSD 2,090.44 (31 December 2020: 8,285,377 ordinary shares and 1,168,420 preference shares of the par value of RSD 2,090.44).

38. EQUITY (Continued)

38.1. Equity Structure (Continued)

(i) Share Capital (Continued)

At its session held on 17 December 2018, the Bank's Shareholders Assembly passed a Decision no. 12-XLVI/2018 on the Withdrawal of Shares from the Regulated Market (MTP) and Termination of the Public Company Status, as well as a Decision no. 09--XLVI/2018 on the Adoption of Amendments to the Bank's Incorporation Contract. According to a Decision issued by the Serbian Business Registers Agency no. BD 117341/2018 dated 19 December 2018, the Bank's request was adopted and therefore AIK Banka a.d. Belgrade changed its legal form and was registered as a closed JSC with the Business Registers Agency.

Pursuant to the Decision no. 04-XLVIII/2020 on Reallocation of a Portion of Funds from Other Profit Reserves to Retained Earnings Not Included in Stake Capital and the Use and Allocation of Retained Earnings for Dividend Payments to Shareholders passed by the Bank's Shareholders Assembly on 27 January 2020, the Bank redistributed an amount of RSD 5,878,280 thousand and fully allocated it for the dividend payments to Bank's shareholders.

Pursuant to the Shareholders Assembly's Decision no. 07-LI/2020, dated 27 April 2020, on the Use and Distribution of Retained Earnings Not Included in Bank's Stake Capital and Bank's Generated Profit according to the Financial Statements for the Year Ended 31 December 2019 in the total amount of RSD 8,230,318 thousand, this amount is fully allocated for dividend payments to Bank's shareholders.

Pursuant to the Decision no. 05-LIII/2021 on the Distribution of Bank's Generated Profit according to the Financial Statements for the Year Ended 31 December 2020 in the total amount of RSD 9,801,586 thousand passed by the Shareholders Assembly on 28 April 2021, the amount of RSD 3,626,727 thousand is appropriated for dividend payments to Bank's shareholders, the amount of RSD 4,582,664 thousand is to be allocated to retained earnings that are included in share capital (in accordance with the Decision 05-LI/2020 dated 27 April 2020), while the amount of RSD 1,592,195 thousand is to be distributed as retained earnings that are not included in Bank's share capital.

(ii) Revaluation Reserves and Unrealized Losses from Available-for-sale Securities

Revaluation reserves based on equity and debt instruments, i.e. securities at fair value through other comprehensive income, as of 31 December 2021 and 2020 constitute a sum of the following components:

		In RSD thousand
	2021	2020
Balance as of 1 January	**1,035,991**	**943,299**
Positive net effects of fair value changes		
- based on valuation	(430,905)	66,747
- based on impairment (Note 15)	(4,596)	42,302
Effects of creating deferred tax liabilities related to other comprehensive income for the period (Note 32)	65,325	(16,357)
Balance as of 31 December	**665,815**	**1,035,991**

(iii) Actuarial Gains

Actuarial gains as of 31 December 2021 and 2020 are related to actuarial losses from provisions for retirement benefits (Note 38).

		In RSD thousand
	2021	2020
Balance as of 1 January	**341**	**(412)**
Actuarial gains	262	886
Deferred taxes (Note 32.2)	(40)	(133)
Balance as of 31 December	**563**	**341**

39. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET ITEMS

39.1. Litigations

The Bank is a defendant in 13,231 litigations as of 31 December 2021 (31 December 2020: 6,565 disputes), in which plaintiffs seek monetary claims from the Bank. The total value of these disputes, which can result in cash outflows (for damages, debt, etc.) in case of negative outcomes for the Bank, amounts to RSD 2,045,698 thousand (31 December 2020: RSD 11,858,951 thousand), not including any interest claims.

According to the Bank's lawyer, claims with estimated positive outcomes account for 83% out of the total monetary claims from the Bank by plaintiffs as of 31 December 2021. Pursuant to the requirements of IAS 37 and its methodology, the Bank made a provision in the amount of RSD 327,245 thousand (31 December 2020: RSD 549,934 thousand) (Note 36) for plaintiffs' monetary claims with estimated negative outcomes.

The current level of provisions has been assessed as adequate by the Bank's management, but the Bank will closely monitor the market situation and outcomes of such litigations, and will make adequate provisions in the future reporting periods, according to the best estimates, in order to avoid unexpected effects on the Bank's performance.

The Bank is also involved in a number of lawsuits filed against third parties, mostly for the purpose of debt collection.

39.2. Off-Balance Sheet Items

		In RSD thousand
	31 December 2021	**31 December 2020**
Managed funds on behalf of third parties (a)	1,041,702	1,063,907
Guarantees and other sureties issued (b)	30,180,301	24,768,167
Derivatives held for trading at contracted value (c)	14,885,940	4,679,112
Securities received as pledges (d)	46,077,025	50,700,901
Other off-balance sheet assets (e)	515,058,389	566,700,369
Balance as of 31 December	**607,243,357**	**647,912,456**

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

39.2. Off-Balance Sheet Items (Continued)

In RSD thousand

	31 December 2021	31 December 2020
a) Managed funds on behalf of third parties		
Loans per managed funds in RSD		
- short-term	4,835	4,835
- long-term	1,036,867	1,059,072
	1,041,702	**1,063,907**
b) Contingent liabilities		
Payment guarantees		
- in RSD	7,686,760	6,844,509
- in foreign currencies	293,144	536,430
Performance guarantees		
- in RSD	15,950,317	11,742,884
- in foreign currencies	1,754,405	1,362,896
	25,684,626	**20,486,719**
Undrawn loan facilities	929,784	1,173,804
	929,784	**1,173,804**
Irrevocable commitments per own guarantees and spot		
- in RSD	1,696,177	1,497,322
- in foreign currencies	1,869,714	1,610,322
	3,565,891	**3,107,644**
	30,180,301	**24,768,167**
(c) Derivatives		
Currency swap and forward (Note 22)	14,885,940	4,679,112
	14,885,940	**4,679,112**
(d) Sureties received to secure liabilities		
Securities received to secure placements	46,077,025	50,700,901
	46,077,025	**50,700,901**
(e) Other off-balance sheet items		
Tangible assets, guarantees and other sureties received to secure placements	442,807,134	496,998,685
Unused revocable lines of credit	25,498,498	20,659,309
Depositary operations	507	399
Loro guarantees	5,950,516	5,823,179
Suspended interest	538	-
Receivables transferred to off-balance sheet items	33,937,959	36,486,174
Other	6,863,237	6,732,623
	515,058,389	**566,700,369**
Balance as of 31 December	**607,243,357**	**647,912,456**

A breakdown of Bank's credit risk-weighted off-balance sheet items that are classified as of 31 December 2021 and 2020 is provided below:

In RSD thousand

	31 December 2021	31 December 2020
Guarantees	25,684,626	20,486,719
Irrevocable commitments	929,784	1,173,804
Irrevocable commitments from own guarantees and spot	587,890	117,580
Revocable commitments	25,488,498	20,659,309
Balance as of 31 December	**52,690,798**	**42,437,412**

40. RELATED PARTY DISCLOSURES

(a) Transactions with Management

Transactions with the Bank's management members are based on the standard market conditions.

In RSD thousand

Remunerations to management	2021	2020
Executive Board members	(83,542)	(90,960)
Members of the Board of Directors	(34,093)	(34,877)
Total remunerations to management	**(117,635)**	**(125,837)**

In RSD thousand

Other transactions with management	Balance as of 31 December 2021	Balance as of 31 December 2020	Income/ (expenses) 2021	Income/ (expenses) 2020
Payment cards, cash and consumer loans	12,936	409	486	218
Deposits	(56,667)	(20,817)	(942)	(396)
Other liabilities	16	-	(159)	(10,433)
Total other transactions with management	**(43,715)**	**(20,408)**	**(615)**	**(10,611)**

(b) Transactions with the Bank's Related Parties

In the regular course of business, the Bank enters into business transactions with its shareholders and other related parties under the standard market conditions.

The following table shows related party transactions (balances of receivables and payables, income and expenses) as of the reporting date:

In RSD thousand

	Balance sheet gross exposure	Off-balance sheet exposure	Total	Liabilities
Employees	37,392	22,834	60,226	104,582
Other individuals	3,511	10,806	14,317	277,241
Legal entities *	10,492,595	5,565,321	16,057,916	25,876,404
Balance as of 31 December 2021	**10,533,498**	**5,598,961**	**16,132,459**	**26,258,227**
Employees	2,507	22,938	25,445	107,846
Other individuals	153	2,347	2,500	227,569
Legal entities *	7,890,693	1,950,820	9,841,513	21,004,347
Balance as of 31 December 2020	**7,893,353**	**1,976,105**	**9,869,458**	**21,339,762**

* Related parties are provided in the tables below.

40. RELATED PARTY DISCLOSURES (Continued)

(b) Transactions with the Bank's Related Parties (Continued)

In RSD thousand
31 December 2021

Legal entity	Balance sheet exposure	Off-balance sheet exposure	Total	Liabilities	Income	Expenses
Gorenjska banka d.d. Kranj	7,055,761	284	7,056,045	(11,758,210)	148,707	(8,050)
Čista voda projekt d.o.o. for services, Savudrija	3,433,823	164,854	3,598,677	-	89,741	(58,119)
MK Holding d.o.o. Belgrade	-	2,939,553	2,939,553	(3,398,247)	172,286	(43,102)
MK Group d.o.o. Belgrade	679	2,405,342	2,406,021	(1,470,623)	67,961	(6,386)
MK Logistika d.o.o. Novi Sad	-	50,000	50,000	(35,024)	1,926	(275)
Agroglobe d.o.o. Novi Sad	207	2,493	2,700	(99,333)	22,423	(24,044)
MK Agriculture d.o.o. Novi Sad	195	1,605	1,800	(4,592)	150	(119)
DR Nikola Vunjak, entrepreneur	1,776	-	1,776	(302)	217	(30)
D.o.o. Agrounija Indjija	13	587	600	(154,351)	9,172	(26,475)
Pik-Bečej a.d. Becej	35	415	450	(269,037)	664	(1,687)
Banat Seme d.o.o. Zrenjanin	12	188	200	(28)	6	(5)
MK Mountain Resort d.o.o. Kopaonik	94	-	94	(697,674)	1,298	(5,687)
Victoria project d.o.o. Novi Sad	-	-	-	(4,575,241)	0	(762)
M&V Investments a.d. Belgrade	-	-	-	(856,528)	357	(13,495)
Sunoko d.o.o. Novi Sad		-	-	(942,902)	2,462	(25,786)
SJPT NON-CORE DOO	-	-	-	(762,510)	7	(53)
Carnex d.o.o. Vrbas	-	-	-	(531,310)	1,453	(16,207)
Other	-	-	-	(320,492)	2,949	(6,950)
Total	**10,492,595**	**5,565,321**	**16,057,916**	**(25,876,404)**	**521,779**	**(237,232)**

In RSD thousand
31 December 2020

Legal entity	Balance sheet exposure	Off-balance sheet exposure	Total	Liabilities	Income	Expenses
MK Holding d.o.o. Belgrade	4,069,447	1,809,563	5,879,010	(304)	323,959	(37,405)
Gorenjska banka d.d. Kranj	3,813,963	-	3,813,963	(10,582,218)	4,707,562	(27,308)
MK Logistika d.o.o. Novi Sad	-	126,776	126,776	(3,571)	987	(504)
Agroglobe d.o.o. Novi Sad	4,465	3,373	7,838	(2,089,171)	46,030	(3,326)
MK Group d.o.o. Belgrade	178	5,822	6,000	(10,133)	709	(36,953)
DR Nikola Vunjak, entrepreneur	2,352	-	2,352	(49)	107	(71)
Sojaprotein d.o.o. Becej	-	2,000	2,000	(3,048,696)	323,909	(168,082)
MK Agriculture d.o.o. Novi Sad	36	1,789	1,825	(2,989)	87	(80)
Granexport d.o.o. Pancevo	26	524	550	(134,651)	383	(1,680)
Pik-Bečej a.d. Becej	13	437	450	(240,499)	1,302	(7,497)
Žito - Bačka d.o.o. Kula	-	310	310	(126,210)	1,012	(136)
PP Erdevik d.o.o. Erdevik	74	226	300	(99)	93	(100)
MK Mountain Resort d.o.o. Kopaonik	94	-	94	(59,022)	1,780	(6,733)
Victoria group d.o.o. Belgrade	45	-	45	(4,513)	275	(166)
Sunoko d.o.o.Novi Sad	-	-	-	(1,408,360)	4,086	(12,173)
Carnex d.o.o. Vrbas	-	-	-	(1,668,086)	2,879	(43,254)
M&V Investments a.d. Belgrade	-	-	-	(707,809)	5,806	(11,910)
Other	-	-	-	(917,967)	19,394	(6,509)
Total	**7,890,693**	**1,950,820**	**9,841,513**	**(21,004,347)**	**5,440,360**	**(363,887)**

41. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

Article 18 of the Law on Accounting stipulates that outstanding balances need to be reconciled with their counterparties.

The reconciliation is performed at least once a year, before the preparation of the financial statements. In accordance with the Bank's bylaws, 30 November of any current year has been set as the date for the reconciliation of receivables and payables with customers.

Out of the total amount of receivables requested to be reconciled, the amount of RSD 1,505 thousand, i.e. 0.0008%, remained unreconciled. Out of the total amount of payables requested to be reconciled, the amount of RSD 601 thousand, i.e. 0.0021%, remained unreconciled.

42. EVENTS AFTER THE REPORTING PERIOD

There were no significant events subsequent to the reporting date, which would require disclosure in the notes to the accompanying financial statements of the Bank as of and for the year ended 31 December 2021.

43. EXCHANGE RATES

The official median exchange rates of the National Bank of Serbia, determined at the Interbank Foreign Exchange Market, used in the translation of balance sheet items denominated in foreign currencies as of 31 December 2021 and 2020 into the functional currency (RSD), for the major foreign currencies were as follows:

In RSD

	31 December 2021	31 December 2020
EUR	117.5821	117.5802
USD	103.9262	95.6637
CHF	113.6388	108.4388

Ana Medojevic
Head of Accounting and Reporting

Jelena Galic
Executive Board Chairperson

"AIK BANKA" BEOGRAD

Milan Mirkov
Executive Board Member

ANNUAL REPORT 2021.

AIK Banka a.d. Beograd

Contents

1. Message of the Chairperson of the Executive Board

Dear all,

The previous two years have been challenging for the entire economy, including the banking sector. At the global and local level, the development of digitalization of services is significantly accelerated due to the pandemic that left an indelible mark, both in people's lives and in the business of companies, but also due to the distinct need of clients for promptness and availability of services without time constraints.

Personalization, i.e. creating services for an individual, in accordance with his needs and habits, in order to save time and money by finding adequate financial models, is an important trend nowadays that is based on data analysis, machine learning and data science, and it is a trend which is also followed by AIK Bank. The implementation of this business model will greatly facilitate clients' operations with the bank and optimize costs, since the savings that the client can achieve will be noticeable.

As part of the implementation of the digital transformation strategy, AIK Bank has so far implemented a significant number of services that are available to our clients without any time constraints, through electronic and mobile banking platforms, as well as services for new clients - from online account opening to online cash loans in just 10 minutes.

We have enabled the bank's availability 24/7 for cash transactions by introducing Zones that are equipped with multifunctional ATMs and smart safes that allow legal entities to make cash payments without queuing up. The mobile banking application has been upgraded with new product offerings available in this way, which include cash loans, savings, credit card and refinancing loan.

We have come a long way from a conventional, traditional bank, to a bank that nowadays receives significant international recognition for innovation and quality of services, and that is the direction in which we continue. Our business model has continuously proven its strength, both in the past, as well as before the challenges and uncertainties we faced due to the global health crisis.

The financial indicators of our business only confirm the stability and strength of our organization. We ended the year 2021 with a balance sheet total of 2.2 billion euros, with high liquidity. The strong deposit base has been further increased to 1.5 billion euros, reflecting the trust that our clients place in us from year to year. Capital adequacy of 20.4% is significantly above the regulatory minimum, while ROE profitability indicators of 12% indicates the strength and quality of our business model.

In 2021, we have strengthened our market position, and laid a strong foundation for further growth, which is an additional incentive to step into 2022 with the same motivation and diligence. We continue to build and nurture partnerships and actively support citizens, the economy and the entire community. I would like to thank our clients who have placed their trust in us, our colleagues for their hard work and dedication, as well as the shareholders who provide us with continuous support.

Kind regards,

Jelena Galić
Chairperson of the Executive Board

2. Identity card

Full legal name of the issuer	**Agroindustrijsko komercijalna banka "AIK Banka" ad Belgrade**
Registered address	**Bulevar Mihajla Pupina 115đ 11070 Novi Beograd Republic of Serbia**
Web address	**www.aikbanka.rs**
Legal form	**Shareholding company**
Legal status of the issuer	**Active company**
Corporate identification number	**06876366**
Fiscal code – tax identification number	**100618836**
Current accounts held with banks	**National Bank of Serbia – 908000000001050197**
Date of incorporation	**10 August 1993**
No. of decision on registration with the Serbian Business Registers Agency	**2946/2005, dated 1 March 2005**
Business activity code	**6419 – Other monetary intermediation**
Telephone no.	**+ 381 11 202 9050**
Fax	**+ 381 11 312 9787**
e-mail	**kabinet@aikbanka.rs**
Executive Board Chairperson	**Jelena Galić**
Shareholder list available in:	**Centralni registar, depo i kliring hartija od vednosti Republike Srbije a.d, www.crhov.rs**
Social networks:	
Auditor for FY 2021	**BDO d.o.o Belgrade, Knez Mihailova 10, 11000 Beograd, Serbia**

3. Macroeconomic trends

Real GDP growth in the first quarter of 2021 compared to the same period of the last year was 1.7%. In the second quarter of 2021, compared to the same period last year, real GDP growth amounted to 13.7%, while real GDP growth in the third quarter of 2021 compared to the third quarter of 2020 amounted to 7.7%. In 2021, the European Commission expected a strong recovery and economic growth of 6.7%. The IMF estimated that GDP growth in 2021 would be 6.5%, while in 2022 it will continue its increasing trend in growth by 4.5%.

During the period from January-November 2021, the state budget reached deficit in the amount of RSD 149.6 billion. Revenues were generated in the amount of RSD 1,316.7 billion, and expenditures were realized in the amount of RSD 1,466.3 billion. The result is above the planned one by RSD 16 billion, envisaged by the budget rebalance from October 2021, considering that a deficit of RSD 165.6 billion was projected for this period. At the government level, the fiscal deficit in the amount of RSD 112.1 billion was reached for the period January-November 2021, while the primary fiscal deficit was realized in the amount of RSD 5 billion.

In December 2021, industrial production in the Republic of Serbia increased by 3.3% compared to December 2020, while compared to the 2020 average, it increased by 13.1%. Industrial production in 2021 compared to 2020 is higher by 6.3%. Observed by sectors, in December 2021, compared to the same month in 2020, the following trends were recorded: the sector Mining - growth of 40.6%, Manufacturing - growth of 2.3%, and the sector Supply of electricity, gas, steam and air conditioning - a decline of 7.5%. Data on industrial production by purpose groups in December 2021, compared to the same month last year, show that there was an increase in production of: intermediate goods, except for energy (12.3%), and non-durable consumer goods (10.7%), while a decline was recorded in the production of: durable consumer goods (4.0%), energy (6.6%), and capital goods (9.1%). The volume of industrial production in December 2021 compared to December 2020 increased in 17 areas (participation of 50% in the structure of industrial production), and decreased in 12 areas (participation of 50%in the structure of industrial production). The following had the greatest impact on the growth of industrial production in December 2021 compared to the December of the previous year: Exploitation of metal ores, Manufacture of basic pharmaceutical products, Manufacture of computer, electronic and optical products, Manufacture of beverages, Manufacture of tobacco products and Manufacture of machinery and equipment n.e.c. The volume of industrial production in 2021, when compared to 2020, increased in 22 areas (participation of 89% in the structure of industrial production), and decreased in 7 areas (participation of 11% in the structure of industrial production). The following had the greatest impact on the growth of industrial production in 2021 when compared to 2020: Exploitation of metal ores, Manufacture of coke and refined petroleum products, Manufacture of other transport equipment, Manufacture of electrical equipment, and Manufacture of machinery and equipment n.e.c. The seasonally adjusted index of industrial production for December 2021, compared to November 2021, shows that the total growth of industrial production was 0.7% and that manufacturing industry realized growth of 0.5%. The seasonally adjusted index of industrial production for December 2021, compared to the average for 2020, shows an overall growth of 8.1% for industry and a growth of 6.2% for the manufacturing industry.

The aggregate foreign trade of Serbia for the period January-December 2021 amounts to: EUR 50,222.1 million - an increase of 25.5% compared to the same period last year. Exports of goods in euros amounted to EUR 21,620.8 million, which is an increase of 26.8% compared to the same period last year. Imports of goods amounted to EUR 28,601.3 million, which is 24.6% more than in the same period last year. The deficit amounts to EUR 6,980.4 million and has increased by 18.3% when compared to the same period last year. Exports-to-imports coverage was 75.6% and is higher than the coverage in the same period last year (74.3%). Observed regionally, the region of Vojvodina had the most significant share in Serbia's exports (34.8%); followed by the Belgrade region (23.8%), Šumadija and Western Serbia (21.8%), the Southern and Eastern Serbia region (19.5%), and 0.1% of exports remained unclassified by territory. The Belgrade region had the most significant share in Serbia's imports (46.0%); followed by the Region of Vojvodina (29.8%), the Region of Šumadija and Western Serbia (13.8%), the Southern and Eastern Serbia region (9.6%), while 0.7% of imports remained unclassified by territory. In the structure of exports by product purpose (predominance principle), reproduction products are the most significant with 61.8% (USD 15,795.9 million), followed by consumer goods, 27.7% (USD 7,077.1 million) and equipment, 10.5% (USD 2,689.4 million). Unclassified goods by purpose amounted to 0.0% (USD 1.2 million). In the structure of imports by purpose of products, reproduction products are the most significant with 55.1% (USD 18,609.3 million), followed by consumer goods, 19.7% (USD 6,642.9 million), and equipment, 13.9% (USD 4,697.8 million)). Unclassified goods by purpose amounted to 11.4% (USD 3,847.1 million). Foreign trade was the most significant with countries with whom Serbia has signed free trade agreements. EU member states account for 60.3% of total trade.

	EU	CEFTA	Russia	Others	Total
2021 Exports	**13,941**	**3,410**	**840**	**3,430**	**21,621**
Region's share in the total exports up to 31 December 2021	64.48%	15.77%	3.89%	15.86%	
Increase/decrease in exports against 2020	2,871	688	40	967	4,566
Percentage of increase/decrease in exports against 2020	25.94%	25.28%	5.01%	39.27%	26.77%
2021 Imports	**16,338**	**1,261**	**1,534**	**9,468**	**28,601**
Region's share in the total imports up to 31 December 2021	57.12%	4.41%	5.36%	33.10%	
Increase/decrease in imports against 2020	2,844	386	146	2,268	5,644
Percentage of increase/decrease in imports against 2020	21.08%	30.60%	10.51%	31.50%	24.58%
2021 Foreign trade deficit	**-2,397**	**2,148**	**-694**	**-6,038**	**-6,981**
Region's share in the total surplus/deficit up to 31 December 2021	34.34%	-30.77%	9.94%	86.50%	
Increase/decrease in surplus/deficit against 2020	27	302	-106	-1,301	-1,077
Percentage of increase/decrease in surplus/deficit against 2020	-1.11%	16.36%	18.00%	27.46%	-18.25%

Table 1 – Movements in foreign trade over the year 2020 per region (in EUR million). Source: RSO

According to the survey of the RS Statistical Office, unemployment in the third quarter of 2021 in the Republic of Serbia was 10.50%. The unemployment rate increased compared to the same period in 2020 by 0.7 percentage points. The average earnings (gross) calculated for November 2021 totalled RSD 95,312, while the average earnings without taxes and contributions (net) amounted to RSD 69,136. An increase in gross earnings in the period January-November 2021 compared to the same period last year amounted to 9.1% in nominal terms and 5.2% in real terms. At the same time, net earnings increased by 9.3% nominally and by 5.4% in real terms. Compared to the same month last year, the average gross salary for November 2021 is nominally higher by 13.2% and realistically by 5.3%, while the average net salary is nominally higher by 13.5%, i.e. by 5, 6% realistically.

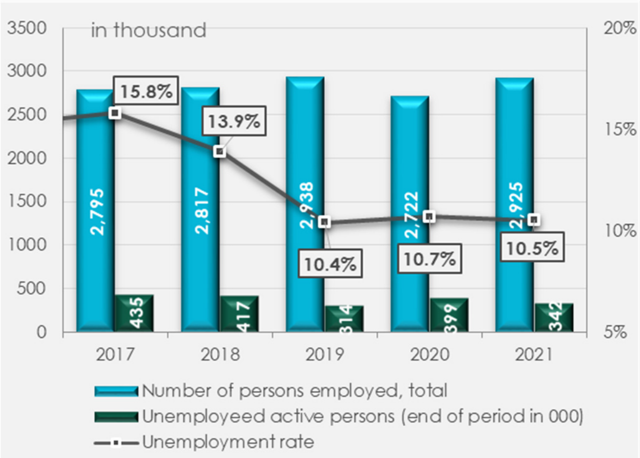


Chart 1 - The number of employed, unemployed and employment rates per year. Source: MF

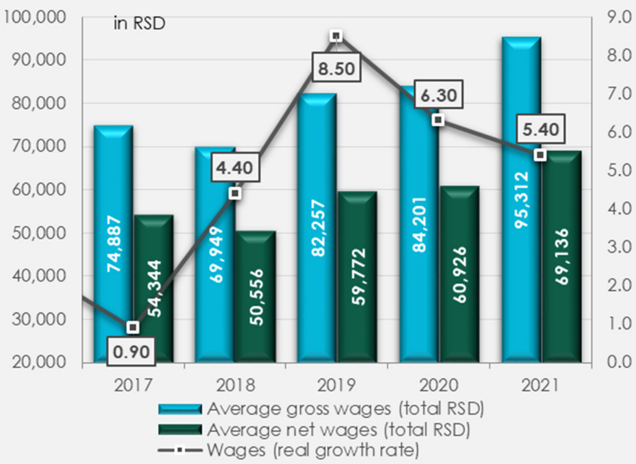


Chart 2 - Movement of average gross and net earnings and real growth rates per year. Source: MF

Inflation slowed down growth in December 2021 and amounted to 0.4% on a monthly basis, while compared to December 2020 it amounted to 7.9%. Average annual inflation in 2021 was 4.0%. Observed according to the structure, three quarters of the year-on-year inflation of 7.9% in December was still determined by the movement of food and energy prices, i.e. those categories that monetary policy cannot directly affect to a significant extent. High year-on-year growth in food prices occurred due to several factors – increase in world food prices, drought, higher production costs, as well as extremely low levels of these prices during 2020 due to the absence of a significant part of demand.

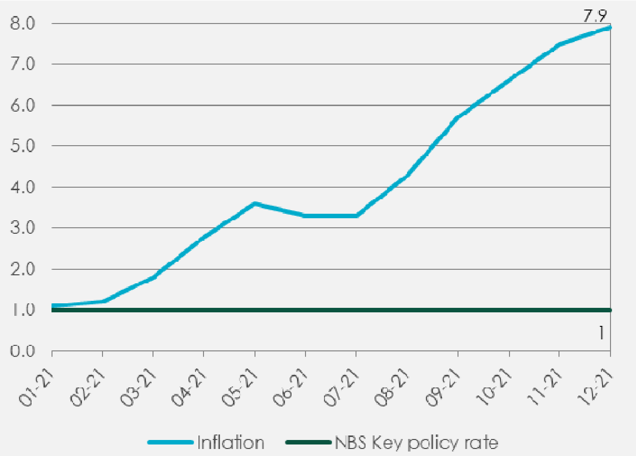


Chart 3 - NBS Key Policy Rate & inflation in 2020 Source: NBS

Energy sources' prices stagnated on a monthly basis in December, while, compared to December 2020, they were higher by 13.4%. Their movement was largely determined by global factors, primarily the rise in global oil prices, which affected the increase in prices of petroleum products on the domestic market (23.5% year-on-year in December). On the other hand, year-on-year base inflation (consumer price index excluding food, energy, alcohol and cigarettes), which may be affected by monetary policy measures, was significantly lower than aggregate inflation in December and amounted to 3.5%. During 2021, year-on-year base inflation averaged to 2.3%. Year-on-year inflation will most likely be around the levels from December 2021 during the first quarter of 2022. Its gradual decline is expected from the second quarter of 2022, while it should return to the target limits during the third quarter of 2022. Year-on-year inflation is expected to return around the central value of the 3% target at the end of 2022, and given the high base of 2021, there is a possibility that at the end of 2022 aggregate inflation will be in the lower half of the target range of 3.0 ± 1.5 %.

The share of government public debt in GDP (ESA 2010 methodology) at the end of November 2021 was 56.4%, and the share of general government public debt in GDP was 57.0%. The public debt of the central government in November 2021, compared to October of the same year, increased by RSD 32.8 billion and amounted to RSD 3,515.3 billion (EUR 29.9 billion). The participation of public debt in foreign currency at the end of November 2021 was 71.1%. The participation of public debt in EUR is 57.3%, in USD 10.8%, in SDR 2.0%, in CHF 0.2% and in other foreign currencies 0.8% (GBP, JPY, DKK, SEK, NOK, AED, KWD, CNY), while the share in RSD is 28.9%.

At the end of 2021, the dinar has the same value against the euro on a monthly and annual level, as well when compared to the beginning of the year. In 2021, the dinar was the weakest on 11 January, when RSD 117.5925 were paid for one euro, and it had the highest value against the European currency on 8 October, when the exchange rate was RSD 117.5469. In 2021, in order to maintain relative stability in the foreign exchange market, and in conditions of significantly increased global uncertainty due to the crisis caused by the pandemic, the National Bank of Serbia bought EUR 645 million net.

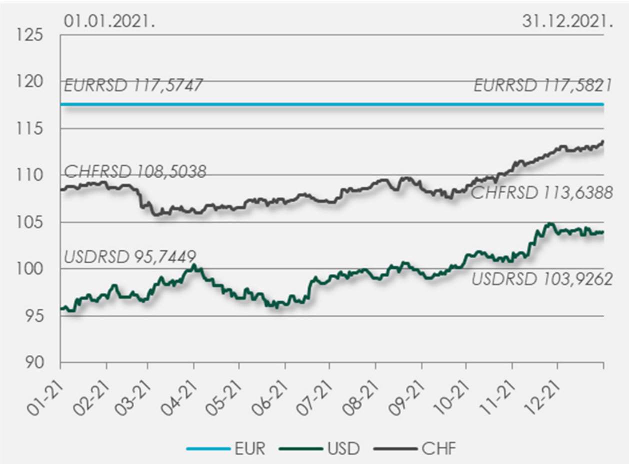


Chart 4 - Movements of major currencies against the dinar

The NBS reference interest rate remained unchanged during 2021 and amounted to 1.00%.

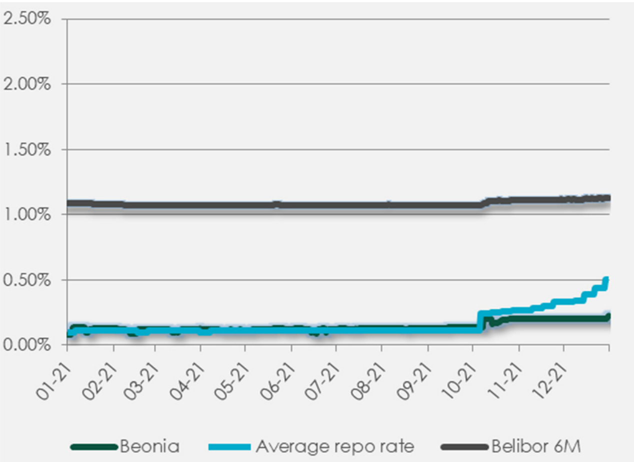


Chart 5 - Beonia, Average repo rate & Belibor. Source: NBS

The most frequently issued securities had maturities of 12M, 24M, 36M, 66M and 150M.

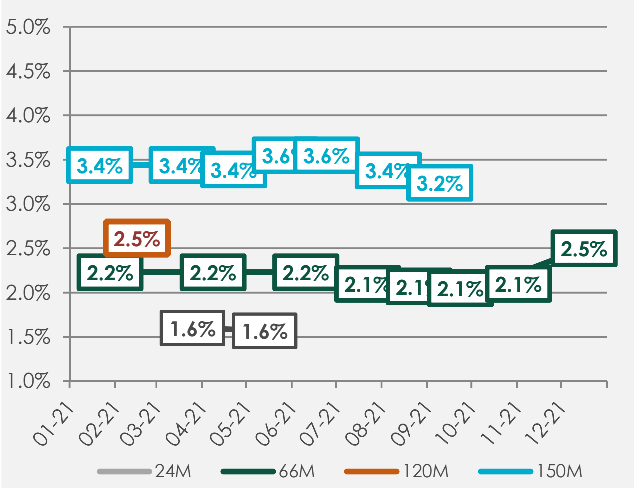


Chart 6 - Rates of RSD government securities in 2020 Source: MF

The following returns were realized at the latest primary RSD auctions in 2021:

- 24M – 1.57%; 66M – 2.50%; 120M – 2.50%; 150M – 3.24%.

Euro securities primarily traded on the domestic financial market had a significantly lower trading volume and number of auctions, considering that the Republic of Serbia borrowed on foreign markets, issuing international bonds and reaching the amount of borrowing on foreign markets at the end of 2021 of EUR 6, $ 3 billion and $ 1.2 billion.

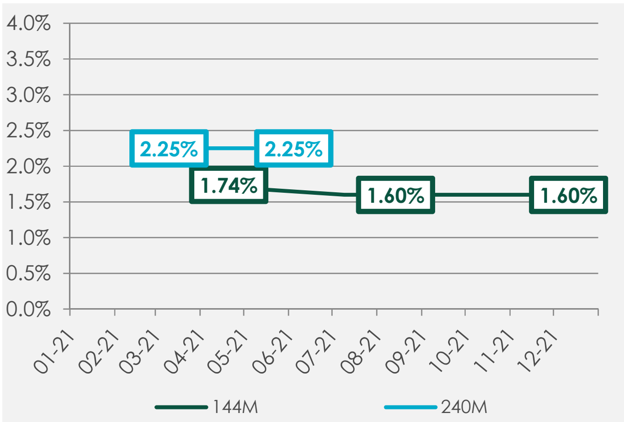


Chart 7 - Rates on EUR government securities in 2020. Source: MF

The following returns were realized at the latest primary EUR auctions in 2021:

- 144M – 1.60%; 240M – 2.25%.

4. Market position and overview of the key performance indicator

4.1 Market position

Ranking	30/09/2021			31/12/2020			30/09/2020		
	Rank	Share	in EUR million	Rank	Share	in EUR million	Rank	Share	in EUR million
Net assets	8	4.6%	1,948	9	5.1%	1,998	9	5.1%	1,966
Net loans and receivables	12	3.7%	888	9	4.2%	942	9	4.3%	959
Total deposits *	8	4.2%	1,458	9	4.8%	1,524	9	4.8%	1,506
Deposits**	8	4.8%	1,397	8	5.2%	1,399	8	5.3%	1,395
Total equity	6	7.7%	470	6	7.4%	452	7	7.2%	438
Profit before tax	3	12.8%	45	2	22.9%	90	1	19.0%	70

** Total deposits: Transactional deposits, Other deposits, Borrowings; ** Deposits: Transactional deposits, Other deposits*

Table 2 - The Bank's market position. Source: National Bank of Serbia

At the end of Q3 2020, the top 10 banks accounted for 83.5% of the total balance sheet assets of Serbia's banking sector. As of 30 September 2021, the Bank improves its market position in comparison with the end of the previous year and is ranked eight according to the amount of net assets. With total balance sheet assets of EUR 1,948 million, it has a market share of 4.6%.

As of 30 September 2021, the customer deposits amounted to EUR 1,397 million, with Bank retaining its market position with a share of 4.8% in the Serbian banking market. Based on the amount of net loans and receivables at the end of Q3 of 2021, the Bank has a market share of 3.7%.

The Bank's share in terms of capital volume in the Serbian banking market remains high. The total level of capital at the end of Q3 of 2021 increased by 4% compared to the end of 2020, which increases the Bank's market share to 7.7% and puts it in the sixth position.

4.2 Bank ranking

NET ASSETS											
30/09/2021				31/12/2020				30/09/2020			
Bank	Rank	Market share	RSD bill	Bank	Rank	Market share	RSD bill	Bank	Rank	Market share	RSD bill
Banca Intesa	1	15.4%	761.3	Banca Intesa	1	15.6%	717.2	Banca Intesa	1	15.2%	687.4
OTP banka	2	13.0%	640.0	Unicredit bank	2	10.6%	486.5	Unicredit bank	2	11.4%	513.1
Unicredit bank	3	10.7%	530.3	Komercijalna banka	3	10.0%	459.4	Komercijalna banka	3	10.2%	459.5
Komercijalna banka	4	9.8%	484.0	Raiffeisen banka	4	8.2%	377.7	Raiffeisen banka	4	8.2%	371.5
Raiffeisen banka	5	8.8%	432.5	OTP banka	5	8.2%	375.9	OTP banka	5	8.1%	366.8
Banka poštanska štedionica	6	6.8%	334.5	Banka poštanska štedionica	6	6.3%	290.7	Erste bank	6	6.3%	282.1
Erste bank	7	6.3%	309.6	Erste bank	7	6.2%	287.0	Banka poštanska štedionica	7	5.9%	266.1
AIK banka	**8**	**4.6%**	**229.0**	Vojvođanska banka	8	5.2%	239.2	Vojvođanska banka	8	5.4%	241.4
Eurobank	9	4.3%	210.5	**AIK banka**	**9**	**5.1%**	**234.9**	**AIK banka**	**9**	**5.1%**	**231.1**
Sberbank	10	3.8%	189.3	Eurobank	10	4.3%	196.2	Eurobank	10	4.2%	188.9

Table 3 – Bank ranking per net assets. Source: National Bank of Serbia

PROFIT BEFORE TAX *											
30/09/2021				31/12/2020				30/09/2020			
Bank	Rank	Market share	RSD bill	Bank	Rank	Market share	RSD bill	Bank	Rank	Market share	RSD bill
Banca Intesa	1	20.6%	8.6	Banca Intesa	1	23.5%	10.8	**AIK banka**	**1**	**19.0%**	**8.3**
Raiffeisen banka	2	14.3%	5.9	**AIK banka**	**2**	**22.9%**	**10.6**	Banca Intesa	2	17.9%	7.8
AIK banka	**3**	**12.8%**	**5.3**	Raiffeisen banka	3	13.4%	6.2	Unicredit bank	3	14.2%	6.2
Unicredit bank	4	12.8%	5.3	Unicredit bank	4	12.2%	5.6	Raiffeisen banka	4	13.1%	5.7
Komercijalna banka	5	7.5%	3.1	Komercijalna banka	5	9.1%	4.2	Komercijalna banka	5	10.3%	4.5
OTP banka	6	7.0%	2.9	Banka poštanska štedionica	6	5.7%	2.6	OTP banka	6	5.8%	2.5
Erste bank	7	5.6%	2.3	OTP banka	7	5.5%	2.5	Erste bank	7	4.9%	2.1
Banka poštanska štedionica	8	4.1%	1.7	Erste bank	8	2.6%	1.2	Banka poštanska štedionica	8	4.2%	1.8
Credit agricole banka	9	3.8%	1.6	Credit agricole banka	9	2.2%	1.0	Eurobank	9	3.2%	1.4
Sberbank	10	3.8%	1.6	Procredit bank	10	1.8%	0.8	Sberbank	10	2.3%	1.0

Note: Bank ranking per profit before taxes was made based on the profit before taxes for the entire banking sector (including banks with positive and banks with negative results).

Table 4 – Bank ranking per profit before tax. Source: National Bank of Serbia

4.3 Profitability and efficiency indicators

Profitability & Efficiency Ratios	30/09/2021			31/12/2020			30/09/2020		
	AIK	Peers	Sector	AIK	Peers	Sector	AIK	Peers	Sector
Profit Before Tax / Average Equity (ROE)	13.0%	8.1%	7.7%	19.7%	7.6%	6.5%	20.5%	9.4%	8.2%
Profit Before Tax / Average Assets (ROA)	3.1%	1.3%	1.2%	4.7%	1.3%	1.1%	4.9%	1.6%	1.3%
Net Interest Income / Average Assets	2.6%	2.6%	2.7%	2.9%	2.9%	3.0%	2.9%	3.0%	3.0%
Interest Income / Average Assets	3.3%	3.0%	3.1%	3.6%	3.3%	3.5%	3.6%	3.4%	3.5%
Interest Expense / Average Assets	0.7%	0.3%	0.4%	0.7%	0.4%	0.5%	0.8%	0.4%	0.5%
Loan Loss Provisions / Average Assets	-0.5%	0.3%	0.2%	-0.3%	0.7%	0.6%	0.0%	0.5%	0.5%
Interest Expense / Average Interest Liabilities	0.9%	0.4%	0.5%	1.0%	0.5%	0.6%	1.0%	0.5%	0.6%
Net Fee Income / Average Assets	0.6%	0.9%	0.9%	0.6%	1.0%	0.9%	0.6%	0.9%	0.9%
Fee Income / Average Assets	0.9%	1.4%	1.4%	0.9%	1.4%	1.4%	0.9%	1.4%	1.4%
Profit Before Tax / Total Revenue	59.0%	27.4%	23.9%	65.8%	25.3%	19.9%	65.9%	31.3%	25.2%
Profit Before Provisions / Average Assets	2.6%	1.6%	1.4%	4.4%	2.0%	1.7%	4.8%	2.1%	1.8%
Total Revenue / Average Assets	5.3%	4.8%	4.9%	7.1%	5.2%	5.3%	7.4%	5.3%	5.4%
Operating Expense / Average Assets	1.6%	2.4%	2.6%	1.7%	2.4%	2.7%	1.6%	2.3%	2.6%
Operating Expense / Operating Income (CIR)	38.3%	60.7%	64.9%	28.0%	55.0%	61.8%	24.8%	51.8%	58.7%
Operating Expense / Interest and Commission Income	38.6%	55.5%	57.4%	38.3%	51.0%	55.7%	35.6%	48.2%	53.0%
Personnel Expense / Average Assets	0.6%	0.8%	0.9%	0.6%	0.9%	1.1%	0.6%	0.9%	1.1%
Interest Income / Total Revenue	63.3%	62.6%	63.9%	50.9%	63.9%	65.1%	48.9%	64.1%	65.2%
Fee Income / Total Revenue	17.3%	29.0%	28.6%	12.2%	26.6%	26.3%	11.5%	26.1%	25.7%

Peers: AIK Banka, Banca Intesa, Unicredit Bank, Komercijalna banka, Raiffeisen Banka, OTP banka, Eurobank, Erste Bank, Addiko Bank, Sberbank

Table 5 – Profitability and efficiency indicators. Source: National Bank of Serbia

4.4 Balance sheet indicators

Balance Sheet Ratios	30/09/2021			31/12/2020			30/09/2020		
	AIK	Peers	Sector	AIK	Peers	Sector	AIK	Peers	Sector
Net Loans / Net Assets	45.6%	57.2%	56.9%	47.1%	57.0%	57.3%	48.8%	57.9%	58.1%
Equity / Net Assets	24.1%	15.3%	14.6%	22.6%	16.8%	15.6%	22.3%	17.0%	15.9%
Total Deposits* / Net Assets	74.8%	81.2%	82.1%	76.2%	80.5%	81.8%	76.6%	80.3%	81.4%
Deposits** / Net Assets	71.7%	68.7%	69.8%	70.0%	68.1%	68.9%	71.0%	67.8%	68.6%
Net Loans / Total Deposits*	60.9%	70.5%	69.3%	61.8%	70.7%	70.1%	63.7%	72.0%	71.4%
Net Loans / Deposits**	63.5%	83.4%	81.5%	67.3%	83.7%	83.1%	68.7%	85.3%	84.7%

** Total deposits: Transactional deposits, Other deposits, Borrowings; ** Deposits: Transactional deposits, Other deposits*
Peers: AIK banka, Banca Intesa, Komercijalna banka, Raiffeisen banka, Unicredit bank, Eurobank, OTP banka, Addiko bank, Erste bank, Sberbank
Table 6 – Balance sheet indicators. Source: National Bank of Serbia

With a total equity to net assets ratio of 24.1%, the Bank retained a capitalization level significantly above that of the entire banking sector and the Peers Group.

At the end of Q3 2020, interest income relative to average assets was slightly above the Peers Group and the banking sector levels.

The net fee income to total income indicator recorded a significant increase over the same period of previous years.

Throughout 2021 and onwards, there has been a low level of operating expenses compared to operating income. The CIR of 38.3% at the end of Q3 2020 is significantly lower than the level of indicator realized within the observed Peers Group, as well as in the entire banking sector.

5. The Bank's operations

5.1 Assets

Position	31/12/2021	31/12/2020	YoY change absolute / in %	
Cash and balances with the Central Bank	33,671	38,982	-5,311	-13.6%
Financial assets	47,683	41,247	6,436	15.6%
Loans and placements to banks and financial institutions	35,724	18,176	17,548	96.5%
Loans and placements to customers	116,392	110,709	5,683	5.1%
Investments in associated companies and joint ventures	11,924	11,924	0	0.0%
Intangibles	476	510	-34	-6.6%
Property, plant and equipment	1,248	2,221	-973	-43.8%
Investment properties	5,604	8,418	-2,814	-33.4%
Other assets	4,240	2,745	1,495	54.5%
Total assets	**256,962**	**234,932**	**22,030**	**9.4%**

Table 7 – Comparative breakdown of assets positions as of 31 December 2020 and 31 December 2019 (in million dinars)

In addition to the specific working conditions that continued in 2021 due to new circumstances caused by the corona virus pandemic, the Bank actively worked on improving business, further digitalization and optimization of business processes.

The total balance sheet sum at the end of 2021 amounted to RSD 257 billion and recorded an increase of RSD 22 billion in comparison to the previous year.

In the assets structure, the most significant increase of 96%, i.e. RSD 17.5 billion in absolute amount relates to the Loans and receivables from banks and financial institutions. Financial assets recorded increase of RSD 6.4 billion (15.6%) when compared to 2020, while the Cash and cash balances decreased by RSD 5.3 billion and amounted to RSD 33.7 billion.

Loans and receivables from customers increased by RSD 5.7 billion (5.1%).

The decrease of 33.4% in Investment property resulted from the successfully realized sale of a portion of property in the Bank's ownership that was intended for sale.

5.1.1 Financial assets

Financial assets recorded an increase at the end of 2021 when compared to the end of 2020. Out of the total amount of financial assets, placements related to RSD and EUR treasury bonds and international bonds issued by the Ministry of Finance of the Republic of Serbia are at the level of RSD 31.9 billion, representing an increase of RSD 3.2 billion when compared to the end of 2020. In its portfolio, AIK Bank also has a corporate bond of SDPR in the total amount of RSD 4.6 billion.

5.1.2 Loans

Segment	31/12/2021			31/12/2020		
	Gross loans	Impairment	Net loans	Gross loans	Impairment	Net loans
Corporate	85,546	2,440	83,106	82,825	3,241	79,584
Public	12,049	147	11,902	10,791	68	10,723
SME	6,502	258	6,244	5,416	139	5,277
Retail	15,876	736	15,140	15,732	606	15,126
Financial institutions	35,746	22	35,724	18,320	144	18,176
Total loans	**155,719**	**3,603**	**152,116**	**133,084**	**4,198**	**128,886**

Table 8 – Comparative breakdown of loans per segments as of 31 December 2021 and 31 December 2020 (in million dinars)

Compared to the previous year, in 2021 the Bank had an increase in gross loans of RSD 22.6 billion (17.0%), while total impairment allowance amounted to RSD 3.6 billion. The net loans position also had an increase of RSD 23.2 billion.

In the sector structure, financial institutions recorded the most significant increase in net loans, in the amount of RSD 17.5 billion, followed by the corporate segment with the increase of RSD 3.5 billion.

Currency	31/12/2021	31/12/2020	YoY change absolute / in %	
EUR	106,931	83,976	22,955	27.3%
USD	4,254	3,785	469	12.4%
CHF	114	117	-3	-2.6%
RSD	40,752	40,907	-155	-0.4%
Other currencies	65	101	-36	-35.7%
Total	**152,116**	**128,885**	**23,230**	**18.0%**

Table 9 – Comparative breakdown of loans per currency as of 31 December 2021 and 31 December 2020 (in million dinars)

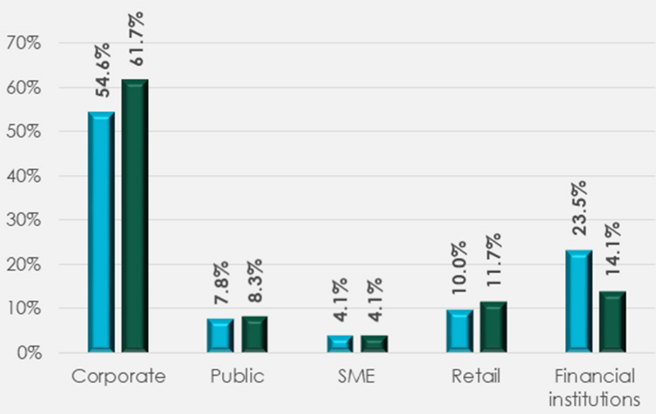


Chart 8 - Net loans per segment as of 31 December 2021 and 2020

In respect with the currency structure, the most significant increase in the absolute amount at the end of 2020 was recorded by net loans in EUR currency, by 22.9 billion, thus reaching a total level of RSD 106.9 billion. Loans in dinars reached the total amount of RSD 40.8 billion, while loans in USD were higher by RSD 0.5 billion, or 12.4%.

5.2 Classification of balance sheet assets

Classification	31/12/2021	31/12/2020
A	69,669,476	59,933,417
B	90,044,261	69,713,908
V	50,419,181	47,729,185
G	6,196,541	4,697,360
D	3,628,472	5,587,905
Total	**219,957,931**	**187,661,775**

Table 10 – The Bank's exposure per classification categories as of 31 December 2021 and 31 December 2020 (in thousand dinars)

Segment	Gross exposure	Balance sheet	Off-balance sheet	Balance sheet impairment	Off-balance sheet impairment	Net receivable
Corporate	137,058,449	97,645,479	39,412,970	3,006,118	88,982	133,963,349
large	107,612,724	75,828,341	31,784,383	2,133,083	78,896	105,400,745
medium	21,341,212	15,233,536	6,107,676	597,666	5,583	20,737,963
small	8,104,513	6,583,602	1,520,911	275,369	4,503	7,824,641
Natural persons	18,286,919	15,918,908	2,368,011	762,837	1,102	17,522,980
Public sector	27,543,543	17,276,575	10,266,968	159,238	57,281	27,327,024
Financial sector	36,315,175	35,672,326	642,849	43,444	-	36,271,731
Acquired assets to be classified	753,845	753,845	-	-	-	753,845
Total	**219,957,931**	**167,267,133**	**52,690,798**	**3,971,637**	**147,365**	**215,838,929**

Table 11 – Breakdown of balance sheet assets and off-balance sheet items subject to classification PER segment as of 31 December 2020 (in thousand dinars)

5.3 Liabilities and Equity

Position	31/12/2021	31/12/2020	YoY change absolute / in %	
Deposits and other liabilities to banks, other financial organizations and Central bank	17,801	14,694	3,107	21.1%
Deposits and other liabilities to customers	181,670	164,441	17,229	10.5%
Provisions	546	674	-128	-19.0%
Other liabilities	1,891	2,017	-126	-6.2%
Equity	55,054	53,106	1,948	3.7%
Total liabilities	**256,962**	**234,932**	**22,030**	**9.4%**

Table 12 – Comparative overview of liabilities positions as of 31 December 2020 and 31 December 2019 (in million dinars)

5.3.1 Deposits

Segment	31/12/2021	31/12/2020	YoY change absolute / in %	
Corporate	43,026	34,043	8,983	26.4%
Public	15,570	21,547	-5,977	-27.7%
SME	12,461	12,174	287	2.4%
Retail	110,613	96,677	13,936	14.4%
Financial institutions	17,801	14,694	3,107	21.1%
Total deposits	**199,471**	**179,135**	**20,336**	**11.4%**

Table 13 – Comparative breakdown of deposits per segment as of 31 December 2021 and 31 December 2020 (in million dinars)

In the structure of liabilities, Deposits and other liabilities to customers recorded the most significant increase of RSD 17.2 billion at the end of 2021, amounting to RSD 181.7 billion and accounted for 71% of total liabilities. Following the trends in the segment structure of deposits, the most significant increases are recorded in the segment Retail and Corporate with RSD 13.9 billion and RSD 9.0 billion, respectively, compared to the end of the previous year.

The increase is also recorded in the segment of Financial Institutions in the amount of RSD 3.1 billion, or 21%, while the growth in the segment of SMEs is 2.4% compared to 2020. The decline in deposits was realized within the Public sector of RSD 6.0 billion.

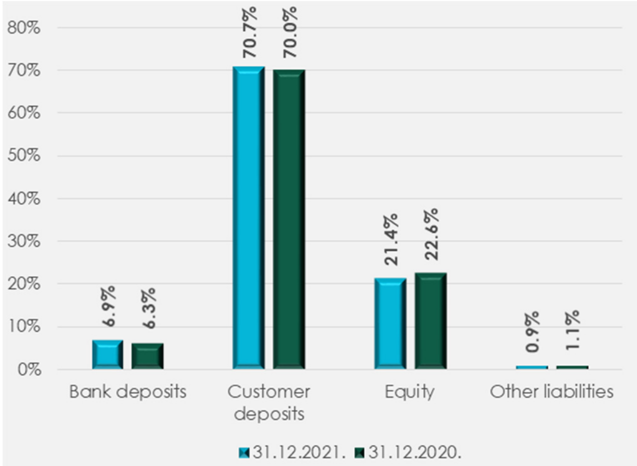


Chart 9 - Breakdown of liabilities as of 31 December 2021 and 2020

Currency	31/12/2021	31/12/2020	YoY change absolute / in %	
EUR	124,374	109,598	14,776	13.5%
USD	4,524	4,646	-122	-2.6%
CHF	3,128	2,172	956	44.0%
RSD	67,355	62,593	4,762	7.6%
Other currencies	90	126	-36	-28.6%
Total	**199,471**	**179,135**	**20,336**	**11.4%**

Table 14 – Comparative breakdown of deposits per currency on 31 December 2021 and 31 December 2020 (in million dinars)

Compared to the end of the previous year, and observed by the currency structure of the deposit portfolio, the highest absolute growth was realized in EUR in the amount of RSD 14.8 billion (13.5%), while the increase in dinar deposits was recorded in the amount of RSD 4.8 billion (7.6%) . Deposits in CHF currency achieved the highest relative growth of 44% (RSD 956 million), while other listed currencies decreased in total deposits.

5.3.2 Equity

Capital calculation

Description of the position	31/12/2021	31/12/2020
Nominal value of the shares	19,762,595	19,762,595
Share premium	7,433,135	7,433,135
Reserves	14,620,255	14,990,209
Current year gain	5,944,174	9,801,586
Previous period gain	7,293,440	1,118,581
Total capital	**55,053,599**	**53,106,106**

Table 15 – Breakdown of equity per year (in thousand dinars)

Regulatory capital was decreased in 2021 by RSD 356 million, primarily as a result of AIK bank investments in the supplementary capital of Gorenjska banka in the form of a subordinated loan, as well as decrease in reserves.

Description of the position	31/12/2021	31/12/2020
CAPITAL	**37,086,726**	**37,443,104**
CORE CAPITAL – TIER 1	36,818,798	37,175,138
Common equity Tier 1 capital – CET 1	36,818,798	37,175,138
Paid in common equity Tier 1 instruments and the relevant share premium	24,576,160	24,576,160
Prior year's retained earnings qualifying for inclusion in common equity	5,701,245	1,118,581
Current period earnings qualifying for inclusion in common equity	-	4,582,664
Revaluation reserves and other unrealized gains/losses	666,378	1,036,332
Reserves from profit, other reserves and reserves for general banking risks	13,953,877	13,953,877
Regulatory adjustments of common equity items	-54,149	-49,966
Other intangible assets less related deferred tax liabilities	-475,749	-509,550
The Bank's applicable direct, indirect and synthetic investments in common equity instruments of FSI entities where the Bank holds significant investments in excess of 10% of the Bank's common equity calculated pursuant to Article 21, Paragraph 2 of the Decision on the Capital Adequacy of Banks	-7,492,664	-7,460,269
Gross loan amount representing a deductible item from equity based on DTI and maturity, and in accordance with Item 13, Paragraph 1, under 13, 14 and 15 of the Decision on the Capital Adequacy of Banks	-56,300	-72,691
Additional Tier 1 capital	-	-
SUPPLEMENTARY CAPITAL – TIER 2	267,928	267,966
Supplementary capital instruments, liabilities under subordinated loans and the relevant share premium	2,619,570	2,619,570
Investments in the subordinated liabilities of FSI entities where the Bank holds significant investments	-2,351,642	-2,351,604

Table 16 - Capital structure per years (in thousand dinars)

Capital adequacy

The National Bank of Serbia Decision on the Capital Adequacy of Banks stipulates the Bank's obligation to perform its operations so as to ensure the coverage of its risk assets by capital in the amount of at least 8%.

The objective of the Bank's capital management is to ensure that at all times, the Bank has at its disposal a level and structure of internal capital that will ensure the Bank's compliance with all its legal obligations, maintenance of the trust of its shareholders and depositors in the security and stability of its operations, realization of the Bank's business and financial plans, which can support the expected growth of the Bank's loans and investments, future sources of funds and their deployment, as well as the realization of the dividend policy.

General regulatory indicators	Required	31/12/2021	31/12/2020
Capital adequacy	min. 8%	20.37%	22.29%
Exposure to one or a group of related entities	max. 25%	30.02%	19.64%
Sum of the Bank's large exposures	max. 400%	235.06%	149.19%
The Bank's investments (in non-FSI entities and capital expenditures)	max. 60%	23.11%	31.52%
Investment in a single non-FSI entity	max. 10%	3.08%	1.86%
Average liquidity ratio	min. 1	3.03	2.47
Liquid Assets Coverage Indicator	min. 100%	197%	194%
Foreign exchange ratio	max. 20%	3.34%	3.42%

Table 17 – General regulatory indicators per years and as of 31 December 2021

The Bank's strategic goal is to maintain its capital adequacy ratio at its targeted level of 15.67%, i.e. level representing an overall capital requirement according to the NBS Decision on the conducted supervisory evaluation process increased by 1 p.p.

The minimum capital adequacy ratio level is 14.67% or 10.20%, increased by the combined capital buffer according to the NBS Decision on the conducted supervisory evaluation process. As of 31 December 2021, the Bank calculated capital adequacy ratio in accordance with the NBS Decision on the Capital Adequacy of Banks.

According to this Decision, the Bank calculates the capital requirements for the following risks

- credit risk – using the standardized approach;
- credit valuation adjustment risk (CVA risk) – using the standardized approach;
- market risks (foreign exchange risk and equity price risk) – using the standardized approach;
- operational risk – using the basic indicator approach (BIA).

Description of the position	31/12/2021	31/12/2020
Capital	**37,086,726**	**37,443,104**
Capital requirements	**14,564,189**	**13,437,625**
Credit risk	11,747,186	11,036,546
Market risks	828,381	640,453
Operational risk	1,987,144	1,760,163
Credit valuation adjustment (CVA)	1,478	463
Capital adequacy ratio	**20.37%**	**22.29%**

Table 18 – Calculation of capital adequacy as of 31 December 2021 and 31 December 2020 (in thousand dinars)

Details on shares issued

Issue description	Ordinary shares with voting rights	Priority convertible shares	Priority cumulative shares without voting rights
ISIN	RSAIKBE79302	RSAIKBE15363	RSAIKBE36633
CFI code	ESVUFR	EFNNFR	EPNNCR
Ticker	AIKB	AIKBPC	AIKBPB
Currency	RSD	RSD	RSD
Single share par value	2,090.44	2,090.44	2,090.44
Total shares issued	8,285,377	40,989	1,127,431
Nominal value of the shares	17,320,083,495.88	85,685,045.16	2,356,826,859.64
Total par value of shares		**=19,762,595,400.68**	
CFI description	ORDINARY SHARES, EACH SHARE CARRIES ONE VOTE, RIGHT TO GOVERNANCE, DIVIDEND AND OTHER RIGHTS AS PER THE LEGISLATION AND THE BANKS' INTERNAL ACTS, REGISTERED WITH THE CENTRAL DEPOSITORY	SHARES WITHOUT VOTING RIGHTS, PRIORITY RIGHT TO A DIVIDEND COMPARED TO GOVERNING SHARES, RETURN AT A PRE-DEFINED RATE AS PER THE DECISION ON THE ISSUE OF SHARES AND OTHER RIGHTS AS PER THE BANKS' INTERNAL BYLAWS, REGISTERED WITH THE CENTRAL DEPOSITORY	NON-VOTING SHARES, PRIORITY RIGHT TO A DIVIDEND COMPARED TO GOVERNING SHARES, CUMULATIVE SHARE IN THE DIVIDEND AND RETURN AT A PREDEFINED RATE AS PER THE DECISION ON THE ISSUE OF SHARES AND OTHER RIGHTS AS PER THE BANKS' INTERNAL BYLAWS, REGISTERED WITH THE CENTRAL DEPOSITORY
Statistical breakdown of ownership:		Central Securities Depository and Clearing House: www.crhov.rs	

Table 19 - Breakdown of shares outstanding as of 31 December 2021

Ownership structure of ordinary shares

Name	Number of shares	Percentage
BDD M&V INVESTMENTS AD BEOGRAD	8,258,377	100.00%

Table 20 – Ownership of shareholders as of 31 December 2020; Central Securities Depository and Clearing House, www.crhov.rs

In 2021, there was no redemption of own shares.

5.4 Income Statement

Position	31/12/2021	31/12/2020	YoY change absolute / in %	
Interest income	7,743	8,180	-437	-5.3%
Interest expense	-1,637	-1,688	51	-3.0%
Net interest income	**6,106**	**6,492**	**-386**	**-5.9%**
Fee income	2,351	1,966	385	19.6%
Fee expense	-671	-522	-148	28.4%
Net fee income	**1,680**	**1,444**	**236**	**16.4%**
Net income from foreign exchange differences	-120	123	-243	-197.2%
Other operating income	2,216	5,786	-3,570	-61.7%
Total operating income	**9,882**	**13,845**	**-3,963**	**-28.6%**
Operating expenses	-3,999	-3,882	-117	3.0%
Operating result	**5,883**	**9,963**	**-4,080**	**-41.0%**
Net gains from reversal of impairment	643	598	45	7.6%
Profit before tax	**6,526**	**10,561**	**-4,035**	**-38.2%**

Table 21 – The Bank's Profit and Loss Statement as of 31 December 2021 and 31 December 2020 (in million dinars)

In 2021, the Bank generated a profit before tax in the amount of RSD 6.5 billion and maintained a stable profitability level. The higher level of the realized profit in the previous year resulted from the dividend income realized of the subsidiary from subsidiary.

Net interest income in 2021 amounted to RSD 6.1 billion. During the observed period, interest income decreased. The total interest income amounts to RSD 7.7 billion. From business segments' aspect, the most significant decrease compared to the previous year, relates to the Corporate segment in the absolute amount of RSD 377 million (7.8%), while the most significant increase was recorded in the Financial Institutions segment - RSD 266 million (29%). Interest expenses in the amount of RSD 1.6 billion decreased by 3% when compared to 2020, mainly as a result from the trend of interest rates flow.

In 2021, net fee income increased by RSD 236 million compared to the previous year and amount to RSD 1.7 billion. The effects arising from the change in the realized exchange rate gains/losses evidence within the income statement items, in accordance with the NBS request are also included. Fee income continues the trend of growth, resulting from the increased volume of customers' activities and continued and intensive development of products that generate non-interest income. Payment transactions' fees represent most significant item of fee income and account for 42.1% of total amount, followed by payment card fees with participation of 33.8%.

Total operating expenditures in 2021 amount to RSD 4.0 billion, representing an increase of 3% compared to the previous year. The most significant absolute increase is related to the expenditures of intellectual services due to the undertaken activities of debt collection, the process of property sales, as well as other consulting services. Accompanying costs of conducting business activities increased compared to the previous year, due to the continued digitalization process and the overall expansion of business.

Net gains from impairment of financial assets and credit risk-weighted off-balance sheet items in the amount of RSD 0.6 billion has a positive impact on the income statement in 2021, including both the effects of additional impairment allowance and the positive effects of debt collection.

Positions	31/12/2021	31/12/2020	YoY change absolute / in %	
Interest income	**7,743**	**8,180**	**-437**	**-5.3%**
Corporate	4,456	4,833	-377	-7.8%
Public	690	805	-115	-14.4%
SME	304	331	-27	-8.2%
Retail	1,118	1,302	-184	-14.1%
Financial institutions	1,175	909	266	29.3%
Interest expenses	**-1,637**	**-1,688**	**51**	**-3.0%**
Corporate	-289	-301	12	-3.8%
Public	-211	-234	23	-9.7%
SME	-36	-69	33	-48.4%
Retail	-782	-821	39	-4.8%
Financial institutions	-319	-263	-56	21.2%
Net interest income	**6,106**	**6,492**	**-386**	**-5.9%**

Table 22 – Breakdown of interest income and expenses per segment as of 31 December 2021 and 31 December 2020 (in million dinars)

Fee and commission income	31/12/2021	31/12/2020	YoY change absolute / in %	
Payment transaction fees	989	926	63	6.8%
Fees on issued guarantees	266	228	38	16.7%
Fees per payment cards	795	674	121	18.0%
Fees per cheques	10	11	-1	-9.1%
Fees per cash payments	9	11	-2	-18.2%
Other fees and commissions	282	116	166	143.1%
Total fee and commission income	**2,351**	**1,966**	**385**	**19.6%**

Table 23 – Breakdown of fee and commission income as of 31 December 2021 and 31 December 2020 (in million dinars)

Position	31/12/2021	31/12/2020	YoY change absolute / in %%	
Salaries, salary compensations and other personal expenses	-1,322	-1,344	22	-1.7%
Depreciation	-475	-444	-31	7.1%
Rental costs and other costs relating to leased business premises	-522	-521	-1	0.2%
Insurance costs	-596	-589	-7	1.1%
Costs incurred in performance of the Bank's business activity	-474	-414	-59	14.3%
Intellectual services	-319	-200	-119	59.6%
Marketing costs	-140	-108	-33	30.2%
Taxes and fees payable	-45	-76	31	-40.6%
Other operating expenses	-106	-186	80	-42.8%
Total operating expenses	**-3,999**	**-3,882**	**-117**	**3.0%**

Table 24 – Breakdown of operating expenses as of 31 December 2021 and 31 December 2020 (in million dinars)

6. Risk management and non-performing loans

6.1 Risk management system

The risk management process implies continued risk identification, measurement, i.e. assessment, undertaking risk mitigation measures, risk monitoring and control, i.e. establishing the risk exposure limit system, as well as reporting on risks in line with the Bank's internal acts and the decisions of the regulators. An adequate risk management system is one of the key elements in ensuring the stability of the Bank's operations.

Risk monitoring and control are primarily based on establishing the procedures and limit system. The established limits reflect the Bank's business strategy and market environment, as well as the risk level that the Bank is willing to accept. The Bank permanently monitors and measures the capacity of the acceptable risk exposure level, taking into account the total exposure to all types of risks.

The Bank continuously monitors all changes in the law and bylaw regulations and international standards, and undertakes measures for the timely harmonization of its operations with the current regulations.

The Risk Management System is defined in the following Bank's acts:

- Risk management strategy,
- Capital management strategy and plan,
- Risk management policy,
- Individual risk management procedures,
- Methodologies by which the Bank defines in detail the methods and approaches used in the individual risk management system and
- Other acts of the Bank.

The risk management strategy defines the risk management principles for the purpose of ensuring an adequate assessment of all the risks the Bank is exposed or may be exposed to in its operations, and the adequate capital necessary for supporting the realization of the Bank's strategic goals, in line with the Bank's Business Policy and Strategy.

The Risk Management Strategy defines:

- All the risks the Bank is exposed or may be exposed to in its operations,
- Long-term goals in risk management, as established by the Bank's Business Policy and Strategy, as well as risk inclination and tolerance determined in line with those goals;
- Basic principles of risk assumption and management;
- Basic principles of the process of internal capital adequacy assessment;
- Obligatory regular reporting to the Bank's bodies and the National Bank of Serbia about risk management;
- The criteria for establishing the Bank's bad assets, the basic principles of managing such assets, as well as the highest acceptable level of the Bank's bad assets.

In the Risk Management Policy, the Bank determines: the basic principles of risk management, and in particular defines the organization of the risk management process, the basis for the Bank's risk profile assessment, i.e. individual risk identification, measurement, alleviation and monitoring, the internal risk management control system, the establishment of the individual risk limit system, as well as acting in the event of exceeding the defined limits, the manner and methodology for implementing the internal capital adequacy assessment process, the framework and frequency of the stress testing of individual types of risks, acting in case of unfavourable stress test results, as well as the obligation of regular internal and external reporting on risk management.

In the risk management procedures, the Bank further defines the process or risk identification, measurement, i.e. assessment, as well as the procedure of risk alleviation, monitoring and control, reporting about the risks the Bank is exposed to, as well as the competencies and responsibilities of the Bank's organizational parts in the risk management system.

In addition, in a separate procedure, the Bank defines activities, rules for the employees' actions, authorities and responsibilities in relation to:

- management of placements in arrears from the corporate, public and financial sectors, retail segment and the small client segment; and
- non-performing placements of the Bank to corporate customers related to restructuring of their placements, i.e. to all non-performing customers (corporate and retail) related to enforced collection.

Through individual methodologies, the Bank prescribes in detail the methods and approaches applied for measuring individual risk exposure.

For the purpose of adequate risk management, the Bank has formed an adequate organizational structure that suits the scope, type and complexity of the operations it performs and with the aim of preventing conflicts of interest, it has separated the risk-taking function (front office) from the risk management function (middle office) and supporting activities (back office). This organizational structure enables the achievement of the established goals and principles of risk management in practice.

The Bank has established a comprehensive and reliable risk management system that is fully integrated into all the Bank's business activities and ensures that the Bank's risk profile is in line with the Bank's defined risk appetite.

The risk management process includes the following participants:

The Bank's Assembly - adopts the Bank's Business Policy and Strategy that define the Bank's business goals for the period of at least three years, adopts the Bank's financial statement and decides on the use and distribution of the realized profit i.e. covering losses. In addition, the Assembly decides on increasing capital i.e. capital investments in other entities in the financial sector or other corporate customers, as well as regarding the amount of investments in fixed assets and investment property.

Board of Directors – is competent and responsible for establishing a unique risk management system and control over that system, adopting the Risk Management Strategy and Policy, the Capital Management Strategy and Plan, and the Methodology for Internal Capital Requirements Assessment, establishing the internal control system, adopting the Liquidity Contingency Plan and the Bank Recovery Plan. Furthermore, the Board of Directors controls the work of the Executive Board.

The Committee for Monitoring the Bank's Operations is competent and responsible for adopting the proposed Bank's Strategy and Policy in relation to risk management and implementing the internal control system submitted to the Board of Directors for consideration and adoption. In addition, this Committee is in charge of analysing and controlling the application and adequate implementation of the adopted Risk Management Strategy and Policies and Internal Control System Policies. At least once a month, the Board of Directors reports on its activities and established irregularities, and proposes ways to eliminate them.

Executive Board – is competent and responsible for implementing the Bank's Business Policy and Strategy according to the three-year strategic plan, the Risk Management Strategy and Policy, the Capital Management Strategy and Plan, the Internal Control System Policy, the adoption and analysis of the efficiency of individual risk management procedures that further define the process of risk identification, measurement (assessment), mitigating, monitoring and control, as well as reporting on the risks the Bank is exposed to. The Bank's Executive Board regularly reports to the Board of Directors about the efficiency of the adopted Policy and risk management procedures.

The Asset and Liability Committee monitors the Bank's risk exposure arising from the structure of its balance sheet liabilities, receivables and off-balance sheet items and proposes measures for managing market risks, interest risk and liquidity risk.

The Risk Committee is responsible for monitoring the Bank's exposure to credit risk, liquidity risk, interest risk, market risks, operational risk, country risk, investment risk and other risks, and it proposes measures for managing those risks to the Bank's Executive Board.

The Client Monitoring Committee is responsible for monitoring the placement quality at the level of individual clients and observing the increased credit risk, i.e. for monitoring the receivables from clients in arrears and clients with a probability of increased credit risk. The Client Monitoring Committee meets at least once a month and more frequently if necessary.

The Bank's credit committees decide on loan requirements/placements within the frameworks determined in the Bank's acts and analyses the Bank's exposure to credit risk (including foreign exchange risk, concentration risk and country risk), interest rate and market risks. The Bank's Board of Directors makes the Decision on forming credit committees and appointing the members of the following credit committees:

- Corporate and Finance Sector Credit Committee
- Retail and SME Credit Committee.

The credit risk management divisions (the Corporate, Public and Finance Sector Credit Risk Management Division and the Retail and SME Sector Credit Risk Management Division) identify, measure i.e. assess and manage the credit risk of performing clients in the corporate segment, public and financial sector, i.e. the segment of retail and small and medium enterprises. The task of these divisions is to prepare proposals and give their expert opinions and "votes" to the specific loan proposals.

The Monitoring Sector performs the ongoing control and monitoring of performing loans and receivables from clients within the corporate, public and finance sectors, retail and small clients, as well as the control and monitoring of collaterals and circumstances following loan disbursement, the validity of insurance policies, the validity of appraisals of properties assigned under mortgage liens, authenticity of information related to the collaterals securitizing the Bank's receivables that are entered into the Bank's information system etc.

The Risk Control Sector proposes the risk management strategy, policy, procedures and methodologies for adoption. This Sector is responsible for implementing and maintaining risk-related methodologies and procedures from the aspect of ensuring the independent risk control process. This Sector also ensures the complete inclusion of risks in the measurement and reporting system of the risks that the Bank is exposed to in its operations. The Risk Control Sector comprises two divisions: Credit Risk Controlling and Market, Liquidity and Operational Risk Controlling.

The Workout Sector - in order to implement the strategy for addressing NPLs, which is an integral part of the Bank's risk management strategy, the Bank set up this Sector within its organization as a separate organizational unit for NPL management so that it is functionally and organizationally separated from the organizational units whose scope of activity includes risk-taking. The main function of the Sector is to manage the collection of non-performing customers – corporate and retail, entrepreneurs and registered agricultural estates, and to manage the early collection of natural persons' placements in arrears.

The Accounting and Reporting Sector is in charge of maintaining books of accounts, the preparation and issue of the financial statements and reporting to the NBS and other external users.

The Planning, Analysis and Control Sector provides appropriate support for all participants in the process of planning available internal capital, as well as in preparing the Bank's Financial Plan, which is taken as the basis for planning available internal capital.

The Treasury Sector is responsible for managing assets and liquidity, as well as the Bank's assets and liabilities. Moreover, it participates in the liquidity risk management, interest position and foreign currency position of the Bank. The operations of this Sector are organized through the work of two units: Trading, Sales and Financial Institutions Relations and Asset/Liability and Liquidity Management.

The Operations Sector which through its operations performs a support function, through the management of the Bank's operations in the areas of business support, payment operations, credit and deposit administration.

The Internal Audit Sector is responsible for the continued monitoring of the implementation of risk management policies and procedures, as well as for the regular assessment of the adequacy, reliability and effectiveness of the internal control system and the compliance function of the Bank. The Internal Audit Sector reports to the Board of Directors and the Audit Committee about its findings and proposals.

The Compliance Sector is obligated to identify and monitor compliance risks in the Bank's operations, as well as to manage those risks that particularly relate to the risk of money laundering and terrorist financing, the risk of sanctions by the regulator, the risk of financial losses and reputation risk. The basic function of the Compliance Sector is the implementation of the ongoing, adequate and efficient control of the Bank's compliance in a manner that enables indicating existing and potential compliance risks and the management of such risks in order to achieve the highest standards in the Bank's operations.

6.2 Liquidity risk

In its operations, the Bank pays particular attention to liquidity maintenance as it believes that appropriate liquidity is one of the prerequisites of financial stability and development. The experiences of the banking sectors in the country and the region demonstrate that under circumstances of compromised liquidity, client trust in the Bank deteriorates and reputation risk increases, which compromises profitability.

Liquidity risk is the possibility of adverse effects on the financial result and equity of the Bank, due to the inability of the Bank to settle due liabilities, and in case of insufficient liquidity reserves and inability to cover unexpected outflows and other liabilities.

In its operations, the Bank respects the basic principles of liquidity management, achieving a sufficient level of funds to cover short-term liabilities, i.e. respects the principle of solvency, forming an optimal structure of own and borrowed funds and forming a sufficient level of liquidity reserves.

The Bank maintains a stable liquidity position and a sufficient and adequate level of liquidity reserves. Liquidity reserves are mostly in the form of cash and liquid debt government securities, which can be redeemed in a relatively short period of time.

The Bank manages its assets and liabilities to ensure that it fulfils all its obligations and that its clients may at all times have their assets at their disposal in accordance with the contractual terms.

The Bank adequately manages the liquidity risk of funding sources, considering the diversification of the deposit base. At the same time, the Bank has a sufficient level of liquid assets, where the market liquidity risk is within the expected limits.

The Bank monitors liquidity on an ongoing basis through daily calculation of the liquidity ratio, rigid liquidity ratio and internal liquidity ratios. Moreover, in the process of liquidity risk measurement, the Bank uses GAP analysis by grouping balance-sheet and off-balance sheet items per time buckets according to the contractually defined maturity dates, i.e. the expected time for generating cash flows The Bank also defines internal limits relating to cumulative GAP values per time buckets under regular conditions and stress conditions. Stress tests are conducted on a monthly basis and compliance with the defined internal limits for liquidity GAP in stress conditions is checked.

The Bank harmonizes its operations with the regulatory liquidity ratio, narrower liquidity ratio, as well as the liquid asset coverage ratio.

Range	Liquidity ratio	Narrow liquidity ratio	Liquidity coverage ratio
As of 31 December 2021	2.44	2.22	197%
Average for the year	3.03	2.72	197%
Maximum	4.20	3.90	272%
Minimum	2.34	2.08	152%

Table 25 - Movements of the liquidity ratios in 2021

During 2021, the Bank maintained regulatory liquidity ratios at a higher level above the regulatory defined minimums.

6.3 Market risks

The Bank identifies its exposure to the foreign exchange risk through open positions in a certain currency and in total for all currencies it uses in its business operations. The Bank assesses foreign exchange risk exposure using the regulatory limits (foreign exchange risk ratio) and internally defined methods.

The Bank's foreign exchange risk ratio was below the regulatory maximum of 20% through whole 2021 and as of 31 December 2021 it amounts to 3.34%.

As of April 2018, the Bank was exposed to the equity price risk per items in the trading book, when the first equity securities were purchased. As of 31 December 2021, the Bank had bank and corporate shares with a total market value of RSD 4.6 billion in its trading book. The basic principles of equity price risk management entail the maintenance of this risk level according to the internally defined limits for the Bank's trading book level, daily monitoring of the changes in the market conditions that may give rise to the increased exposure of the Bank to the trading book risks, and definition of measures to reduce risk exposure. The objective of active risk management is to decrease the equity price risks to an acceptable level, which can be controlled and which enables the Bank to maximize its profit while minimizing the risks.

For the purpose of the timely identification of possible problems, in 2021 the Bank continued its intensive monitoring of the balances and trends of the non-performing loans (NPLs). NPL monitoring is vital to credit risk monitoring as NPLs represent one of the basic indicators of the quality deterioration of the Bank's loan portfolio.

6.4 Non-performing loans

The most significant share in the NPL amount refers to the corporate customer segment (78.24%). The share of the retail segment in the Bank's total NPLs amounts to 18.20%. The NPL percentage in the public sector is 3.10%, while in the financial sector it amounts to 0.46%.

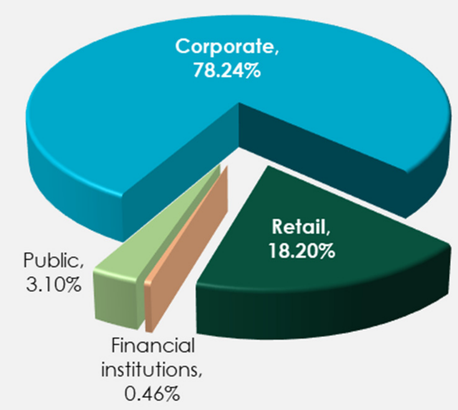


Chart 10 - NPL structure by client category as of 31 December 2021

During 2021, the Bank continued to monitor receivables, both from individual clients and at the level of the entire portfolio, which resulted in maintaining NPLs at a stable level in absolute amounts. The NPL indicator increased slightly compared to the end of 2020 due to the increase in non-performing loans, but the NPL indicator is still within the prescribed limits.

NPL coverage

When comparing the total amount of allowance for impairment to the amount of the provisions for non-performing loans and receivables (according to the NBS methodology), the following may be concluded:

- The Bank's rate of coverage of gross NPL allowances for impairment (in accordance with IFRSs) equalled to 68.71%.

Activities undertaken in 2021

Throughout 2021, the Bank intensively worked on improving the processes of risk identification, assessment, monitoring and control.

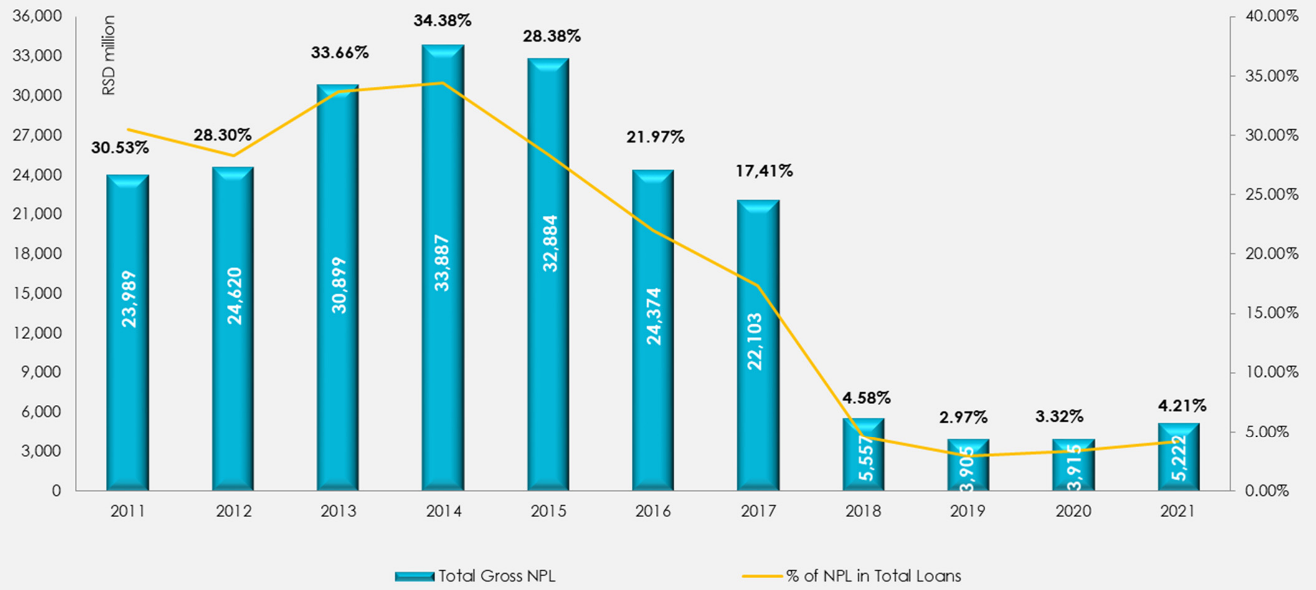


Chart 11 - Dynamics of gross NPLs by years and NPLs share in total loans

7. Marketing and public relations

7.1 Marketing strategy for 2021

The Bank's marketing strategy for 2021 was focused on the promotion of the Bank's digital services, continuous improvement of services, through communication of further expansion of business in local and foreign markets, positive business results and commitment to the client. The main strategic goal was to position AIK Bank in the public as a modern, innovative, stable Bank, which strives to achieve long-term sustainable development in its business activities, not only in the local market, but also in terms of wider positioning.

During 2021, strategic campaigns within the competence of the Retail and SME Sector, as well as the Direct Channels Sector, were implemented for key products. In accordance with the set Business goals related to portfolio growth, the focus was on the following products: cash loans, credit cards and savings.

During the campaigns that were realized for each of these products, the emphasis was on the constant availability of products through the online platform, the promptness of requests' realization and high quality of user experience.

The primary target group was the population that uses mobile phones to perform financial transactions, but also to raise loans, savings, etc.

The Bank's communication directions in 2021 were as follows:

- Business expansion - positioning in regional markets and the European Union market, as the only domestic private Bank that has entered the EU market;
- Domestic, strong, stable - a reliable partner in all key financial parameters, with a solid capital base and capital adequacy significantly above regulatory requirements;

- Modern, innovative, digital - among the leaders in providing digital banking services (Bank 24/7, mBanking, eBanking, online on-boarding);
- Customer-centered - offer tailored to customer needs;
- Internationally recognized - during 2021 AIK Bank received as many as three international awards from renowned international publications.

The above implies:

- Integrated communication and a mix of traditional and digital media;
- Differentiated communication to target interest groups;
- Raising awareness (both internally and externally) about the modernization, strengthening and expansion of the Bank's operations in the country and abroad;
- Maintaining and strengthening the position of the Bank and its representatives as safe, reliable, innovative partners of the Serbian economy;
- Intensified PR campaigns and an increased presence of the Bank in online and traditional media;
- Intensive and constant communication of the Bank's digital services;
- Intensified communication in digital channels;
- Improving the Bank's website;
- Active participation in important live and online seminars and conferences;
- Optimization of sponsorships as a channel for the Bank's promotion;
- Active communication of CSR activities and further positioning of the Bank as a socially responsible institution. Furthermore, positive publicity was generated through all CSR activities.

7.2 Marketing plan for 2021

The Bank's marketing plan for 2021 encompassed the activities defined by the Bank's marketing strategy:

- Realization of strategic and tactical marketing campaigns, visually integrated and based on coordination with the Direct Channels Sector and the Retail and SME Sector, conducted through adequately selected communication channels;
- The Bank's presence at all important events in the country, aimed at positioning the Bank in the commercial public as domestic, strong in capital base, modern and flexible;
- Building and strengthening the Bank's brand recognition as a strong, stable, innovative, digital and modern financial institution;
- Development of specific promotional materials with the aim of supporting the Retail and SME Sector in order to achieve sales results;
- A specific focus on the young population, through offering digitalized products and services;
- Redesigning branches for the purpose of the Bank's digitalization and increased efficiency.

7.3 Realization of the Bank's marketing plan for 2021

Strategic marketing and PR campaigns realized up to 31 December 2021:

1. Overall campaign - "Resolved on the go" (May-June). A campaign that promotes the digital way of doing business of AIK Bank.
2. Sequential campaign I "Resolved on the go" - refinancing loan (June-July) available through online channels.
3. Sequential campaign II "Resolved on the go" - credit card (September-October) for which the application is submitted online, via mBanking application.

4. Savings Campaign (October November) - online savings, available through the website and digital platforms of AIK Bank (mBanking, eBanking).

Overall campaign "Resolved on the go" - The Bank has successfully implemented the Online Platform project as an integration point that will collect all customer requests related to opening an account, applying for cash and / or refinancing credit, credit cards, allowed overdrafts or time deposits, which can be fully implemented online as for existing clients, as well as for potentially new clients, i.e. all those who will be able to become new clients of the Bank through the online channel - without coming to the Bank's branch. In this way, the Bank provided all basic banking products and services that were previously available only in the branch in the online environment. Signing of the Loan Agreement, deposit, credit card, current account and overdraft is enabled through the Bank's digital platforms. Account opening is also enabled online, via video identification and two-factor verification. In this way, the Bank has fulfilled the strategic goal to strengthen the position of the Brand and to be recognized as an innovative and modern financial institution, open 24 hours a day for all clients. The target groups on which the greatest focus of promotional activities was directed are individuals who use digital devices (mobile phones, tablets, and computers).

The Overall campaign "Resolved on the go" is followed by the next two campaigns:

Sequence I "Resolved on the go" refinancing loan, the possibility of obtaining a refinancing loan online, as well as

Sequence II "Resolved on the go" credit card, the ability to withdraw credit card online.

Savings Campaign - a traditional campaign of the Bank with the aim of collecting sources of financing from the domestic market, i.e. collecting retail deposits. Through the flexibility and trust that the Bank cultivates in relation to clients by rewarding their loyalty, the goal was to increase the retail deposit base in 2021 through continuous communication and promotional activities. Security, loyalty, flexibility and trust remain loud terms in communication when promoting savings. AIK Bank is sending a message to its depositors that they can also save online. The target group of the campaign is older people (over 50) who save more and have higher amounts of time deposits, but also the younger population becoming aware of the benefits of saving, willing to do so from the comfort of their home using online platforms.

In these campaigns, the media mix included communication through TV, OOH, Web, Radio and Print.

Media presence

In 2021, AIK Bank had a constant and active presence in both the press and in electronic media. Its media announcements were a mix of brand and corporate PR, with an emphasis on online products and socially responsible activities of the Bank. The overall PR had a positive character with positive reactions of the target audience.

The Bank maintained its constant media presence both through the number of announcements and the overall commercial and PR value of the announcements. The number of media announcements associated with the Bank during 2021 totalled 765 (Ninamedia Kliping report). There were no media crises.

Branch network rebranding – further expansion of the sub-brand 24/7

In the course of 2021, activities continued that involved the implementation of the AIK Bank standard for branding its branch offices and unifying the appearance of the Bank's organizational units.

The most important activity is the expansion of the Bank's sub-brand 24/7 zones in AIK Bank's branches throughout Serbia, within which a network of multifunctional ATM devices and smart safes was introduced, which enabled clients to perform most banking transactions at any time through state-of-the-art services.

Sponsorships and donations

In 2021, AIK Bank was engaged in the field of socially responsible business. The bank reacted quickly to the needs of the company and communicated its socially responsible awareness with clearly defined messages.

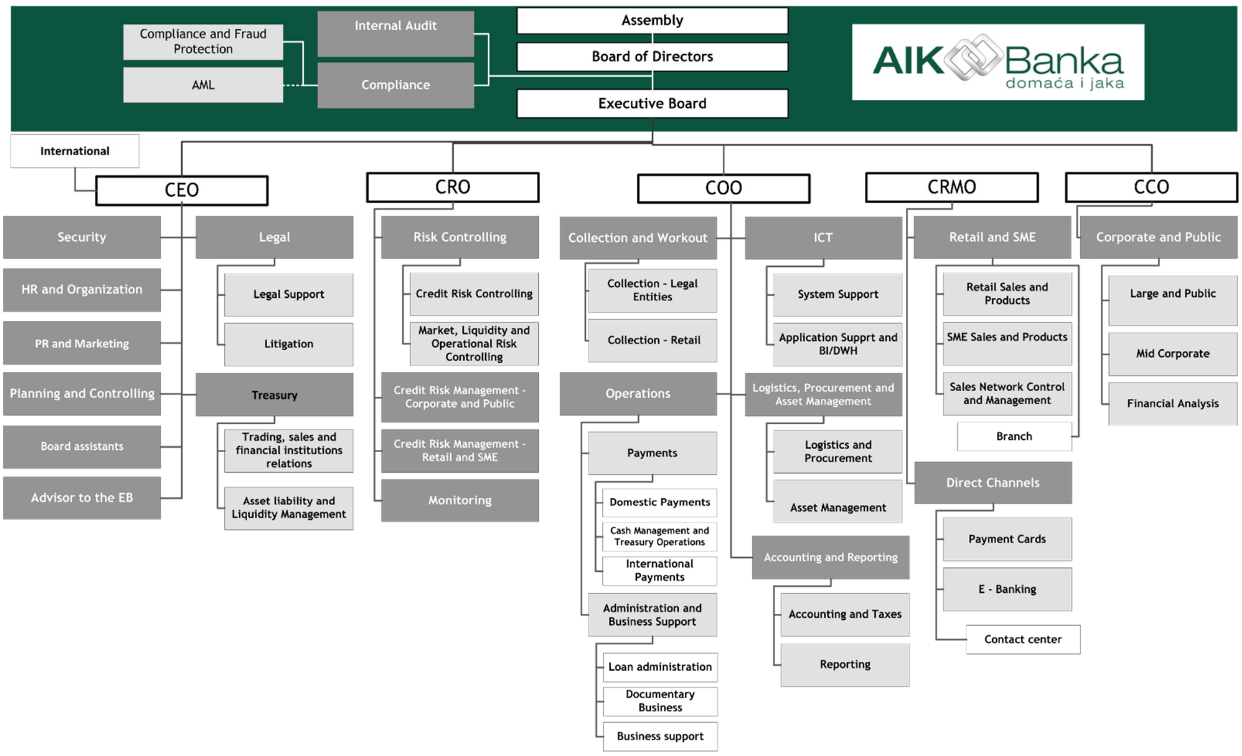
In 2021, the Bank traditionally supported the Kopaonik Business Forum 2021, organized a number of activities within the Serbian Association of Managers and continued investing in sports and young people.

AIK Bank has supported various socially responsible activities such as donations to health, sports and educational institutions, donations for the treatment of children, as well as improving health conditions and helping vulnerable families and young people in their education. Activities related to sponsorships and donations are organized in accordance with the CSR strategy of AIK Bank, and focused primarily on the family as the basic cell of society and its empowerment, but also support for women in business, children, youth, education, science and sports.

8. Organizational and HR structure

8.1 Organization of the Bank

The Bank's organizational model ensures the efficient management and implementation of the internal control system, in line with the requirements of dynamic and modern business, within the banking sector standards.



Picture 1 - Organizational chart of the Bank as of 31 December 2021

8.2 Employees

The Bank's Human resource policy in the previous period, supported by a more efficient business model, led to the rational allocation of employees. The participation of employees with a higher education degree increased slightly compared to the previous period. The development of business activities has affected the increase in the number of employees in 2021.

Interval	31/12/2021	% share
up to Degree III	0	0.0%
Degree IV	99	16.0%
Degree V	0	0.0%
Degree VI	99	16.0%
Degree VII	420	68.0%
TOTAL	**618**	**100%**

Table 26 – Breakdown of the number of employees by professional qualifications as of 31 December 2021

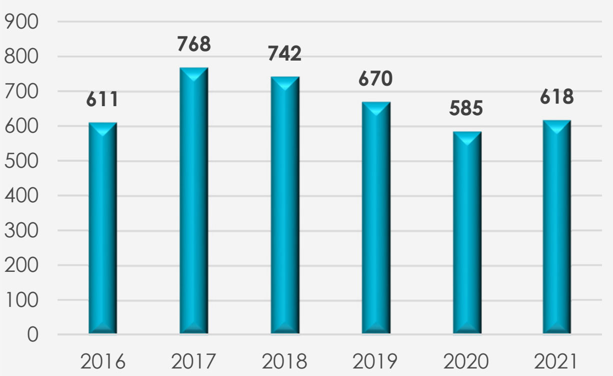


Chart 12: Movements of the headcount per year

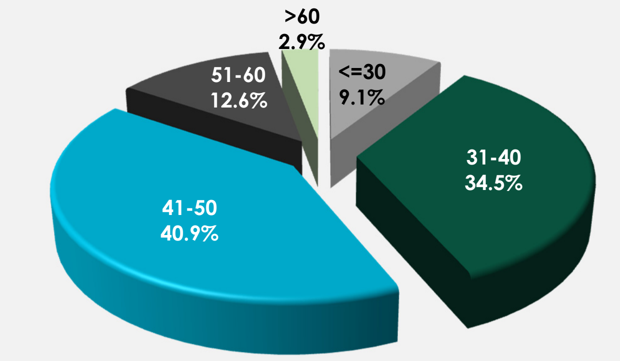


Chart 13: Age structure of employees as of 31 December 2021

8.3 Bank governance

8.3.1 Assembly

First name and surname	Position
Dragana Samouković	President of the Bank's Shareholder Assembly

Table 27 – President of the Bank's Shareholder Assembly as of 31 December 2021

The Bank's Shareholder Assembly consists of the Bank's shareholders.

The Bank's shareholders may participate directly in the work of the Assembly or through authorized attorneys.

The Bank's Assembly:

1) adopts the Bank's Business Policy and Strategy, which define the Bank's business goals for the period of at least three years;
2) enacts the Bank's Statute and adopts amendments and supplements to the Articles of Association and the Statute of the Bank;
3) adopts the Bank's financial statements and decides on the use and distribution of the realized profit i.e. covering losses;
4) decides on increasing the capital i.e. capital investments in other entities in the financial sector or other corporate customers, as well as about the amount of investments in fixed assets and investment property;

5) appoints and relieves of duty the Chairperson and the members of the Bank's Board of Directors and defines their remuneration;
6) decides on status changes and the discontinuation of the Bank's operations;
7) appoints and resolves of duty the Bank's external auditors; and
8) enacts its own Rules of Procedure and decides on other matters in accordance with the effective legislation and the Bank's Statute.

The Shareholder Assembly's sessions may be regular or extraordinary. Regular sessions of the Assembly are held at least annually, no later than four months from the end of the fiscal year.

The Bank's Assembly sessions held in 2021

During 2021, 2 regular sessions of the Assembly were held. All decisions at these sessions were adopted unanimously. They were held on 28 April 2021 and 1 November 2021.

8.3.2 Board of Directors

First name and surname	Date of birth	Position
Vladimir Sekulić	10 September 1973	President of the Board of Directors
Nikola Litvinenko	29 June 1959	Member of the Board of Directors
Vladimir Poznanić	6 July 1948	Member of the Board of Directors
Jovan Purar	18 January 1959	Member of the Board of Directors
Miroslav Bojić	4 April 1957	Member of the Board of Directors

Table 28 - Board of Directors as of 31 December 2021

Generally on the work of the Board of Directors

The Bank's Board of Directors consists of at least five members, including the Chairperson, one-third of whom are persons independent of the Bank.

Members of the Bank's Board of Directors must be persons with an impeccable professional reputation and appropriate qualifications as prescribed by the National Bank of Serbia. At least three members of the Bank's Board of Directors must have adequate experience in finance. At least one member of the Bank's Board of Directors must be fluent in the Serbian language and reside in the territory of the Republic of Serbia. The Chairperson and other members of Board of Directors are appointed by the Bank's shareholder Assembly for a period of four years, which may be extended until the newly elected Chairperson and member/s take over duties, upon the previously obtained approval of NBS, and after the expiration of a four-year term, and for a maximum of three months.

Along with the request for prior consent to the appointment of members of the Bank's Board of Directors, documents and information proving the professional reputation and qualifications of the person proposed as a member of the Board of Directors of the Bank are submitted. Members of the Bank's Board of Directors may be reappointed, i.e., re-elected. Candidates for the Board of Directors are proposed by the current Board of Directors with mandatory consultations with the Bank's major shareholders. The Bank's Shareholder Assembly enacts a decision on dismissal of duty of the Board of Directors members and Chairperson.

Competences of the Board of Directors

The Bank's Board of Directors:

1. calls the Bank's Assembly meetings;
2. prepares proposals and draft decisions and is responsible for the implementation of the decisions made;

3. approves the Bank's proposed Business Policies and Strategy and submits them to the Assembly for adoption;
4. adopts the Bank's Risk Management Strategy and Policies, as well as the Capital Management Strategy;
5. defines the Bank's Standard Terms of Business and related amendments and supplements;
6. appoints and dismisses of duty Chairperson and members of the Bank's Executive Board;
7. appoints and dismisses of duty members of the Audit Committee, Credit Committees, Asset and Liability Committee and the Manager of the Bank's organizational unit in charge of the control of the Bank's regulatory compliance and Internal Audit;
8. defines the limit amounts up to which the Executive Board may decide on loan approval and the Bank's borrowings and decides on loan approval and the Bank's borrowings exceeding that limit;
9. grants prior consent of the Bank's exposure to each individual entity or a group of related entities in excess of 10% of the Bank's equity, and for increase of such exposures above 20% of the Bank's equity;
10. supervise the work of the Bank's Executive Board;
11. adopts the Internal Audit's Plan and Program and its methodology;
12. sets up the internal control system in the Bank and oversees its effectiveness;
13. considers reports on the external and internal audits and audit results and the reports on the activities of the Internal Audit, and approves of the annual report on the risk management adequacy and internal controls of the Bank;
14. adopts the quarterly and annual reports of the Bank's Executive Board on the Bank's business operations, including quarterly reports on risk management, and submits to the Assembly the approved financial reports for final adoption;
15. enacts its own Rules of Procedure and those for the Audit Committee, Credit Committees and ALCO;
16. adopts the Bank's Disaster Recovery Plan;
17. informs the National Bank of Serbia and other competent authorities about irregularities identified in the Bank's operations;
18. defines the Bank's internal organization and organizational structure that enable the segregation of authority, duties and responsibilities of the employed management personnel and other persons holding governing positions within the Bank in such a way that conflicts of interest are prevented and transparent and documented decision-making and implementing processes are ensured;
19. defines the Bank's policy on employee salaries and other benefits; and
20. performs other tasks in accordance with the Bank's Statute.

8.3.3 The Bank's Executive Board

First name and surname	Date of birth	Position
Jelena Galić	12 March 1972	Chairperson of the Executive Board
Dejan Vasić	11 June 1983	Member of the Executive Board
Vesna Tomašević	25 October 1970	Member of the Executive Board
Milan Mirkov	3 October 1972	Member of the Executive Board
Aleksandra Vunjak	9 January 1976	Member of the Executive Board

Table 29 - Executive Board as of 31 December 2020

8.3.4 Other committees

Asset and Liability Committee (ALCO)

First name and surname	Date of birth	Position
Jelena Galić	Chairperson of the Executive Board	Member of ALCO
Dejan Vasić	Member of the Executive Board	Chairperson of ALCO
Vesna Tomašević	Member of the Executive Board	Member of ALCO
Milan Mirkov	Member of the Executive Board	Member of ALCO
Aleksandra Vunjak	Member of the Executive Board	Member of ALCO
Periša Ivanović	Assistant in the Executive Board for Retail and SME	Member of ALCO
Bojan Topalović	Director of the Treasury Sector	Member of ALCO
Nikola Ristić	Director of the Risk Controlling Sector	Member of ALCO
Zorica Bošković	Director of the Retail and SME Division	Member of ALCO
Lidija Sklopić	Director of the Corporate and Public Sector Business Division	Member of ALCO

Table 30 - ALCO as of 31 December 2021

The Committee for Monitoring the Bank's Operations (the Audit Committee)

First name and surname	Position
Vladimir Sekulić	Chairperson
Vladimir Poznanić	Member
Nikola Litvinenko	Member

Table 31 – the Audit Committee as of 31 December 2021

The Bank's Audit Committee comprises at least three members, one as the Committee's Chairperson and the other two are members. At least two members of the Audit Committee are members of the Bank's Board of Directors with adequate experience in finance, and at least one member of the Audit Committee must be a person independent of the Bank. The Bank's Audit Committee assists the Bank's Board of Directors in overseeing the work of the Bank's Executive Board and employees. The Bank's Audit Committee is obligated to:

- Analyse the Bank's annual and other financial statements submitted to the Board of Directors for consideration and adoption;
- Analyse and adopt proposed strategies and policies of the Bank on risk management, capital management and the internal control system submitted to the Board of Directors for consideration and adoption;
- Analyse and monitors the adequate implementation of the adopted risk management strategies and policies, capital management strategy and internal control system;
- Report at least monthly to the Board of Directors on its activities and any identified irregularities, propose the way of irregularity elimination, i.e., the way of improving the Bank's risk management strategies and policies, capital management strategy and internal control system;
- At the proposal of the Bank's Board of Directors, Executive Board or external auditor, consider and review the Bank's investments and activities;
- Propose an external auditor to the Bank's Board of Directors and Assembly;
- Consider and analyse the Bank's annual financial statements together with the external auditor and

- Propose to the Bank's Board of Directors to include in the agenda of the Assembly Meeting certain matters related to external and internal audits.

When the Audit Committee assesses that the Bank is conducting its business contrary to the applicable law, other regulations, its Statute or other act of the Bank, or when it identifies other irregularities in the Bank's operations, it proposes to the Bank's Board of Directors measures for the mitigate such irregularities and schedule an extraordinary Bank's Assembly meeting in case the identified irregularities may have severe effects on the Bank's operations.

Bank's Audit Committee meetings are held when necessary and appropriate, at least once a month. At least quarterly, these sessions are held at the Bank's Head Office.

Credit committees

Corporate and Finance Sector Credit Committee

First name and surname	Bank function	Function in the Committee
Lidija Sklopić	Director of the Corporate and Public Sector Business Division	Chairperson of the Credit Committee
Mateja Dičić	Manager of the Large Corporate and Public Sector Department	Member of the Credit Committee / Deputy Chairperson of the Credit Committee
Svetlana Bašić	Head of the Corporate, Public and Finance Sector Credit Risk Management Division	Member of the Credit Committee
Dražen Babić	Head of the Public Sector Department	Deputy member responsible for customer service
Goran Ilić	Deputy member responsible for risk management in corporate, public and financial sector	Deputy Member in charge of risk management

Table 32 – Corporate and Finance Sector Credit Committee as of 31 December 2021

Retail and SME Credit Committee

First name and surname	Bank function	Function in the Committee
Zorica Bošković	Director of the Retail and SME Division	Chairperson of the Credit Committee
Biljana Janev	Manager of the Products and Sales to SME Department	Member of the Credit Committee / Deputy Chairperson of the Credit Committee
Saša Jovanović	Head of the Retail and SME Credit Risk Management Department	Member of the Credit Committee
Dragana Milivojević	Senior Consultant for Credit Risk Assessment for SME, Entrepreneurs and Agricultural Producers	Deputy Member in charge of risk management
Jelena Stikić	Head of the Product and Sales Department for retail clients	Deputy member responsible for customer service

Table 33 – The Retail and SME Sector Credit Committee as of 31 December 2021

Members of the Credit Committees are appointed for indefinite period of time, until decisions on their dismissal or appointment of the new members are made. A Credit Committee member may be a person with adequate experience and expert

knowledge to be able to make a proper loan approval decision.
Credit Committee meetings may be regular or extraordinary. Regular Credit Committee meetings are held at least on a weekly basis.
The Rules of Procedure of the Bank's Credit Committees define in greater detail the rights and obligations of the Credit Committee members, the organization of Committee meetings, decision-making process, taking minutes of the meetings, contents of the minutes, signing-off on decisions, maintaining records on decisions made by the Credit Committees, etc.

8.4 Transactions with management personnel and the Bank's related entities

In the normal course of business, the Bank enters into transactions with its shareholders and other related entities under common market conditions. More detailed information on the related entity transactions is provided in the Bank's Notes on the Financial Statements.

The table below shows the related entity transactions (balances of receivables and liabilities, and income and expenses) with the related entity as of the balance sheet date (31 December 2021):

Description	Balance sheet gross exposure	Off-balance exposure	Total	Liabilities
Employees (related entities)	37,392	22,834	60,226	104,582
Other natural persons	3,511	10,806	14,317	277,241
Corporate entities	10,492,595	5,565,321	16,057,916	25,876,404
Total	**10,533,498**	**5,598,961**	**16,132,459**	**26,258,227**

Table 34 – Business transactions with the Bank's related entities as of 31 December 2021 (in thousand RSD)

8.5 Business network

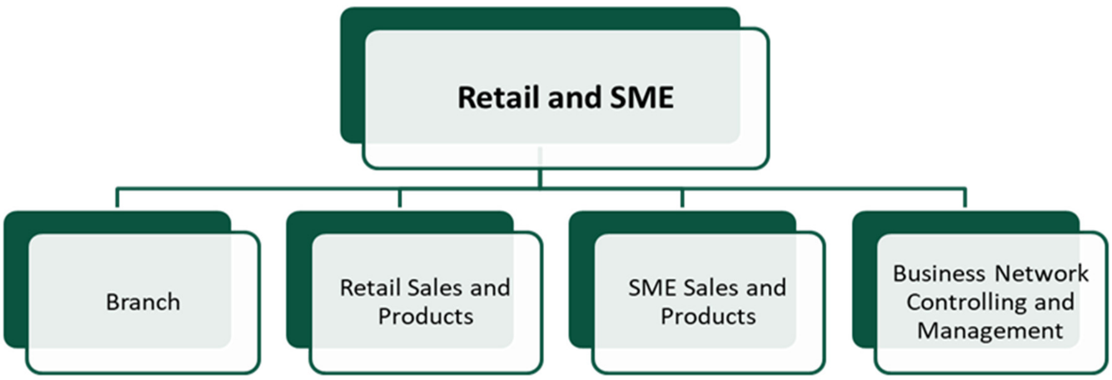


Image 2 - Schematic overview of the Bank's operations outside the head office as of 31 December 2021

The Bank operates through its Head Office and organizational units outside of the Head Office.

The organizational units within which the Bank operates are branches and counters. AIK Bank's business network comprised 50 branches as of 31 December 2021.

Branch	Location	Address
Branch Beograd - Grawe	Belgrade	Bul. Mihaila Pupina 115đ
Branch Beograd - Kralja Milana	Belgrade	Kralja Milana 11
Branch Čačak	Čačak	Kuželjeva 2
Branch Jagodina	Jagodina	Kneginje Milice 73
Branch Kragujevac	Kragujevac	Trg Radomira Putnika 3
Branch Kraljevo	Kraljevo	Miloša Velikog 58
Branch Kruševac	Kruševac	Vidovdanska 9 - 11
Branch Lazarevac	Lazarevac	Dimitrija Tucovića 7
Branch Leskovac	Leskovac	Bulevar oslobođenja bb
Branch Niš	Niš	Nikole Pašića 42
Branch Novi Pazar	Novi Pazar	Stevana Nemanje bb
Branch Novi Sad	Novi Sad	Bul. Mihajla Pupina 2
Branch Obrenovac	Obrenovac	Aleksandra Ace Simovića 2
Branch Pančevo	Pančevo	Karađorđeva 2b
Branch Požarevac	Požarevac	Trg Radomira Vujovića 12
Branch Prijepolje	Prijepolje	Sandžačkih brigada 19
Branch Prokuplje	Prokuplje	Topličkih junaka 1
Branch Sombor	Sombor	Pariska 1
Branch Subotica	Subotica	Korzo 8
Branch Šabac	Šabac	V. Jovanovića 22
Branch Užice	Užice	Dimitrija Tucovića 44
Branch Valjevo	Valjevo	Vojvode Mišića 22
Branch Vrbas	Vrbas	Maršala Tita 80
Branch Zaječar	Zaječar	Pana Đukica bb
Branch Zrenjanin	Zrenjanin	Kralja Aleksandra I Karađorđevića 8
Branch Bulevar Kralja Aleksandra	Belgrade	Bul. Kralja Aleksandra 334
Branch Fontana	Belgrade	Otona Župančića 1
Branch Makedonska	Belgrade	Makedonska 19
Branch Vidikovac	Belgrade	Patrijarha Joanikija 28b
Branch Slavija	Belgrade	Kralja Milana 43
Branch Vojvode Stepe 171	Belgrade	Vojvode Stepe 171
Branch Zemun	Belgrade - Zemun	Glavna 7
Branch Jurija Gagarina	Belgrade	Jurija Gagarina 32, lokal 4
Branch Banovo brdo	Belgrade	Požeška 76
Branch Stari Grad	Belgrade	Cara Dušana 84 - 86
Branch Bor	Bor	Đorđa Vajferta 21
Branch Gornji Milanovac	Gornji Milanovac	Kneza Aleksandra Karađorđevića 13
Branch Inđija	Inđija	Novosadska 2
Branch Kikinda	Kikinda	Trg srpskih dobrovoljaca 6
Branch Negotin	Negotin	JNA 2
Branch Voždova Niš	Niš	Voždova 2
Branch Bul. Zorana Đinđića	Niš	Bul. dr Zorana Đinđića 23
Branch Zona III- Niš	Niš	Bulevar Nemanjića 25
Branch Bulevar Oslobođenja, Novi Sad	Novi Sad	Bulevar oslobođenja 68b
Branch Paraćin	Paraćin	Kralja Petra I 30
Branch Pirot	Pirot	Slavonska 1
Branch Ruma	Ruma	Glavna 192
Branch Smederevo	Smederevo	Kralja Petra I 11
Branch Vranje	Vranje	Kralja Stefana Prvovenčanog 169
Branch Vrnjačka Banja	Vrnjačka Banja	Kraljevačka drvara I

Table 37 - List of the branches as of 31 December 2021

8.5.1 Activities realized in 2021

During 2021, AIK Bank continued its digital transformation, which includes the opening of additional self-service Zones 24/7 within the branches of the business network. The Bank was the first on the domestic market to offer citizens the E2E ON LINE process for a refinancing loan and thus positioned itself as the number 1 digital bank in Serbia. The Bank is transforming the business of the business network with the aim that the branch represents a combination of the traditional concept of banking and digitalization, i.e. modern-functioning Bank. The Bank's strategy is to provide a unique customer experience in all sales and service channels. It strives for a unified ecosystem, i.e. the same range of products and services, on the ON LINE channel and in the branch of the Bank's business network.

The Bank continuously monitors market trends and in this regard improves and adjusts the offer to individuals, i.e. small and medium enterprises. In business with small and medium enterprises, the focus is on further diversification of the portfolio and its quality.

The primary pillars of the strategy in retail and small and medium-sized enterprises are organic growth, the quality of services provided in the business network, the quality of the portfolio, compliance with the law, regulatory decisions and internal acts of the Bank.

In the process of branch transformation, the Bank strives to meet the needs and expectations of its customers, improve efficiency, maintain a personalized customer service model and optimize operating costs.

In order to achieve optimal geographical positioning and increase the profitability of the network, the Bank continuously analyses the justification of operations at existing locations, the need for reallocation of certain branches, as well as the merger of individual organizational units.

In determining the level of equipment of organizational units, the Bank's security standards are taken into account, as well as standards in terms of technical and technological equipment, including 24/7 service through up-to-date services.

9. Information system development (ICT)

The Bank's information system is an important element of the Bank's functioning. With its basic tasks of collecting, processing, archiving and presenting data, the information system enables the efficient execution of business transactions and creates preconditions for quality decision-making, planning and governance of the Bank.

In 2021, the Bank continued improving its information system. The implementation of several projects was initiated that assume the continuing upgrade of the system, with the aim of improving the quality of services and available information, raising security to a higher level, the digitization of business processes, the development of digital services and meeting other business needs of the Bank, as well as regulatory requirements.

Some of the most significant projects in 2021 are listed below:

- The implementation of video identification and online on boarding of customers was completed, which enables the registration of new customers and expands the range of Bank's digital services; apart from video identification, existing and new customers are now able to apply for online products, such as cash loans, refinancing loans, credit cards, savings products;

- The implementation of smart safes was completed – a new-generation device through which the Bank will enable its clients to pay their daily takings deposit without actually visiting the Bank's branches;

- The SAS Managed Analytics Platform Project was completed, creating the basis for improved automation and standardisation of internal reporting of senior management at the level of existing and potential future entities. The main objective is to enable the Bank's management to analyse in the same form, through reports, the operations of all banks within the Bank Group, which in turn will ensure faster and easier business decision-making;

- A number of projects involving direct channels have begun: MDES e-Wallet (tokenisation – digitalisation of existing cards, i.e. the conversion into a "virtual" card on a mobile device), the introduction of mBank and Web e-bank applications for SME segment customers, the implementation of the Merchant Management Module that will considerably mitigate operational risks and qualitatively support the functionalities for POS acquiring;

- In order to meet the Bank of Slovenia's regulatory reporting requirements, changes were implemented in line with DPM 3.0 model; Finrep reports were fully implemented and a workaround was implemented for Corep; and the implementation of CRR2 regulations has started as a precondition for the Corep full automation;

- IT provided necessary support to AQR and stress tests conducted by the European Central Bank;

- The implementation of CAS and Deep Link has started as a part of the instant payment process;

- Working on the constant improvement of the web service for integration with payment institutions and the introduction of new payment institutions;

- The first phase of the interbank refinancing set-up project was implemented at the request of the National Bank of Serbia; the second phase which involves the automation of interbank communication via a centralised platform is scheduled for 2022;

- The process of calculating the default status and continuous arrears according to the NBS regulations was implemented;

- The implementation of the Debt Register at the NBS request and methodology has started;

- For the purpose of creating and running CRM campaigns and since an integrated CRM solution has not been yet implemented (expected in 2022), the automation of data preparation needed for campaigns was implemented in the designated DataMart;

- A large number of upgrades of core banking and supporting applications were implemented in order to support the automation and supervision of business processes, as well as new processes and improvement of the existing ones;

- Continuous improvements of the platform for regulatory reporting to NBS through amendments to the existing or the implementation of new reports; and the implementation of other regulatory requirements (officials database - Factiva, FATCA reporting, etc.);

- The capacity of the existing storage system was expanded, which ensured a necessary resource for the performance of the Bank's entire server infrastructure.

Modern business trends require regular information security improvements, which instigated the Bank to implement some activities in 2021:

- The encryption of swift files was implemented, which will reduce malicious activities during data exchange via swift;

- A solution for the multifactor authentication by means of soft token used by employees for remote login to Bank's systems was implemented, which contributes to a higher security level when accessing sensitive information resources;

- The Cynet EDR (Endpoint Detection and Response) security solution was implemented on Bank's key resources as well as an automatic response to security threats;

• Kaspersky Endpoint Protection was upgraded by implementing a new ERD Optimum module, which is used to upgrade the protection and security of workstations against the most recent malicious threats.

10. Non-financial reporting

Pursuant to its Directive 2014/95/EU, the EU prescribed mandatory non-financial reporting by companies within the EU. The same Directive was incorporated into the Serbian legislation (the Law on Accounting, Article 37) in 2019, which was applied for the first time in 2021. Non-financial reporting represents the interest of all stakeholders in greater transparency and accountability of legal entities in the Republic of Serbia. Notwithstanding this legal obligation, AIK Bank has had an internal obligation as a part of its business practice for over 40 years to report to the public about its activities regarding non-financial and corporate social responsibility segment by issuing public statements and Annual Reports.

One of the Bank's basic starting points is the Statement of Our Values, which consistently indicates the Bank's business purpose which summarises the business and human character of AIK Bank and defines the entire philosophy of Bank's business operations using five pillars – customer commitment; innovations in products and services; business excellence and flexibility; awareness and social responsibility; and trust based on partnership, teamwork and competitive spirit.

The Bank's mission and vision, as well as social responsibility, business excellence and commitment to all interest groups are based on the key business postulate and relationship with employees, customers and performance. In this way, AIK Bank lays the foundations of its sustainable operations since it starts from a mixture of public interest and social responsibility in all its products/services/operations/activities, which implies that no product/service/activity is valid or valuable unless it is in general interest, where all contracting parties are satisfied and the general public benefits from it. We regard this as the greatest contribution to each individual and the society in general.

Through non-financial reporting and corporate social responsibility, AIK Bank supports the development of different segments of the society by conducting a wide variety of activities, whose primary objective is to protect the environment, regardless of whether they are aimed at the well-being of their owners, employees and customers or, more generally, at the social community by supporting numerous humanitarian, educational, cultural, healthcare and sports institutions across the region in which it operates (Serbia and Slovenia). The Bank always takes into account specific regional characteristics and local society needs.

The Bank's vision is to be one of the best banks in Serbia, and more broadly in the region, which looks after the security and satisfaction of its customers and provides the highest quality products and services, taking into account the well-being of its employees, owners and community. The bank's goal is to achieve this vision through non-financial reporting and bring it closer to all interest groups. The Bank is set to accomplish its mission through business, financial, environmental and social responsibility segments, i.e. it strives to encourage and help its customers, employees and social community to create values in joint effort.

Image 3 - Values of AIK Bank

AIK Bank's efforts in this segment are accompanied by a commitment to transparent and open communication with the media, as intermediaries of the general public – where the Bank has been especially recognized in recent years outside the region given the fact that it received numerous awards – including the most innovative bank in the region (2021). This is evidenced by our latest campaign aimed at the digitalization and innovation that the Bank offers to its customers based on the highest global standards. **'Solved on the go'** is a message to all interest groups that AIK Bank is an innovative, fast, flexible and modern bank – that saves everybody's time and money through its products and services that are available 24/7 in numerous distribution channels and which, among other things, promote positive social and economic values, integration, inclusion and collectiveness of all individuals in society, regardless of age, gender, ethnic, religious or political affiliation, sexual orientation or marital status.

Implementation of the non-financial reporting obligation

As already mentioned, pursuant to Directive 2014/95/EU, which became a part of the Serbian legislation through the Law on Accounting at the end of 2019, all legal entities with more than 500 employees are required to comply with non-financial reporting. Therefore, the non-financial report of AIK Bank is an integral part of the Annual Report and it is prepared in accordance with the Global Reporting Initiative (GRI standard: core option) guidelines. The report includes, as a minimum, business, social and environmental responsibilities of AIK Bank.

10.1 Corporate sustainability strategy – pillars and guidelines

At the end of 2019, AIK Bank began with more intensive integration of sustainability into banking operations, by taking over a number of banks, including Gorenjska banka d.d. Kranj, Slovenia. At the beginning of 2020, the Covid-19 pandemic only increased interest and placed emphasis on a new environment, in which the entire financial and real world around the globe will operate in the coming period. It became quite clear in mid-2020 that the entire banking world, accompanied by digitalization, demographic and climate change, and macroeconomic risks, will now operate in a completely new environment that will be affected by numerous ESG (Environmental, Social and Governance) risks and sustainable development. Having prioritised sustainability, AIK Bank initiated a strategic initiative, which begins with raising awareness and enhancing initiative and implementation of sustainability elements in its new business model. The goal of these strategic guidelines is to raise awareness and develop culture across the entire organization that should maintain environmental, social, business and financial performances of the Bank in the future, taking into account external and internal SGE risks and opportunities for further smooth operations, and actively contribute to reducing any systemic risks pertaining to the financial stability of the country in which the Bank operates.

10.1.1 Four sustainability pillars

In implementing sustainability elements, AIK Bank is focused on local communities and the real sector. The Bank is aware of the impact of its operations on the social community and responds to social needs and expectations in a balanced, relevant and transparent manner. In doing so, the Bank has a special approach to each of the regions in which it has branches. Given that the Bank has made certain acquisitions of banks in the region over the last three years - the concept of sustainability is already being projected more broadly both locally and into future key markets in which the Bank will operate from 2023 - as a banking group.

The four pillars on which AIK Bank bases its business system sustainability originate from Bank's environmental, social, business and financial performance.

Image 4 – Four sustainability pillars of AIK Bank

Pillar 1 – Environmental sustainability

The man and nature have been fighting a common battle for millions of years - helping each other to survive. AIK Bank, starting from its basic business premises, strives to participate as much as possible in environmental protection and take its share of responsibility, so that future generations have the equal right to life. From products we offer, and the clients we serve, to employees and shareholders, we ensure that everybody bears their share of burden – in order for water, air, land, forests and climate to have a partner in AIK Bank that cares about them. In other words, we subject our operations and goals to the overall well-being of the human environment, thinking of future generations. The contribution to the environmental sustainability is immeasurable.

Pillar 2 Social sustainability

AIK Bank is a member of a wider community and as such, together with other stakeholders, participates in the creation of the social product, its distribution, exchange and consumption. As a bank and financial institution, it has a specific role in supporting the real sector in offering and providing the best possible results. The Bank is aware of its role and influence on the community and all other primary borrowers (state, retail and corporate customers), financial intermediaries, financial markets and financial infrastructure. In this regard, the Bank recognises corporate social responsibility (CSR) as one of its pillars of sustainability (CSR) as part of its ethical responsibility to support children, families, youth, education, science, healthcare and care for people, preservation of cultural heritage, sports and improvement of physical education.

Pillar 3 Business sustainability

Above all, sustainable business for AIK Bank implies the obligation to treat all interest groups in an ethical, efficient and transparent manner. Our goal is to improve sustainable business by adhering to the relevant EU regulations and the UN Finance Environment Initiative, striving to include as many principles as possible in our own business goals. We tend to make our business operations public and our customers aware in each transaction and obligation, along with the right to protect the users of financial services. Our goal is to act responsibly towards the state and take seriously our legal obligations by settling our liabilities on time, to prevent our customers from engaging in money laundering and terrorism financing by strengthening financial culture and awareness.

Pillar 4 Financial sustainability

Financial sustainability integrates environmental criteria, social criteria (economic redistribution) and ESG risk management criteria – (environmental, social and governance) into Bank's day-to-day financing and investment activities – for the purpose of lasting benefits for our clients and the wider community. Financial sustainability also involves active management of all types of risks (micro and macro level) with the aim of acting responsibly towards regulators and supervisors, on the one hand, and customers and the community, on the other hand, trying to act procyclically in times of crisis and stress – enabling the real sector to access financial resources in a sustainable manner.

10.2 Vision and mission of AIK Bank

Starting from the vision and mission of AIK Bank, as well as from the built-in values and strategic focus, we can easily conclude that the Bank is a partner in creating a better and different future that belongs to people, i.e. the society and environment.

Everything we do is based on our commitment to our clients and our responsibility to be innovative and to excel in what we do in order to live up to the expectations and trust of the society and environment. We are focused on the human as an individual, to whom we offer support and solutions as partners to cope with all business and financial needs wherever and whenever, the man as a social element who takes care of his environment and creates his future on his own. We take our responsibility for the environment, society, business and finances very seriously and, as a partner, we fully understand we can effectively contribute if we perform banking operations in compliance with the UN sustainable development goals (UN-SDG).

VISION

Our endeavour is to make a difference and always be your first choice.

MISSION

We build partnerships by supporting people in creating their future.

BANK'S VALUES

TRUST	EXCELLENCE	INNOVATION	RESPONSIBILITY	CUSTOMER COMMITMENT
Employees – COOPERATION We are building a culture of open communication by working together to achieve goals, create new values and ideas	**Employees** We are building and nurturing an environment for employee development and creating conditions for achieving excellence	**Employees** We create an environment for encouraging and using potentials for further improvement and exchange of ideas	**Employees** Giving personal example, we inspire collegiality and solidarity, promote quality, check the performance of activities in a timely manner and with mutual respect	**Employees** We build long-term cooperation with our customers by providing efficient, simple and tailor-made solutions and creating quality user experience
Customers – TRUST We listen to and understand our customers, which helps us build long-lasting cooperation and achieve common goals	**Customers** We actively influence the environment both internally (bank processes) and externally (client's business model, economic parameters, perception of the business environment) in order to be our best version together with our clients	**Customers** We think creatively and continuously create solutions (on the go) that guide our clients to the best user experience	**Customers** We make right decisions and create successful and loyal clients	**Customers** We build trust with customers by showing that we are available, that we know, understand and support them
Shareholder – COOPERATION We openly communicate key information in order to achieve goals and create new values through teamwork	**Shareholder** We proactively and professionally perform our daily activities within set deadlines in order to meet objectives	**Shareholder** We add value through innovative solutions	**Shareholder** We accept challenges and find solutions to ensure the sustainability of our business	**Shareholder** By being accessible and knowledgeable, we meet customers' needs, build long-lasting trust and become a recognised partner that provides guidance to continuous strengthening of cooperation
Community – COOPERATION We have built our reputation by actively participating and recognising our community's needs	**Community** We listen, understand and actively participate in projects that benefit the community	**Community** We improve everyday life by developing new solutions that contribute to the quality of life	**Community** We provide support to the local community and care for all of us by giving personal example	**Community** We build long-term trust and cooperation with our clients that are the most important part of our community

OUR STRATEGIC FOCUS

- ✓ **Personalisation and customer satisfaction**
  The bank exists to serve its customers, which represent the basic definition of our business. We endeavour to be ultimately committed and accountable to our clients through personalization and efficient data management, so that we can offer them personalized solutions at all times and respond to their specific requirements and needs in the best possible manner. In this way, we build a long-term and mutually beneficial partnership.
- ✓ **Qualified employees and their satisfaction**
  No organization could exist without employees' satisfaction. Satisfied employees are a prerequisite for Bank's satisfied customers. Our employees are our biggest capital. Improving employees' knowledge and skills is a continuous process at all management levels.
- ✓ **Satisfaction of shareholders**
  A large number of satisfied clients supported by Bank's trained and motivated employees are a guarantee of stable and sustainable development and business of each bank. Each shareholder is aware of these preconditions - which lead to the required financial result and the achievement of environmental, social and business performances. Only banks with low CIR and high ROE can progress given the new digital ecosystem, new business models and necessary investments.
- ✓ **Digitalisation and innovations**
  The bank is a dynamic business system which always has to respond to broader trends in the society and the real economy. Digitalisation and innovation are a business oath to withstand the pressure of the competition and to respond to the demands of new generations that follow the technological development of the fourth industrial revolution. By changing ourselves, we also change the world we live in. We consciously accept all new challenges and enter a new ecosystem.
- ✓ **Regional presence**
  The bank is recognized as a regional banking group. Its goal is to further strengthen its presence in the region and confirm the status of a systemically important bank. Our presence should include, above all, the acknowledgement of excellence and business efficiency on the one hand, and on the other hand, pushing cultural and social boundaries – by connecting in the best possible way millions of people and companies operating in the region - for the purpose of overall economic progress and the improvement of living standards of all people.

10.3 Bank's commitment to UN sustainable development goals

Sustainable development goals

The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by the United Nations in 2015. There are 17 SDGs in total and by fulfilling these goals, every legal entity should ensure a sustainable and better life for every individual, contributing to peace and prosperity for all. Social prosperity and care for each individual are the basic premises on which AIK Bank operates. The Bank supports all 17 SDGs. Starting from the fact that we are a financial institution and have a specific impact on the overall social community, we believe that AIK Bank can directly contribute to the achievement of the following six goals with its business operations and influence:

1. Good health and well-being (SDG 3)
2. Quality education (SDG 4)
3. Gender equality (SDG 5)
4. Decent work and economic growth (SDG 8)
5. Reduced inequalities (SDG 10)
6. Climate action (SDG 13).

The following image shows the UN's sustainable development goals.

Image 5 – UN Sustainability Development Goals

Analysis of stakeholders and material topics

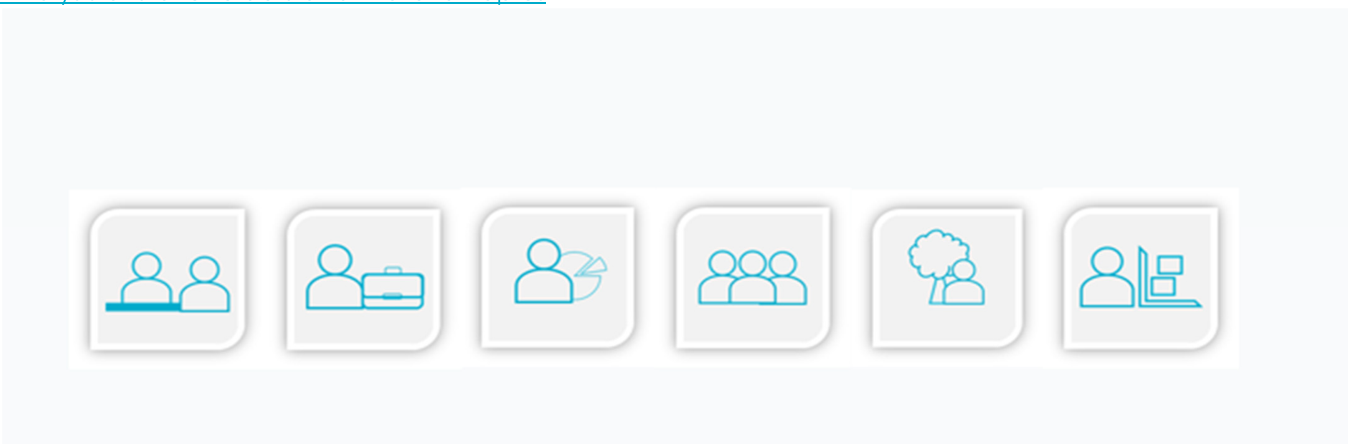


Image 6 – AIK Bank interest groups

An analysis of material topics is the first step towards the preparation of a non-financial report, which provides the Bank with a better insight into topics that its shareholders consider relevant and influential. Many years of practice and decisions of the Board of Directors regarding strategic directions - Business Strategy, Risk Management Strategy and Capital Management Strategy – have resulted in the emergence of several important topics that the Bank addresses in its practice, and thus in this Non-Financial Report. In order to make the information as clear as possible, each topic in the report is classified under a certain part of an interest group.

Bank's interest groups are as follows:

- ✓ customers,
- ✓ employees,
- ✓ shareholders
- ✓ society,
- ✓ environment and
- ✓ suppliers.

Customers, employees and shareholders are first in line of interest groups. For years, AIK Bank has been strategically focused in its ordinary course of business on the fact that the satisfaction of customers and employees and financial performance guarantee business success of any legal entity - in this case our Bank. In addition, innovation has a special purpose as a guiding idea, a challenge, a motive and as a necessity.

Customers

Business responsibility (SDG 8)
Business responsibility, particularly in relation to clients, is fundamental for AIK Bank's operations, which is reflected in innovative and 'tailor-made' products and services for different customer segments in response to their current and future needs and life circumstances. Moreover, AIK Bank establishes and implements basic principles, policies and guidelines governing the prevention of corruption, conflict of interest management, and the system for resolving reported irregularities and whistle-blower protection.

Customer satisfaction (SDG 8)
The main purpose of Bank's operations is to serve its customers. Business needs of our clients are the basic definition of our business. It is our goal to be aware of our customers' needs, regularly communicate with them and exceed their expectations in the best possible way. A high level of loyalty of our clients is the measure of our success.

In order to provide the conditions prescribed by this SDG, the Bank pays special attention to encouraging entrepreneurs and to innovations with regard to products, services, processes and the application of new technologies. Monitoring the efficiency and satisfaction of customers is ensured in all branches and other channels. Clients are given the opportunity to express their opinion and give observations regarding the Bank's operations on tablets in the business network or on the web site. In this way, customer satisfaction is a guarantee of economic growth and sustainable development to which the Bank itself contributes. This is also a confirmation that the Bank can deal with the most vulnerable societal segments through the placement of basic and free of charge products and services. Moreover, its goal is to pass on its customers the culture of financial business that indicates the harmfulness of corrupt practices, money laundering and terrorist financing. By participating in certain campaigns, either independently or as a part of the Association of Serbian Banks, AIK Bank takes part in the inclusion of many social segments, the improvement of financial culture and the provision of access to financial resources and services for all.

The right to the protection of personal data
The protection of personal data is a fundamental right of every citizen, which is extremely important in the banking sector. AIK Bank is constantly working on the improvement of its ICT systems, their cyber security and technological education of its employees - to ensure the highest standards of personal data protection. In order to protect the information and communication system from various security threats, the Bank is constantly trying to maintain and improve the compliance with the PCI / DSS standards and the national regulatory authority.

Employees

Diversity and equality (SDG 5, 10)
Gender equality is a global problem that prevents any peaceful and stable development and progress of the humanity. AIK Bank works hard and applies a teamwork approach to combat any gender inequality or other inequalities in the workplace.

Education and development of competences
Continuous professional development of employees is one of the Bank's key principles. Professional development, acquiring new skills and competences in accordance with trends and the market and constant personal development are the underlying preconditions for the career path of any employee.
Our employees are our biggest capital. Collectiveness is the foundation of our business and the future we build. Talented, educated and ambitious people with a competitive spirit show their individual skills and knowledge through teamwork. Each individual achieves more in a team than alone. We compete with each other and we know we can always do better.

Work-life balance and employees' health (SDG 3, 5)
The health and well-being of all people, but primarily of its employees, is one of the sustainable development goals that AIK Bank deems extremely important. This goal is the cornerstone of the fulfilment of all other goals. That is why AIK Bank provides a number of benefits to its employees.

Shareholders

Shareholders
The world of finance operates on the basis of capital. Capital in banks is comprised of own funds based on which banks lend third-party funds and operate using leverage and assuming numerous operational risks. Capital also serves as a cushion against loss and, in that regard and taking into account the example of one bank and the entire banking sector, it requires that each bank monitor its regulatory, internal and economic capital in accordance with the BCBS regulations and the regulations of national central banks. The goal of any business is to generate profit and reduce risks, so that shareholders and other investors could regard one bank as an efficient company that brings desired return to its shareholders. In that regard, starting from the highest standards of corporate governance, AIK Bank has become a systemically important bank in the Republic of Serbia, which presents its performance results and increases its capital year in year out through its governing bodies, openly and transparently, in relation to its environment.

Financial performance
Financial performance and generation of a newly created value are a natural result of employees and clients' satisfaction for shareholders. In that regard, AIK Bank endeavours to ensure that profit and profitability, as measures of employees' efficiency and customer service, are macro- and micro-prudentially harmonised with all interests of the social community, raised to the highest possible level, given the fact that profitability is the first business sustainability buffer. Taking into consideration the impact of the systemic and idiosyncratic risks of banking institutions on the broader social community, the Bank strives to observe the instructions of regulators and supervisors as much as possible, in order to be socially responsible in the best possible way as a systemically important bank.

Role of capital
The role of capital is to be a cushion against unexpected losses. In modern banking, by observing the RAPM concept (Risk Adjusted Performance Measure), all bank performances are monitored in relation to risk and capital. In that regard, we monitor economic capital, where equity and profit are risk adjusted. Capital has quantitative and qualitative dimensions, which through the calculation of regulatory, internal and economic capital, represent specific risk-bearing capacity. The capital adequacy ratio also indicates the amount of the Bank's RWA and 'PD'. On the other hand, each capital owner has their own required rate of return, which is represented through COE. One of the primary management tasks is to achieve an ROE to be greater than the COE.

Society

Social banking (SDG 8, 10)
Income, geographical, gender inequalities and unequal distribution of resources by age - the theme of inequality is reflected in all aspects of life. As far as AIK Bank is concerned, this sustainable development goal can be achieved through greater digitalisation that enables equal opportunities and availability of funds for all. In addition, financial culture and financial literacy, which ensures that everyone has an equal starting point in terms of financial knowledge, is one of the ways in which good foundations can be laid for progress towards meeting this goal.

Financial literacy (SDG 4, 10)
Quality education and employment of young talents are one of the strategic goals that AIK Bank has been tackling for years. Hence, the Bank has signed an agreement with the Belgrade Banking Academy for the cooperation in providing education and training to students who want to work in the Bank, as well as to some of our employees, primarily sales advisors for small and medium enterprises - entrepreneurs. Acquiring quality education is one of the fundamental rights of every individual, and knowledge is one of the main social drivers. There is an increasing number of young people from the Belgrade Banking Academy who are being employed by the Bank, who are making progress and taking leading positions. There are also more and more workshops, where Bank's employees improve their technological knowledge given that we live in the time of the fourth technological revolution, new technologies and new knowledge that are much needed in the digital transformation.

Image 7 – AIK Bank-CSR

Conscience and social responsibility

We are aware that the Bank operates using clients' funds. It is their personal property entrusted to us. As a responsible Bank, we are aware of it and therefore we do not take any risky operations. Each of our placements has to be covered by an appropriate amount of Bank's capital. While performing daily banking operations, we constantly think about the overall benefit to the society.

AIK Bank is one of the leaders in the region in terms of social responsibility, sponsorship and donations to various corporate and retail customers dealing with: 1) family; children - SOS Children's Villages; particularly women and positive affirmation for female entrepreneurship; 2) healthcare; combat against Covid-19; artificial insemination; fight against cancer in children; 3) youth education, assistance to schools and faculties; assistance to scientific centres; support to competition in the country and abroad; 4) sports and strengthening the competitive spirit; basketball; cycling.

All these are socially responsible activities that contribute to healthier development and improvement of the society as a whole. All activities are covered and supported by the media.

Environment

Effective environmental impact management (SDG 13)

We are all aware of the fact that we live in the time of serious climate change and environmental catastrophes that are the result, among other things, of humanity's carelessness for its environment. The quality of air, land, water and other things necessary for the healthy and sustainable development of humanity, in general, is increasingly being disputed. These are problems that affect both the individual and the economy on a global scale. There is no country that is not exposed to these risks. Nowadays, there is no company that is not focused on sustainable business and care for the environment. As a responsible institution and one of the leaders on the banking market, AIK Bank has taken a decisive position that this is one of the priorities, which is raised to the highest possible strategic level – and thus the overall business on the supply side (products and services for consumers) and on the demand side (customers/consumers) are put under the magnifying impact glass of ecology and the environment.

Suppliers

Responsible supplier selection (SDG 10,13)

AIK Bank has a large number of suppliers from various economic areas. The Bank chooses its suppliers, whether it is ITC equipment, water or paper, by taking care of its business sustainability and increasing the human's environment protection standard. Sustainable and socially responsible business is taken into account when choosing suppliers, which is why companies that operate in accordance with global standards - care about the centres environmental impact – are selected.

Goals promoted by the Bank

In addition to the goals that the Bank can directly influence, there are a number of goals that the Bank wants to promote in order for them to become a part of an integrated system of sustainable development. The Bank is committed to supporting financial products and services that tend and contribute to environmental and social prosperity.

A breakdown of sustainable economic activities promoted by the Bank, but not limited to them, provides a benchmark for internal evaluation processes and helps to achieve adequate environmental and social goals. A list of goals will continue to evolve over time reflecting changing community expectations, shareholders' feedback and regulatory requirements.

AIK Bank strongly supports the transition to a generally sustainable climate economy and is committed to making a positive contribution to a financial system that supports sustainable growth. Thus, reports of the most competent global institutions in charge of climate change supervision as well as recommendations of the most competent banking institutions have been observed for the last few years in order to contribute to economic growth through banking activities, while reducing environmental pressure and observing social and managerial aspects.

AIK Bank contributes to these efforts in various manners, from the transition to digitalization, to reducing paper use and gas emissions. In that regard, we are facing a period of ultimate engagement in the promotion of sustainable economic activities that will significantly affect and contribute to the overall prosperity. On our part, it will involve recognizing economic activities and sectors that do not adversely affect the environment and society. A certain number of clients who will adhere to sustainable development will be rewarded with a lower cost of banking products. On the other hand, all sustainable and supported activities will be transparently presented in documents and contracts, as well as on the Bank's web site.

The Bank's intention is to place a special emphasis on the promotion of the following goals:
SDG 7: Affordable and clean energy
SDG 11: Sustainable cities and communities
SDG 12: Responsible consumption and production

Image 8 – Sustainable economic values that will be promoted by AIK Bank

Therefore, special attention will be paid to raising awareness and improving culture in order to recognize across all society levels the interest in advocating for:

- ✓ renewable energy
- ✓ energy efficiency
- ✓ sustainable transport
- ✓ recycling and pollution's prevention

We have to make an effort and a significant contribution altogether to reducing greenhouse gas emissions through the production of renewable energy sources, energy and heat efficiency, smart management systems, including the use of advanced technical and technological solutions - the Internet of things; sustainable mobility and innovative transportation methods; development of technology and infrastructure needed for bigger and more efficient penetration of renewable energy sources; renewable materials from sustainable sources; and processes and infrastructure that facilitate the recycling of natural resources and waste.

- ✓ Sustainable agricultural and food production
- ✓ Sustainable forestry
- ✓ Sustainable aquaculture and fisheries
- ✓ Sustainable water management

Taking into consideration that our economy largely relies on agriculture and that a part of our credit policy is focused on lending to agriculture, we will promote responsible and sustainable sources and activities of forest management; reduction in methane or other greenhouse gas emissions through support to sustainable livestock management; development of low-carbon agricultural technologies that improve productivity and efficiency; sustainable management of living natural resources and land use; development of technologies that enable maximum use of waste, recycling and separation of materials; and improvement of the management and distribution of drinking water, sewage, wastewater management and water treatment.

- ✓ Circular economy
- ✓ Economic and social inclusion
- ✓ Favourable population and new infrastructure
- ✓ Healthcare and education

A special emphasis in terms of the promotion and introduction of sustainability practices will be put on the transition to a circular economy by supporting increased durability, sustainability and reuse of products, as well as reducing resource use through material design and smart material selection; process and product innovation and support for the development of shared business models; achieving reductions in greenhouse gas emissions through supply chain improvements; the use of ICT solutions (digitalization) for the purpose of collecting, transferring, storing and using data in order to reduce greenhouse gas emissions more efficiently; support to educational and healthcare institutions and programmes;

10.4 ESG risk management

Effective risk and capital management at all levels is crucial for AIK Bank while maintaining long-term profitable operations. ESG risks do not represent a new risk category, but an aggravating factor to those risks that are already managed through the established risk management framework. BCBC also addresses these risks, with a possibility of calculating capital requirements for these types of risks as well.

All banks across the world are exposed to climate change through macroeconomic and microeconomic transmission channels that stem from two separate types of climate risk factors: Firstly, they may be exposed to costs and financial losses due to deteriorating physical risk factors. Secondly, when companies tend to reduce carbon dioxide emissions, which account for a majority of greenhouse gas emissions, these efforts produce transition risks. They are caused by changes in government policies, technological development or the confidence of investors and customers in relation to certain markets and projects. The effects of climate risk factors on the Bank's operations are monitored through traditional risk categories (credit risk, market risk, liquidity risk, operational risk, reputational risk). BCBC also addresses these risks, with a possibility of calculating separate capital requirements for these types of risks as well.

According to reports and recommendations of BIS, BCBS, IFC, FSB, AIK Bank addresses ESG risks and establishes a risk management system at three levels: 1) Strategic level: in the form of the transformational one that deals with the highest level of assessments, decisions, regulations and practices in relation to the management of these risks; 2) Portfolio level: in the form of the transitional one that addresses risks at the portfolio level in order to be better formatted for the risk management process, and their reporting; 3) Customer and transactional level: in the form of the transactional one that takes into account customer's perception and suitability of managing identified risks of this type;

As a part of this risk management system, particularly with regard to identifying, measuring and assessing the type of risk that the Bank is faced with, and observing the regulations of the National Bank of Serbia and its own practice, AIK Bank is particularly concerned with environmental risks, social (sociological) risks and management risks – in an effort to make each of these risks be appropriately treated, recognised, quantified, stressed and charged with a capital requirement. A special emphasis is placed on the presence of these types of risks in the lending and loan approval processes.

Establishing an environmental and social management system

AIK Bank has started establishing a contracting system that imposes contractual obligations related to the implementation of sustainability requirements. These requirements should be essential contractual elements that provide guidance on how to identify environmental and social risks and impacts. They are designed to help to avoid, mitigate and manage risks and impacts as a way of doing business in a sustainable way, including the engagement of stakeholders and the obligation of disclosing customer data related to contractual, transaction or project activities. It means that AIK Bank has to develop an ESMS - Environmental and Social Management System as one of the most important steps – both formally and substantively - in integrating sustainability into banking operation.

Bank's Lending Policy

AIK Bank's Lending Policy is one of the most important documents in which, together with the Corporate Risk Management Methodology and the Retail and SME Risk Management Methodology, the Bank defines all types of clients, activities, loans, placements and risks at the balance sheet and off-balance sheet level, and their impact on Bank's capital. All these documents specify the lending process with regard to all its phases, the lending organization, the roles and responsibilities of participants in the lending process, as well as the supervision and reporting of lending activities undertaken by the Bank. Since the largest portion of income is generated from the loan portfolio, the obligations and tasks of all participants are raised to the highest possible ethical and professional level.

In the Lending Policy, a special chapter is dedicated to the description and consideration of economic activities including categories such as prohibited, restricted and normal activities. Within the Lending Policy and Risk Management Methodology, prohibited activities, sectors and entities with whom the Bank neither concludes loan agreements nor enters into any kind of contractual relations are presented in particular.

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