API BANK AD, BELGRADE

Independent Auditor's Report on
the Audit of the Financial
Statements for the Year 2021

MOORE

This version of our report/ the accompanying documents is a translation from the original. which was prepared in Serbian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However. in all matters of interpretation of information. views or opinions. the original language version of our report takes precedence over this translation.

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF API BANK AD, BELGRADE

Report on the Audit of Financial Statements

Opinion

We have audited the accompanying financial statements of API BANK a.d., Belgrade (the "Bank"), which comprise the balance sheet as at 31 December 2021, and the income statements, 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 and other explanatory notes.

In our opinion the accompanying financial statements give a true and fair view of the financial position of the API BANK a.d., Belgrade as at 31 December 2021, and of its financial performances and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 41. in the financial statements, which indicates the current position of Bank in the frame of armed conflict between Russia and Ukraine, and, consequently a range of individual and economic sanctions that has been to impose on Russia, and finally that the Bank's equity in majority is owned by Russians. For the time being, the Bank does not suffer any adverse outcomes of this conflict, but the Management is not in position to predict the effects of consequences that would occur on the Bank's operations in case of further escalation of the crisis and possible changes in business conditions in Serbia as a result of geopolitical changes. These events and conditions may cast doubt on the Bank's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Emphasis of Matter

We draw attention to Note 23. in the financial statements with disclosed amount of the item Non-current assets held for sale totaled RSD 320,411 thousand. The Bank acquired property under the provisions of Sale-purchase Agreement of immovable and movable property, regarding due loan payment. Pursuant to the Executive Board's Decision from 2016, the named property was classified as non-current assets held for sale. Since it has not been sold yet, the Bank's management is undertaking all necessary steps to sell the property in question. (Described in more detail in the Key Audit Matters section of this report.) Our opinion is not qualified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the issue described in Material Uncertainty Related to Going Concern section for the matter below, our description of how our audit addressed the matter is provided in that context.

Non-current Assets Held for Sale

Key audit matters	***How our audit addressed the key audit matter***
Within the item non-current assets held for sale, the Bank disclosed amount of RSD 320,411 thousand. Pursuant to the Executive Board Decision from 12 April 2016, the Bank classified these assets (acquired under Sale&Purchase Agreement of immovable and movable property, made with the legal entity FSH "Komponenta" d.o.o. Ćuprija - in bankruptcy - debtor for granted due loan liabilities) in the amount of RSD 376,516 thousand as non-current assets held for sale. *At the end of 2020, according to the Appraisal Report, the Bank impaired the property in question by RSD 41,412 thousand. The last appraisal was performed on 01 February 2022, and the estimated value was EUR 2,725,000.00. Under the outcome of this appraisal, additional impairment of RSD 14,692 thousand was booked at the end of 2021.* *The property has been put up for sale, and the Bank's management is undertaking all necessary steps to sell the property in question as soon as possible.* *The management believes that the asset is still eligible to be shown under the item non-current assets held for sale, justified by the fact that due to extraordinary circumstances caused by the Covid 19 pandemic, and previous changes in the Bank's owner, it was not realistic to sell the item within terms declared in IFRS 5.*	*Our audit procedures included the following steps:* *- Analysis of the Appraisal Report and verification of value adjustment to fair value recorded in the books;* *- Independent financial analysis of two companies that submitted Letters of interest to the Bank for acquiring the property;* *- Ongoing discussions with the Bank's management during the pre and final audit. In this regards, we understood that the demand for such real estate has increased significantly as a result of the new crisis in Ukraine, as a result of: the capacity and quality of silos. Namely, in the situation of expected growth of demand for cereals, the extremely large capacity of the silo gained in importance, as well as the fact that it was built of concrete (possibility of storing cereals for a longer period of time). On the other hand, the construction of new silos of the same quality is not profitable due to increased construction costs (growth in prices of construction materials);* *- Depreciation computing as if the item had always been shown under the buildings in the Bank's books and determination of its book value. The net book value recorded in this way is higher than the currently stated fair value shown in the Bank's books.* *Under the previously mentioned procedures, we confirmed that the Bank, based on the best available information and assumptions, correctly valued these properties in its books, but due to the importance and specificity of the applied classification policy, we drew attention to the issue.*

Responsibilities of the Management for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements - continued

- *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.

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

Other Information included in the Bank's Annual Business Report

Management is responsible for the other information. The other information comprises the Annual Business Report (of which Corporate Governance Report is integral part), but does not include the annual financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, except to the extent explicitly described in the Report on Other Legal and Regulatory Requirements section of our report, 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. 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.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF API BANK AD, BELGRADE - continued

Report on Other Legal and Regulatory Requirements

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

In our opinion, the Annual Business Report is:

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

In addition, considering the knowledge and understanding of the Bank and its environment obtained during the audit, we are required to report if we have identified material misstatements in the Annual Report. We have nothing to report in this regard.

Belgrade, 21 April 2022

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Authorised Auditor	*Managing Partner*

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API BANK a.d. BELGRADE

NOTES TO THE FINANCIAL STATEMENT FOR THE YEAR 2021

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FINANCIAL STATEMENTS

INCOME STATEMENT
In the period between 1 January to 31 December 2021

In RSD thousand

	Note	2021	2020
Interest income	5	307,627	232,744
Interest expense	5	(105,368)	(91,242)
Net interest income		**202,259**	**141,502**
Fee and commission income	6	296,540	105,830
Fee and commission expense	6	(43,509)	(41,209)
Net fee and commission income		**253,031**	**64,621**
Net gains from derecognition of financial instruments measured at fair value		-	19,465
Net (losses)/gains from hedging	7	-	447
Net foreign exchange gains and effects of contracted foreign currency clause	8	2,398	81,637
Net impairment loss on financial assets not measured at fair value through profit or loss	10	(42,841)	(69,782)
Other operating income	9	3,217	3,001
TOTAL NET OPERATING INCOME		**418,064**	**240,891**
Salaries, compensations and other personal expenses	11	(324,614)	(330,393)
Amortisation and depreciation expenses	12	(75,513)	(70,486)
Other income	13	57,432	26,929
Other expenses	14	(274,977)	(282,024)
PROFIT/(LOSS) BEFORE TAX		**(199,608)**	**(415,083)**
Deferred tax asset	15	681	1,923
PROFIT/(LOSS) FOR THE YEAR		**(198,927)**	**(413,160)**

The notes on pages from 8 to 103 are an integral part of these financial statements.

Signed on behalf of the Bank's management on 20 April 2022:

Dijana Čučuk
Responsible for financial statements preparation

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

Valentina Keiša
President of Executive Board

OTHER RESULT
In the period between 1 January to 31 December 2021

In RSD thousand

	2021	2020
PROFIT/(LOSS) FOR THE YEARP	(198,927)	(413,160)
Other comprehensive income:		
Items of other comprehensive income that can be reclassified to profit or loss:		
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	(198,927)	(413,160)

The notes on pages from 8 to 103
are an integral part of these financial statements.

Dijana Čučuk
Responsible for financial statements preparation

Valentina Keiša
President of Executive Board

BALANCE SHEET
For the Year Ended 31 December 2021

In RSD thousand	Note	2021	2020
ASSETS			
Cash and balances with central bank	17	2,346,917	1,955,143
Pledged financial assets		-	-
Securities	18	1,646,241	1,819,310
Loans and advances to banks and other financial organisations	19	1,174,251	1,288,219
Loans and advances to customers	20	6,452,015	4,610,858
Intangible assets	21	39,327	51,701
Property, plant and equipment	22(a)	177,851	166,456
Investment property	22(b)	82,602	-
Deferred tax assets	15(c)	8,787	8,046
Non-current assets held for sale and discontinued operations	23	320,411	354,857
Other assets	24	94,805	105,424
TOTAL ASSETS		**12,343,207**	**10,360,014**
LIABILITIES			
Deposits and other financial liabilities to banks, other financial organisations and central bank	25	162,676	51,560
Deposits and other financial liabilities to other customers	26	10,143,946	8,065,190
Changes in fair value of items subject to hedging		-	-
Subordinated liabilities	27	108,615	99,458
Provisions	28	26,005	18,319
Current tax liabilities	15(a)	61	-
Deferred tax liabilities	15(d)	1,022	2,710
Other liabilities	29	160,328	171,197
TOTAL LIABILITIES		**10,602,653**	**8,408,434**
EQUITY	30		
Share capital		4,632,407	4,632,407
Profit/Loss		(2,898,913)	(2,699,986)
Reserves		7,060	19,159
TOTAL ASSETS		**1,740,554**	**1,951,580**
TOTAL LIABILITIES		**12,343,207**	**10,360,014**

The notes on pages from 8 to 103 are an integral part of these financial statements.

Dijana Čučuk

Dijana Čučuk
Responsible for financial statements preparation

API BANK AKCIONARSKO DRUŠTVO BEOGRAD
api bank
Beograd

Valentina Keiša
President of Executive Board

STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2021

In RSD thousand

	Share capital	Reserves	Profit/ Loss	Total capital
Opening balance as of 1 January 2020	**3,672,407**	**27,634**	**(2,286,826)**	**1,413,215**
Loss for the year	-	-	(413,160)	(413,160)
Other comprehensive result:	960,000	-	-	960,000
Negative effects of change in fair value of financial assets available-for-sale	-	(8,475)		(9,181)
Related deferred taxes recognised in equity (Note 15(d))	-	-	-	1,377
Allowance for impairment of financial assets measured through other comprehensive income	-	-	-	(670)
Balance as of 31 December 2020	**4,632,407**	**19,159**	**(2,699,986)**	**1,951,580**
Opening balance as of 1 January 2021	**4,632,407**	**19,159**	**(2,699,986)**	**1,951,580**
Loss for the year	-	-	(198,927)	(198,927)
Transactions with owners recorded directly in equity-increase	-	-	-	-
Other comprehensive result:				
Negative effects of change in fair value of debt instruments measured at fair value through other result	-	(12,099)	-	(12,099)
Related deferred taxes recognised in equity (Note 15(d))	-		-	
Allowance for impairment of financial assets measured through other comprehensive income	-	-	-	-
Balance as of 31 December 2021	**4,632,407**	**7,060**	**(2,898,913)**	**1,740,554**

The notes on pages from 8 to 103 are an integral part of these financial statements.

Dijana Čučuk
Dijana Čučuk
Responsible for financial statements preparation

API BANK AKCIONARSKO DRUŠTVO BEOGRAD
API bank
Beograd

Valentina Kejša
President of Executive Board

STATEMENT OF CASH FLOW
For the Year Ended 31 December 2021

In RSD thousand	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	**656,695**	**340,519**
Interest receipts	328,007	198,624
Fee and commission receipts	295,505	104,895
Receipts from other operating activities	33,183	37,000
Cash outflow from operating activities	**(269,184)**	**(745,895)**
Interest paid	(2,274)	(91,932)
Fees and commission paid	-	(41,209)
Payments for gross salaries, compensationsand other personal expenses	(42,459)	(372,463)
Taxes, contributions and other duties paid	(12,895)	(12,287)
Outflow for other operating expenses	(211,556)	(228,004)
Net cash flows provided by / (used in) operatingactivities before increase or decrease in financial assets and liabilities	**387,511**	**(405,376)**
Decrease in financial assets and increase in in financial liabilites	**2,336,840**	**895,366**
Decrease in loans and placements to banks, other financial organizations, central banks and customers	170,602	81,033
Decrease in receivables from securities, derivatives and other financial assets that are not intended for investment	173,070	221,149
Increase in deposits from banks, other financial organizations, central banks and customers	1,993,168	593,184
Increase in financial assets and decrease in in financial liabilites	**(1,969,297)**	**(920,855)**
Increase in loans and placements to banks, other financial organisations, central banks and customers	(1,969,297)	(920,855)
Increase in receivables from securities, derivatives and other non-investment financial asset	-	-
Decrease in deposits from and other liabilities to banks, other financial organizations, central bank and customers	-	-
Net cash flows provided by / (used in) operating activites	**755,054**	**(430,865)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	-	-
Proceeds from investment securities	-	-
Cash outflow from investing activities	(44,349)	(59,334)
Purchase of investment securities	-	-
Purchase of intangible assets, property, plant andequipment	(44,349)	(59,334)
Other outflows from investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES	**(44,349)**	**(59,334)**
Cash inflow from financing activities		
Cash inflow from **financing** activities	**187,043**	**997,971**
Inflows from capital increases	-	960,000
Proceeds from borrowings	187,043	37,971
Cash outflow from financing activities	-	**(201,415)**
Decrease in subordinated loans	-	-
Repayment of borrowings	-	(201,415)
Other outflows from financing activities	-	-
Net cash flows provided by /(used in) investing activities	**187,043**	**796,556**
Net increase / (decrease) in cash and cash equivalents	**897,748**	**306,357**
Cash and cash equivalents at the beginning of the year	1,955,144	1,622,903
Net foreign exchange gains	(505,975)	25,883
Cash and cash equivalents at the end of the year (Note 17)	**2,346,917**	**1,955,143**

The notes on pages from 8 to 103 are an integral part of these financial statements.

Dijana Čučuk

Dijana Čučuk
Responsible for financial statements preparation

API BANK a.d. Beograd

Valentina Keiša
President of Executive Board

1. CORPORATE INFORMATION

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

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

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

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

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

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

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

On 3 June 2009, the Bank opened its first branch in Belgrade, in no. 2, Balkanska Street, the status of which was changed in affiliate by the end of 2010. On 22 November 2010, theBank opened its first affiliate in Novi Sad, in no. 12, Narodnog fronta Street.

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

The Bank had 80 employees at 31 December 2021 (at 31 December 2020: 92 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1 Basis of Preparation and Presentation of the Financial Statements

Pursuant to the Law on Accounting (Official Gazette of the Republic of Serbia no. 73/2019) and other applicable legislation, legal entities and entrepreneurs incorporated in Serbia arerequired to maintain their books of account, to recognize and evaluate assets and liabilities, income and expenses, and to present, submit and disclose financial statements. The Company, as a large legal entity, is required to apply International Financial Reporting Standards ("IFRS"), which within the Law, include: Framework for the preparation and presentation of financial statements ("Framework"), International Accounting Standards ("IAS").), International Financial Reporting Standards ("IFRS") and Related Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), subsequent amendments to standards and related interpretations, as approved by the International Accounting Standards Committee (IASC), translated and published by the Ministry of Finance.

Translated international financial reporting standards by the Decision consist of:

- Conceptual framework for financial reporting,
- Basic texts of International Accounting Standards (IAS), basic texts of IFRS issued by the International Accounting Standards Board (IASB), as well as
- Interpretations issued by the Interpretations Committee in the form in which they were issued or adopted and which do not include grounds for conclusions, illustrative examples, guidelines, comments, dissenting opinions, elaborated examples and other additional explanatory material that may be adopted in connection with standards, ie interpretations, unless it is explicitly stated that it is an integral part of the standard, ie interpretation.

2.2 Published standards and interpretations that are applied for the first time in the current reporting period

Reference	Name	Application date
Amendment to IFRS 3	Business combinationdefinition of a	01 January 2020
Amendment to IAS 1 and IAS 8	Definition of materiality	01 January 2020
Conceptual framework	Revised conceptual framework for financialreporting	01 January 2020
Amendment to IFRS 7, IFRS 9 and IAS 39	Interest rate benchmarkreform	01 January 2020
Amendment to IFRS 16	Covid 19	01 June 2020*

* implementation is not mandatory for 31 December 2020, however many entities may decide to accept this amendment earlier and publish appropriate disclosures on early adoption.

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

2.2 Published standards and interpretations that have not yet become effective

At the date of these financial statements, the following standards, amendments and interpretations have been issued but have not yet become effective:

Reference	Name	Application date
Amendment to IFRS 16	Covid 19	01 June 2020*
IFRS 17	Insurance contracts	01 January 2023
Amendment to IAS 1	Classification of liabilities aslong-term or short-term	01 January 2023
Amendment to IAS 16	Procedures before intendeduse	01 January 2022
Amendment to IFRS 3	Reference to the ConceptualFramework	01 January 2022
Amendment to IAS 37	The cost of fulfilling thecontract	01 January 2022
Annual improvements	Annual standard improvements 2018-2020	01 January 2022
Amendment to IFRS 10 andIAS 28	Sale or investment of assetsbetween an investor and its associate or joint venture	Delayed until the IASB completes the equity method project
Amendment to IFRS 4, IFRS 7, IFRS 9, IFRS 16 & IAS 39	Benchmark interest ratereform-phase 2	01 January 2021

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

2.3 Comparative Figures

Comparative figures represent the audited financial statements of the Bank as of and for theyear ended 31 December 2020, prepared in accordance with IFRS.

2.4 Going Concern

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

In 2021, the Bank generated a net loss of RSD 198.927 thousand (2020: net loss in the amountof RSD 413.160 thousand).

In 2018, the Bank changed its owner, and accordingly the sole owner of the Bank's shares isthe Company "AZRS INVEST" d.o.o. Belgrade, whose ultimate owner intends to strenghten the Bank's capital base in the following periods.

In 2020, the owner of the Bank increased its capital value 3 times, as follows:

- On 30 April 2020 in the amount of RSD 240,000,000.00;
- On 03 July 2020 in the amount of RSD 360,000,000.00; and
- On 03 September 2020 in the amount of RSD 360,000,000.00,

which represents the total increase of EUR 8 million.

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

2.4 Going Concern (Continued)

As of 31 December 2021, the regulatory capital of the bank calculated in accordance with the Decision on Capital Adequacy of Banks ("RS Official Gazette", no. 103/2016, 103/2018, 88/2019, 67/2020, 98/2020, 137/2020 i 59/2021) amounts toRSD 1.743.334 thousand, i.e. EUR 14.827 thousand according to the official median exchange rateprevailing as of the reporting date and is above the minimum amount of capital of EUR 10 million, prescribed by the Law on Banks ("RS Official Gazette", no. 107/2005, 91/2010 and14/2015).

The management of the Bank is preparing an adequate Capital Management Plan in terms of processes for an internal assessment of capital adequacy, which will enable the implementation of further activities regarding a capital increase with the aim of increasing credit activities of the Bank and permanent provision of capital sufficient to cover all risks that the Bank will be exposed to in the ordinary course of business in the coming period.

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

2.5 Use of Estimates

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

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

The areas involving a higher degree of judgement or complexity, or areas where assumptionsand estimates are significant to the financial statements are disclosed in Note 4.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Interest Income and Expenses

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

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

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

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

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

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

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

Fees on approved loans were accrued on a pro rata basis during the loan repayment period and recognized in the income statement within interest income.

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

3.2 Fee and Commission Income and Expense

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2 Fee and Commission Income and Expense (Continued)

Fee income can be divided into the following two categories:

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

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

ii. Fee from Providing Transaction Services

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

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

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

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

3.3 Foreign Currency Translation

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

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

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

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

Foreign exchange gains or losses arising upon the translation of balance sheet items denominated in foreign currencies and transactions in foreign currencies are credited or charged as appropriate, to the income statement, as foreign exchange gains or losses (Note8).

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial instruments

3.4.1 Initial recognition

All financial instruments are initially recognised at fair value increased by transaction costs (except for financial assets and financial liabilities at fair value through profit and loss), thatare directly attributable incremental costs of acquisition or issue.

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

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

3.4.2 Derecognition of Financial Assets and Financial Liabilities

Financial assets cease to be recognised when the Bank loses control of the contractual rights governing such instruments, which occurs when the rights and risks of use of such instrumentshave been transferred, or did not transfer or retained all risks and rights in relation to the assets, but has transferred the control over it.

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

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

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

3.4.3 Classification of Financial Instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial instruments (Continued)

3.4.3 Classification Financial Instruments (Continued)

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

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

In accordance with IFRS 9, financial assets are classified into one of the following categories:

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial instruments (Continued)

3.4.3 Classification Financial Instruments (Continued)

Cash Flow Characteristics

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

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

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

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

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

3.4.4. Measurement of Financial Instruments

Initial Recognition of Financial Instruments

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

Subsequent Measurement of Financial Instruments

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

Financial assets are classified into three categories:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial Instruments (Continued)

3.4.4 Measurement of Financial Instruments (Continued)

Financial Assets that are Subsequently Measured at Amortised Cost

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

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Financial Instruments (Continued)

3.4.4 Measurement of Financial Instruments (Continued)

Financial Assets that are Subsequently Measured at Amortised Cost (Continued)

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

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

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

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

a) The assets is held within the business model whose objective is achieved by both collecting contractual cash flows and selling contractual assets, and

b) The contractual terms of the financial asset give rise on specified fates to cash flowsthat are solely payments of principal and interest on the outstanding principal.

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Financial Instruments (Continued)

3.4.4 Measurement of Financial Instruments (Continued)

Financial Assets that are Subsequently Measured at Amortised Cost (Continued)

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

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

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

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

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

Equity Instruments

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

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

Financial assets that are an equity instrument that the management intends to hold for a longer period may irrevocably be recognised at initial recognition as financial assets at fair value through other comprehensive income (FVTOCI). In the subsequent measurement of thefair value change, it does not affect the result. The amounts recognized through equity arenever reclassified through the income statement, but they can be transferred within equity.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial Instruments (Continued)

3.4.4 Measurement of Financial Instruments (Continued)

Financial Assets that are Subsequently Measured at Amortised Cost (Continued)

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

Derivatives and Hybrid Financial Assets

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

Subsequent Measurement of Financial Liabilities

Financial liabilities are classified as:

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

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

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

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

3.4.5. Reclassification of Financial Assets

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial Instruments (Continued)

3.4.5 *Measurement of Financial Instruments* (Continued)

3.4.6 Reclassification of Financial Assets

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

3.4.7 Interest Income Arising from Financial Instruments

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

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

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

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

3.4.8 Write off

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

3.4.9 Modification of Contractual Cash Flows

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial Instruments (Continued)

3.4.4 Measurement of Financial Instruments (Continued)

3.4.8 Modification of Contractual Cash Flows (Continued)

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

3.4.9. Gains or Losses on Financial Instruments

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4 Financial Instruments (Continued)

3.4.4 Measurement of Financial Instruments (Continued)

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

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

Pursuant to the Decision on amendments to the Decision on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items ("RS Official Gazette" No. 103/2018), the National Bank of Serbia has abolished required reserve for estimated losses and deductible item of equity in accordance with the Decision on Capital Adequacy of the Bank.

3.6 Cash and Cash Equivalents

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

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

3.7 Repurchase Agreements

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

3.8 Intagible Assets

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Intagible Assets (Continued)

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

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

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

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

3.9 Property, Plant and Equipment and Investment Property

/i/ Property, Plant and Equipment

Property, plant and equipment of the Bank at 31 December 20201 comprise equipment and leasehold improvements.

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Property, Plant and Equipment (Continued)

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

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

/ii/ Investment Property

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

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

3.10 Impairment of Non-financial Assets

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

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

Impairment losses are recognised in the income statement as required by IAS 36 "Impairment of Assets".

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

3.11 Repossessed Property

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12 Non-current Assets Held for Sale

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

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

3.12.4 An asset (or disposal group) is available for immediate sale in its current condition;

3.12.5 There is an adopted plan of sale of fixed assets and the activities on the achievement of the sales plan have been initiated

3.12.6 There is an active market for such asset and the asset is already active in this market; and

-The probability of sale if very high, or there is an expectation that a sales transaction will be realised within a period of one year from the date of classification of the asset as held for sale.

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

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

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

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

3.13 Leases

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

(a) Finance Lease - Bank as a Lessee

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13 Leases (Continued)

(a) Finance Lease - Bank as a Lessee (Continued)

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

As of 31 December 2021, the Bank had no assets under the finance lease.

(b) Operating Lease - Bank as a Lessee

IFRS 16 "Lease", effective on 1 January 2019, brings major changes for lessee who have materially significant leases.

The key news for lessee is that in most cases, the lease will result in an asset that is capitalized along with the recognition of an obligation to make appropriate lease payments, which will result in changes to key financial indicators and may affect borrowing costs (interest).

At the commencement date, the lessee recognizes the obligation for lease and the asset that represents right to use it during the lease term (asset with the right of use). The requirement is to separately recognize interest expense on lease liability and depreciation costs of the eligible asset. (Note 2.1 (b)).

In case of operating leases ending in a period of 12 months or less from the date of first application of IFRS 16, there will be no change in accounting records, as well as in a low value lease. In such cases, the Bank will recognize lease cost on a straight-line basis, as permitted by the standard.

3.14 Provisions and Contingencies

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Provisions and Contingencies (Continued)

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

3.15 Subordinated liabilities

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

3.16 Equity

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

3.17 Employee Benefits

(a) Employee Taxes and Contributions for Social Security

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

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

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

(b) Liabilities arising from Other Benefits - Retirement Benefits

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

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

Long-term provisions for retirement benefits upon retirement after fulfilling the prescribed conditions in accordance with the Labour Law, stated as of 31 December 2021, are determined using the following assumptions:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.17 Employee Benefits (Continued)

(b) Liabilities arising from Other Benefits - Retirement Benefits (Continued)

- Discount rate	1,7%
- Annual salary growth	6,0%
- Employee turnover rate	4,0%
- Disability rate	0,1%
- Mortality tables (SORS) for the years	2010 - 2012

(c) Short-Term Compensated Absences

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

The Bank does not have its own pension funds or share-based remuneration options, and therefore there are no identified liabilities with respect to these benefits as of 31 December 2021

3.18 Financial Guarantees

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

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

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

3.19 Funds Managed on Behalf of Third Parties

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Taxes and Contributions (Continued))

(a) Income Taxes (Continued)

Current Income Tax

Current income tax is calculated and paid in accordance with the effective Corporate Income Tax Law of the Republic of Serbia ("RS Official Gazette", no. 25/2001, 80/2002, 43/2003, 84/2004, 18/2010, 101/2011, 119/2012, 47/2013, 108/2013, 68/2014, 142/2014, 91/2015, 112/2015, 113/2017, 95/2018, 86/2019, 153/20 and 118/21) and relevant by-laws.

Income tax is calculated at the rate of 15% (2020: 15%) on the tax base reported in the annual corporate income tax return, and can be reduced by any applicable tax credits.

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

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

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

Deferred Income Tax

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on the official tax rates and regulations that have been enacted or substantively enacted as of the balance sheet date. The tax rate of 15% is used for calculation of deferred income tax (2020: 15%).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20 Taxes and Contributions (Continued)

(a) Income Taxes (Continued)

Deferred Income Tax (Continued)

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

Current and deferred taxes are recognised as income or expense and are included in net profit/(loss) for the period. Deferred income taxes related to items that are recorded directly in equity are also recognised in equity.

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

Taxes, contributions and other duties that are not related to the Bank's operating result include employer contributions on salaries, and various other taxes and contributions paid pursuant to republic and municipal regulations. These taxes and contributions are included within other expenses (Note 14).

3.21 Related Party Disclosures

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

(a) Impairment of Financial Assets

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

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

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

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

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(b) Determination of Fair Value of Financial Instruments

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

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

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

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

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

For example, if the Bank reduced the useful life of the above mentioned assets by 10%, this would result in additional amortisation/depreciation charge on an annual basis in the amount of RSD 7,551 thousand.

(d) Impairment of Non-financial Assets

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

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

(e) Deferred Tax Assets

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(f) Employee Retirement Benefits

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

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

(g) Provisions for Litigation

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

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

A provision is recognised when it is probable that an obligation exists for which a reliable estimate can be made of the obligation after careful analysis of the individual matter (Note 38(b)). The required provision may change in the future due to new developments and as additional information becomes available.

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

5 INTEREST INCOME AND EXPENSE

In RSD thousand

	2021	2020
Interest income		
Banks	9,562	6,665
National Bank of Serbia	1,013	4,959
Corporate customers	240,243	161,587
Retail customers	29,619	33,583
State institutions	27,190	25,950
Total	**307,627**	**232,744**
Interest expense		
Banks	(2,288)	(3,724)
Corporate customers	(20,645)	(19,320)
Retail customers	(80,360)	(66,495)
State institutions	(1)	(1)
Interest expense on leases in accordance with IFRS 16	(2,075)	1,702)
Total	**(105,368)**	**(91,242)**
Net interest income	**202,259**	**141,502**

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

In RSD thousand

	2021	2020
Interest income		
Loans and advancements to banks	9,562	6665
Repo placements with the National Bank of Serbia	-	-
Obligatory reserve with theNational Bank of Serbia	906	1,412
Other placements and deposits with theNational Bank of Serbia	107	3,547
Loans to corporate customers	240,243	161,587
Loans to retail customers	29,619	33,583
Loans to state institutions	27,190	25,950
Total	**307.627**	**232.744**
Interest expense		
Subordinated loans	(11,724)	(12,216)
National Bank of Serbia	(1,862)	(1,114)
Other banks	(426)	(2,610)
Deposits from corporate customers	(8,920)	(7,104)
Deposits from retail customers	(80,360)	(66,495)
Deposits and borrowings from state institutions	(1)	(1)
Interest expense on leases in accordance withIFRS 16	(2,075)	(1,702)
Total	**(105,368)**	**(91,242)**
Net interest income	**202,259**	**141,502**

6 FEE AND COMMISSION INCOME AND EXPENSE

In RSD thousand	2021	2020
Fee and commission income		
Domestic payment traffic operations	97,457	57,304
Credit activities	7,928	3,523
Other fees and commissions	191,155	45,003
Total	**296,540**	**105,830**
Fee and commission expense		
Domestic payment traffic operations	(24,430)	(23,083)
Foreign payment traffic operations	(19,079)	(18,126)
Total	**(43.509)**	**(41,209)**
Net fee and commission income	**253.031**	**64.621**

7 NET (LOSSES)/GAINS FROM HEDGING

In RSD thousand	2021	2020
Gains from changes in value of derivatives intended for hedge accounting		447
Losses from changes in value of derivatives intended for hedge accounting	-	-
Net (losses)/gains	-	**447**

8 NET FOREIGN EXCHANGE GAINS AND EFFECTS OF CONTRACTED FOREIGN CURRENCY CLAUSE

In RSD thousand	2021	2020
Foreign exchange gains and positive effects of contracted foreign currency clause application	684,859	1,177,587
Foreign exchange losses and negative effects of contracted foreign currency clause	(682,461)	(1,095,950)
Net foreign exchange gains and effects of contracted foreign currency clause	**2,398**	**81,637**

9 OTHER OPERATING INCOME

In RSD thousand	2021	2020
Rental income	2,257	2,654
Reimbsersment of costs	-	240
Safe rental income	182	-
Other income	778	107
Total	3,217	3,001

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

(a) Charged)/Credited to the Income Statement

In RSD thousand	2021	2020
Impairment losses and provisions		
Impairment losses on financial assets:		
- loans and advances to banks	(7,718)	(13,108)
- loans and advance to customers	(330,636)	(321,339)
Provisions for credit risk-weighted off-balance sheet items	(4,400)	(2,308)
Total (Note 10(b))	(342,754)	(336,755)
Impairment of securities measured at fair value through other comprehensive income	(27)	(1,480)
Total expenses	**(342,780)**	**(338,34)**
Reversal of impairment losses		
Reversal of impairment losses on financial assets		
- loans and advances to banks	11,328	12,364
- loans and advance to customers	279,759	250,209
Income from reversal of provisions for credit risk off-balance sheet items	3,517	2,260
Income from collected written-off receivables transferred to the valence records according to the Write-off Decision	2,861	1,469
	297,375	**266,302**
Release of provisions for:		
- credit risk-weighted off-balance sheet items	2,563	2,150
Total income (Note 10(b))	**299,939**	**268,452**
Net impairment loss	**(42,841)**	**(69,782)**

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

(b) Movements in the Allowance for Impairment of Financial Assets and Provision for Credit Risk-weighted Off-balance Sheet Items

In RSD thousand

	Loans and advances to banks (Note 19)	Loans and advances to customer (Note 20)	Other assets (Note 24)	Provision for credit risk weighted off-balance sheet items (Note 28)	Total
Balance as of 1 January 2020	**3,908**	**397,226**	**17,213**	**1,199**	**419,546**
Charge for the year (Note 10 a)	13,108	298,245	23,094	2,308	336,755
Reversal of impairment losses and release of provision (Note 10(a))	(12,364)	(231,069)	(20,609)	(2,260)	(266,302)
Accounting write-off (Note 31(b))		(13)			(13)
Exchange rate differences and other changes	(112)	9,648	(3,528)		6,008
Balance as of 31 December 2020	**4,540**	**474,037**	**16,170**	**1,247**	**495,994**
Balance as of 1 January 2021	**4,540**	**474,037**	**16,170**	**1,247**	**495,994**
Charge for the year (Note 10(a))	7,718	107,148	-	4,400	119,266
Reversal of impairment losses and release of (Note 10(a))	(11,328)	(59,261)	-	(3,517)	74,106
Accounting write-off (Note 31(b))		(1,453)		-	(1,453)
Exchange rate differences and other changes	194	-	(1,338)	10	1,522
Balance as of 31 December 2021	**1,124**	**474,037**	**16,170**	**1,247**	**541,223**

11. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

In RSD thousand

	2021	2020
Gross salaries and compensations	(202,993)	(217,412)
Payroll taxes and contributions	(67,971)	(70,757)
Provisions for unused vacations	(8,692)	(11,254)
Other personal expenses	(44,653)	(28,781)
Provision for retirement benefits (Note 28(d))	(305)	(2,189)
Total	**(324,614)**	**(330,393)**

12. AMORTISATION AND DEPRECIATION EXPENSES

In RSD thousand

	2021	2020
Amortisation and depreciation expenses:		
- amortisation of intangible assets (Note 21)	(19,209)	(18,646)
- depreciation of property, plant and equipment (Note 22(a))	(13,604)	(7,047)
- investments in other assets (Note 22(a))	(899)	(606)
- depreciation of investment property	-	(262)
- lease in accordance with IFRS 16 (Note 22(a))	(41,801)	(43,925)
Total	**(75,513)**	**(70,486)**

13. OTHER INCOME

In RSD thousand

	2021	2020
Reversal of provisions for holiday allowances	10,749	9,226
Reversal of provisions for bonuses	-	4,159
Derecognition of leases of assets in accordance with IFRS 16	79	3,483
Gains from sale of assets held for sale	-	406
Term deposits termination	571	480
Provisions for litigation (Note 28 (d))	-	1,802
Income from changes of investment property values	40,409	-
Other income	5,624	7,373
Total	**57,432**	**26,929**

14. OTHER EXPENSES

In RSD thousand	2021	2020
Rental costs	(839)	(794)
Maintenance costs	(66,712)	(59,855)
Professional services	(56,800)	(54,162)
Advertising and representations costs	(7,809)	(5,090)
Donation and sponsorship costs	(423)	(423)
Postal and telecommunication costs	(7,128)	(6,603)
Insurance premiums	(34,261)	(31,254)
Taxes	(13,165)	(12,560)
Contributions	(42,459)	(44,260)
Other compensations to employees	(4,579)	(4,661)
Cost of material	(7,217)	(7,628)
Provisions for litigations (Note 28(d))	(7,678)	(974)
Expenses from changes in value of assets held for sale	(14,692)	(41,412)
Other expenses	(11,214)	(12,348)
Total	(274,977)	(282,024)

15. INCOME TAX

(a) Components of Income Taxes

Total tax income of the period consists of the following taxes:

	2021	In RSD thousand 2020
Current income tax	(61)	-
Deferred tax income	1,022	2,093
Deferred tax expense	(280)	(170)
Total tax income of the period	**681**	**1,923**

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

	2021	In RSD thousand 2020
Profit/(loss) before income tax	**(199,608)**	**(415,083)**
Income tax at statutory rate of 15%	**(29,941)**	**(62,262)**
Reconciliation of expenses/income	30,662	64,185
Unrecognized deferred tax assets on current year tax losses	-	-
Total tax income reported in the income statement	**681**	**1,923**

15. INCOME TAX (Continued)

(c) Deferred Tax Assets

Movements in **deferred tax assets** during the year were as follows:

In RSD thousand

	2021	2020
Balance as of 1 January	**8,046**	**6,123**
Effects of temporary differences arising from employee benefits credited to the income statement	742	1,788
Effects of temporary differences arising from different amortization/depreciation rates credited to the income statement	305	305
Other temporary differences	(306)	(170)
Balance as of 31 December	**8,787**	**8,046**

(d) Deferred Tax Liabilities

Deferred tax liabilities as of 31 December 2021 relate to temporary differences arising from income from changes in the value of debt securities at fair value through other comprehensive income (i.e., securities available for sale in the prior year).

Movements in **deferred tax liabilities** during the year are presented below:

In RSD thousand

	2021	2020
Balance as of 1 January	**2,710**	**4,087**
Effects of temporary differences arising from securities (credited)/debited to equity	(3,732)	(1,377)
Balance as of 31 December	**1,022**	**2,710**

(e) Tax Losses and Tax Credits

The Bank has tax loss and tax credit carry forwards from previous years, which can be used in the following fiscal years as presented below.

	In RSD thousand
Tax loss carry forwards:	
- up to one year	-
- up to five years	170,335
Tax credit carry forwards:	
- over five years	6,791

15. INCOME TAX (Continued)

As of 31 December 2021, the Bank did not recognise deferred tax assets related to the aforementioned tax loss carry forwards due to uncertainty of sufficient amounts of the future taxable income against which tax loss carry forwards can be used.

16. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit/(loss) attributable to ordinary equity holders of the Bank by the weighted average number of ordinary shares outstanding during the period. Pursuant to the Serbian Business Registers Agency Decision no. BD 119077/2008 dated 11 July 2008, the Bank is a joint-stock company whose shares are not publicly traded, and therefore, it is not obliged to calculate and disclose the earnings per share as required by IAS 33 "Earnings per Share".

17. CASH AND BALANCES WITH CENTRAL BANK

	2021	2020
In Dinars		
Current and gyro accounts	1,130,064	438,219
Deposited liquid funds	-	481,000
Petty cash	54,866	49,170
Accrued income on cash and balances withcentral banks	26	19
	1,184,956	**968,408**
In foreign currency		
Obligatory reserve	1,058,239	764,271
Petty cash	103,722	222,464
	1,161,961	**986,735**
Balance as of 31 December	**2,346,917**	**1,955,143**

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

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

The Bank is required to calculate and allocate the obligatory reserves in RSD by applying 5% rate (2019: 5%) to the amount of the average daily balance of the dinar funds with the agreed maturity of up to two years, i.e. (0% rate on a portion of the dinar base with the agreed maturity of over two years, i.e., over 730 days) during the preceding calendar month to their gyro account with the National Bank of Serbia (foreign currency clause-indexed deposits in dinars are part of the foreign currency base of the obligatory reserve).

The calculated dinar obligatory reserve is the sum of calculated dinar obligatory reserve of 5% and 38% of the dinar equivalent of calculated obligatory reserve in foreign currency and the sum of 0% of the dinar obligatory reserve and 30% of the dinar equivalent of calculated reserve in foreign currency.

17. CASH AND BALANCES WITH CENTRAL BANK (Continued)

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

In 2021, the NBS paid interest on the average balance of the calculated obligatory reserve at the rate of 0.1% per annum (31 December 2020: 0.1% annually).

As of 31 December 2021, calculated obligatory reserve amounted to RSD RSD 670,398 thousand (31.December 2020: RSD 494.508 thousand).

NBS, in accordance with the Decision on interest rates applied by the NBS in the monetary policy implementation procedure, in order to mitigate the economic consequences of the COVID-19 pandemic, on the part of the realized average balance of allocated dinar required reserves in the accounting period not exceeding the calculated dinar required reserves, pays interest at an interest rate increased by 0.50 pp on an annual basis. The amount on which interest is calculated on that basis is determined in the amount of the average daily balance of dinar loans that meet the conditions prescribed by the Decree, i.e. the Law establishing a guarantee scheme as a measure of economic support to mitigate the consequences of the SARS-Cov-2 virus pandemic. If each individual loan included in that balance is approved at an interest rate that is at least 0.50 pp lower than the maximum interest rate prescribed by the Decree or the Law for loans approved in dinars.

In accordance with the Decision on obligatory reserve of banks with the National Bank of Serbia, the Bank calculates and allocates obligatory foreign exchange reserve at prescribed rates on the foreign exchange base which consists of average daily book balance of foreign currency liabilities and average daily book balance of dinar liabilities indexed by foreign exchange clause in the previous calendar month.

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

In accordance with the above mentioned Decision, the Bank calculates and allocates the obligatory foreign currency reserve against foreign currency accounts of the National Bank of Serbia at a rate of 20% (2020: 20%) on the amount of the average daily balance of foreign currency funds in the preceding calendar months for the funds with the agreed maturity of up to two years, i.e., 730 days, and 13% (2020: 13%) on the portion of the foreign currency base with the agreed maturity of over 2 years, i.e., 730 days.

The percentage of allocation of the obligatory foreign currency reserve amounts to 100% (2020:100%) to foreign currency clause-indexed liabilities arising from dinar deposits, loans, securities and other dinar liabilities. Out of the total calculated foreign currency reserve 62% is allocated in EUR, and the remaining portion of 38% in dinars, for funds with the agreed maturity of up to two years, i.e., up to 730 days, and 70% is allocated in EUR for foreign currency funds with the agreed maturity of over two years, i.e., over 730 days, while the remaining 30% is allocated in dinars to the gyro account.

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

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

17. CASH AND BALANCES WITH CENTRAL BANK (Continued)

As of 31 December 2021, the Bank's required foreign currency reserve was in line with the aforementioned Decision of the National Bank of Serbia.

The National Bank of Serbia does not pay interest on the amount of the realized average balance of allocated foreign exchange reserves.

Overview of the differences between cash stated in the Statement of Cash Flows and Balance Sheet as of 31 December 2021 and 31 December 2020 is presented in the table below:

In RSD thousand

	2021	
	Balance sheet	Cash flow Statement
In RSD		
Current and gyro accounts	1,130,064	1,130,064
Petty cash	54,886	54,886
Deposits of excess liquid assets	-	-
Prepayments and accrued income	26	26
	1,184,956	**1,104,956**
In foreign currency		
Petty cash	103,722	103,722
Obligatory reserve	1,058,239	1,058,239
	1,161,961	**1,161,961**
Less: Allowance for impairment of foreign currency accounts	-	-
Balance as of 31 December	**2,346,917**	**2,346,917**

In RSD thousand

	2020	
	Balance sheet	Cash flow statement
In RSD		
Current and gyro accounts	438,219	438,219
Petty cash	49,170	49,170
Deposits of excess liquid assets	481,000	481,000
Prepayments and accrued income	19	19
	968,408	**968,408**
In foreign currency		
Petty cash	222,464	222,464
Obligatory reserve	764,271	764,271
Less: Allowance for impairment of foreign currency accounts	**986,735**	**986,735**
Balance as of 31 December	**1,955,143**	**1,955,143**

18. SECURITIES

In RSD thousand	2021	2020
Government bonds:		
- in RSD	455,473	619,435
- in foreign currency	1,190,768	1,199,875
Balance as of 31 December	**1,646,241**	**1,819,310**

Securities in the amount of RSD 455,473 thousand relate to bonds denominated in Dinars, whose maturity dates are 7 May 2022, with the interest rate of 2.00% per annum.

Securities in the amount of RSD 1,190,768 thousand relate to bonds denominated in EUR, whose maturity dates are 25 January 2022 with the interest rate of 1.23% per annum, and 18 April 2023 with the interest rate of 1.78% per annum.

19. PLEDGED SECURITIES

(a) Summary per Type of Loans

In RSD thousand	2021	2020
In RSD		
Receivables from the National Bank of Serbia arising from repurchase (repo) transactions	-	-
Other placement	-	19
	-	19
In foreign currency		
In RSD	997,297	1,111,164
Other deposits	178,078	181,576
	1,175,375	1,292,740
Gross loans and advances	1,175,375	1,292,759
Less: Allowance for impairment (Note 10(b))	(1,124)	(4,540)
Balance as of 31 December	1,174,251	1,288,219

Outstanding balance on the current accounts in foreign currency, on 31 December 2021, mostly relates to funds on the foreign currency account held with the National bank of Serbia in amount of RSD 838,441 thousand (31 December 2020: RSD 889,915 thousand).

(b) Maturity Structure of Loans and Receivables

The maturity structure of **gross loans** and advances to banks and other financial organizations, based on the remaining maturity period, outstanding as of 31 December 2021 and 2020, is as follows:

In RSD thousand	2021	2020
Up to 30 days	166,990	1,292,759
Over a year	1,007,261	
Balance as of 31 December	1,174,251	1,292,759

20. LOANS AND ADVANCES TO CUSTOMERS

(a) Summary per Type of Customers

In RSD thousand	2021.	2020.
Short-term loans in Dinars:		
- Corporate customers	**226.831**	1.082.128
- Retail customers	8.669	28.276
	235.500	**1.110.404**
Long-term loans in Dinars:		
- Corporate customers	1.225.605	3.478.676
- Retail customers	270.603	326.943
	1.496.208	**3.805.619**
Short-term loans in foreign currency:		
- Corporate customers	395.318	-
- Retail customers	-	-
	395.318	-
Long-term loans in foreign currency :		
- Corporate customers	4.505.974	54.675
- Retail customers	298.114	-
	4.804.088	**54.675**
Receivables for accrued interest:		
- Corporate customers	51.831	106.676
- Retail customers	4.681	16.108
	56.512	**122.784**
Deferred receivables for accruedinterest:		
- Corporate customers	262	515
- Retail customers	207	374
	469	**889**
Deductible items in dinars - PVR:		
- Corporate customers	(6.951)	(8.073)
- Retail customers	(1.072)	(1.403)
	(8.023)	(9.476)
Gross loans and advances	6.980.072	5.084.895
Less: Allowance for impairment(Note 10(b))	(520.471)	(474.037)
Balance as of 31 December	**6.459.601**	**4.610.858**

As of 31 December 2021, gross loans in Dinars include loans with the contracted foreign currency clause in the amount of RSD 6,980,072 thousand (31 December 20120: RSD 5,084,895 thousand).

Short-term loans have been granted to corporate customers for financing business activities in trading, processing industry and for other purposes, at the rates ranging from 3.72% to 6.00% per annum for loans with foreign currency clause, i.e. at rates ranging from 3.50% to 12% per annum for loans in Dinars.

The Interest rate on short-term retail loans in Dinars ranged from 6.9% to 7.9% per annum. The interest rate on long-term retail loans ranged from 8% to 9% per annum (for cash and refinancing loans in Dinars).

20. LOANS AND ADVANCES TO CUSTOMERS

(a) Summary per Type of Customers

In RSD thousand

	2021.	2020.
Short-term loans in Dinars:		
- Corporate customers	**226.831**	1.082.128
- Retail customers	8.669	28.276
	235.500	**1.110.404**
Long-term loans in Dinars:		
- Corporate customers	1.225.605	3.478.676
- Retail customers	270.603	326.943
	1.496.208	**3.805.619**
Short-term loans in foreign currency:		
- Corporate customers	395.318	-
- Retail customers	-	-
	395.318	**-**
Long-term loans in foreign currency :		
- Corporate customers	4.505.974	54.675
- Retail customers	298.114	-
	4.804.088	**54.675**
Receivables for accrued interest:		
- Corporate customers	51.831	106.676
- Retail customers	4.681	16.108
	56.512	**122.784**
Deferred receivables for accruedinterest:		
- Corporate customers	262	515
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Deductible items in dinars - PVR:		
- Corporate customers	(6.951)	(8.073)
- Retail customers	(1.072)	(1.403)
	(8.023)	(9.476)
Gross loans and advances	6.980.072	5.084.895
Less: Allowance for impairment(Note 10(b))	(520.471)	(474.037)
Balance as of 31 December	**6.459.601**	**4.610.858**

As of 31 December 2021, gross loans in Dinars include loans with the contracted foreign currency clause in the amount of RSD 6,980,072 thousand (31 December 20120: RSD 5,084,895 thousand).

Short-term loans have been granted to corporate customers for financing business activities in trading, processing industry and for other purposes, at the rates ranging from 3.72% to 6.00% per annum for loans with foreign currency clause, i.e. at rates ranging from 3.50% to 12% per annum for loans in Dinars.

The interest rate on short-term retail loans in Dinars ranged from 6.9% to 7.9% per annum. The interest rate on long-term retail loans ranged from 8% to 9% per annum (for cash and refinancing loans in Dinars).

20. LOANS AND ADVANCES TO CUSTOMERS (continued)

(b) Structure of Loan Portfolio by Loan Type

The structure of the gross loan portfolio by loan type, as of 31 December 2021 and 2020 is as follows:

In RSD thousand

	2021	2020
Overdraft on current accounts	20,007	14,549
Cash loans	303,579	362,010
Loans for working capital	3.442,681	2,396,341
Investment loans	366,732	181,581
Housing loans	312,683	-
Other loans	2,534,390	2,130,414
Balance as of 31 December	**6,980,072**	**5,084,895**

Other loans as of 31 December 2021 in the gross amount of RSD 2,534,390 thousand (31 December 2020: RSD 2,130,414 thousand) mostly relate to loans granted to corporate customers for funding their business activities.

(c) Maturity Structure of Loan Portfolio

The maturity structure of the gross loan portfolio, based on the remaining maturity period, outstanding as of 31 December 2021 and 2020 is as follows:

In RSD thousand

	2021	2020
Up to 30 days	720,612	746,682
From 1 to 3 months	208,407	113,952
From 3 to 12 months	614,611	306,825
Over 1 year	5,436,442	3,917,436
Balance as of 31 December	**6,980,072**	**5,084,895**

(d) Industry Concentration of Loan Portfolio

As of 31 December 2021 and 2020 the gross loan portfolio is concentrated on the following:

In RSD thousand

	2021	2020
Processing industry and manufacturing	3,024,636	3,180,781
Trade	1,302,202	945,776
Transportation and warehousing	810,631	49,829
Retail customers	599,373	370,297
Entrepreneurs	19	7
Other	1,243,211	538,204
Balance as of 31 December	**6,980,072**	**5,084,895**

21. INTANGIBLE ASSETS

In RSD thousand

	Licences and software	Total
COST		
Balance as of 1 January 2020	**234,853**	**234,853**
Additions during the year	22,609	22,609
Balance as of 31 December 2020	**257,462**	**257,462**
Additions during the year	6,835	6,835
Balance as of 31 December 2021	**264,297**	**264,297**
ACCUMULATED AMORTISATION		
Balance as of 1 January 2020	**187,115**	**187,115**
Amortisation charge (Note 12)	18,646	18,646
Balance as of 31 December 2020	**205,761**	**205,761**
Amortisation charge (Note 12)	19,209	19,209
Balance as of 31 December 2021	**224,970**	**224,970**
CARRYING VALUE AS OF:		
- as of 31 December 2021	**39,327**	**39,327**
- as of 31 December 2020	**51,701**	**51,701**

The carrying value of intangible assets as of 31 December 2021 relates to software in the amount of RSD 29,604 thousand (31 December 2020: RSD 39,340 thousand) and licenses in the amount of RSD 9,723 thousand (31 December 2020: RSD 12,361 thousand).

Based on the Bank's management estimate, intangible assets at 31 December 2021 are not impaired.

22. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

(a) Property, Plant and Equipment

In RSD thousand

	Equipment	PPE under construction	Leased assets	Leasehold improvements	Total
COST					
As of 1 January 2020	**123,280**	-	**156,159**	**36,492**	**315,931**
Additions during the year	35,330	-	107,332	990	143,652
Disposals	(5,876)	-	(128,113)	-	(133,989)
	152,734	-	**135,378**	**37,482**	**325,594**
As of 31 December 2020	**152,734**	-	**135,378**	**37,482**	**325,594**
Additions during the year	29,467	-	56,461	1,908	87,836
Disposals	(20,963)	-	(32,890)		(53,853)
As of 31 December 2021	**161,238**	-	**158,949**	**39,390**	**359,577**
ACCUMULATED AMORTISATION					
As of 1 January 2020	**93,690**	-	**48,759**	**34,024**	**176,473**
Depreciation charge (Note 12)	7,047	-	43,925	606	51,578
Disposals	(5,876)	-	(63,037)		(68,913)
As of 31 December 2020	**94,861**	-	**29,647**	**34,630**	**159,138**
Depreciation charge (Note 12)	13,604	-	41,801	899	56,304
Disposals	(19,357)	-	(14,359)		(33,717)
As of 31 December 2021	**89,108**	-	**57,089**	**35,530**	**181,726**
CARRYING VALUE AS OF:					
- as of 31 December 2021	**72,131**	-	**101,860**	**3,860**	**177,851**
- as of 31 December 2020	**57,873**	-	**105,731**	**2,852**	**166,456**

The carrying value of equipment as of 31 December 2021 mostly relates to computer and telecommunication equipment and office furniture.

The most significant increase in property, plant and equipment relates to recognition of effects under IFRS 16- Lease.

Based on the Bank's management estimate, property, plant and equipment at 31 December 2021 are not impaired.

(b) Investment Property

The Bank acquired immovable property by purchasing it at another public sale in the enforcement proceedings against the enforcement debtor "Lemić Group" d.o.o., Belgrade in the amount of RSD 42,192 thousand. By the decision of the Executive Board no. 226/2021 on 22 June 2021, the Bank classified real estate as investment property.
The appraisal of the value of the real estate was performed on 14 June 2021. Estimated value is EUR 702,000,00.

23. NON- CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

In RSD thousand

	2021	2020
Non-current assets held for sale	376,516	396,269
Impairment of non-current assets held for sale	(56,105)	(41,412)
Balance as of 31 December	**320,411**	**354,857**

Assets acquired pursuant to the Agreement on the Sale and Purchase of Immovable and Movable Assets concluded with the legal entity FSH "Komponenta" d.o.o. Cuprija - in bankruptcy arising from the granted loan due for payment, the Bank classified in accordance with the Decision of the Executive Board dated 12 April 2016 as non-current assets held for sale. The Bank has advertised the above mentioned assets for sale and expects its sale in the near future.

As of 31 January 2018, Bank purchased movable and immovable property in the amount of RSD 1,032 thousand pursuant to the Agreement on the Sale and Purchase of Immovable and Movable Assets concluded with the legal entity FSH "Komponenta" d.o.o. Cuprija - in bankruptcy, and in connection with aforementioned transaction. In 2019, the Bank was registered as the owner of the property and thus increased value of fixed assets for sale.

A new appraisal was performed on 31 December 2021. The estimated value is EUR 2,750,000.00.

The Bank reduced the carrying amount to its estimated value and reported an expense of RSD 14,692 thousand (note 14)

24. OTHER ASSETS

In RSD thousand

	2021	2020
Other receivables		
Receivables from employees	3,226	3,235
Paid advances	67,057	73,374
Receivables for overpaidtaxes	6	115
Other receivables	38,872	39,679
	109,161	**116,403**
Prepayments and accrued income		
Prepaid expenses in RSD	3,152	5,191
	112,313	**121,594**
Gross other assets		
Less: Allowance for impairment (Note 10(b))	(17,508)	(16,170)
Balance as of 31 December	**94,805**	**105,424**

25. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO BANKS, OTHER FINANCIAL ORGANISATIONS AND CENTRAL BANK

In RSD thousand

	2021	2020
Transaction accounts	3,535	20,293
Other deposits	-	-
Accrued interest liability	-	-
	3,535	**20,293**
In foreign currency		
Transaction accounts	157,200	23,852
Other deposits	-	-
Other liability	1,941	7,415
	159,141	31,267
Balance as of 31 December	**162,676**	**51,560**

Transaction deposits of banks and other financial institutions in foreign currencies as of 31 December 2021 mostly refers to funds on the foreign currency transaction account of Association of Insurers in the amont of RSD 152,857 thousand.

26. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CUSTOMERS

In RSD thousand

	2021	2020
In Dinars		
Transaction accounts	1,481,834	832,038
Savings deposits	513,359	96,983
Special-purpose deposits	48,098	55,384
Other deposits	20,349	47,633
Interest payable on loans, deposits and other financial liabilities	8,129	22
Accrued interest liability	-	885
	2,071,769	**1,032,945**
In foreign currency		
Transaction accounts	3,410,662	2,237,011
Savings deposits	4,303,215	4,199,938
Special-purpose deposits	100,946	97,455
Other deposits	150,438	410,709
Borrowings	-	-
Other financial borrowings	98,384	79,175
Interest payable on loans, deposits and other financial liabilities	-	2,274
Accrued interest liability	8,532	5,683
	8,072,177	**7,032,345**
Balance as of 31 December	**10.143.946**	**8,065,190**

26. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO CUSTOMERS (Continued)

On fixed-term deposits in Dinars and foreign currency of customers, the Bank pays interest at rates ranging from 0.50% to 2.25% per annum, depending on the currency and the period the funds have been deposited for.

A vista saving deposits in RSD do not earn interest, as well as vista saving deposits in USD and vista saving deposits in EUR.

The interest rates on the short-term retail customers' deposits in Dinars range from 1.00% to 3.75% per annum, depending on the period the funds have been deposited for.

The interest rates on the short-term retail customers' deposits in foreign currency range from 0.3% to 1.45% per annum, depending on the currency and the period the funds have been deposited for.

Long-term deposits placed by retail customers in foreign currency earn interest at rates ranging from 1.4% to 2.00% per annum for deposits in EUR, depending on the period that the funds have been deposited for.

27. SUBORDINATED LIABILITIES

In RSD thousand

	2021	2020
Subordinated liabilities in a foreign currency	108,615	99,458
Balance as of 31 December	**108,615**	**99,458**

The outstanding balance of subordinated liabilities of RSD 108,615 thousand as of 31 December 2021 relates to the subordinated loan in the amount of RUB 78,000,000. The loan was initially obtained from the previous parent bank VTB Bank OAD, Saint Petersburg. The principal of the loan is to be repaid in full upon expiry of 7 years from the drawdown date. The contracted interest rate on this loan is 11.15% per annum (i.e. 12.38% per annum including withholding tax). The loan funds were withdrawn completely on 28 December 2017.
Pursuant to Annex no. 1 as of 26 June 2018 to the Subordinated Loan Agreement concluded on 27 December 2016, signed between VTB Bank OAD, Saint Petersburg and VTB Banka a.d. Belgrade, VTB Bank OAD, Saint Petersburg is entitled to assign or otherwise transfer its rights under the Agreement in accordance with the terms and conditions and the manner stipulated by the relevant regulations of Serbia.
Pursuant to the Agreement on the Assignment of Receivables concluded on 2 July 2018, VTB Bank OAD, Saint Petersburg assigned all its rights under the subordinated loan agreement to a new shareholder "AZRS INVEST" d.o.o. Belgrade, which became the sole owner of the Bank with a changed name - API Bank a.d. Belgrade, in the process of sale of VTB Banka a.d. Belgrade.

28. PROVISIONS

In RSD thousand

	2021	2020
Provision for credit risk- weighted off-balance sheet items (a)	2,120	1,247
Provision for retirement benefits (b)	11,624	11,309
Provision for litigation (c)	12,261	5,763
Balance as of 31 December	**26,005**	**18,319**

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

Evidence based on which the Bank performs the individual assessment of impairment are: payments effected on the Bank's accounts with respect to commitments arising from guarantees, bills of guarantees, etc., and that the customer has been classified in accordance with the Bank's classification criteria into the categories G and D. Individual assessment of impairment of off-balance sheet items is performed in the same manner as for the balance sheet assets.

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

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

(a) The provision for retirement benefits has been recorded in the Bank's financial statements on the basis of an independent actuary's calculation as of 31 December 2021, and it is stated in the amount of the present value of the future defined benefit obligation.

When determining the present value of the expected outflows the following assumptions were used: the discount rate of 1.7%, average salary increase rate of 6.0% per annum, employee fluctuation rate of 4% and disability rate of 0.1% per annum.

The Bank established a provision for litigations in which it acted as a defendant and for which adverse outcome was expected according to the estimate of the Legal Department (Note 38(b)).
Movements in provisions during the year were as follows:

In RSD thousand

	2021	2020
Provision for credit risk-weighted off-balance sheet items		
Balance as of 1 January	1,247	1,199
Provisions during the year (Note 10(b))	4,284	2,308
Release of provision (Note 10(b))	(3,411)	(2,260)
Exchange differences and other movements	-	-
	2,120	**1,247**
Provision for retirement benefits		
Balance as of 1 January	11,309	9,283
Provisions during the year (Note 11)	315	2,189
Payments during the year based on provisions	-	(163)
	11,624	**11,309**
Provision for litigation		
Balance as of 1 January	5,763	6,899
Provisions during the year (Note 14)	7,678	(828)
Payments based on litigation	(1,180)	(308)
	12,261	**5,763**
Balance as of 31 December	**26,005**	**18,319**

29. OTHER LIABILITIES

In RSD thousand	2021	2020
Trade payables	11.758	20,174
Liabilities for value added tax	833	1,038
Liabilities for other taxes and contributions	95	83
Accrued interest expense	3,652	3,993
Deferred other income	14,018	7,719
Liabilities to employees	11,966	12,113
Liabilities arising from the lease in accordance with IFRS 16	102,905	106,157
Other liabilities	15,101	19,920
Balance as of 31 December	**160,328**	**171,197**

Other liabilities in the amount of RSD 15,101 thousand as of 31 December 2021 mostly relate to accrued liabilities in RSD (for loan repayment by physical and legal entities) and smaller amount of liabilities in foreign currency.

30. EQUITY

In RSD thousand	2021	2020
Share capital - ordinary shares	4,632,407	4,632,407
Reserves	7,060	19,160
Accumulated loss	(2,699,985)	(2,286,827)
Profit(loss) for the year	(198,928)	(413,160)
Balance as of 31 December	**1,740,554**	**1,951,580**

During 2018 the shareholders of the Bank changed. As disclosed in Note 1, the company registered in Serbia "AZRS INVEST" d.o.o. Belgrade became the Bank's owner and, accordingly, as of 31 December 2021, it is the sole shareholder participating with 100% in share capital of the Bank. The ultimate owner of "AZRS INVEST" d.o.o. Belgrade and the Bank respectively is a natural person - Andrey Zakharovich Shlyakhovoy.

As of 31 December 2021, subscribed and fully paid in share capital of the Bank consists of 9,264,813 ordinary shares (31 December 2020: 9,264,813 ordinary shares), with the nominal value per share of RSD 500.

Reserves in the amount of RSD 7,060 thousand as of 31 December 2021 include positive effects of the change in the value of securities measured at fair value through other comprehensive income.

31. OFF-BALANCE SHEET ITEMS

In RSD thousand	2021	2020
Guarantees and other irrevocable commitments (a)	1,828,137	844,073
Other off-balance sheet items (b)	11,254,220	11,579,924
Balance as of 31 December	**13,082,357**	**12,423,997**

(a) Guarantees and other irrevocable commitments

In RSD thousand	2021	2020
Payment guarantees:		
- in Dinars	644,856	497,750
- in foreign currency	-	-
	644,856	497,750
Performance guarantees:		
- in Dinars	1,183,281	281,654
- in foreign currency	-	-
	1,183,281	281,654
Securities pledged as collateral to NBS:		
- in Dinars	-	-
	-	-
Total guarantees and other irrevocable commitments	**1,828,137**	**779,404**
Swap transactions and purchase of foreign currency for dinars	-	-
Irrevocable commitments	-	64,669
Balance as of 31 December	**1,828,137**	**844,073**

The Bank establishes a provision for potential losses from other credit risk-weighted off-balance sheet items in accordance with the accounting policy disclosed in Note 28(a) to the financial statements

As of 31 December 2021, the Bank had irrevocable commitments related to guarantee schedule of RS.

31. OFF-BALANCE SHEET ITEMS (Continued)

(b) Other Off-balance Sheet Items

In RSD

	2021	2020
Loro guarantees	2,686,628	3,650,475
Revocable commitments	1,189,004	968,550
Material collaterals, mortgages and pledges	5,213,762	4,835,231
Accounting write-off	1,453,296	1,430,624
Other off-balance sheet items	711,530	695,044
Balance as of 31 December	**11,254,220**	**11,579,924**

Revocable commitments amounting to RSD 1,189,004 thousand as of 31 December 2021 mostly relate to long-term credit lines in Dinars approved to corporate customers.

Revocable commitments arising from unused overdrafts on citizens' current accounts amount to RSD 1,453 thousand (31 December 2020: RSD 1,430 thousand).

Within material collaterals, mortgages, the Bank presents all collaterals based on the loans granted (and not only first-ranking mortgages). In 2021, the Bank also derecognised material collaterals for all the clients for which accounting write-off was performed.

Pursuant to the National Bank of Serbia's Decision on Accounting Write-off of Bank Balance Sheet Assets issued on 10 August 2017 in effect since 30 September 2017, on 31 December 2021 the Bank transferred all the NPLs, in cases where the allowance for impairment equaled 100% of their gross book value, from balance sheet assets to off-balance sheet items in the amount of RSD 1,453 thousand (31 December 2020: RSD 13 thousand (Note 10(b)).

In 2021, the Bank recorded the remaining portion of immovable property based on the Factoring Agreement signed with Erste Bank a.d. Novi Sad within other off-balance sheet items.

(c) Credit Risk-weighted Off-balance Sheet Items

The breakdown of credit risk-weighted off-balance sheet items of the Bank that are classified on 31 December 2021 and 2020 is presented in the table below:

In RSD

	2021	2020
Guarantees and uncovered letters of credit	1,828,137	779,404
Commitments - irrevocable and revocable	1,189,004	968,550
Balance as of 31 December	**3,017,141**	**1,747,954**

32. RELATED PARTY DISCLOSURES

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

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

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

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

a) Outstanding balance of receivables and payables as of 31 December 2021 and 2020 resulting from transactions with shareholders and other Bank's related parties are presented in the following table:

In RSD thousand	2021	2020
Placements with banks:		
Nostro accounts	-	-
Other placements	-	-
Loans:	-	-
Loans approved to the Bank's management	-	-
Less: Allowance for impairment	-	-
	-	-
Total	-	-
Deposits and borrowings:		
Transaction deposits of shareholders	5,706	1
Subordinated loans from shareholders	108,615	99,458
Deposits of individuals related to the Bank in the sense of the Law that governs banks' operations	-	17,464
Balance as of 31 December	**114,321**	**116,923**

32. RELATED PARTY DISCLOSURES (Continued)

(a) A summary of transactions with related party "AZRS INVEST" d.o.o. Belgrade in 2021 and 2020 is presented in the following table

In RSD thousand

	2021	2020
Income	-	74
Expenses	-	(12,216)
Receivables	-	7
Liabilities	114,321	99,459

(b) **Salaries and other benefits** of the Executive Board members and other key management personnel of the Bank (stated in the gross amount) in 2021 and 2020 are presented in the following table:

In RSD thousand

	2021	2020
Members of the Executive Board	49,480	62,806
Members of the Board of Directors	36,343	21,429
Directors of Departments	59,529	50,495
Member of Audit Committee	1,775	1.704
Balance as of 31 December	**147,055**	**136,434**

33. RISK MANAGEMENT

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

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

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

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

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

Risk Management Sector

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

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

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

Treasury and Liquidity Sector and Assets and Liabilities Managing Committee

The Treasury and Liquidity Sector is responsible for managing assets and liabilities and theoverall financial structure of the Bank. Furthermore, it is responsible for the funding and liquidity of the Bank. The Assets and Liabilities Managing Committee is responsible for monitoring and managing liquidity risk.

33. RISK MANAGEMENT (Continued)

Internal Audit

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

Risk Management and Reporting Systems

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

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

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

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

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

33.1. Credit Risk

Credit risk is the risk from occurrence of adverse effects to the financial performance and equity of the Bank due to inability of credit beneficiaries to fulfil contractual obligations to the Bank.

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

33. RISK MANAGEMENT (Continued)

33.1. Credit Risk (continued)

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

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

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

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

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

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

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

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

33. RISK MANAGEMENT (Continued)

Credit-related Risks

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

33.1. Credit Risk

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

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

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33. RISK MANAGEMENT (Continued)

33.1. Credit Risk (Continued)

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

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

Credit-related Risks

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

Derivative Financial Instruments

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

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

The table below represents the maximum credit risk exposure as of 31 December 2021 and 2020, presented in the gross amount, without taking into account collaterals:

In RSD thousand

	2021	2020
	Gross maximum exposure	Gross maximum exposure
The exposure related to balance sheet assets		
Securities *	1,646,241	1,819,310
Loans and advances to banks and other financialinstitutions	1,174,251	1,288,219
Loans and advances to customers	6,452,015	4,610,858
Other assets	94,805	105,424
Total balance sheet assets	**9,367,312**	**7,823,811**
The exposure related to off-balance sheet items		
Payment guarantees	644,856	497,750
Performance bonds	1,183,280	281,654
Uncovered letters of credit	-	-
Irrevocable commitments	1,189,004	968,550
Total off-balance sheet items	**3,017,140**	**1,747,954**
Balance as of 31 December	**12,384,452**	**9,571,765**

33. RISK MANAGEMENT (Continued)

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

* Securities as of 31 December 2021 completely relate to treasury bonds and from the Bank's point of view do not represent risky balance sheet items, and are, therefore, excluded from further analysis of the Bank's exposure to credit risk (i.e. risky placements - portfolios) presented in the tables below.

As presented in the table above, as of 31 December 2021, 56,98% % of the maximum exposure to credit risk relates to loans and advances to customers (31 December 2020: 51.97%), 9.85% to irrevocable commitments (31 December 2020: 3.03%) and 2.75% to loans and advances to banks and other financial institutions (31 December 2020: 14.52%).

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

In RSD thousand

	31/12/2021		
	Gross exposure	Allowance for impairment and provisions	Net exposures
Loans and advances to banks and other financial organisations			
Regular placements	332,179	(1,125)	331,054
Level 1	332,179	(1,125)	331,054
Loans and advances to customers and other assets			
Regular placements	6,061,047	(74,949)	5,986,098
Level 1	5,804,298	(59,966)	5,744,332
Level 2	256,749	(14,983)	241,766
Non-performing placements - Level 3	934,949	(464,853)	470,096
Estimated at group level	18,740	(18,740)	-
Individually estimated	916,209	(446,113)	470,096
Securities - Level 1*	1,646,241	(1,266)	1,644,974
Total balance sheet exposures	8,974,416	(539,661)	8,434,754
Off-balance sheet exposures			
Regular placements	1,907,134	(1,908)	1,905,224
Level 1	1,906,690	(1,908)	1,904,782
Level 2	433	-	433
Default placements - Level 3	11	(2)	9
Estimated at group level	11	(2)	9
Individually estimated	-	-	-
Total off-balance sheet exposures	1,907,134	(1,910)	1,905,224

33. RISK MANAGEMENT (Continued)

33.1. Credit Risk (Continued)

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

* *The allowance for impairment of debt securities in the amount of RSD 1,266 thousand as of 31 December 2021 is recorded under reserves based on the securities measured at fair value through other comprehensive income under equity, not as a deductible item from these financial assets.*

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

The analysis of the Bank's credit risk exposure by industry sectors with the balance as of 31 December 2021 and 2020 is presented in Note 20(d).

The structure of the Bank's credit risk exposure stated at the gross book value of the total risky placements as of 31 December 2021, grouped by geographical sectors, is presented in the table below:

In RSD thousand

	Serbia	Europe	Other	Total
Loans and advances:				
- Banks and financial institutions	6,889	167,161	-	174,050
- Corporate customers	6,760,294	55,675	-	6,815,969
- Retail customers	510.869	11,344	58,192	580,405
- Entrepreneurs	19	-	-	19
Guarantees and other irrevocable commitments	3,017,141	-	-	3,017,141
Balance as of 31 December 2021	10,295,212	234,180	58,192	10,587,584
Balance as of 31 December 2020	6,934,927	473,064	875	7,408,867

33. RISK MANAGEMENT (Continued)

33.1. Credit Risk (continued)

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

The following tables present the quality of portfolio (gross placements and off-balance sheet exposure) as of 31 December 2021 and 2020, which is based on the Bank's grading system:

In RSD thousand

	Gross maximum exposure 2021	Net maximum exposure 2021	Gross maximum exposure 2020	Net max. exposure 2020
Processing industry	3,024,636	2,858,866	3,136,999	2,977,907
Transportation and warehousing	810,631	804,585	76,614	75,717
Trade	1,302,202	1,271,519	1,501,775	1,466,583
Finance	336,959	335,833	377,402	372,862
Retail customers	599,373	538,126	398,257	331,071
Entrepreneurs	19	14	7	3
Other	1,336,661	1,060,612	1,917,813	1,688,730
Total	**7,410,481**	**6,869,555**	**7,408,867**	**6,912,873**

b) Portfolio Quality

The Bank manages portfolio quality using the internal classification of placements.

The following tables present the quality of portfolio (gross placements and off-balance sheet exposure) as of 31 December 2021 and 2020, which is based on the Bank's grading system.

In RSD thousand

	Customer placements			Bank placements			Total 2021	Total 2020
Category	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Placements to customers and banks	Placements to customers and banks
A	4,829,388	34,079	2	190,676	-	-	5,054,145	3,888,241
B	1,599,880	7,705	-	142,245	-	-	1,749,830	2,036,529
V	884,979	122,285	10,680	-	-	-	1,017,944	177,905
G	435,473	53,934	228,016	-	-	-	717,423	398,988
D	6,079	39,180	710,546	-	-	-	755,805	907,204
Total	**7,755,799**	**257,183**	**949,244**	**332,921**	**-**	**-**	**9,295,147**	**7,408,867**

33. RISK MANAGEMENT (Continued)

33.1. Credit Risk (continued)

The structure of allowances for impairment and provisions, established in accordance with the Bank's internal methodology, was as follows as of 31 December 2021 and 2029:

	Allowances for impairment and provisions for customers			Allowances for impairment and provisions for banks			Total 2021	Total 2020
Category	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Placement to customer and banks	Placement to customers and banks
A	27,119	558	4	759	-	-	28,440	20,240
B	17,707	1,159	-	366	-	-	19,232	35,775
V	13,063	6,675	-	-	-	-	19,738	5,121
G	1,979	6,507	103,953	-	-	-	112,439	95,970
D	98	84	360,896	-	-	-	361,078	338,889
Total	**59,966**	**14,983**	**464,853**	**1,125**	**-**	**-**	**540,927**	**495,995**

(b)

In RSD thousand

	Placements to customers and banks			Total	Total
	Level 1	Level 2	Level 3	2021	2020
Non-defaulted receivables	-	-	-	-	126,798
Defaulted receivables:					
- 1-30 days					
- 31-60 days	7,796	-	445	8,241	3,140
- 61-90 days	-	125,462	10,752	136,214	11,950
- over 90 days	-	149	-	149	
Non-defaulted receivables	-	-	17,341	17,341	
Total	7,796	125,611	28,538	161,945	141,888

The structure of the risky balance sheet assets and off-balance sheet items and allowances for impairment/provision, determined in accordance with the Bank's internal methodology, as of 31 December 2021 and 2020, is as follows.

33. RISK MANAGEMENT (Continued)

33.1. Credit Risk (continued)

As of 31 December 2021:

	Individual assessment		Group assessment		In RSD thousand Total 2021	
	Balance sheet assets	Allowance for impairment	Balance sheet assets	Allowance for impairment	Balance sheet assets	Allowance for impairment
Retail customers	62,132	(38,462)	537,241	(22,785)	599,373	(61,247)
Banks and other corporate customers	854,077	(407,651)	5,883,113	(72,024)	6,737,190	(479,675)
Entrepreneurs			19	(5)	19	(5)
	916,209	**(446,113)**	**6,429,373**	**(94,814)**	**7,336,582**	**(540,927)**

	Individual assessment		Group assessment		Total 2019	
	Off-balance sheet items	Provisions	Off-balance sheet items	Provisions	Off-balance sheet items	Provisions
Banks and other						
corporate customers	-	-	3,933	(541)	3,933	(541)
	-	-	1,948,753	(2,131)	1,948,753	(2,131)
Entrepreneurs	-	-	-	-	-	-
	-	-	1,952,686	(2,672)	1,952,686	(2,672)
Total	916,209	(446,113)	8,382,059	(97,486)	9,289,268	(543,599)

As of 31 December 2020	Individual assessment		Group assessment		In RSD thousand Total 2020	
	Balance sheet assets	Allowance for impairment	Balance sheet assets	Allowance for impairment	Balance sheet assets	Allowance for impairment
Retail customers	67,166	(40,256)	322,354	(26,929)	389,521	(67,186)
Banks and other corporate customers	1,031,238	(371,713)	4,145,465	(57,090)	5,176,703	(428,803)
Entrepreneurs			7	(4)	7	(4)
	1,098,405	(411,970)	4,467,827	(84,023)	5,566,231	(95,993)

33. RISK MANAGEMENT (Continued)

33.1. Credit Risk (continued)

As of 31 December 2020:

	Individual assessment		Group assessment		Total 2020	
	Balance sheet assets	Reserves	Balance sheet assets	Reserves	Balance sheet assets	Reserves
Retail customers	-	-	4,214	(1,189)	4,214	(1,189)
Banks and other corporate customers	-	-	1,006,338	(2,196)	1,006,338	(2,196)
Entrepreneurs	-	-	1,051	-	1,051	-
	-	-	1,011,604	(3,385)	1,011,604	(3,385)
Total	1,098,405	(411,970)	5,479,430	(87,408)	6,577,835	(499,378)

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

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

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

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

33. RISK MANAGEMENT (Continued)

33.1. Credit Risk (continued)

(b) Portfolio Quality (Continued)

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

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

Rescheduled and Restructured Loans

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

As of 31 December 2021, the Bank had 3 rescheduled and 13 restructured loans of corporate customers, as well 2 rescheduled and 30 restructured loans of retail customers.

As at 31 December 2020, the Bank had 3 restructured and 12 restructured corporate loans (corporate), as well as 2 rescheduled and 40 restructured retail loans.

In RSD thousand

31 December 2021	Rescheduled		Restructured	
	Gross	Net	Gross	Net
Corporate customers			401,677	250,944
Retail customers			13,485	6,225
Total			**415,162**	**257,169**

33. RISK MANAGEMENT (Continued)

33.2. Credit Risk (continued)

(b) Portfolio Quality (Continued)

Rescheduled and Restructured Loans (Continued)

In RSD thousand

31/12/2020	Rescheduled		Rescheduled	
	Gross	Net	Gross	Net
Corporate customers	102,995	31,439	403,712	260,042
Retail customers	176	172	17,959	8,332
Total	**103,171**	**31,611**	**421,671**	**268,374**

Collaterals and Other Credit Enhancements

The amount and type of the collateral required depends on an assessment of the credit risk of each customer. Terms of protection with respect to each placement are determined by the analysis of customers' creditworthiness, type of exposure to the credit risk, placements' maturity, as well as by the amount of the particular loan.

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

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

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

The fair value of collaterals in the form of mortgages as of 31 December 2021 amounts to RSD 11,876,704 thousand (31 December 2020: RSD 4,221,052 thousand), in the form of pledges on inventory and receivables RSD 2,616,166 thousand (31 December 2020: RSD 734,636 thousand), while the fair value of other forms of collaterals amounted to RSD 390,484 thousand (31 December 2020: RSD 103,653 thousand).

During 2021, the Bank did not approve housing loans to retail customers. The fair value of collateral in the form of mortgages is 483,261 thousand.

(c) Default Receivables

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

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

33. RISK MANAGEMENT (Continued)

33.1. Credit Risk (continued)

(c) Default receivables (Continued)

In accordance with regulations, default receivables of corporate clients and entrepreneurs are monitored at the client level, and default receivables of retail customers are monitored at the individual level.

In RSD thousand

	Gross exposure	Default receivables
Corporate sector	6,811,109	979,154
Retail sector	599,373	80,772
Entrepreneurs' sector	-	-
Finance and insurance sector	336,950	-
Total as of 31 December 2021	**7,747,432**	**1,059,926**
Total as of 31 December 2020	**7,408,867**	**1,023,273**

33.2. Liquidity Risk

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

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

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

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

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

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

33. RISK MANAGEMENT (Continued)

33.2. Liquidity Risk (Continued)

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

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

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

Measurement or liquidity risk assessment is a quantitative and/or a qualitative assessment of the identified liquidity risk and it is the responsibility of the Risk Management Sector. Measurement and liquidity risk assessment involve the application of the GAP analysis, ratio analysis and stress testing.

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

Mitigation of liquidity risk involves defining:

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

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

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

The method of handling and resolving temporary and long-term liquidity crises is defined in more details by the Liquidity Crisis Plan and recovery options, further described through the Bank's Recovery Plan for 2020.

33. RISK MANAGEMENT (Continued)

33.2. Liquidity Risk (Continued)

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

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

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

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

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

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

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

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

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

33. RISK MANAGEMENT (Continued)

33.3. Liquidity Risk (Continued)

The liquidity ratios in 2021 and 2020 were as follows:

	2021	2020
Average during the period	3.29	4.68
Highest	3.80	6.64
Lowest	2.74	2.97
As of 31 December	3.80	5.08

As of 31 December 2021, the **narrow liquidity ratio** amounted to 3.80, while LCR amounted to 212.02% and it was above the prescribed limit.

During 2021 and 2020 the Bank maintained its liquidity level above the minimal prescribed limits established by the National Bank of Serbia.

Sources of financing are permanently monitored in order to maintain the diversification of sources of financing by currency, geographical origin, the source provider, products and maturity.
The table below presents Bank's financial liabilities based on *expected cash flows* established on the Bank's historical experience of deposit retention (share of transaction deposits retained is 70%, while the share of deposit renewals is - 80%). The table includes *the interest and the principal of the cash flows.*

31 December 2021	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	In RSD thousand Total
Deposits and other financialliabilities to banks, otherfinancial organizations and central bank	7,866	154,810	-	-	-	162,676
Deposits and other financial liabilities to customers	5,548,042	508,424	2,526,311	1,529,701	31,468	10,143,946
Subordinated liabilities	-	-	-	108,615	-	108,615
Other liabilities	160,328	-	-	-	-	160,328
Total	**5,716,236**	**663,234**	**2,526,311**	**1,638,316**	**31,468**	**10575,565**
31 December 2020						
Deposits and other financialliabilities to banks, otherfinancial organizations and central bank	159,998					159,998
Deposits and other financialliabilities to customers	5,013,832	338,348	1,352,626	977,829		7,682,635
Subordinated liabilities	1,935	-	-	102,461	-	104,396
Other liabilities	-	-	11,471	264,344	-	275,815
Total	5,175,765	636,971	1,364,097	1,344,634	-	8,222,844

33. RISK MANAGEMENT (Continued)

33.2. Liquidity Risk (Continued)

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

The maturity structure of commitments for undrawn loans and limits, received guarantees and letters of credit based on the remaining contractual maturity dates as of 31 December 2021 and 2020 is presented in the table below:

In RSD thousand

	Up to 1 year	From 1 to 5 years	Total
31/12/2021			
Guarantees	1,145,804	682,332	1,828,136
Commitments for undrawn loans andlimits	244,574	910,726	1,155,300
Total	1,390,378	1,593,058	2,983,436
31/12/2020			
Guarantees	783,009	103,571	886,580
Commitments for undrawn loans andlimits	361,407	-	361,407
Total	1,144,416	103,571	1,247,987

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

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

NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended 31 December 2021

33. RISK MANAGEMENT (Continued)

33.2. Liquidity Risk (Continued)

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
AKTIVA						
Cash and balances with central bank	2,346,917	-	-	-	-	2.346.917
Pledged financial assets	-	-	-	-	-	-
Securities	-	-		1,288,614	357,627	1,646,241
Loans and advances to banks and other financial organisations	166,900	-	5,879	1,001,383	89	1,174,251
Loans and advances to customers	17,929	207,105	602,153	3,879,334	1,745,494	6,452,015
Intangible assets	-	-	-	39,327	-	39,327
Property, plant and equipment	-	-	-	177,851	-	177,851
Investment property	-	-	82,602	-	-	82.602
Deferred tax assets	-	-	-	8,787	-	8.787
Non-current assets held for sale	-	-	320,411	-	-	320.411
Other assets	94,805	-	-	-	-	94.805
Total assets	**2,626,551**	**207,105**	**1,011,045**	**6,395,296**	**2.103.210**	**12.343.207**
LIABILITIES						
Deposits and other financial liabilities to banks, other financial organisations and central bank	-	152,857	-	-	9,819	162,676
Deposits and other financial liabilities to customers	175,631	553,213	2,482,114	1,539,662	5,393,326	10,143,946
Changes in the fair value of items that are hedged	-	-	-	-	-	-
Subordinated liabilities	-	-	-	108,615	-	108,615
Provisions	-	-	26,005	-	-	26,005
Current tax liabilities	61	-	-	-	-	61
Deferred tax liabilities	1,022	-	-	-	-	1,022
Other liabilities	160,328	-	-	-	-	160,328
Total liabilities	**161,463**	**602**	**26,005**	**108,615**	-	**10,602,653**
Equity	-	-	-	-	**1,740,554**	**1,740,554**
Total liabilities and equity	**161,463**	**602**	**26,005**	**108,615**	**1,740,554**	**12,343,207**
Maturity mismatch as of:						
- 31 December 2020	**(2,465,088)**	**(206,503)**	**(985,040)**	**(6,286,681)**	**(2,103,210)**	
- 31 December 2020	**(93,271)**	**(488)**		**3,445,429**	**(1,343,841)**	

33. RISK MANAGEMENT (Continued)

33.3. Interest Rate Risk

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

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

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

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

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

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

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

Identification of the interest rate risk comprehensively identifies causes that lead to the occurrence of the interest rate risk/factors in a timely manner, which involves the determination of the current exposure to interest rate risk (interest-bearing assets and liabilities) and optional risk and exposure to interest rate risk on the bases of new business products and activities, on positions carried in the banking book.

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

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

33. RISK MANAGEMENT (Continued)

33.3. Interest Rate Risk

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

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

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

In 2020, the Bank continued the control activities and measuring the interest rate risk applying the standard interest rate shock of 200bp to the items in the banking book on the major currencies individually and for all other currencies on a group basis; the results are presented in the table below.

The Bank's exposure to risk of changes in interest rate (Repricing Gap Report) as of **31 December 2021** with comparative presentation of effects for 2019 is presented in the table below.

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

Period of time			Ponder	Effect on economic value in the banking book	
Period	Marginal gap				
	Total in RSD	Total in EUR		Total in RSD	Total in EUR
Up to 1 month	2,769,453,726	23,553,362	0.08%	2,215,563	18,843
1 - 3 months	(253,878,855)	(2,159,162)	0.32%	(812,412)	(6,909)
3 - 6 months	(47,818,774)	(406,684)	0.72%	(344,295)	(2,928)
6 - 12 months	(912,690,309)	(7,762,154)	1.43%	(13,051,471)	(110,999)
From 1 to 2 years	318,114,330	2,705,466	2.77%	8,811,767	74,941
From 2 to 3 years	(186,497,379)	(1,586,103)	4.49%	(8,373,732)	(71,216)
From 3 to 4 years	250,339,246	2,129,059	6.14%	15,370,830	130,724
From 4 to 5 years	489,447,542	4,162,602	7.71%	37,736,405	320,937
From 5 to 7 years	277,052,703	2,356,249	10.15%	28,120,849	239,159
From 7 to 10 years	-		13.26%		
From 10 to 15 years	-	-	17.84%	-	-
Total	**2,703,522,229**	**22,992,634**		**69,673,503**	**592,552**

33. RISK MANAGEMENT (Continued)

33.3. Interest Rate Risk (Continued)

Capital requirement as of 31 December 2021	1,743,334,000	14,826,525
The effects of a standard interest rate shock of 200bp	**4.00%**	**4.00%**

Stress test results as of 31 December 2020

Capital requirement as of 31 December 2020	1,939,042,000	16,491,229
The effects of a standard interest rate shock of 200bp	2.94%	2.94%

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

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

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

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

In RSD thousand

Scenario	Change in market interest rates	Interest rate risk 2021
1	1%	34,837
2	2%	69,674
3	-1%	(34,837)
4	-2%	(69,674)

In RSD thousand

Scenario	Change in market interest rates	Interest rate risk 2020
1	1%	48,630
2	2%	97,261
3	-1%	(48,630)
4	-2%	(97,261)

33. RISK MANAGEMENT (Continued)

33.3. Interest Rate Risk (Continued)

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

1. Under the influence of the standard shock on the economic value of individual major currencies (materially significant), they would have a positive effect of 0.89% for the marginal gap in EUR and the positive effect of 2.40% for the marginal gap in RSD, a negative effect of -0,01% for USD and a negative effect of -0,16% for other immaterial currencies (in relation to the regulatory capital).

2. According to the impact of the standard shock on the economic value in total, they would have a positive effect of 4.00% for the marginal gap in respect of the regulatory capital.

In both cases of stress testing (1 and 2), the effect of the standard shock (increase in interest rates of 2% (200 bp) on the economic value (total regulatory capital of the Bank) in the banking book is under the Basel limit of 20%, as well as for the entire period during the year.

33.4. Market Risks

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

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

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

33.4.1. Foreign Currency Risk

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

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

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

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

33. RISK MANAGEMENT (Continued)

33.4. Market Risks (Continued)

33.4.1. Foreign Currency Risk (Continued)

During 2021 the Bank strictly paid attention to reconcile the foreign currency risk indicator with the prescribed limit, where this indicator was mostly at the level below the limit for the whole period during the year.

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

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

The Bank's foreign currency risk management involves an integrated process that includes:
1. Identifying the foreign currency risk;
2. Measurement or foreign currency risk assessment;
3. Mitigation of foreign currency risk;
4. Monitoring and control of foreign currency risk; and
5. Reporting on foreign currency risk.

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

Measurement of the foreign currency risk represents a quantitative and qualitative assessment of the Bank's exposure to foreign currency risk using the GAP analysis (currency structure), ratio analysis, VaR methodologies of the Group, *Black-Scholes* model (delta-weighted position) and stress testing. The Risk Management Sector applies on a daily basis the measurement techniques for foreign currency risk indicators and OCP exposures and the stress testing is performed at least quarterly.

The Risk Management Sector performs the stress testing of the sensitivity of the Bank's positions to changes in foreign currency rates at least quarterly, and informs the Bank's Executive Board, ALCO Committee, Audit Committee, Board of Directors and the shareholder "AZRS INVEST" d.o.o. Belgrade.

33. RISK MANAGEMENT (Continued)

33.4. Market Risks (Continued)

33.4.1. Foreign Currency Risk (Continued)

The following tables present the currencies in which the Bank has significant exposure of its non-trading monetary assets and liabilities to foreign currency risk as of 31 December 2021 and 2020.

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

In RSD thousand

Currency	Changes in exchange rate (%) 2021	Effect to result before tax 2021
EUR	-20%	(3,049)
CHF	-20%	(34)
USD	-20%	-(0,58)

In RSD thousand

Currency	Changes in exchange rate (%) 2020	Effect to result before tax 2020
EUR	-20%	(502)
CHF	-20%	(93)
USD	-20%	(62)

33. RISK MANAGEMENT (Continued)
33.4. Market Risks (Continued)

33.4.1. Foreign Currency Risk (Continued)

The following table presents the Bank's exposure to foreign currency risk (including a foreign currency clause) as of **31 December 2021**.

The table includes assets and liabilities at their carrying amounts.

ASSETS	EUR	USD	CHF	SEK	RUB	Other currencies	Total sub-balance sensitive to changes in foreign exch. rate	Sub- balance not sensitive to changes in foreign exchange rate	Total
Cash and balances with central bank	1,120,953	31,719	3,926		5,362		1,161,960	1,184,957	**2,346,9**
Pledged financial assets							-		
Securities	1,190,768			455,473			1,646,241		**1,646,2**
Loans and advances to banks and other financial organizations	484,708	515,425	4,287	268	168,112	1,451	1,174,251	-	**1,174,2**
Loans and advances to customers	4,769,273			1,662,908		19,834	6,452,015		**6,452,0**
Intangible assets							-	39,327	**39,3**
Property, plant and equipment							-	177,851	**177,8**
Investment property							-	82,602	**82,6**
Deferred tax assets							-	8,787	**8,7**
Non-current assets held for sale							-	320,411	**320,4**
Other assets	6,192	245		88,262		106	94,805		**94,8**
Total assets	**7,571,894**	**547,389**	**8,213**	**2,206,911**	**173,474**	**21,391**	**10,529,272**	**1,813,935**	**12,343,2**
Off-balance sheet items - purchase EUR for RSD, sale EUR for RUB	-	-	-	-	-	-	-		

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For the Year Ended 31 December 2021

33. RISK MANAGEMENT (Continued)

33.4 Market Risks (Continued)

33.4.2. Foreign Currency Risk (Continued)

LIABILITIES	EUR	USD	CHF	SEK	RUB	Other currency	Total sub-balance sensitive to changes in foreign exch. rate	Sub- balance not sensitive to changes in foreign exchange rate	Total
Deposits and other financial liabilities to banks, other financial organisations and central bank	159,153						159,153	3,523	**162,676**
Deposits and other financial liabilities to customers	7,460,301	544,996	9,908	789,979	56,725	229	8,862,138	1,281,808	**10,143,946**
Changes in the fair value of items that are hedged							-		**-**
Subordinated liabilities					108.615		108.615		**108.615**
Provisions							-	26.005	26.005
Current tax liabilities							-	61	61
Deferred tax liabilities							-	1.022	1.022
Other liabilities	27,819	2,792	49	103,965	16	360	135.001	25.327	**160.328**
Total liabilities	**7.647.273**	**547.788**	**9.957**	**893.944**	**165.356**	**589**	**9.264.907**	**1.337.746**	**10.602.653**
Equity	-	-	-				-	**1.740.554**	**1.740.554**
Total liabilities and equity	**7.647.273**	**547.788**	**9.957**	**893.944**	**165.356**	**589**	**9.264.907**	**3.078.300**	**12.343.207**
Off-balance sheet items - purchase EUR for RSD, sale EUR for RUB	-	-	-	-	-	-	-		
Net foreign exchange position as of	-	-	-		-	-	-		
-31 December 2021	(75.379)	(399)	(1.744)	1.312.967	8.118	20.802	1.264.365		
							33,432		

3. RISK MANAGEMENT (Continued)

33.5. Exposure Risk (Concentration Risk)

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

The concentration risk relates to:

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

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

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

The concentration ratio - CR5 (a measure of the concentration of the five largest exposures for which applies: low concentrations of 0-50%, the middle concentration of 50-80% and a high concentration of 80-100%) represents the sum of number of the largest percentage shares of exposure in regulatory capital, while the *Herfindahl- Hirschman index* is the sum of the squares of all percentage shares of exposure in regulatory capital. For both measures the following relations apply: the more diversified the credit portfolio is (lower concentration), the lower are the values of these measures.

Mitigation of concentration of risks is conducted by the Bank by active management of the credit portfolio, as well as by adapting the established limits.

In 2021 the Bank maintained the exposure risk indicators within the prescribed values.By implementing appropriate activities anticipated by the relevant procedures and decisions on credit approval, the Bank has strived to ensure the scope and the structureof its operations and risky placements to be reconciled with the performance indicators prescribed by the National Bank of Serbia.

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

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

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

33. RISK MANAGEMENT (Continued)

33.5. Exposure Risk (Concentration Risk)

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

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

33.6. Investment Risk

The Bank's investment risks include equity investments of the Bank in the other legal entities' capital and in property, plant and equipment.

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

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

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

In 2021 the Bank maintained the permanent investments indicator within the prescribed limits and ensured that investments were reconciled with the ratios prescribed by the National Bank of Serbia.

As of 31 December 2021, the Bank did not have investments into non-financial sector entities, while the indicator of investments into property, plant and equipment amounted to 14.65% of the Bank's regulatory capital.

33.7. Country Risk

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

Country risk includes the following risks:

- ***Political and economic risk***, which means the probability of loss due to the inability to collect Bank's receivables due to the limitations established by acts of government or other authority in the country of origin of the debtor, as well as general and systemic conditions in that country; and

33. RISK MANAGEMENT (Continued)

33.7 Country Risk (Continued)

- ***Transfer risk***, which implies the possibility of realizing a loss due to the inability to collect receivables denominated in a currency that is not the official currency of the debtor's country of origin. This may result from imposed limitations on payment of obligations to foreign creditors in a particular currency which is determined by the acts of government and other debtors of the country of origin.

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

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

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

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

The Bank has implemented the policy of the country risk management in such a way that it constantly monitors its exposure to this type of the risk compared to adopted limits which are determined based on the rating of countries determined by competent institutions (OECD), regularly informing the management on such exposures.

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

33.8. Operational Risk

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

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

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

The operational risk management process assumes the involvement of the Board of Directors, Executive Board, Operational Risks Management Committee, Audit Committee and all other organizational units of the Bank.

33. RISK MANAGEMENT (Continued)

33.8. Operational Risk (Continued)

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

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

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

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

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

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

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

On assuming the operational risk the Bank is guided by the following principles:

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

By the process of mitigating the operational risk, the Bank determines the measures for mitigating the operational risk, which include the following:

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

34. RISK MANAGEMENT (Continued)

33.8. Operational Risk (Continued)

The Bank has defined and adopted the Policy on Business Continuity and revised Business Continuity Plan (BCP), which also includes Disaster Recovery Plan (DRP), that, along with the accompanying appendices enable smooth and continuous operations of all relevant systems and processes of the Bank, as well as limiting the loss in emergency situations. These plans were adequately tested during 2020.

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

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

Decision on outsourcing or the change of the provider of a service and introduction of a new product, and procedures for its change is in the hands of the Executive Board ofthe Bank, based on the Operational and Compliance Risk Management Committee proposal.

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

During 2021 the Risk Management Sector reported to the Executive Board of the Bank by submitting periodical reports on the recorded operational events that may have adverse effects to the capital and capital adequacy with the proposal of measures to be undertaken for their elimination/mitigation.

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

In 2021, operational risk events were recorded in the Base of operational losses.

35. RISK MANAGEMENT (Continued)

33.8 Risk of Early Repayment

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

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

Currency	Effect to the net interest income 2021	In RSD thousand Effect to the net interest income 2020
EUR	(1,292)	(9,176)
Other currencies	(1,784)	(2,813)

33. INFORMATION SYSTEM RISK

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

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

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

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

34. FAIR VALUE MEASUREMENT

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

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

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

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

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

Measurement of Financial Instruments

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

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

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

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

35. FAIR VALUE MEASUREMENT (Continued)

Measurement of Financial Instruments (Continued)

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

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

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

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

	31 December 2021		31 December 2020	
	Carrying value	Fair value	Carrying value	Fair value
Financial (monetary) assets				
Cash and balances with central bank	2,346,917	2,346,917	1,955,143	1,955,143
Securities	1,646,241	1,646,241	1,819,310	1,819,310
Loans and advances to banks and other financial organisations	1,174,251	1,174,251	1,288,219	1,241,030
Loans and advances to customers	6,452,015	6,387,495	4,610,858	4,525,573
Other assets	94,805	94,805	105,424	105,424
Total	**11,714,229**	**11,649,709**	**9,778,954**	**9,646,481**
Financial (monetary) liabilities				
Deposits and other financial liabilities to banks and other financial organisations	162,676	162,676	51,560	51,560
Deposits and other financial liabilities to customers	10,143,946	10,042,507	8,065,190	8,033,945
Subordinated liabilities	108,615	108,615	99,458	99,458
Other liabilities	160,328	160,328	171,197	171,197
Total	**10,575,565**	**10,474,126**	**8,387,405**	**8,356,160**

35 FAIR VALUE MEASUREMENT (Continued)

Fair Value Hierarchy Analysis

In RSD thousand

	Fair value			
31 December 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through other comprehensive income	1,646,241	-	-	1,646,241
Loans and advances to banks and other financial organizations	1,174,251	-	-	1,174,251
Loans and advances to customers	5,419,693	258,081	774,242	6,452,015
Total	**8,240,185**	**258,081**	**774,242**	**9,272,507**
Liabilities				
Deposits and other financial liabilities to banks and other financial organisations	162,676	-	-	162,676
Deposits and other financial liabilities to customers	10,143,946	-	-	10,143,946
Subordinated liabilities	108,615	-		108,615
Total	**10,415,237**	**-**	**-**	**10,415,237**

In RSD thousand

	Fair value			
31 December 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Financial assets at fair value through other comprehensive income	1,819,310	-	-	1,819,310
Loans and advances to banks and other financial organizations	1,241,030	-	-	1,241,030
Loans and advances to customers	3,303,669	316,790	905,115	4,525,573
Total	**6,364,009**	**316,790**	**905,115**	**7,585,914**
Liabilities				
Deposits and other financial liabilities to banks and other financial organisations	51,560	-	-	51,560
Deposits and other financial liabilities to customers	8,033,845	-	-	8,033,845
Subordinated liabilities	99,458	-		99,458
Total	**8,184,963**	**-**	**-**	**8,184,963**

35. FAIR VALUE MEASUREMENT(Continued)

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

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

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

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

Table below presents Bank classification for each class of financial assets and liabilities at carrying value and their fair value as of **31 December 2021**:

In RSD thousand

	Measured at fair value	FVOCI securities	Amortised cost	Total carrying value	Fair value
Cash and balances withcentral bank	2,346,917	-	-	2,346,917	2,346,917
Financial assets at fair value through other comprehensive income	-	1,646,241	-	1,646,241	1,646,241
Loans and advances to banks and other financial organizations			1,174,251	1,174,251	1,174,251
Loans and advances to customers	-	-	6,452,015	6,387,495	6,387,495
Other assets			94,805	94,805	94,805
Total assets	**2,346,917**	**1,646,241**	**7,721,071**	**11,649,709**	**11,649,709**
Deposits and other financial liabilities to banks and other financial organisations	-	-	162,676	162,676	162,676
Deposits and other financial liabilities to customers	-	-	10,143,946	10,042,507	10,042,507
Subordinated liabilities			108,615	108,615	108,615
Other liabilities	-	-	160,328	160,328	160,328
Total liabilities	**-**	**-**	**10,575,565**	**10,474,126**	**10,474,126**

35. FAIR VALUE MEASUREMENT (Continued)

Table below presents Bank's classification for each class of financial assets and liabilities at carrying value and their fair value as of **31 December 2020**:

In RSD thousand

In RSD thousand

	Measured at fair value	FVOCI securities	Amortised cost	Total carrying value	Fair value
Cash and balances withcentral bank	1,955,143	-	-	1,955,143	1,955,143
Financial assets at fair value through other comprehensive income	-	1,819,310	-	1,819,310	1,819,310
Loans and advances to banks and other financial organizations			1,241,030	1,241,030	1,241,030
Loans and advances to customers	-	-	4,525,573	4,525,573	4,525,573
Other assets			105,424	105,424	105,424
Total assets	**1,955,143**	**1,819,310**	**5,572,028**	**9,646,481**	**9,646,481**
Deposits and other financial liabilities to banks and other financial organisations	-	-	51,560	51,560	51,560
Deposits and other financial liabilities to customers	-	-	8,033,945	8,033,945	8,033,945
Subordinated liabilities			99,458	99,458	99,458
Other liabilities	-	-	171,197	171,197	171,197
Total liabilities	**-**	**-**	**8,356,160**	**8,356,160**	**8,356,160**

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

Assets whose Fair Value Approximates their Carrying Value

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

Financial Instruments with Fixed Rate

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

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

36. INTERNAL ASSESSMENT OF CAPITAL ADEQUACY

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

1. Identification of the material significance of the risk;
2. Calculation of the amount of internal capital requirements for individual risks;
3. Determining total internal capital requirements; and
4. Comparison of the following elements:

- The amount of capital calculated in accordance with the National Bank of Serbia's Decision governing the banks capital adequacy and available internal capital;
- Minimum capital requirements calculated in accordance with the National Bank of Serbia's Decision governing the banks capital adequacy and internal capital requirements for individual risks; and
- Sum of minimal capital requirements calculated in accordance with the National Bank of Serbia's Decision governing the banks capital adequacy and total internal capital requirements.

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

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

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

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

The Risk Management Sector informs the Executive Board, the Assets and Liabilities Management Committee, the Audit Committee and the Bank's Board of Directors on the calculated internal assessment of capital adequacy.

37. CAPITAL MANAGEMENT

(a) Regulatory Capital

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

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

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

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

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

The National Bank of Serbia has defined the following capital limits:
- The minimum amount of the regulatory capital of EUR 10 million in dinar counter value at the official middle exchange rate; and
- The capital adequacy ratio of at least 8%.

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

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

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

37. CAPITAL MANAGEMENT (Continued)

(a) Regulatory Capital (Continued)

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

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

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

For the purposes of determining the regulatory capital and the capital adequacy ratio, the Bank's core (basic) capital at the reporting date 31 December 2021 includes the paid-in share capital, while supplementary capital comprises subordinated liabilities. Deductions from capital are accumulated losses, loss for year, intangible assets and gross amount of receivables from a debtor - physical body (other than a farmer) originated from consumer, cash or other loans recorded on accounts 102, 107 and 108 where the debt before the loan was approved was higher than the percentage determined in accordance with the decision governing the classification of the bank's balance sheet assets and off-balance sheet items, or this percentage will be higher due to the loan approval, this deduction being applied regardless of whether after the loan approval the borrower's credit level has become lower than that percentage.

As of 31 December 2021, the gross amount of receivables from physical bodies amounted to RSD 1,075 thousand.

The table below summarizes the structure of the Bank's regulatory capital as of 31 December 2021 and 2020, as well as the capital adequacy ratio:

37. CAPITAL MANAGEMENT (Continued)

(a) Regulatory Capital (Continued)

	31 December 2021	In RSD thousand 31 December 2020
Regulatory capital		
Core capital		
Share capital	4,632,407	4,632,407
Accumulated losses	(2,699,986)	(2,286,826)
Loss for the year	(198,928)	(413,160)
Revaluation reserves	7,059	-
Intangible assets	(39,326)	(51,701)
	1,701,225	1,880,720
Supplementary capital - subordinated liabilities	43,184	59,424
Total core and supplementary capital	1,744,409	1,940,144
Deductible items:		
Gross amount of receivables from physical bodies		
Required reserve for estimated losses on balance sheet assets and off-balance sheet items	(1,075)	(1,101)
Deductible items:		
Gross amount of receivables from physical bodies	-	-
Total capital (1)	1,743,334	1,939,043
Risk assets - risk-weighted exposure		
Credit risk exposure	6,941,349	5,371,389
Operational risk exposure	942,478	1,078,364
Market risk exposure	156,798	-
Adjustment risk exposure	-	-
Total (2)	8,040,625	6,449,753
Capital adequacy ratio - Basic share capital	*21.14%*	*29.14%*
Capital adequacy ratio - Basic core capital	*21.14%*	*29.14%*
Capital adequacy ratio (1/2 x 100)	*21.68%*	*30.06%*

As of 31 December 2021, the Bank's regulatory capital amounted to RSD 1,743,334 thousand, or EUR 14,827 thousand translated at the official middle exchange rate ruling at the balance sheet date (31 December 2020: RSD 1,939,043 thousand, or EUR 16,491,237). The Bank's capital adequacy ratio of 21.68% is higher than the prescribed minimum of 8%.

Tier 1 Leverage Ratio representing the ratio of core capital and the amount of the Bank's exposure as of 31 December 2021 amounted to 12.77%.

Pursuant to the National Bank of Serbia's Official Letter on the Bank's Supervision Assessment and Accompanying Recommendations, the Bank is recommended to maintain the regulatory capital adequacy ratio at the individual level at the level of 8.24% share capital adequacy ratio at the level of 11.01% and capital adequacy ratio at the level of 14.68%, which represents the total supervisory capital requirement that should be increased by calculated combined capital tier on that date.

37. CAPITAL MANAGEMENT (Continued)

(a) Regulatory Capital (Continued)

As of 31 December 2021, the overall capital requirement amounted to 19.08% of the risky assets, calculated as the sum of the total supervision capital requirements and combined protection capital tier on that day.

Pursuant to the Decision of the National Bank of Serbia on Bank Capital Adequacy, as of 31 December 2021 the Bank had sufficient level of capital to meet the minimum requirements of the National Bank of Serbia.

(b) Performance Indicators - Compliance with Legal Requirements

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

The Bank's performance indicators as of 31 December 2021 were as follows:

Performance indicators	Prescribed	Realised
1. Regulatory capital	Minimum EUR 10 million	
2. Capital adequacy ratio	Minimum 8%	14,826,765
3. Capital adequacy ratio - basic share capital	Minimum 4.5%	21.68%
4. Capital adequacy ratio - core capital	Minimum 6%	21.14%
5. Bank investment	Maximum 60% of capital	21.14%
	Maximum 25% of capital	14.65%
	Maximum 400%	24.93%
6. Exposure to a single party or a group of related parties		168.40%
7. The total sum of all large exposures of the Bank in relation to capital	Minimum 1	
8. Liquidity ratios as of the last date:	Minimum 1	2.58
- in the first month of the last quarter of 2020	Minimum 1	2.89
- in the second month of the last quarter of 2021	Minimum 0.5	3.80
- in the third month of the last quarter of 2021	Minimum 100%	3.46
9. Narrow liquidity coverage ratio	Maximum 20% of capital	212.02%
10. Liquidity coverage ratio (LCR)	Minimum EUR 10 million	8.99%
11. Foreign currency risk indicator		14,826,765
	Minimum 8%	21.68%

As of 31 December 2021, the Bank complied all its performance indicators with the prescribed ones.

38. COMMITMENTS AND CONTINGENT LIABILITIES

(a) Litigations

As of 31 December 2021, the Bank acts as a defendant in 318 litigations. The total estimated amount of the related claims equals RSD 57,618 thousand.

According to the estimate of the Legal Department and the legal advisers of the Bank positive outcome is expected for certain number of the litigations, while uncertain outcome is expected for certain number of the litigations. As disclosed in the Note 28 to the financial statements, as of 31 December 2021, the Bank established the provision for potential losses that may arise from the above litigations in the total amount of RSD 12,261 thousand.

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

(b) Tax Risks

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

39. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

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

The Bank submitted 937 confirmations (IOS forms) to its debtors and customers with the outstanding balance of receivables/payables as of 31 October 2021, out of which 193 confirmations were returned and according to which the unreconciled receivables amounted to RSD 15,176 thousand, and were reconciled with creditors and suppliers by the end of 2021.

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

40. EXCHANGE RATES

The official median exchange rates of the National Bank of Serbia, determined at the Interbank Foreign Currency Market, used in the translation of balance sheet items denominated in foreign currencies, as of 31 December 2021 and 2020 into the functional currency (RSD), for the major foreign currencies were as follows:

IN RSD

	2021	2020
EUR	117.5821	117.5802
USD	103.9262	95.6637
CHF	113.6388	108.4388
RUB	1.3925	1.2751

41. EVENTS AFTER THE REPORTING PERIOD

The armed conflict between Russia and Ukraine has had an impact on the European and world economy. Since the beginning of the conflict, the Bank has been closely monitoring and assessing the impact of all segments of its operations.

The Government of the Republic of Serbia is implementing all measures to reduce the negative impact of the crisis.

Inflationary pressures are a challenge for all European countries, so in the coming period we can expect a potential turn towards restrictive monetary policy and rising interest rates.

The current situation regarding the Ukrainian crisis has not left significant negative consequences on API Bank, considering the fact that the Republic of Serbia has not imposed sanctions against Russia so far. Moreover, in the first quarter of 2022, there was an increase in the volume of operations of the Bank, which achieved a positive result in this period.

In the first quarter of 2022, there was an increase in the volume of the Bank's operations, which achieved a positive result in this period. The volume of business is mostly reflected in the increased number of account openings for both individuals and businesses, which increased payment transactions in the country and abroad, as well as currency trading.

The Bank's management is taking all possible measures to prevent possible negative impacts, but cannot predict with certainty the consequences for the Bank's operations in the event of further escalation of the crisis and changes in business conditions in the Republic of Serbia as a result of geopolitical changes.

Belgrade, 20 April 2022

Dijana Čučuk
Responsible for financial statements preparation

Valentina Keiša
President of Executive Board

ANNUAL BUSINESS REPORT

2021

Belgrade, April 2021

1. INTRODUCTORY NOTE BY THE CHAIRPERSON OF THE BANK'S EXECUTIVE BOARD

Dear clients, partners,

Being a small player in the banking market has its advantages over the giants operating in the Serbian market. There are a number of advantages that small banks have in any market, while two prerequisites are crucial for a successful business - highly professional, expert competence of each team player and a clear understanding of the operating market. Over the past year, our Bank has analyzed the potential of still uncovered, but targeted niches in business - and worked diligently on solutions to enter those niches.

The second year of the pandemic brought great changes in the market, which is why flexibility and quick decision-making gave us the opportunity to be pioneers in introducing innovations.

The fact that more and more people are building in Serbia and that there are more and more interested buyers from abroad, encouraged us to develop a special offer of housing loans, because the growing offer of real estate and attractive locations make new construction interesting for many buyers, in the country and for those beyond its borders.

Striving to better respond to their needs, we have created a modern solution that will give the right answer to the needs of our clients and thus provide them with a comfortable life in Serbia.

At the same time, we decided to provide a safe rental service, which is in short supply on the market, and our only challenging task was to find a suitable location. That is why, at the beginning of 2021, we opened a new branch in 44 Makedonska Street, which best suits the large number of passers-by in the very centre of Belgrade from the point of view of accessibility.

We are, first and foremost, a universal commercial bank. Our clients are small and medium enterprises and the retail customers. We also provide service to large companies in their relatively small part of the business where an individual approach and efficient communication for mutual benefit is required.

Our clients are renowned Serbian and international companies and individuals with resident and non-resident status and employees of our bank are continuously working to offer the best solution to protect the interests and satisfaction of our clients, as their reliable partner. API in the name of our bank means application programming interface which symbolizes the continuous growth and progress that the Bank strives for, as well as quality and innovative solutions through the implementation of the latest financial technologies that will be key elements for further development.

2. DESCRIPTION OF BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF API BANK a.d. BEOGRAD

2.1. About the bank

Basic information about the bank	
Business Name	API Bank akcionarsko društvo Beograd
Address	Bulevar Vojvode Bojovića 6-8,11000 Belgrade,Republic of Serbia
Web address	www.apibank.rs
Legal form	joint-stock company
Size of company	Large legal entity
Registration no.	20439866
TIN	105701111
Date of establishment of the Bank	11 July 2008
Registration number in the Business Registers Agency	2158 dated 03/03/2008
Activity Code	6419 - Other monetary intermediation
Contact phone	00 381 11 3952213
e mail	office@apibank.rs
Chairperson of the Executive Board	Valentina Keiša
Auditor for 2021	MOORE STEPHENS Revizija i Računovodstvo d.o.o., Studentski trg 4/V, Beograd
Current account of the Bank	National Bank of Serbia: 908-0000000037501-92
Social networks	Linkedin, Facebook, Instagram

DESCRIPTION OF BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE

OF API BANK a.d. BEOGRAD (cont.)

2.1. About the Bank (cont.)

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

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

Change of the Bank's business name to API BANK a.d. BEOGRAD was registered with the Business Registers Agency on October 18, 2018.

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

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

The Bank's network as at December 31, 2021. consists of: branch office in Belgrade, Balkanska Street No. 2, branch office in Belgrade, Makedonska Street No. 44 subsidiary in Novi Sad, Narodnog Fronta Street No. 12.

Ordinal no.	Name of organizational form	Address	Number of organisational units
1	Business Unit	Bulevar Vojvode Bojovića 6-8, Beograd	1
2	Branch office	Balkanska 2, Beograd	1
3	Branch office	Makedonska 44, Beograd	1
4	Subsidiary	Narodnog fronta 12, Novi Sad	1

2.2 Review of members of administrative bodies on December 31, 2021

Board of Directors of the Bank	
Full name	**Function**
Andrey Zakharovich Shlyakhovoy	Chairperson of the Board of Directors
Petr Rasocha	Member of Board of Directors
Goran Ljubičić	Member of Board of Directors
Vladislav Shlyakhovoy	Member of Board of Directors
Zoran Mitrović	Member of Board of Directors

Executive Board of the Bank	
Full name	**Function**
Valentina Keiša	Chairperson of the Executive Board
Radomir Stevanović	Member of the Executive Board

2.2 Review of members of administrative bodies on December 31, 2021(cont.)

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

Credit Committee for Legal Entities	
Full name	**Function**
Valentina Keiša, Chairperson of the Executive Board	President of the Credit Committee
Radomir Stevanovic, Member of the Executive Board	Member of the credit committee
Aleksandar Todorovic, Director of the Risk Management Sector	Member of the credit committee
Marko Ilic, Director of the Business Sector	Member of the credit committee
Radmila Jasarovic, Director of the Legal Affairs Department	Member of the credit committee

Credit Committee For Natural Entities	
Full name	**Function**
Valentina Keiša, Chairperson of the Executive Board	President of the Credit Committee
Radomir Stevanovic, Member of the Executive Board	Member of the credit committee
Aleksandar Todorovic, Director of the Risk Management Sector	Member of the credit committee
Velibor Savic, Director of Retail Banking	Member of the credit committee

Audit Committee	
Full name	**Function**
Zoran Mitrovic	Chairperson of the Audit Committee
Goran Ljubicic	Member of the Audit Committee
Miloje Obradovic	Independent member
Jelena Skoko	Secretary

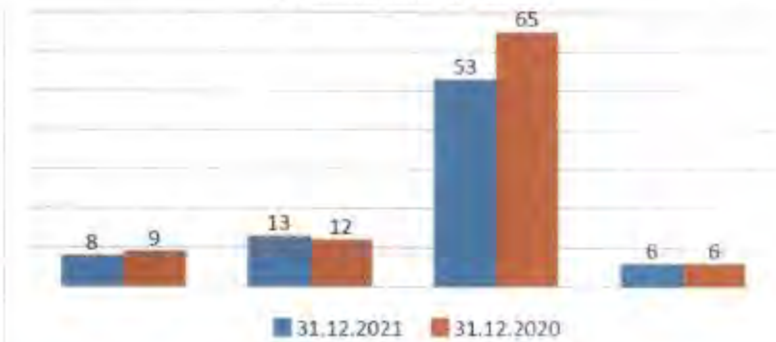
Assets and Liabilities Management Committee - ALCO	
Full name	**Function**
Valentina Keiša	Chairperson of ALCO
Radomir Stevanovic	ALCO member
Dijana Cucuk	ALCO member
Velibor Savic	ALCO member
Aleksandar Todorovic	ALCO member
Maja Nesic Divjak	ALCO member
Marko Ilic	ALCO member

2.3 Organizational / personnel structure of the Bank as of December 31, 2021.

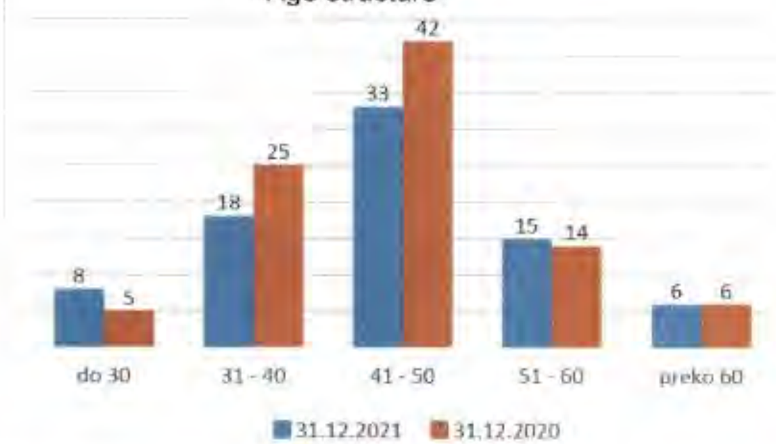
As at 31 December 2021, the Bank had 80 employees (31 December 2020: 92 employees).

In the qualification structure of employees at the end of 2021, the share of employees with university education was 73.8%, while in the age structure, the share of people under 40 was 32.5%.

Qualification structure



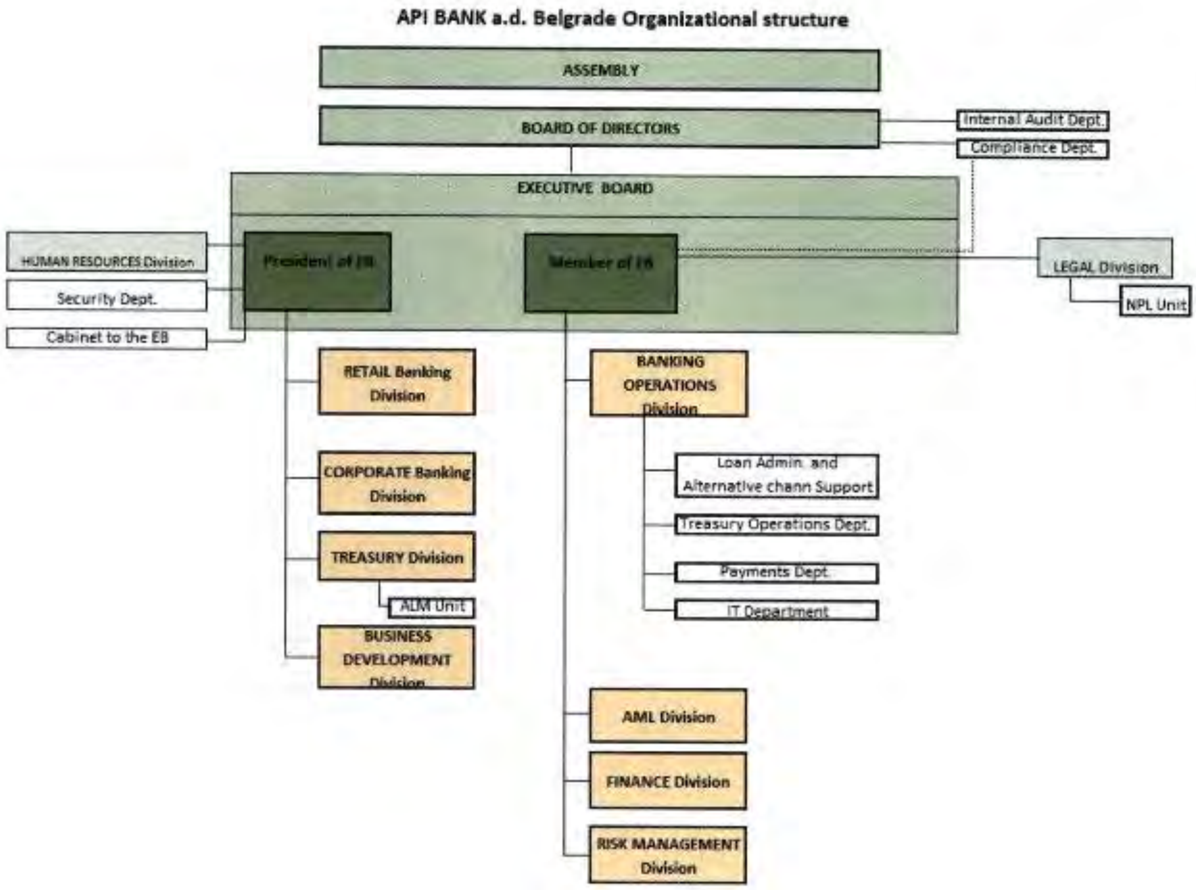
Age structure



The Bank invests in improving the skills and knowledge of employees through external and internal training, in order to equip employees with the skills necessary for adequate performance and realization of tasks. The Bank pays special attention to internal communication so that all employees are aware of strategic goals and results, the most important challenges and activities and so that all employees can respond properly to the requirements set by the Bank and recognize their role in it. The governing bodies of the Bank are: the Assembly, the Board of Directors, the Audit Committee and the Executive Board.

DESCRIPTION OF BUSINESS ACTIVITIES AND ORGANIZATIONAL STRUCTURE OF API BANK a.d. BEOGRAD (cont.)

2.3 Organizational / personnel structure of the Bank as of December 31, 2021(cont.)



3. MACROECONOMIC ENVIRONMENT

Gross domestic product

Based on the assessment of the Republic Bureau of Statistics (RZS), the gross domestic product in the fourth quarter of 2021 achieved a real growth of 7.0% compared to the same period last year.

Observed by aggregates of use, in the fourth quarter of 2021, compared to the same period last year, private consumption achieved a real growth of 7.3% and positively contributed to the movement of GDP of 4.8 p.p.

Investment activity increased by 9.8% compared to the same period last year (contribution to GDP of 2.3 p.p.). Exports and imports achieved growth rates of 13.9% and 15.5%, with a contribution to GDP of 7.1 p.p and 9.2 p. p., respectively (Table 2.1).

Observed from the production side, the positive development of GDP in the fourth quarter of 2021 was mostly influenced by the services sector, except trade, with 3.4 p.p. p.

A significant positive contribution to GDP was made by the trade sector and the industry and water supply sector (with 1.2 p.p. and 0.8 p.p., respectively).

Annual real GDP growth in 2021, calculated on the basis of quarterly dynamics, amounted to -7.4%.

GDP - aggregates of use, year-on-year real growth rates, Q1 2019 - Q4 2021 in%

	2019				2020				2021			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP	2,7	3,0	5,0	6,4	5,2	-6,3	-1,3	-1,0	1,5	13,7	7,6	7,0
Private consumption	3,8	4,0	3,3	3,6	3,5	-7,9	-0,9	-1,9	-1,9	17,1	8,1	7,3
Government consumption	2,0	1,3	3,6	1,0	8,8	5,4	-3,1	0,9	0,2	-2,9	7,8	5,8
Gross fixed capital formation	7,7	9,1	18,7	30,5	13,0	-11,1	-3,4	-3,2	8,0	21,4	12,2	9,8
Import	7,0	7,3	8,1	8,2	5,3	-18,8	-6,6	3,8	8,2	36,3	22,4	13,9
Export	9,0	10,2	10,7	12,5	7,6	-19,6	-2,8	0,6	-0,2	44,2	22,8	15,5

Industrial production

According to the data of the Republic Bureau of Statistics, the total industrial production in Serbia in 2021 was higher by 6.3% than in 2020. Growth was recorded in all sectors: 5.5% in manufacturing, 0.7% in electricity, gas, steam and air conditioning supply and 27.6% in mining.

The largest contribution to the achieved increase in industrial production in 2021 was given by the processing industry (4.2 p.p.), while the contribution of Mining amounted to 2.0 p.p. p., and 0.1 p.p by the Electricity supply sector.

Observed by areas, the processing industry in 2021 recorded growth in 19 of 24 areas (together they participate with 69.8% in the total industry) compared to 2020. The most important areas in which positive results were achieved are: production of food products (growth of 0.4%), production of coke and petroleum products (growth of 10.7%), production of rubber and plastic products (growth of 4.8%) , manufacture of fabricated metal products, except machinery (growth of 3.6%) and manufacture of basic pharmaceutical products (growth of 5.3%).The decline was recorded in five areas (together they participate with 6.1% in the total industry): Manufacture of clothing (down 1.8%), Manufacture of furniture (down 13.8%), Printing and reproduction of audio and video recordings (down 1.8%), Manufacture of textiles (decline of 4.1%) and Repair and installation of machinery and equipment (decline of 1.2%).

3. MACROECONOMIC ENVIRONMENT (cont.)

Foreign trade

The opening of economies and the recovery of domestic and foreign demand led to a gradual increase in the monthly volume of foreign trade. According to the data of the Republic Bureau of Statistics, the total value of exports of goods in Serbia in 2021 is higher by 26.8% compared to 2020. The movement of total exports was mostly influenced by the growth of 24.5% in exports of the manufacturing sector, which accounts for 88.2% of total exports, and the growth of 3.5% of exports of agriculture, forestry and fishing, which accounts for 6.2% of total exports in 2021.

The total value of imports of goods in Serbia in 2021 is higher by 24.6% compared to 2020. The results of imports were mostly influenced by the growth of 23.2% in the manufacturing sector (77.6% of total imports) and the growth of 27.2% in imports of goods not yet classified (11.3% of total imports) in 2021.

The total foreign trade of Serbia for the period January-December 2021 is:

- $ 59,360.5 million - an increase of 29.8% compared to the same period last year;

- EUR 50,222.1 million - an increase of 25.5% compared to the same period last year.

Goods worth 25,563.5 million dollars were exported which is an increase of 31.1% compared to the same period last year, and 33,797.0 million dollars' worth of goods was import, which is 28.8% more than in the same period last year.

Exports of goods, expressed in euros, had a value of 21,620.8 million, which is an increase of 26.8% compared to the same period last year. Imports of goods had a value of 28,601.3 million, which is 24.6% more than in the same period last year.

The deficit is 8,233.4 million dollars, which is an increase of 22.3% over the same period last year. Expressed in euros, the deficit amounts to 6,980.4 million, an increase of 18.3% compared to the same period last year.

The coverage of imports by exports is 75.6% and is higher than the coverage in the same period last year, when it amounted to 74.3%.

The most important foreign trade partners are the countries with which Serbia has signed a free trade agreement. 60.3% of the total exchange is with EU member states.

The second most important partner of RS is the CEFTA countries, with which RS has a trade surplus of 2,541.4 million dollars, which is the result mainly of exports: oil and petroleum products, cereals and products thereof, iron and steel, electrical machinery and appliances, as well as beverages. Serbia's exports amount to 4,028.3 and imports to 1,486.9 million dollars for the observed period. The coverage of imports by exports is 270.9%. Expressed in euros, exports amount to 3,409.5 and imports 1,261.3 mil. euros (surplus is 2,148.2 million euros, and the coverage of imports by exports 270.3%).

The overview below identifies the most important partners in foreign trade during 2021.

Export	mil. EUR	Import	mil. EUR
Germany	2.743,3	Germany	3.770,9
Italy	1.839,9	China	3.648,1
Bosnia and Herzegovina	1.562,0	Italy	2.304,4
Romania	1.189,0	Russian Federation	1.534,0
Hungary	1.088,9	Turkey	1.442,1

3. MACROECONOMIC ENVIRONMENT (cont.)

Pay balance

The current account deficit in 2021 amounted to 4.4% of gross domestic product, which is slightly higher than in the previous year, and is a consequence of increased energy imports at the end of the year. Compared to the previous year, the current account surplus was affected by the growth of the surplus of services, as well as secondary income, primarily due to the recovery of remittance inflows from abroad, but also higher deliveries of goods and services to Kosovo and Metohija. On the other hand, the deficit of primary income on the basis of payments of income from foreign direct investments has increased, as well as the goods deficit.

According to the projection of the National Bank of Serbia, the share of the current account deficit in the medium term will remain below 5% of gross domestic product, with still full coverage of net inflows of foreign direct investment.

The inflow of capital to Serbia on the basis of foreign direct investments exceeded the record level achieved in 2019 and in 2021 amounted to 3.9 billion euros. As in previous years, the inflow was project-wise and geographically widespread and mostly directed to tradable sectors.

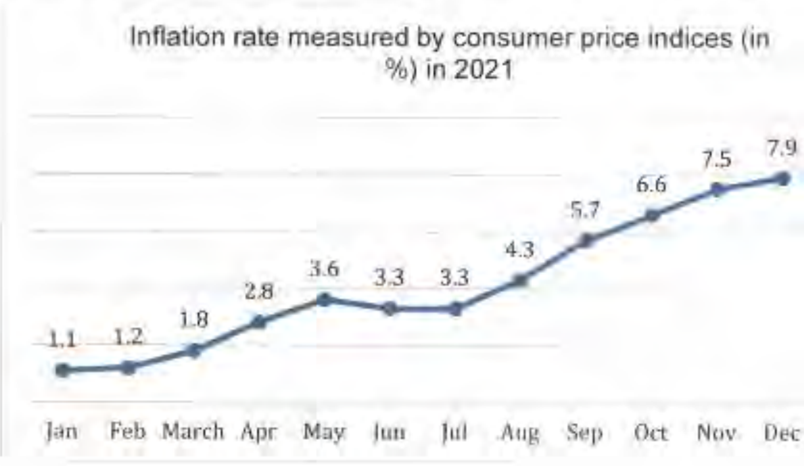
The full coverage of the current account deficit by net inflows of foreign direct investments for the seventh year in a row and the successful issuance of Eurobonds on the international financial market largely contributed to the growth of foreign exchange reserves of the National Bank of Serbia, which grew by 2.6 billion euros. At the end of the year, foreign exchange reserves amounted to 16.5 billion euros, which provides twice the coverage of imports of goods and services than the standard for determining their adequacy.

Inflation

In the conditions of intensified cost pressures, which were mostly due to higher world prices of energy and other primary products, delays in global supply chains and significantly higher prices of international transport, inflation in Serbia, as in other countries, in 2021 was on a rising trajectory and reached a level of 7.9% in December.

According to the data of the Republic Bureau of Statistics, at the level of 2021, the average annual inflation was 4.0%, and the average core inflation was 2.3%. Its significantly lower level than total inflation is an indication that there were no pronounced inflationary pressures on the demand side, and the long-term relative stability of the exchange rate contributed significantly to the stable movement of core inflation.

Observed by purpose, the prices of energy and food had the largest positive contribution to inflation. Observed by basic consumption groups, the largest contribution to the growth of total consumer prices was given by the growth of food and non-alcoholic beverages (1.4 p.p.), transport (0.9 p.p.), and the growth of prices of housing, water, electricity, gas and other fuels (0.7 p.p.).



3. MACROECONOMIC ENVIRONMENT (cont.)

Employment and earnings

The calculated average net salary per employee in the Republic of Serbia in 2021 amounted to 65,864 dinars and compared to the previous year, it is nominally higher by 9.6%, and really by 5.4%.

The average net salary calculated in the fourth quarter of 2021 amounted to 73,797 dinars in the public sector, and 68,320 dinars outside the public sector.

The average salary (gross) calculated for December 2021 was 102,196 dinars, while the average salary without taxes and contributions (net) was 74,629 dinars.

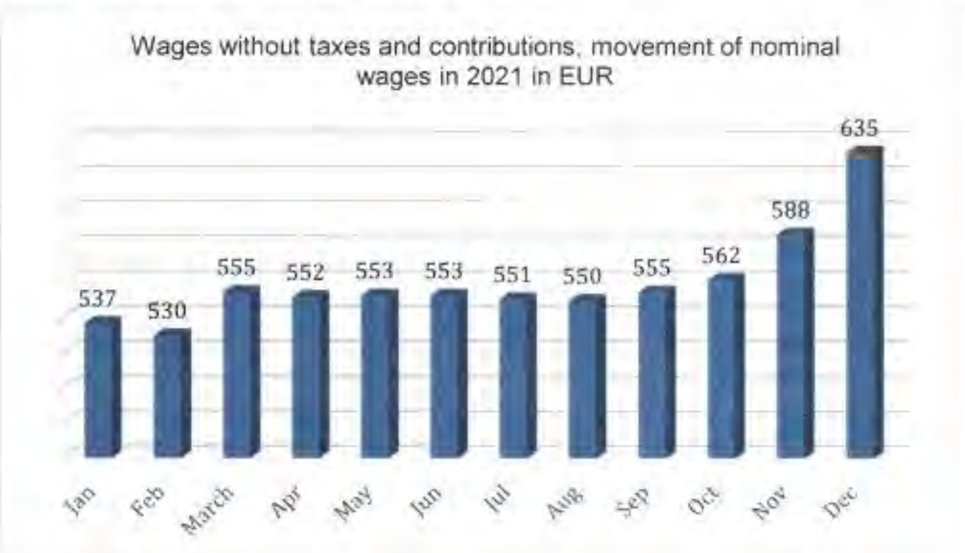
Growth in gross wages in the period January-December 2021, compared to the same period last year, amounted to 9.4% in nominal terms and 5.2% in real terms.

Compared to the same month last year, the average gross salary for December 2021 is nominally higher by 12.5% and really by 4.3%, while the average net salary is nominally higher by 12.9%, ie 4, 6% in real terms.

Net earnings by sectors. The highest real growth in 2021, compared to 2020, was achieved in the sectors Information and communication (14.9%), Health and social work (8%), Professional, scientific, innovation and technical activities (7.8%) and Administrative and support service activities (6.1%), while a decrease of 4% was recorded only in the sector Water supply and wastewater management.

In the fourth quarter of 2021, 2.9 million people were employed in Serbia, 317 thousand people were unemployed, and 2.6 million people over the age of 15 were out of the labour force.

The unemployment rate is 9.8% and, compared to the third quarter of 2021, is lower by 0.7 p.p., while the number of unemployed persons decreased by 24.8 thousand. At the same time, the number of persons outside the labour force increased by 19.5 thousand.



3. MACROECONOMIC ENVIRONMENT (cont.)

Exchange rate

The dinar exchange rate against the euro remained virtually unchanged during 2021, at around 117.6 dinars per euro, thanks to high foreign exchange inflows and an active policy of intervention in the foreign exchange market. At the same time, due to the weakening of the euro against the dollar, the dinar was weaker by about 8% against the dollar at the end of December compared to the end of 2020.

In 2021, the National Bank of Serbia maintained the relative stability of the dinar exchange rate against the euro, following the factors from the domestic and international environment that affect the movements on the domestic foreign exchange market and reacting in a timely and measured manner. According to official data from the National Bank of Serbia, a total of 645 million euros was bought net in January-December to maintain relative stability in the foreign exchange market, while at the end of December gross foreign exchange reserves, as one of the country's financial security pillars, were 16.5 billion euros.

Coronavirus pandemic

Serbia entered the pandemic crisis with a stable macroeconomic environment and more balanced finances, thanks to the fiscal consolidation carried out in the previous period. The measures taken by fiscal and monetary policy prevented a deeper recession and enabled recovery, so that already during the first quarter of 2021, the level of GDP from the pre-pandemic period was reached.

The prolonged duration of the pandemic as well as the positive effects of the previous two programs of support to the private sector influenced the Government of the Republic of Serbia to adopt the third package of incentive measures in the first quarter of 2021 and at the end of the year, new measures to help certain categories of the population, bringing the total value of the fiscal stimulus since the beginning of the pandemic to 8.7 billion euros, or about 18% of GDP.

Economic growth in 2021 as a whole was relatively high and above expectations, reaching 7.5% compared to the previous year. The drivers of growth were the recovery and expansion of the service sector, favourable trends in industry and the growth of construction activity.

Due to the extensive package of support measures, the fiscal deficit in both pandemic years significantly exceeded the set 3% of GDP, while the level of public debt was kept within the Maastricht criteria, below 60% of GDP. A new non-financial arrangement with the IMF, advisory in nature, established in 2021, will support the continuation of structural reforms, primarily in the public sector and the capital market.

3. MACROECONOMIC ENVIRONMENT (cont.)

Review of macroeconomic indicators:

Macroeconomic indicators	2018	2019	2020	2021
Real GDP growth (in %)	4,5	4,3	-0,9	7,4
Consumer prices (in%) compared to the same month last year)	2,0	1,9	1,3	7,9
NBS foreign exchange reserves (in million euros)	11.262	13.378	13.492	16.455
Exports of goods and services (in millions of euros)	21.166	23.349	22.271	28.557
- growth rate in % compared to the previous year	9,6	10,3	-4,6	28,2
Imports of goods and services (in millions of euros)	25.257	27.960	26.370	33.065
- growth rate in% compared to the previous year	13,0	10,7	-5,7	25,4
Bank account of the balance of payments in million euros	-2.076	-3.161	-1.929	-2.343
in % of GDP	-4,8	-6,9	-4,1	-4,4
Unemployment according to the Survey (in %)	13,7	11,2	9,7	11,0
Earnings (average for the period, in euros)	419,8	466,0	510,9	560,2
Republic budget surplus / deficit (in % of GDP)	0,6	0,2	-8,3	-4,6
Consolidated fiscal result (in% of GDP)	0,6	-0,2	-8,0	-4,1
Public debt of the Republic of Serbia (central government, in % of GDP)	53,6	51,9	57,0	56,5
Dinar exchange rate against dollar (period average)	100,28	105,28	103,03	99,49
Dinar exchange rate against dollar (end of period)	103,39	104,92	95,66	103,93
Dinar exchange rate against the euro (average in the period)	118,27	117,85	117,58	117,57
Dinar exchange rate against euro (end of period)	118,19	117,59	117,58	117,58
GDP (in million euros)	42.892	46.005	46.796	53.316

4. DEVELOPMENT, FINANCIAL POSITION AND ACHIEVED RESULTS OF THE BANK

BALANCE SHEET
On 31st of December 2021

In RSD thousand

	31/12/2021	31/12/2020
ASSETS		
Cash and funds with the central bank	2.346.917	1.955.143
Pledged funds	-	-
Securities	1.646.241	1.819.310
Loans and receivables from banks and other financial organizations	1.174.251	1.288.219
Loans and receivables from customers	6.452.015	4.610.858
Intangible assets	39.327	51.701
Real estate, plant and equipment	177.851	166.456
Investment property	82.602	-
Deferred tax assets	8.787	8.046
Fixed assets held for sale and assets of discontinued operations	320.411	354.857
Other funds	94.805	105.424
TOTAL ASSETS	12.343.207	10.360.014
LIABILITIES		
Deposits and other financial liabilities to banks, other financial organizations and the central bank	162.676	51.560
Deposits and other financial liabilities to other customers	10.143.946	8.065.190
Changes in the fair value of items that are subject to risk protection	-	-
Subordinated obligations	108.615	99.458
Reservations	26.005	18.319
Current tax liabilities	61	-
Deferred tax liabilities	1.022	2.710
Other obligations	160.328	171.197
TOTAL LIABILITIES	10.602.653	8.408.434
THE CAPITAL		
Share capital	4.632.407	4.632.407
Loss / Gain	-2.898.913	-2.699.986
Reserves	7.060	19.159
TOTAL CAPITAL	1.740.554	1.951.580
TOTAL LIABILITIES	12.343.207	10.360.014

4. DEVELOPMENT, FINANCIAL POSITION AND ACHIEVED RESULTS OF THE BANK (cont.)

INCOME STATEMENT
In the period from January 1st to December 31st, 2021

In RSD thousand

	2021	2020
Interest income	307.627	232.744
Interest expenses	-105.368	-91.242
Net interest income	202.259	141.502
Fee and commission income	296.540	105.830
Fee and commission expenses	-43.509	-41.209
Net income from fees and commissions	253.031	64.621
Net profit from change in fair value of financial instruments	0	19.465
Net (loss) / gain on risk protection	0	447
Net income from exchange rate differences and the effects of the contracted currency clause	2.398	81.637
Net expense on impairment of financial assets not measured at fair value through profit or loss	-42.841	-69.782
Other operating income	3.217	3.001
TOTAL NET OPERATING INCOME / (EXPENSE)	418.064	240.891
Wage costs, wage compensation and other personal expenses	-324.614	-330.393
Depreciation costs	-75.513	-70.486
Other income	57.432	26.929
Other expenses	-274.977	-282.024
PROFIT / (LOSS) BEFORE TAX	-199.608	-415.083
Income tax	61	0
Profit from deferred taxes	742	1.923
PROFIT / (LOSS) PERIOD	-198.927	-413.160

REPORT ON OTHER RESULT
In the period from January 1st to December 31st, 2021

In RSD thousand

	2021	2020
PROFIT / (LOSS) PERIOD	-198.927	-413.160
Other results of the period:		
Components of other results that can be reclassified to profit or loss		
TOTAL POSITIVE / (NEGATIVE) RESULT OF THE PERIOD	-198.927	-413.160

4. DEVELOPMENT, FINANCIAL POSITION AND ACHIEVED RESULTS OF THE BANK (cont.)

During 2021, the Bank generated total operating income in the amount of 609,782 thousand dinars, which is 37.6% more than in the previous year. The growth of income compared to the previous year was mostly caused by the growth of net income from fees and commissions (in the amount of RSD 188,410 thousand), as well as the growth of net interest income (in the amount of RSD 60,757 thousand).

In the structure of the Bank's operating income, the largest share was occupied by interest income with a share of 50.4% and fee and commission income with a share of 48.6%.Operating expenses in 2021 decreased by 5.2%. The decrease in expenses compared to the previous year is mostly due to the decrease in net expenses based on impairment of financial assets that are not measured at fair value through the income statement. In the structure of operating expenses, the largest share is occupied by interest expenses of 55.0% and expenses on the basis of fees and commissions with a share of 22.7%.

Structure of positions from the report on the achieved result of the Bank:

i. Interest income and expense

In RSD thousand

	2021		2020	
Interest income	307.627	100,0%	232.744	100,0%
Other banks	9.562	3,1%	6.665	2,9%
National Bank of Serbia	1.103	0,4%	4.959	2,1%
Companies	240.243	78,1%	161.587	69,4%
Retail	29.619	9,6%	33.583	14,4%
Government institutions	27.100	8,8%	25.950	11,1%
Interest expenses	-105.368	100,0%	-91.242	100,0%
Banks	-2.288	2,2%	-3.724	4,1%
Companies	-20.645	19,6%	-19.320	21,2%
Retail customers	-80.360	76,3%	-66.495	72,9%
Government institutions	-1	0,0%	-1	0,0%
Lease interest expense in accordance with IFRS 16	-2.075	2,0%	-1.702	1,9%
Net interest income	202.259		141.502	
By types of financial placements	2021	%	2020	%
Interest income	307.627	100,0%	232.744	100,0%
Loans and receivables from banks	9.562	3,1%	6.665	2,9%
Repo placements with the National Bank of Serbia	0	0,0%	0	0,0%
Mandatory reserve with the National Bank of Serbia	906	0,3%	1.412	0,6%
Other placements and deposits with the NBS	107	0,0%	3.547	1,5%
Loans and receivables from customers	240.243	78,1%	161.587	69,4%
Loans and receivables from Retail	29.619	9,6%	33.583	14,4%
Loans and receivables from government institutions	27.190	8,8%	25.950	11,1%
Interest expenses	-105.368	100,0%	-91.242	100,0%
Subordinated loans	-11.724	11,1%	-12.216	13,4%
National Bank of Serbia	-1.862	1,8%	-1.114	1,2%
Other banks	-426	0,4%	-2.610	2,9%
Customer deposits	-8.920	8,5%	-7.104	7,8%
Deposits of the Retail	-80.360	76,3%	-66.495	72,9%
Deposits and loans from government institutions	-1	0,0%	-1	0,0%
Lease interest expense in accordance with IFRS 16	-2.075	2,0%	-1.702	1,9%
Net interest income	202.259		141.502	

4. DEVELOPMENT, FINANCIAL POSITION AND ACHIEVED RESULTS OF THE BANK (cont.)

ii. Fee and commission from income and expenses

in thousand RSD

	2021.	%	2020.	%
Fee and commission income	296.540	100,0%	105.830	100,0%
Payment operations in the country	97.457	32,9%	57.304	54,1%
Credit affairs	7.928	2,7%	3.523	3,3%
Other fees and commissions	191.155	64,5%	45.003	42,5%
Fee and commission expenses	-43.509	100,0%	-41.209	100,0%
Payment operations in the country	-24.430	56,1%	-23.083	56,0%
International payment transactions	-19.079	43,9%	-18.126	44,0%
Net fee and commission income	253.031		64.621	

iii. Net (loss) / gain on hedging

in thousand RSD

	2021.	%	2020.	%
Revenues from changes in the value of derivatives intended for protection against risk 0	0	0,0%	447	100,0%
Expenses based on negative effects of changes in the value of derivatives -	-	0,0%	-	0,0%
Net (loss) / profit -	-	0	447	100,0%

iv. Net income from exchange rate differences and the effects of the contracted currency clause

in thousand RSD

	2021.	2020.
Foreign exchange gains and losses on contractual currency clauses	684.859	1.177.587
Negative exchange rate differences and losses based on the agreed currency clause	-682.461	-1.095.950
Net income from exchange rate differences and the effects of the contracted currency clause	2.398	81.637

v. Other operating income

in thousand RSD

2021	2021.	%	2020.	%
Lease income	2.257	70,2%	2.654	88,4%
Reimbursement of costs -	-	0,0%	240	8,0%
Income from rents of safes	182	5,7%	-	0,0%
Other income	778	24,2%	107	3,6%
Total	3.217	100,0%	3.001	100,0%

4. DEVELOPMENT, FINANCIAL POSITION AND ACHIEVED RESULTS OF THE BANK (cont.)

vi. Net expense on impairment of financial assets not measured at fair value through profit and loss

in thousand RSD

	2021.	%	2020.	%
Expenses on the basis of impairment and provisions	-342.780	100%	-338.234	100,0%
Expenses based on impairment of financial assets:				
- loans and receivables from banks	-7.718	2%	-13.108	3,9%
- loans and receivables from customers	-330.636	96%	-321.339	95,0%
Provisioning expenses for credit risk off-balance sheet items	-4.400	1%	-2.308	0,7%
Expenses based on impairment of securities that are valued through other results	-27	0%	-1.480	0,4%
Income from impairment losses	299.939	100,0%	268.452	100,0%
Income from impairment of financial assets:				
- loans and receivables from banks	11.238	3,7%	12.364	4,6%
- loans and receivables from customers	279.759	93,3%	250.209	93,2%
Income from reversal of provisions for credit risk off-balance sheet items	3.517	1,2%	2.260	0,8%
Revenues from collected written-off receivables transferred to the valence records according to the Decision on accounting write-off	2.861	1,0%	1.469	0,5%
Income from reversal of provisions for securities valued through other results	2.563	0,9%	2.150	0,8%
Net impairment charges	-42.841		-69.782	

vii. Cost of earnings, earning compensation and other personal expenses

in thousand RSD

	2021.	%	2020.	%
Wage costs and wage compensation	**-202.993**	**62,5%**	-217.412	65,8%
Costs of taxes and contributions on wages and salary allowances	**-67.971**	**20,9%**	-70.757	21,4%
Provisions based on fees for unused vacations	**-8.692**	**2,7%**	-11.254	3,4%
Other personal expenses	**-44.653**	**13,8%**	-28.781	8,7%
Provisions for retirement benefits (Note 28 (d))	**-305**	**0,1%**	-2.189	0,7%
Total	-324.614	100,0%	-330.393	100,0%

vii. Depreciation costs

in thousand RSD

	2021.	%	2020.	%
Depreciation costs:	-75.513	100%	-70.486	100%
- intangible assets	-19.209	25%	-18.646	26%
- real estate, plant and equipment	-13.604	18%	-7.047	10%
- investment real estate	0	0%	-262	0%
- leases in accordance with IFRS 16	-41.801	55%	-43.925	62%

4. DEVELOPMENT, FINANCIAL POSITION AND ACHIEVED RESULTS OF THE BANK (cont.)

ix. Other income

in thousand RSD

	2021.	%	2020.	%
Other income	57.432	100,0%	26.929	100,0%
Abolition of holiday reservations	10.749	18,7%	9.226	34,3%
Cancellation of provisions for bonuses	-	0,0%	4.159	15,4%
Derecognition of leases in accordance with IFRS 16	79	0,1%	3.483	12,9%
Gains from the sale of property held for sale	-	0,0%	406	1,5%
Income from termination of savings term deposits	571	1,0%	480	1,8%
Provisions for litigation (Note 28 (d))	-	0,0%	1.802	6,7%
Income from changes in the value of investment property	40.409	70,4%	-	0,0%
Other income	5.624	9,8%	7.373	27,4%

x. Other expenditure

				in thousand RSD
	2021.	%	2020.	%
Other expenses	-274.977	100,0%	-282.024	100,0%
Rental costs	-839	0,3%	-794	0,3%
Maintenance costs	-66.712	24,3%	-59.855	21,2%
Professional services	-56.800	20,7%	-54.162	19,2%
Costs of advertising and propaganda	-7.809	2,8%	-5.090	1,8%
Costs of donations and sponsorships	-423	0,2%	-423	0,1%
PTT and telecommunication services	-7.128	2,6%	-6.603	2,3%
Insurance premium costs	-34.261	12,5%	-31.254	11,1%
Tax expense	-13.165	4,8%	-12.560	4,5%
Contribution costs	-42.459	15,4%	-44.260	15,7%
Compensation of employees	-4.579	1,7%	-4.661	1,7%
Cost of materials	-7.217	2,6%	-7.628	2,7%
Provisions for litigation	-7.678	2,8%	-974	0,3%
Expenses from changes in the value of assets held for sale	-14.692	5,3%	-41.412	14,7%
Other expenses	-11.214	4,1%	-12.348	4,4%

4. DEVELOPMENT, FINANCIAL POSITION AND ACHIEVED RESULTS OF THE BANK (cont.)

The balance sheet amount of the Bank as of December 31, 2021 amounted to RSD 12,343,207 thousand. The largest share in the Bank's assets is occupied by loans and receivables from customers with a share of 52.3%, followed by cash and funds with the central bank 19.0%, securities 13.3%, and loans and receivables from banks and other financial organizations 9, 5%. Deposits and other financial liabilities to customers have the largest share in the Bank's liabilities of 82.2%.

Compared to the previous year, the balance sheet total increased by 19.1%, mostly due to an increase in deposits and other obligations to other customers in liabilities (in the amount of 2,078,756 thousand dinars), while in assets the highest growth was recorded in loans and receivables from clients in assets (in the amount of 1,841,157 thousand dinars).

Structure of balance sheet items of the Bank:

I. Cash and funds with the central bank

in thousand RSD

	2021.	%	2020.	%
In dinars				
Current and giro accounts	1.130.064	48,2%	438.219	22,4%
Deposits of surplus liquid assets	-	0,0%	481.000	24,6%
Cash on hand	54.866	2,3%	49.170	2,5%
Accruals and deferrals based on cash and funds with the Central Bank	26	0,0%	19	0,0%
	1.184.956	**50,5%**	**968.408**	**49,5%**
In foreign currency				
Reserve required	1.058.239	45,1%	764.271	39,1%
Cash on hand	103.722	4,4%	222.464	11,4%
	1.161.961	49,5%	986.735	50,5%
Balance as at 31st of December	2.346.917	100,0%	1.955.143	100,0%

II. Securities

in thousand RSD

	2021.	%	2020.	%
Government bonds:				
- in dinars	455.473	27,7%	619.435	34,0%
- in foreign currency	1.190.768	72,3%	1.199.875	66,0%
Balance as at 31st December	1.646.241	100,0%	1.819.310	100,0%

III. Loans and receivables from banks and other financial organizations

in thousand RSD

	2021.	%	2020.	%
In dinars				
Receivables from the NBS on repo transactions	0	0,0%	0	0,0%
Other placements	0	0,0%	19	0,0%
	0	**0,0%**	**19**	**0,0%**
In foreign currency				
Foreign currency accounts	997.297	84,9%	1.111.164	86,3%
Other deposits	178.078	15,2%	181.576	14,1%
	1.175.375	**100,1%**	**1.292.740**	**100,4%**
Gross loans and receivables	1.175.375	100,1%	1.292.759	100,4%
Minus: Value adjustment	-1.124	-0,1%	-4.540	-0,4%
Balance as at 31st of December	1.174.251	100,0%	1.288.219	100,0%

4. DEVELOPMENT, FINANCIAL POSITION AND ACHIEVED RESULTS OF THE BANK (cont.)

IV. Loans and receivables from clients

in thousand RSD

	2021.	%	2020.	%
Short-term loans in dinars:				
- Companies	226.831	0	1.082.128	0
- Retail	8.669	0,1%	28.276	0,6%
	235.500	3,6%	1.110.404	24,1%
Long-term loans in dinars:				
- Companies	1.225.605	19,0%	3.478.676	75,4%
- Retail	270.603	4,2%	326.943	7,1%
	1.496.208	**23,2%**	**3.805.619**	**82,5%**
Short-term loans in foreign currency:				
- Companies	395.318	6,1%	0	0,0%
- Retail	0	0,0%	0	0,0%
	395.318	6,1%	0	0,0%
Long-term loans in foreign currency:				
- Companies	4.505.974	69,8%	54.675	1,2%
- Retail	298.114	4,6%	-	0,0%
	4.804.088	74,5%	54.675	1,2%
Interest receivable:				
- Companies	51.831	0,8%	106.676	2,3%
- Retail	4.681	0,1%	16.108	0,3%
	56.512	**0,9%**	**122.784**	**2,7%**
Deferred interest receivable:				
- Companies	262	0,0%	515	0,0%
- Retail	207	0,0%	374	0,0%
	469	**0,0%**	**889**	**0,0%**
Deductible items in dinars - PVR:				
- Companies	-6.951	-0,1%	-8.073	-0,2%
- Retail	-1.072	0,0%	-1.403	0,0%
	-8.023	-0,1%	-9.476	-0,2%
Gross loans and receivables	6.980.072	108,1%	5.084.895	110,3%
Minus: Value adjustment	-520.471	-8,1%	-474.037	-10,3%
Balance as at 31st of December	6.459.601	100,0%	4.610.858	100,0%

V. Property, plant and equipment and investment property

Immovable property acquired by the Bank through another public sale in the enforcement proceedings against the enforcement debtor "Lemić Group" d.o.o., Belgrade in the amount of RSD 42,192 thousand. By the decision of the Executive Board no. 226/2021 dated 22 June 2021, the Bank classified real estate as investment property.

The appraisal of the value of the real estate was performed on June 14, 2021. The estimated value is RSD 87,241 thousand.

4. DEVELOPMENT, FINANCIAL POSITION AND ACHIEVED RESULTS OF THE BANK (cont.)

VI. Fixed assets intended for sale and assets of business suspended

in thousand RSD

	2021	2020.
Fixed assets held for sale	376.516	396.269
Impairment of assets held for sale	-56.105	-41.412
Balance as at 31st of December	320.411	354.857

The Bank has acquired assets on the basis of the Agreement on the sale of immovable and movable property, concluded with the legal entity FSH "Komponenta" d.o.o. Ćuprija - in bankruptcy as a debtor on an approved loan due for collection, by the Decision of the Executive Board of April 12, 2016, classified as fixed assets intended for sale. The bank has announced the said property for sale and expects to sell it in the near future.

Based on the Agreement on the purchase and sale of immovable and movable property dated January 31, 2018, the Bank, on behalf of the acquisition of property with the legal entity FSH "Komponenta" d.o.o. Ćuprija - in bankruptcy, and in connection with the aforementioned transaction, bought movable and immovable property in the amount of RSD 1,032 thousand and in 2019 was registered as the owner and thus increased the value of fixed assets intended for sale.

A new assessment of the value of the real estate was performed on December 31, 2021. Estimated value is 2,750,000.00 EUR.

The Bank reduced the carrying amount to its estimated value and reported an expense of RSD 14,692 thousand.

VII. Deposits and other liabilities to Banks, other financial institutions and the Central Bank

in thousand RSD

	2021	%	2020.	%
In dinars				
Transaction accounts	3.535	2,2%	20.293	0
Other deposits	-	0,0%	-	0,0%
Accrued interest liabilities	-	0,0%	-	0,0%
	3.535	2,2%	20.293	39,4%
In foreign currency				
Transaction accounts	157.200	96,6%	23.852	46,3%
Other deposits	-	0,0%	-	0,0%
Other obligations	1.941	1,2%	7.415	14,4%
	159.141	97,8%	31.267	60,6%
Balance as at 31st of December	162.676	100,0%	51.560	100,0%

4. DEVELOPMENT, FINANCIAL POSITION AND ACHIEVED RESULTS OF THE BANK (cont.)

VIII. Deposits and other liabilities to other clients

in thousand RSD

	2021	%	2020	%
In dinars	2.071.769	20,4%	1.032.945	12,8%
Transaction accounts	1.481.834	14,6%	832.038	10,3%
Savings deposits	513.359	5,1%	96.983	1,2%
Dedicated deposits	48.098	0,5%	55.384	0,7%
Other deposits	20.349	0,2%	47.633	0,6%
Liabilities based on interest on loans, deposits and other financial liabilities	8.129	0,1%	22	0,0%
Accrued interest liabilities	-	0,0%	885	0,0%
In foreign currency	8.072.177	79,6%	7.032.345	87,2%
Transaction accounts	3.410.662	33,6%	2.237.011	27,7%
Savings deposits	4.303.215	42,4%	4.199.938	52,1%
Dedicated deposits	100.946	1,0%	97.455	1,2%
Other deposits	150.438	1,5%	410.709	5,1%
Loans received	-	0,0%	-	0,0%
Other financial liabilities	98.384	1,0%	79.175	1,0%
Liabilities based on interest on loans, deposits and other financial liabilities	-	0,0%	2.274	0,0%
Accrued interest liabilities	8.532	0,1%	5.683	0,1%
Balance as at 31st December	10.143.946	100,0%	8.065.190	100,0%

IX. Capital

As at 31 December 2021, the subscribed and paid-in share capital of the Bank consists of 9,264,813 ordinary shares (31 December 2020: 9,264,813 ordinary shares), individual nominal value of RSD 500. Reserves in the amount of of RSD 7,060 thousand as at 31 December 2021 are the positive effects of changes in the value of debt securities that are measured at fair value through other comprehensive income.

As at 31 December 2021, the Bank's regulatory capital amounted to RSD 1,743,334 thousand or EUR 14,827 thousand at the official middle exchange rate at the balance sheet date (31 December 2020: RSD 1,939,043 thousand or EUR 16,491,237). The Bank's capital adequacy ratio of 21.68% is higher than the prescribed minimum of 8% (i.e. 14.68% in accordance with the NBS supervisory letter dated 5 January 2021).

The Tier 1 Leverage Ratio, which represents the ratio of share capital to the amount of the Bank's exposure as at 31 December 2021, was 12.77%.

By the letter of the National Bank of Serbia on the Bank's supervisory assessment and accompanying recommendations, the Bank is obliged to maintain the core share capital adequacy ratio at 8.24%, the core capital adequacy ratio at 11.01% and the capital adequacy ratio at 14.68% which represents the total supervisory capital requirement to be increased by the calculated combined protective capital layer at the relevant date.

As at 31 December 2021, the comprehensive capital requirement was 19.08% of the risk assets, calculated as the sum of the total supervisory capital requirements and the combined capital buffer on that date.

According to the Decision of the National Bank of Serbia on capital adequacy as of December 31, 2021, the Bank had sufficient capital to meet the minimum requirements of the National Bank of Serbia.

4. DEVELOPMENT, FINANCIAL POSITION AND ACHIEVED RESULTS OF THE BANK (cont.)

X. Off-balance sheet

in thousand RSD

	2021	%	2020	%
Guarantees and other future commitments	1.828.137	14,0%	844.073	6,8%
Other off-balance sheet items	11.254.220	86,0%	11.579.924	93,2%
Balance as at 31st of December	13.082.357	100,0%	12.423.997	100,0%

XI. Structure of off-balance sheet items

in thousand RSD

Guarantees and other future commitments	2021.	%	2020.	%
Payable guarantees:	644.856	35,3%	497.750	59,0%
- in dinars	644.856	35,3%	497.750	59,0%
- in foreign currency	0	0,0%	0	0,0%
Performance guarantees:	1.183.281	64,7%	281654	33,4%
- in dinars	1.183.281	64,7%	281.654	33,4%
- in foreign currency	0	0,0%	0	0,0%
Total guarantees and other commitments	1.828.137	100,0%	779.404	92,3%
Swap transactions and purchase of foreign currency for dinars	0	0,0%	0	0,0%
Irrevocable commitments	0	0,0%	64.669	7,7%
Balance as at 31st of December	1.828.137	100,0%	844.073	100,0%

Other off-balance sheet items	2021	%	2020.	%
Loro guarantees	2.686.628	23,87%	3.650.475	31,5%
Revocable commitments	1.189.004	10,56%	968.550	8,4%
Tangible assets, mortgages and pledges	5.213.762	46,33%	4.835.231	41,8%
Accounting write-off	1.453.296	12,91%	1.430.624	12,4%
Other off-balance sheet items	711.530	6,32%	695.044	6,0%
Balance as at 31st of December	11.254.220	100,00%	11.579.924	100,0%

5. COMPLIANCE WITH NBS REGULATIONS

Indicator	Prescribed indicator according to NBS regulations	Calculated indicator on 31/12/2021
Bank regulatory capital	Min EUR 10 million	EUR 14.826.765
Capital adequacy ratio	Minimum 8%	21,68%
Basic share capital adequacy ratio	Minimum 4.5%	21,14%
Share capital adequacy ratio	Minimum 6%	21,14%
Indicator of open foreign exchange position as at 31.12.2021	maximum 20% of the capital	8,99%
Indicator in the third month of the last quarter	Min 1	3,8
Narrower liquidity ratio	Min 0.5	3,46
Exposure to one person or group of related persons	Maximum 25% of capital	24,93%
The sum of the Bank's large exposures	Maximum 400%	168,40%
Bank investments	Maximum 60% of capital	14,65%
Liquid Asset Coverage Indicator (LCR)	Maximum 100%	212,02%

6. RISK MANAGEMENT AND NON-PERFORMING PLACEMENTS

Risk is characteristic of banking operations, but it is managed through the process of continuous identification, measurement and monitoring, establishment of risk limits and the application of other controls.

By the nature of its activities, the Bank is exposed to the following most significant types of risk:

- credit risk,
- liquidity risk,
- interest rate risk and
- market risk (which includes foreign exchange risk and other market risks).

The Bank is also exposed to the impact of operational risk, which includes: legal risk, risks based on the introduction of new products, activities, processes and systems, as well as the risk of entrusting activities to third parties, i.e. outsourcing and information system risk.

Significant risks of the Bank are: interest rate risk in the banking ledger, risk of the Bank's exposure to one person or group of related parties, risk of the Bank's investment in other legal entities and fixed assets, as well as risks related to the country of origin of the person to which the Bank is exposed and early repayment risks, which the Bank must also continuously monitor.

6.1 Risk management system

The Bank's Board of Directors and **Executive Board** are responsible for the comprehensive approach to risk management, as well as for approving the risk management strategy and principles. In addition, the Bank has established separate independent bodies responsible for risk management and monitoring.

The Bank's risk management bodies permanently monitor changes in legislation, analyze their impact on the level of risk at the Bank's level and take measures to harmonize operations and procedures with new regulations within the framework of controlled risk.

In order to establish a unified risk management system and ensure the functional and organizational separation of risk management activities from regular business activities, the Bank has established a Risk Management Sector. The scope of this sector includes managing the Bank's liquidity risk, foreign exchange and other market risks, interest rate risk in the banking ledger, managing the Bank's exposure to a person or group of related parties, the Bank's investment risk in other legal entities and fixed assets, exposure to the country of origin to which the Bank is exposed, operational risks and the development of internal methodologies for assessing, measuring and managing the risks to which the Bank is exposed in its operations. The scope of this sector also includes the Bank's credit risk management and making recommendations for the Bank's exposures affected by credit risk, as well as monitoring and collection of non-performing assets, ie bad assets within the department for work with non-standard assets.

The Assets and Liquidity Sector is responsible for managing the Bank's assets and liabilities, as well as the overall financial structure. In addition, this sector is responsible for the financing and liquidity of the Bank.

The Assets and Liabilities Management Committee is responsible for monitoring liquidity risk and managing the Bank's liquidity risk.

Internal audit controls the risk management process in the Bank at least once a year by internal audit, which examines the adequacy of procedures, as well as the compliance of the Bank with the adopted procedures. The Internal Audit reviews the results of its work with the Bank's management and reports to the Audit Committee on its findings and recommendations.

6. RISK MANAGEMENT AND NON-PERFORMING PLACEMENTS (cont.)

6.1. Risk management system (cont.)

The Bank's risks are measured using methods that reflect both expected losses that may arise under normal circumstances and unexpected losses, which are estimates of final losses based on statistical models. The models use probability derived from historical data, adjusted to reflect the current economic environment. The Bank also uses the method of worst case scenarios that may occur as a result of extreme events that are unlikely to occur.

Risk monitoring and control is primarily based on establishing limits. These limits reflect the Bank's business strategy and market environment, as well as the level of risk that the Bank is willing to accept. In addition, the Bank monitors and measures the capacity of an acceptable level of risk exposure, taking into account the total exposure to all types of risks and activities.

Collected information from all business activities is examined and processed to identify, analyze and control new risks. This information is presented and explained to the Board of Directors, the Executive Board, the Risk Management Sector and the heads of all business units. The reports contain the total credit exposure, the placement forecast, deviations from the set limits, measuring market risk, liquidity ratios and changes in the risk profile.

The Bank's management assesses the adequacy of value adjustments of placements on a quarterly basis. A comprehensive risk report is submitted to the Audit Committee on a quarterly basis, containing all the necessary information for assessing and drawing conclusions on the risks to which the Bank is exposed. Separate risk management reports are prepared for each level in the Bank to ensure that all business units have access to comprehensive, necessary and up-to-date information.

6.2 Credit risk

Credit risk is the risk of negative effects on the financial result and capital of the Bank due to non-performance of obligations of debtors to the Bank.

The Bank's credit risk is conditioned by the debtor's creditworthiness, its regularity in fulfilling its obligations to the Bank, as well as the quality of instruments for securing the Bank's receivables collection, and is identified, measured, assessed and monitored in accordance with internal regulations for credit risk management, as well as decisions governing the classification of on-balance sheet assets and off-balance sheet items of the Bank, ie capital adequacy.

The risk management policy, credit risk management procedures and procedures for approving, releasing and collecting placements define the process of credit risk management of individual placements and risks at the portfolio level, ie procedures for identifying, measuring and monitoring (controlling) placements, especially those with increased level of risk. In accordance with the stated procedures, the Bank engages with users who have the appropriate creditworthiness and for whom the assessment determines that the level of risk is acceptable, having in mind the relationship and connection between the categories of risk and profitability.

The Bank controls and manages credit risk by establishing limits, which define the level of risk it is willing to accept at the level of individual clients, geographical areas and industries, as well as by monitoring exposure to these risks. Risk exposure is continuously monitored through periodic assessments of the debtor's ability to meet its obligations to the Bank and other creditors.

The Bank has established a loan quality monitoring process to ensure timely identification of potential changes in customers' creditworthiness, including regular control of collateral. Limits in relation to customers are determined using the credit risk classification system, which classifies each customer according to a certain credit rating, as well as according to the internal methodology that defines the level of exposure that the Bank is willing to accept by individual debtor or group of related parties.

6. RISK MANAGEMENT AND NON-PERFORMING PLACEMENTS (cont.)

6.2 Credit risk (cont.)

Client classification is subject to regular review. The loan quality monitoring process enables the Bank to assess potential losses as a result of the risks to which it is exposed and to take corrective action.

According to the Bank's policy, decision-making on credit risk exposure is centralized and concentrated within the Credit Committee for Economy and Retail. The decision of the Credit Committee is made after considering the proposal given by the competent sectors involved in the credit process and the Risk Management Sector.

The conditions for approving each placement to the economy are determined individually, and depending on the type of client, the purpose for which the placement is approved, the estimated creditworthiness, the collateral offered and the current market situation. The security conditions that accompany each placement are also determined by the analysis of the client's creditworthiness, the type of credit risk exposure, the maturity of the placement and the amount itself. All placements of the Bank are based on relevant approvals, which determine the provisions and other conditions of their implementation.

Credit risk reporting is performed on a continuous basis at the level of the Bank's total portfolio as well as at the level of individual clients. In accordance with the requirements of shareholders, credit risk reporting is performed on a monthly basis when reviewing the portfolio, arrears, value adjustments and provisions and capital of the Bank.

The Bank issues guarantees and letters of credit to its clients, on the basis of which the Bank has a potential obligation to make payments in favour of third parties. In this way, the Bank is exposed to risks related to credit risk, which can be overcome by control processes and procedures used to mitigate credit risk.

Credit risk arising from derivative financial instruments is, at all times, limited to those instruments with positive fair value that are recorded in the balance sheet. The credit risk of the derivative is limited by determining the maximum possible fair value of the total portfolio of derivatives as well as the maximum possible positive fair value of each individual transaction. The Bank is not exposed to this risk, as there are no significant derivative financial instruments.

Overview of maximum credit risk exposures shown in gross amount without taking into account the means of security as of December 31, 2021 and 2020 is given in the following table:

in thousand RSD

	2021	2020
	Gross maximum exposure	Gross maximum exposure
Exposure - balance sheet items		
Securities*	1.646.241	1.819.310
Loans and receivables from banks and other financial organizations	1.174.251	1.288.219
Loans and receivables from customers	6.452.015	4.610.858
Other funds	94.805	105.424
Total balance sheet items	9.367.312	7.823.811
Exposure - off-balance sheet items		
Payable guarantees	644.856	497.750
Performance guarantees	1.183.280	281.654
Uncovered letters of credit	-	-
Unused commitments	1.189.004	968.550
Total off-balance sheet items	3.017.140	1.747.954
Balance as at 31 December	12.384.452	9.571.765

** The securities as of December 31, 2021 refer entirely to government bonds, and from the Bank's point of view they do not represent risky balance sheet items*

6. RISK MANAGEMENT AND NON-PERFORMING PLACEMENTS (cont.)

6.2 Credit risk (cont.)

As at 31 December 2021, 56.98% of the maximum credit risk exposure relates to loans and receivables from customers (31 December 2020: 51.97%), 9.85% to unused commitments (31 December 2020) 2020: 3.03%) and 2.75% on loans and receivables from banks and other financial organizations (31 December 2020: 14.52%).

6.3 Liquidity risk

Liquidity risk is the possibility of adverse effects on the Bank's financial results and equity due to the Bank's inability to meet its due obligations, due to:

- withdrawal of existing sources of financing, ie inability to obtain new sources of financing (liquidity risk of sources of funds), or

difficulty in converting assets into liquid assets due to market disturbances (market liquidity risk).

The main goal of liquidity risk management is to maintain the level of liquid assets, in order to settle due liabilities on balance sheet and off-balance sheet transactions at the Bank level.

Liquidity risk management means managing all positions of the Bank's assets and liabilities that may affect the Bank's inability to meet its due obligations.

To reduce or limit this risk, the Bank's management seeks to diversify its funding sources, to manage assets by considering its liquidity, and to monitor the Bank's future cash flows and daily liquidity. This includes an estimate of expected cash flows and the existence of highly ranked collateral that can be used to provide additional funding, if required.

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

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

- Identifying liquidity risk;
- Measurement, i.e. liquidity risk assessment;
- Liquidity risk mitigation;
- Monitoring and control of liquidity risk; i
- Liquidity risk reporting.

Identification of the causes / early warning signals of the liquidity crisis is carried out by the Assets and Liquidity Sector in cooperation with the Risk Management Sector and the Finance and Planning Division, based on information provided by organizational units for work with the economy and households, as well as holders of liquidity risk management systems (Board of Directors and / or Executive Board) and members of the Assets and Liabilities Management Committee (hereinafter "ALCO Committee").

The measurement or assessment of liquidity risk is a quantitative and / or qualitative assessment of the identified liquidity risk and is the responsibility of the Risk Management Sector . Measurement, ie assessment of liquidity risk includes the application of GAP analysis, ratio analysis and stress test.

Risk mitigation and liquidity is the establishment of measures and rules for risk mitigation through the establishment of a system of limits, i.e. maintaining risk at an acceptable level for the risk profile of the Bank.

6. RISK MANAGEMENT AND NON-PERFORMING PLACEMENTS (cont.)

6.3. Liquidity risk (cont.)

The acceptable level of the Bank's exposure to liquidity risk depends on: the structure of assets and its ability to be converted into liquid assets, the concentration of sources of funds,as well as the currency structure of funds and sources of funds, on the basis of which it is possible to limit the negative effects on the financial result and capital of the Bank, ie provide a sufficient level of liquid assets to meet due obligations and finance the increase of assets.

Liquidity risk mitigation includes definition of:

- Liquidity risk exposure limit (basic and additional limits); i
- Liquidity risk protection measure.

Liquidity risk monitoring defines the process of analysing the situation, changes and trends of liquidity risk exposure. The Risk Management Sector manages liquidity risk using defined internal limits within regulatory limits and prescribed measures for protection against critical low levels of liquidity, ie monitors compliance with defined limits.

The Assets and Liquidity Sector, in cooperation with other organizational units, implements measures to reduce / mitigate liquidity risks and informs the Risk Management Sector, ALCO Committee, about the results of the implemented measures. The ALCO committee decides on whether and to what extent the proposed measures will be implemented, ie whether the exposure to liquidity risk is acceptable, having in mind the impact on the Bank's risk profile indicators - liquidity appetite.

The manner of dealing with and resolving temporary and long-term liquidity crises is more closely defined by the Liquidity Crisis Plan and Recovery Options, which are described in more detail through the Bank's Recovery Plan for 2020. In order to manage the Bank's short-term liquidity, maturity analyzes of inflows and outflows based on various asset and liability items are used. Medium- and long-term liquidity management is performed by projections of the balance sheet structure based on the Bank's planned business activities and the Bank's Strategy.

The Assets and Liabilities Management Committee is responsible for liquidity risk management, establishing control mechanisms for monitoring liquidity risk exposure, as well as making relevant conclusions to minimize risk exposure, making proposals for decision-making of the Bank's Executive Board - in particular, liquidity policy and fundraising. as well as other issues related to the management of the Bank's assets and liabilities, which are important for the financial stability of the Bank.

The Bank manages its assets and liabilities in a way that ensures that it fulfils all its obligations at all times, as well as that its clients dispose of their funds in the Bank in accordance with the agreed deadlines.

The Assets and Liquidity Sector monitors the basic liquidity parameters on a daily basis, striving to balance the inflows and outflows of funds so that the daily liquidity ratio moves within the limits prescribed by the National Bank of Serbia.

The basis for quality management and providing the required level of liquidity is the compliance of the maturity of placements with their sources. Deciding on the maturity of placements is based on data on the maturity of deposits, and especially on information on the movement of deposits of significant depositors, as well as their needs in the short term. In making its decisions, the Bank shall pay particular attention to the need not to use funds from short-term sources for long-term placements.

6. RISK MANAGEMENT ANDNON-PERFORMING PLACEMENTS (cont.)

6.3. Liquidity risk (cont.)

The level of the Bank's liquidity is expressed by its liquidity ratio, the Bank's narrower liquidity ratio, as well as the liquidity coverage ratio (LCR).

On December 31, 2021 the narrower liquidity ratio was 3.80 while the LCR was 212.02% and above the prescribed threshold.

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

6.4 Interest rate risk

Interest rate risk is defined as the risk of possible negative effects on the financial result and capital of the bank based on positions in the banking ledger due to changes in interest rates.

The subject of interest rate risk management is all positions in the banking ledger that may cause a negative effect on the Bank's result and capital due to changes in interest rates.

The Bank controls interest rate risk by monitoring the interest-bearing assets and liabilities and their share in total assets and liabilities. The Assets and Liabilities Management Committee monitors the risk of changes in interest rates on interest-bearing positions of assets, liabilities and off-balance sheet items, interest rate ranges and the impact of changes in interest rates on the Bank's income, expenses and capital.

By negotiating variable interest rates, the Bank greatly reduces the risk of changes in interest rates. In practice, the Bank's exposure to interest rate risk is limited, given the possibility of adjusting interest rates on loans and deposits, with the written consent of clients (individuals) to change the mandatory elements of the contract.

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

The bank implies interest rate risk management as a process that encompasses:

- Identifying interest rate risk;
- Measurement or assessment of interest rate risk;
- Mitigation of interest rate risk;
- Monitoring and control of interest rate risk; i
- Interest rate risk reporting

The Bank identifies significant sources of interest rate risk in a comprehensive manner, which includes determining current interest rate risk exposures (interest-bearing assets and liabilities) and option risk as well as interest rate risk exposures based on new business products and activities in positions in the banking ledger.

The Assets and Liquidity Sector, in cooperation with the Risk Management Sector and the Finance and Planning Division, identifies the causes / factors of interest rate risk.

8. RISK MANAGEMENT OF NON-PEFORMING PLACEMENTS (cont.)

6.4. Interest rate risk (cont.)

The Bank's interest rate risk measurement is a quantitative and qualitative assessment of interest rate risk exposure using GAP analysis, ratio analysis, Black-Scholes model (for option risk) and stress testing, conducted at least monthly on a regular basis and under the responsibility of the Risk Management Sector.

The Risk Management Sector analyses the impact of interest rate changes, ie interest rate repricing according to the methodology for interest rate sensitive items of assets and liabilities on a monthly basis and measures the effects of the standard interest rate shock of 200 bp on the Bank's economic value in relation to the Basel limit of 20% of regulatory capital (Tier 1 + Tier 2), which also represents the maximum limit value of acceptable risk of the Bank.

Interest rate risk mitigation is the establishment of measures and rules, ie maintaining the risk at an acceptable level for the Bank's risk profile.

Interest rate risk monitoring defines the process of conditions, changes and trends in interest rate risk exposure. The Risk Management Sector monitors compliance with defined limits.

In 2021, when calculating exposures, bank continued to implement activities to control and measure interest rate risk by applying a standard interest rate shock of 200 basis points (bp) to banking ledger positions in all major currencies individually (EUR and RSD) and for other currencies in total. (USD, CHF, GBP, RUB).

The following table shows the Bank's exposure to interest rate risk (Repricing Gap report) as at 31 December 2021 with a comparative review of the effects for 2020.

Change in the economic value of the Bank's book - total					
Time period	Marginal gap		Ponder	Impact on economic value	
	Total in RSD	Total in EUR		Total in RSD	Total in EUR
Up to 1 m	2.769.453.726	23.553.362	0,08%	2.215.563	18.843
1 - 3 m	-253.878.855	-2.159.162	0,32%	-812.412	-6.909
3 - 6 m	-47.818.774	-406.684	0,72%	-344.295	-2.928
6 - 12 m	-912.690.309	-7.762.154	1,43%	-13.051.471	-110.999
1 - 2 y	318.114.330	2.705.466	2,77%	8.811.767	74.941
2 - 3 y	-186.497.379	-1.586.103	4,49%	-8.373.732	-71.216
3 - 4 y	250.339.246	2.129.059	6,14%	15.370.830	130.724
4 - 5 y	489.447.542	4.162.602	7,71%	37.736.405	320.937
5 - 7 y	277.052.703	2.356.249	10,15%	28.120.849	239.159
7 - 10 y	0	0	13,26%	0	0
10 - 15 y	0	0	17,84%	0	0
Total	2.703.522.229	22.992.634		69.673.503	592.552
Regulatory capital as at 31st of December 2021:				1.743.334.000	14.826.525
The effect of the impact of a standard shock of + 200bp				4,00%	4,00%
Regulatory capital as at 31st of December 2020:				1.939.042.000	16.491.229
The effect of the impact of a standard shock of + 200bp				2,94%	2,94%

The risk management sector conducts stress testing of material risks at the very least on a monthly basis, including the effects of changes in interest rates, in accordance with the nature and level of risks to which the Bank is exposed, on the Bank's income and economic value, i.e. the impact on regulatory capital and capital adequacy, by applying interest rate repricing.

6.5. Market risks

Market risks are the possibility of negative effects on the financial result and capital of the Bank based on changes in the value of balance sheet items and off-balance sheet items of the Bank that arise due to market prices.

Market risks include:

- foreign exchange risk,
- price risk (based on debt and equity securities) and
- commodity risk.

The Bank is not exposed to the risk of changes in the prices of equity instruments and commodity prices. Apart from the concentration of market risk of foreign currencies, the Bank does not have a significant concentration of market risk in other positions.

Foreign exchange risk is the risk of possible negative effects on the Bank's financial result and capital due to changes in foreign exchange rates, and the Bank is exposed to it on the basis of positions kept in the banking ledger and in the trading book. The ALCO committee approved limits for positions in each material currency in the Bank's operations. Positions are monitored daily to ensure that the values of the given positions remain within the established limits.

The foreign exchange risk indicator is the ratio between the total net open foreign exchange position (including the absolute value of the net open position in gold) and the Bank's capital, which are calculated in accordance with the decision governing the Bank's capital adequacy.

In accordance with the regulatory requirements of the National Bank of Serbia, the Bank continuously maintains its foreign exchange position - an indicator of its foreign exchange risk within the legally prescribed maximum in relation to capital, i.e. at the end of each day does not exceed 20% of capital.

During 2021, this indicator was at a level that is below the prescribed value for the entire period during the year.

The goal of foreign exchange risk management is to ensure the safe operation of the Bank, by minimizing the negative effects of changes in foreign exchange rates on the financial result and capital of the Bank, for positions held in the banking ledger and trading book. The Bank has established a foreign exchange risk management process that identifies and assesses the impact of the Bank's activities on its exposure to foreign exchange risk, i.e. identifies and assesses their impact on the Bank's results and equity.

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

- Identifying foreign exchange risk;
- Measurement, i.e. assessment of foreign exchange risk;
- Foreign exchange risk mitigation;
- Monitoring and control of foreign exchange risk; i
- Foreign exchange risk reporting.

The Risk Management Sector, in cooperation with the Finance and Planning Sector and the Assets and Liquidity Sector, comprehensively identifies the causes / factors that lead to foreign exchange risk in a comprehensive manner, which includes determining current exposure and foreign exchange risk exposure based on new business products and activities.

6.5. Market risks (cont.)

Foreign exchange risk measurement is a quantitative and qualitative assessment of the Bank's exposure to foreign exchange risk using GAP analysis (currency structure), Ratio analysis, VaR methodology, Black-Scholes model (delta-weighted position) and stress testing. On a daily basis, the Risk Management Sector applies techniques for measuring foreign exchange risk indicators and OCP exposure, and conducts stress testing on a quarterly basis.

The Risk Management Sector conducts stress tests of the Bank's position sensitivity to changes in foreign exchange rates at least once a quarter and informs the Bank's Executive Board, ALCO committee, Audit Committee, the Board of Directors and the Bank's shareholders about the test results.

The following tables indicate the currencies in which the Bank has significant exposures of its monetary assets and liabilities not traded at 31 December 2021 and 2020.

The analysis calculates the result of reasonably possible exchange rate movements in relation to RSD with constant maintenance of other variables. Negative amounts in the table represent potential decreases in operating results or equity, while positive amounts represent potential increases.

in thousand RSD

	Changes in the exchange rate (%)	Effect on the result of operations before taxation	Changes in the exchange rate (%)	Effect on the result of operations before taxation
Currency	2021.		2020.	
EUR	-20%	-3.049	-20%	-502
CHF	-20%	-34	-20%	-93
USD	-20%	-0,58	-20%	-62

6.6. Bank exposure risk (concentration risk)

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

Concentration risk refers to:

- large exposures;
- exposure groups with the same or similar risk factors, such as economic sectors, geographical areas, product types and the like; and
- credit protection instruments, including maturity and currency mismatches between large exposures and credit protection instruments of those exposures.

Monitoring the Bank's exposure to the risk of exposure to one person or a group of related parties is the responsibility of the organizational unit responsible for approving product engagement. Monitoring the Bank's exposure to this risk is a mandatory part of the engagement approval process in the sense that the body approving the engagement has data on the total amount of the Bank's exposure to a client or group of related parties and the relation to the Bank's capital.

The Bank controls concentration risk by establishing appropriate exposure limits that allow it to diversify its loan portfolio. In addition to the regulatory defined methods of measuring concentration risk (exceeding the limit), the Bank uses two other frequently used concentration measures: the concentration ratio and the Herfindahl-Hirschman Index (HHI).

6.6. Bank exposure risk (concentration risk) (cont.)

Concentration ratio - CR5 (concentration measure for the 5 largest exposures to which it applies: low concentration 0-50%; medium concentration 50-80% and high concentration 80-100%) is the sum of a number of the largest percentage shares of exposure in regulatory capital, while Herfindahl -Hirschman index represents the sum of squares of all percentage shares of exposure in regulatory capital.

The following relation applies to both measures: the more diversified the loan portfolio (less concentration), the lower the values of these measures.

In 2021, the Bank took care of the compliance of concentration risk indicators by implementing appropriate activities provided by relevant procedures and decisions on loan approval, and thus ensured compliance of its placements and investments with business indicators prescribed by the National Bank of Serbia.

In accordance with the regulations and the Risk Management Policy, the Board of Directors gives its consent for exposing the Bank to the risk of exposure by individual clients or a group of related parties and persons related to the Bank.

Additional monitoring of the Bank's exposure indicators is performed in the Risk Management Sector, which is reported to the Bank's management bodies. Procedures for implementing this risk management are also subject to internal audit controls and compliance functions.

Through the process of credit and market risk management, the Bank also monitors counterparty risk. The Risk Management Sector monitors exposures to financial institutions from the aspect of internal and regulatory limits of risk concentration and reports on their progress to the Assets and Liquidity Sector, ALCO committee and Risk Management Sector through quarterly reports on the concentration of receivables in relation to individual debtors, groups of related debtors, industries, countries or geographical areas and other parameters relevant to credit risk management, which is regularly reported by the Bank's Executive Board in the form of prescribed reports.

6.7. Investment risks of the Bank

The Bank 's investment risks include the risks of investing in:

- capital of other legal entities,
- real estate,
- plant and equipment (fixed assets).

In accordance with the regulations of the National Bank of Serbia, the amount of the Bank's investment and the amount of regulatory capital are monitored and this ensures that the Bank's investment in one person not operating in the financial sector does not exceed 10% of the Bank's capital and in 60% of the Bank's capital does not exceed the Bank's fixed assets. Exposure to the Bank's investment risk in other legal entities and fixed assets is monitored in such a way that the organizational part or body of the Bank responsible for procurement of fixed assets and investment in legal entities is aware of the current state of exposure and capital in order to comply with prescribed limits.

The Risk Management Sector is additionally monitored by the Bank's exposure indicators, which are reported to the Bank's management bodies. Procedures for implementing this risk management are also subject to internal audit controls and compliance control functions. In 2021, the Bank took care of the compliance of investment risk indicators and ensured the compliance of investments with the indicators prescribed by the National Bank of Serbia.

As at 31 December 2021, the Bank had no investments in non-financial sector entities, while the fixed assets investment indicator amounted to 14.65% of the Bank's regulatory capital.

6. RISK MANAGEMENT AND NON-PERFORMING PLACEMENTS (cont.)

6.8. Country risk

Risk related to the country of origin of the person to whom the Bank is exposed means negative effects that could affect its financial result and capital due to the Bank's inability to collect receivables from this person due to political, economic or social circumstances in the country of origin of that person.

Country risk includes the following risks:

- political and economic risk, which means the probability of incurring a loss due to the inability to collect receivables from the Bank due to restrictions established by acts of state and other authorities of the debtor's country of origin, as well as general and systemic circumstances in that country; and
- transfer risk, which means the possibility of incurring losses due to inability to collect receivables denominated in a currency other than the official currency of the debtor's country of origin, due to restrictions on payment of obligations to creditors from other countries in a certain currency determined by state laws and other, of the debtor's country of origin.

The Risk Management Sector is responsible for managing the risk of the country to which the Bank is exposed. The Bank determines the limits of country risk exposure individually by the country of origin of the debtor, and in the case of a determined concentration of exposure by geographical regions - it also determines them on a regional basis. In determining the level of value adjustments and provisions by country, the Bank also takes into account country risk.

The Bank mostly places funds with clients from the Republic of Serbia, while the country is exposed to the risk in the part of funds that are kept in accounts with foreign banks at certain moments. The Bank pursues a country risk management policy by continuously monitoring the country's risk exposure in relation to the adopted limits, which are determined on the basis of countries' ratings determined by competent institutions (OECD) and regularly informing managing authorities about existing exposures. Country risk is also minimized by the Bank's policy of placing funds abroad, primarily by short-term time deposits with first-class foreign banks.

6.9 Operational risk

Operational risk is the risk of possible negative effects on the Bank's financial results and capital due to failures (unintentional and intentional) in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the Bank, and due to unforeseen external events. This definition includes legal risk and excludes strategic and reputational risk.

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

Operational risk management also includes regulatory (compliance) risk, as an integral part of the unified procedure of the Risk Management Sector and the Compliance Service and AML, according to their competencies, in terms of establishing a common database of operational and regulatory risks, monitoring uniform risk appetite limits, as well as managing and reporting on the risks to which the Bank is exposed in its operations.

The Board of Directors, the Executive Board, the Audit Committee and all organizational parts of the Bank participate in the operational risk management process.

The Bank has established a unique process of operational risk and regulatory risk management, which identifies and assesses the impact of the Bank's activities on its exposure to these risks, i.e., identifies and assesses their impact on the Bank's results and capital.

6.9. Operational risks (cont.)

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

- Risk identification;
- Measurement, i.e. risk assessment;
- Risk mitigation;
- Risk monitoring and control; and Risk reporting.

By identifying operational and regulatory risk, the Bank comprehensively identifies the causes / factors that lead to risk, i.e. implements risk classification for collecting data on operational and regulatory risks and losses (OPR Base), which includes determining current exposure and risk exposure on the basis of introducing products / services in the Bank and / or outsourcing activities / services to third parties.

The database of events on the basis of which the loss occurred or could have occurred, in accordance with the prescribed limit, as a result of operational or regulatory risk by categories determined by sources of losses and other criteria for describing and classifying events, is filled in by data based on identified risks by types of business, by persons responsible for certain business processes in the Bank by reporting them to the Risk Management Sector for further action.

The Bank identifies operational risk retroactively (through entry in the database of events) and proactively through periodic self-assessments of operational risk.

Measurement, i.e. assessment of operational risk exposure is a quantitative and / or qualitative assessment of identified risk by the Risk Management Sector , through the application of risk self-assessment methodology, business impact analysis and exposure indicators using the basic indicator - at least annually, and through the frequency of key indicators risk (KRI) and stress testing on a quarterly basis.

The Bank is guided by the following principles when assuming operational risk:

- Analysis of key risk indicators that lead to the occurrence of operational risk events;
- By measuring current exposure to operational risk and assessing exposure based on the introduction of new products and activities and the transfer of activities / services to third parties in order to implement measures to minimize operational risk events.

Through the process of operational risk mitigation, the Bank determines measures for operational risk mitigation. Measures to mitigate operational risk include:

- defining exposure limits;
- defining key indicators for monitoring and controlling exposure; and
- application of risk transfer mechanisms.

The Bank has defined and adopted the Bank's Continuity Policy and revised Contingency Plan (BCP), which includes the Disaster Recovery Plan (DRP), which together with the accompanying contributions enable the smooth and continuous operation of all significant systems and processes of the Bank, as well as limiting losses in emergencies, which were adequately tested during 2021.

6. RISK MANAGEMENT ANDNON-PERFORMING PLACEMENTS (cont.)

6.9. Operational risk (cont.)

The Risk Management Sector implements the process of monitoring and reporting on the effects of the implementation of applied measures and techniques for mitigating operational risk through regular reporting to the Executive Board. The Compliance Control Service and AML conduct identification, monitoring and reporting on the effects of the implementation of applied measures and techniques for mitigating regulatory (compliance) risk.

The operational risk reporting system includes timely reporting on operational risk events by types of events and lines of business, causes and sources of events, significance of events, exposure trends, measures planned or taken to mitigate and limit the consequences of events and activities of the Bank entrusted to third parties, as well as limits on new products.

The decision on externalization, ie change of the Service Provider and introduction of a new product, as well as the procedures for its change, is made by the Bank's Executive Board on the proposal of the Operational Risk Management Commission.

The measurement and management of the outsourcing process is based on the identification and assessment of all related risks related to the transfer of activities to third parties (outsourcing), which may have an impact on: the continuity of the Bank's operations; costs, financial result, liquidity, solvency and capital of the Bank; the risk profile of the Bank and the quality of service provision and the reputation of the Bank. The same procedure is followed in the case of the introduction of new products / services.

During 2021, reported operational risk events were recorded in the Operating Losses Database.

6.9.1 Information systems risk

Information system risk, as an integral part of operational risk, is the possibility of negative effects on the Bank's financial results and capital, achieving business results, complying with regulations and reputation due to inadequate information system management or other systemic weaknesses that adversely affect system functionality or security and / or compromises business continuity.

The Bank manages information system risks through an integrated process of operational risk management and business continuity, which defines the identification, assessment, analysis and monitoring of operational risk and related risks - information system risk, as well as measures to mitigate, prevent and control in accordance with legal regulations, and internal acts.

Information system risk assessment is performed at least once a year as part of a comprehensive self-assessment of operational risks in the Bank on processes containing the information component and according to the dynamics of Business Impact Analysis, which involves the Bank's organizational units in cooperation with the Risk Management Department information system risks and states the extent to which they are exposed to certain types of information system risks.

Information system risk assessment enables process owners to identify and assess risks in a timely manner, which affect the processes for which they are responsible. After the regular risk assessment of the information system, the Risk Management Sector creates a report on the risk assessment of the information system, as an integral part of the self-assessment of operational risks in the Bank, which is submitted to the Bank's bodies for consideration and approval.

7. PLANNED FUTURE DEVELOPMENT

The Bank plans to perform operations with the long-term goal of achieving stable and profitable operations, with the lowest possible risk and maximum protection of the interests of depositors and other clients.

The planning process is approached with the division of basic business activities of clients into segments of the business and individuals. The business segment includes services to legal entities registered in Serbia and abroad. The segment of individuals includes services to all individual persons.

The main strategic goals will be achieved on the basis of the following key elements:

- Clients - focus on existing and acquisition of new clients with a high level of quality of products and services,
- Products - improvement and development of existing products and services as well as the development of new ones tailored to customer needs,
- Sales channels - further improve the development of alternative channels and digitization processes.

8. NON-FINANCIAL INFORMATION

1. Business model of the Bank

API Bank ad Beograd is a small bank fully owned by the Serbian company AZRS INVEST d.o.o. The bank sees the key to success in the gradual creation of a business model with solutions for customers, which will point out the advantage of a small player over market giants. The Bank is registered in the Republic of Serbia for performing payment operations and credit and deposit operations in the country and payment operations abroad and in accordance with the Law on Banks is obliged to operate on the principles of liquidity, security and profitability.

Being flexible and dynamic in business, monitoring changes in technologies and regulations, maintaining stability in risk management – those are the key priorities of our Bank's development.

The new name of the Bank reflects its new face and vision of the future. The name and logo of the bank symbolize constant growth and development, both in technological and organic terms. It reflects the digital environment in which we live and towards which the Bank is directed. Digital banking and the application of the latest financial technologies will become the most important elements of the Bank's long-term strategy.

API Bank will continue to form a portfolio of loans and banking services for Serbian companies, paying attention to the outstanding level of services and high quality of the portfolio itself.

For individuals, we offer an individual approach and a wide range of the most necessary services.

2. Corporate governance

The Bank has adopted and is implementing a management system that aims to integrate the Bank's strategies, policies and procedures with the principles and values set out in the Code of Ethics. Operating on the principles of responsible corporate governance based on high ethical standards, the Bank protects the interests of shareholders, its clients, employees and the wider community. The management of the bank is organized as a two-tier system consisting of the Board of Directors and the Executive Board. The Board of Directors of the Bank consists of five members, including the Chair of the Board of Directors.

8. NON-FINANCIAL INFORMATION (cont.)

2. Corporate governance (cont.)

Board of Directors: convenes sessions of the bank's assembly; prepares draft decisions for the bank's assembly and is responsible for the implementation of those decisions; adopts the proposal of the bank's business policy and strategy and submits them to the bank's assembly for adoption; adopts the risk management strategy and policy, as well as the bank's capital management strategy; determines the general business conditions of the bank, as well as their amendments; elects and dismisses the chair and members of the bank's executive board; elects and dismisses members of the audit committee, credit committee, asset and liability management committee; determines the amounts up to which the bank's executive board may decide on placements and borrowing of the bank; gives prior consent for the bank's exposure to each individual person or group of related parties exceeding 10% of the bank's capital, or for increasing this exposure over 20% of the bank's capital; supervises the work of the bank's executive board; establishes a system of internal controls and monitors its effectiveness; adopts the program and plan of the bank's internal audit and the methodology of its work; reviews external and internal audit reports, reports on internal audit activities and work, and approves the annual report on the adequacy of risk management and internal control of the bank; adopts quarterly and annual reports of the bank's executive board on the bank's operations, including quarterly reports on risk management, and submits the adopted financial report to the bank's assembly for final adoption; adopts the rules of procedure for its work and the work of the board; adopts the bank's recovery plan; informs the National Bank of Serbia and other competent authorities about the identified irregularities; determines the internal organization, ie the organizational structure of the bank; adopts the policy of salaries and other incomes of bank employees; And performs other tasks in accordance with the bank's statute.

The bank's executive board consists of two members, including the chair. The Chair of the Executive Board of the bank represents the bank. The Bank's Executive Board organizes and supervises the day-to-day operations of the bank, and is responsible for the implementation and efficient functioning of the bank's internal control system.

Bank's Executive Board: executes the decisions of the Bank's General Assembly and the Bank's Board of Directors; proposes to the Board of Directors the business policy and strategy of the bank, as well as the strategy and policy for risk management and the strategy of capital management of the bank; implements the business policy and strategy of the bank by making appropriate business decisions; implements the risk management strategy and policies and the bank's capital management strategy; analyses the risk management system and report at least quarterly to the bank's board of directors on the level of risk exposure and risk management; decides on placements and borrowings of the bank up to the amount determined by the bank's board of directors; decides, with the prior approval of the bank's board of directors, on any increase in the bank's exposure to a party related to the bank and informs the bank's board of directors thereof; provides security and regular monitoring of the bank's information technology system and treasury operations; informs the bank's board of directors on all actions that are not in accordance with the regulations and other acts of the bank; at least once during the business quarter submits to the bank's board of directors an overview of business activities, balance sheet and income statement of the bank; without delay informs the Board of Directors of the bank and the National Bank of Serbia of any deterioration in the financial condition of the bank or the existence of a danger of such deterioration; ensures that all employees are familiar with the regulations and other acts of the bank which regulate their work obligations; adopts the rules of procedure for its work; And decides on all issues that are not within the competence of the Assembly and the Board of Directors of the bank.

2. Corporate governance (cont.)

The shareholder of the Bank, i.e. the Assembly, participates and directly influences the work of the Board of Directors as a governing body in the following ways:

- adopts the bank's business policy and strategy;
- adopts the bank's statute and adopts amendments to the founding act and the bank's statute;
- adopts the financial report of the bank and decides on the use and distribution of the realized profit, i.e. coverage of losses;
- decides on the increase of the bank's capital, ie on capital investments in another bank or in other legal entities, as well as on the amount of investments in the bank's fixed assets;
- appoints and dismisses the president and members of the bank's board of directors;
- determines the remuneration of the members of the bank's board of directors;
- decides on status changes and on the termination of the bank's operation;
- Appoints and dismisses the external auditor.

The Bank's Audit Committee consists of three members, including the Chair. The Audit Committee assists the Board of Directors in supervising the work of the Executive Board and the Bank's employees.

3. Investments with the purpose of protecting the environment

The Bank respects the highest international standards and values in the creation of financial products and services, develops and implements activities in the field of environmental protection and protection of human and labour rights.

The Bank is actively working to establish an Environmental Management System that will ensure daily analysis, limitation and management of all potential risks to the environment or society, which may arise from lending to certain industries or projects.

The goal of the environmental risk management system is to introduce this system in the process of credit activity and credit monitoring, and thus increase opportunities for acceptable and sustainable economic development from the point of view of environmental protection and minimize the possibility of environmental and social negative impacts. The environmental and social risk management system should ensure that the Bank's risk profile is in line with the Bank's defined risk appetite as well as risk tolerance.

During 2021, the Bank continued its socially responsible activities in order to raise the awareness of employees and the community in which we operate. The Bank gives priority to projects that have greater social and environmental value, and avoids those economic or financial relationships that are harmful to human health and the environment.

Digitization of business

We continuously consider the impact of our business activities on the environment and climate change, and our projects and initiatives are aimed at the fastest and easiest transition to a society with significantly reduced CO_2 emissions. We actively participate in the implementation of sustainability not only within our own organization, but we strive to be an example and encourage our clients and the community to digitize business processes. In the circumstances of the pandemic, when it is recommended to replace physical contact with digital technologies, the Bank continues to strengthen its digital channels in order to enable clients to conduct as much financial business as possible online. The Bank is especially improving its mobile banking and virtual API m-Bank application in which it relies on remote communication with clients, online contracting of the Bank's products and services, digital documentation and signing documents with a certified electronic signature.

3. Investments with the purpose of protecting the environment (cont.)

This way of doing business increases the time availability of products and services to the Bank's clients, and at the same time has a significant positive impact on the environment. Using eBanking also reduces the impact of vehicles on the environment, and digital documents and signatures in communication with customers reduce the amount of paper used. It also reduces the need for office space, energy and resources needed for the Bank to function. The Bank continuously encourages its clients to choose the option of sending overviews of transactions and statements on current accounts and credit cards via e-mail, which together contributes to reducing paper consumption.

The trend of decreasing energy and paper consumption

Business activities and processes, organization of sessions and meetings, as well as the implementation of education on a large scale during 2021 were conducted remotely, which caused a further positive impact on paper consumption and energy savings. Due to the above circumstances, energy consumption as well as the frequency of printing documentation at the level of the whole year was a record low.

Waste recycling

Waste management involves sorting waste into commercial waste and waste regarding electrical and electronic equipment. The Bank continued to dispose of waste paper responsibly through authorized waste disposal companies. All electrical waste (old computers, printers, fax machines) is still adequately disposed of by companies authorized to dispose of this type of waste.

4. Social and HR matters

Concern for the satisfaction and motivation of our employees is at the top of the Bank's priorities, with equal opportunities, protection of rights and transparent communication.

Our approach to these complex topics is defined in the Bank's strategic documents, which relate to various areas of responsibility towards employees: Code of Business Conduct, Employment Policy, Training and development policy, Remuneration policy, Ordinance on safety and health at work.

As a responsible employer, in order to provide and improve a motivating work environment, we are focused on the following priority topics:

- Gender equality and the right to equality

Recognizing how useful diversity is, we are guided by this idea in employment in the everyday relationship with employees and in managing them. Particular attention is paid to equality in the workplace and to providing equal opportunities for women and men in terms of career advancement and personal development. There is no need in the Bank to make gender differences for the purpose of employment.

The Bank provides a work environment free of discrimination and harassment, which protects the dignity of employees and promotes a safe and professional work environment that develops teamwork, diversity and trust.

We encourage a work environment in which employees are free to express their opinions and ask questions of the senior management. We encourage the creation of a work environment in which employees feel confident to report any violations of internal acts, bylaws and laws, as well as any form of unethical behaviour of customers, employees and contractual partners or suppliers with whom the Bank cooperates.

- Development and further training of employees

5. Social and HR matters (cont.)

Continuous development of employees is one of the key principles of the Bank. The Bank encourages its employees to develop their talents, innovation and creativity and to push the boundaries of their professional development. We believe in the power of continuous learning, so we design and develop training programs and provide internal and external education of employees. We encourage employees to improve their own knowledge and skills, teamwork skills, togetherness and achieving common business goals. Personally, it is important for us to transfer knowledge and exchange experiences between employees, because in addition to spreading knowledge in this way, we connect employees around a common goal - improving that knowledge. The trust that employees have in the Bank as an employer is important to us, and we appreciate their loyalty.

- Private and business life balance

We have recognized the balance between private and business life of employees as one of the important goals of sustainable development because it affects the satisfaction and commitment of employees, as well as creating a healthy and comfortable working environment. We respect the private life of employees and do not abuse the technical possibilities and the related availability of employees.

5. Investments with the purpose of protecting the environment

- Health, safety, and protection

Caring for the health, safety and protection of employees in the conditions of the pandemic in 2021 remains a priority. Since a large number of employees continued to work from home, they were provided with new IT equipment for easier work. Guidelines for working from home at the Bank level have been developed, and communication from the top management level on results and current events in the Bank has been strengthened. Employees were given the opportunity to use psychological counselling services at the expense of the employer throughout the year. The purpose of such counselling is to help employees to successfully deal with difficulties by adopting new procedures and ways of acting that enable change, and thus elevation of status of life. Mental health care in terms of importance is on the same level as physical health care. All employees are insured with supplementary health insurance and are encouraged to undergo annual physical check-ups.

6. Respecting human rights

The Bank respects all human rights guaranteed by the Constitution of the Republic of Serbia. In its operations, the Bank does not use or abuse children or minors.

Employed women in the Bank are allowed to use the right to pregnancy leave, maternity leave, childcare leave and special childcare leave, in accordance with the Labour Law and the employment contract.

The Bank respects the protection of personal data prescribed by the Law on Personal Data Protection. The Bank also adopted an internal act, the Rulebook on Personal Data Protection.

All information available to the Bank, whether received by the Bank from a client or as a result of business, cooperation and service to clients, is confidential. Continuous attention is paid to security and protection, as well as to the improvement of the IT aspect of security and raising security standards for the protection of all data available to the Bank. We take care of the protection of personal data of clients, contractual partners and employees, in accordance with the Rulebook on the Protection of Personal Data, which sets out the rules related to the protection of individuals with regard to the collection and processing of personal data. All detailed information on the processing of personal data of clients, employees, business partners and other persons whose data are processed, is published publicly on the Bank's web page.

7. Fight against corruption and bribery issues

One of the goals of our business model is to ensure trust in our Bank. Within the Business Compliance Control Department, among other things, we deal with issues of fraud and corruption, as well as conflicts of interest, all with the aim of preserving and strengthening clients' trust in our Bank and preserving its good reputation.

The Bank has implemented the Rulebook on Resolving Conflicts of Interest and the Rulebook on Risk Management of Corrupt Activities, which introduces standards that we adhere to in order to identify and prevent or manage conflicts of interest, including the fight against corruption and bribery.

All employees are responsible for respecting internal rules and all applicable anti-corruption laws in the performance of their duties. The rules stipulate that all employees are required to report to the Compliance Department all cases of actual or attempted bribery or corruption of which they become aware, whether offered, given or received. Failure to report this may result in individual criminal liability of the employee, as well as exposing the Bank to potential legal or regulatory liability.

8. Fight against corruption and bribery issues (cont.)

Employee awareness raising and targeted training are an extremely important part of the corruption risk management system. The Bank's anti-corruption policies and procedures are available to all employees through the internal portal, and it is the obligation of all employees to be regularly informed about newly adopted documents.

Activities related to the promotion of business integrity and transparency are continuously carried out through the improvement of corporate governance, harmonization of operations with laws, regulations and standards, continuous development of internal control systems and the work of control functions.

9. Research and development activities

In the economy segment, the target clients will be key industries of the Serbian economy, as well as international companies, which benefit from Serbia's international trade regime, which encourages stronger economic relations with Russia, China and the EU.

The Bank will also continue to support companies involved in the implementation of major infrastructure projects in Serbia, while working to raise awareness of international companies about the benefits of doing business in Serbia.

In the retail segment, the Bank's sales strategy will be based on three (3) S's

1. simple line of products and services,
2. simple and clear application procedure and contract structure,
3. simple and clear tariffs.

We also believe that in the heyday of the residential real estate market, the Bank has the opportunity to enter this market segment for both residents of the Republic of Serbia and foreign individuals.

10. Support and development of the communities in which we operate

In accordance with its Corporate Social Responsibility Strategy, the Bank continuously strategically and proactively invests in the community by listening to the needs, communicating daily with all stakeholders, following modern trends in sustainable development.

Financial literacy

10. Support and development of the communities in which we operate (cont.)

Personal financial management is a real challenge nowadays, and as a responsible institution we provide financial service users with all the information and facts important for savings and investment planning, optimal borrowing and quality risk management. We regularly promote the importance of financial responsibility and literacy, and for many years we have been cooperating with faculties and student associations in various financial literacy programs.

Sponsorships and donations

Aware of its impact on the environment, as well as the fact that acting and doing business in the company implies constant care and respect for it, the Bank is always happy to help the community and society through donations and sponsorships. We support projects at the local and national level that encourage the creation of new values in order to promote knowledge, excellence and preservation of cultural heritage. Special attention is paid to humanitarian activities.

Dialogue with the community

Our goal is to help clients achieve financial sustainability and we believe that by working committed to this goal we have a positive impact on the local community in which we operate, but also on society as a whole. Through our work and presence, we strive to continuously contribute to the social and economic well-being of the communities in which we operate, while actively working to reduce the impact of our business on the environment. It is extremely important for us to have good partnerships with the local community, to cooperate and promote initiatives that bring significant social value.

9. EVENTS AFTER THE REPORTING PERIOD DATE

There were no significant events after the Balance Sheet date.

Exchange rates of the National Bank of Serbia

The official middle exchange rates of the National Bank of Serbia determined on the interbank foreign exchange market, used to convert foreign exchange positions of the balance sheet as at 31 December 2021 and 2010 into the functional currency, for some major foreign currencies are:

	2021	2020
EUR	117,5821	117,5802
USD	103,9262	95,6637
CHF	113,6388	108,4388
RUB	1,3925	1,2751

Dijana Čučuk
Director of Finance Division

Valentina Keiša
President of
Executive Board