UNICREDIT BANK SRBIJA A.D., BEOGRAD

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

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This is an English translation of the Report originally issued in the Serbian language

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of UniCredit Bank Srbija a.d., Beograd

Opinion

We have audited the consolidated financial statements of UniCredit Bank Srbija a.d., Beograd (hereinafter: the "Bank"), and its subsidiaries (hereinafter collectively: the "Group"), which comprise the consolidated balance sheet as at December 31, 2021, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with the standards on auditing applicable in the Republic of Serbia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Republic of Serbia, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's Consolidated Annual Business Report other than the consolidated financial statements and the auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With regard to the Consolidated Annual Business Report, we have performed procedures prescribed by the Law on Accounting of the Republic of Serbia. Those procedures include verifying whether the Consolidated Annual Business Report is formally prepared in accordance with the Law on Accounting of the Republic of Serbia.

Based on the procedures performed, to the extent we are able to assess this, we report that:

1. The information presented in the Consolidated Annual Business Report for 2021 is consistent, in all material respects, with the accompanying consolidated financial statements for the year ended December 31, 2021.
2. The accompanying Consolidated Annual Business Report for 2021 is prepared in accordance with the Law on Accounting of the Republic of Serbia.

Based on our knowledge and understanding of the Group and its environment acquired during our audit, we have not determined that there is any material misstatement in the Consolidated Annual Business Report.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of UniCredit Bank Srbija a.d., Beograd (Continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 standards of auditing applicable in Republic of Serbia 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 consolidated financial statements.

As part of an audit in accordance with Standards of Auditing applicable in Serbia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Belgrade, February 14, 2022

Jelena Čvorović
Certified Auditor
Deloitte d.o.o., Beograd

CONSOLIDATED INCOME STATEMENT
Year Ended December 31, 2021
(Thousands of RSD)

	Note	2021	2020* reclassified
Interest income	3.d, 7	15,524,904	15,754,548
Interest expenses	3.d, 7	(2,200,614)	(2,451,266)
Net interest income		**13,324,290**	**13,303,282**
Fee and commission income	3.e, 8	8,805,522	7,125,746
Fee and commission expenses	3.e, 8	(2,399,157)	(2,014,597)
Net fee and commission income		**6,406,365**	**5,111,149**
Net gains on changes in the fair value of financial instruments	3.f, 9	348,023	70,049
Net gains on derecognition of the financial assets measured at fair value	3.g, 10	754,747	733,761
Net gains on risk hedging	3.h, 11	-	864
Net losses on risk hedging	3.h, 11	(6,504)	-
Net foreign exchange gains and positive currency clause effects	3.c, 12	-	126,883
Net foreign exchange losses and negative currency clause effects	3.c, 12	(229,352)	-
Net losses on impairment of financial assets not measured at fair value through profit or loss	3.k, 13	(2,782,818)	(3,890,813)
Net gains on derecognition of the financial assets measured at amortized cost	3.i, 14	31,264	23,527
Other operating income	15	13,342	8,813
Total operating income, net		17,859,357	15,487,515
Salaries, salary compensations and other personal expenses	16	(3,466,822)	(3,283,138)
Depreciation and amortization charge	3.q, 3.r, 3.t, 17	(1,239,950)	(1,214,343)
Other income	18	190,569	233,357
Other expenses	19	(6,928,423)	(5,511,535)
Profit before tax		6,414,731	5,711,856
Current income tax expense	3.j, 20	(714,380)	(428,742)
Deferred tax gains	3.j, 37.2	262,263	100,414
Profit after tax		**5,962,614**	**5,383,528**
Result of the period - profit		**5,962,614**	**5,383,528**
Profit attributable to the parent entity		**5,962,614**	**5,383,528**

* Certain amounts presented here do not correspond to the amounts from 2020 financial statements and reflect the reclassification performed (note 2.f).

Belgrade, February 11, 2022

Signed on behalf of the management of UniCredit Bank Srbija A.D., Beograd by:

Nikola Vuletić
Management Board Chairperson

Dimitar Todorov
Member of the Management Board
Head of Strategy and Finance Division

Mirjana Kovačević
Head of the Accounting Department

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2021
(Thousands of RSD)

	Note	2021	2020
Net profit for the year		5,962,614	5,383,528
Components of other comprehensive income that cannot subsequently be reclassified to profit or loss:			
- Increase in revaluation reserves based on intangible assets and fixed assets		4,774	5,734
- Actuarial losses		(5,699)	(27,481)
Components of other comprehensive income that may subsequently be reclassified to profit or loss:			
- Negative effects of value adjustments of debt securities measured at fair value through other comprehensive income		(3,097,587)	(1,391,647)
- Losses on cash flow hedging instruments		(81,207)	-
Gains on taxes relating to other comprehensive income	37.2	476,957	212,010
Total negative other comprehensive income for the year	40.2	(2,702,762)	(1,201,384)
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE YEAR		**3,259,852**	**4,182,144**
Total positive comprehensive income for the year attributable to the parent entity		**3,259,852**	**4,182,144**

Belgrade, February 11, 2022

Signed on behalf of the management of UniCredit Bank Srbija A.D., Beograd by:

Nikola Vuletić
Management Board Chairperson

Dimitar Todorov
Member of the Management Board
Head of Strategy and Finance Division

Mirjana Kovačević
Head of the Accounting Department

"UniCredit Bank Srbija a.d." Beograd
UniCredit Bank Serbia JSC Belgrade
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of December 31, 2021
(Thousands of RSD)

	Note	December 31, 2021	December 31, 2020
Cash and balances held with the central bank	3.l, 21	67,572,923	57,151,847
Pledged financial assets	22	-	11,630,733
Receivables under derivative financial instruments	3.m, 23	752,624	1,447,643
Securities	3.k, 3.p, 24	111,923,341	102,554,778
Loans and receivables due from banks and other financial institutions	3.k, 3.o, 25	42,249,257	27,746,829
Loans and receivables due from customers	3.k, 3.o, 26	322,594,841	290,992,861
Receivables under derivatives designated as risk hedging instruments	3.n, 27	9,493	-
Intangible assets	3.r, 3.u, 28	2,571,469	2,138,539
Property, plant and equipment	3.q, 3.t, 3.u, 29	3,312,289	3,578,448
Investment property	3.s, 30	3,527	3,527
Current tax assets	3.j, 20.4	-	303,763
Deferred tax assets	3.j, 37	640,839	-
Other assets	31	1,445,276	1,287,215
Total assets		**553,075,879**	**498,836,183**
Liabilities under derivative financial instruments	3.m, 32	723,925	1,632,761
Deposits and other liabilities due to banks, other financial institutions and the central bank	3.k, 3.v, 33	133,461,922	129,668,838
Deposits and other liabilities due to customers	3.k, 3.v, 34	314,207,092	268,373,476
Liabilities under derivatives designated as risk hedging instruments	3.n, 35	132,490	116,377
Provisions	3.w, 3.y, 36	4,087,748	2,299,122
Current tax liabilities	3.j, 20.4	71,242	-
Deferred tax liabilities	3.j, 37	-	98,381
Other liabilities	3.t, 38	15,170,720	12,554,201
Total liabilities		**467,855,139**	**414,743,156**
Issued (share) capital	40.1	24,169,776	24,169,776
Profit	40.1	7,107,136	6,479,350
Reserves	40.1	53,943,828	53,443,901
Total equity		85,220,740	84,093,027
Total liabilities and equity		**553,075,879**	**498,836,183**

Belgrade, February 11, 2022

Signed on behalf of the management of UniCredit Bank Srbija A.D., Beograd by:

Nikola Vuletić
Management Board Chairperson

Dimitar Todorov
Member of the Management Board
Head of Strategy and Finance Division

Mirjana Kovačević
Head of the Accounting Department

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended December 31, 2021
(Thousands of RSD)

	Share and other capital	Share premium	Reserves from profit and other reserves	Revaluation reserves	Profit	Total
Opening balance as at 1 January of the previous year	23,607,620	562,156	49,296,641	4,107,213	9,367,552	86,941,182
Adjusted opening balance as at 1 January of the previous year	23,607,620	562,156	49,296,641	4,107,213	9,367,552	86,941,182
Total negative other comprehensive income for the period	-	-	-	(1,201,384)	-	(1,201,384)
Profit for the current year	-	-	-	-	5,383,528	5,383,528
Transfer from reserves to result due to reversal of reserves-increase	-	-	-	-	1,701	1,701
Distribution of profit - increase	-	-	1,241,431	-	-	1,241,431
Distribution of profit , and/or coverage of losses - decrease	-	-	-	-	(1,241,431)	(1,241,431)
Dividend payments	-	-	-	-	(7,032,000)	(7,032,000)
Total transactions with owners	-	-	1,241,431	-	(8,273,431)	(7,032,000)
Balance as at 31 December of the previous year	23,607,620	562,156	50,538,072	2,905,829	6,479,350	84,093,027
Opening balance as at 1 January of the current year	23,607,620	562,156	50,538,072	2,905,829	6,479,350	84,093,027
Adjusted opening balance as at 1 January of the current year	23,607,620	562,156	50,538,072	2,905,829	6,479,350	84,093,027
Total negative other comprehensive income for the period	-	-	-	(2,702,762)	-	(2,702,762)
Profit for the current year	-	-	-	-	5,962,614	5,962,614
Transfer from reserves to result due to reversal of reserves-increase	-	-	-	-	1,861	1,861
Distribution of profit - increase	-	-	3,202,689	-	-	3,202,689
Distribution of profit , and/or coverage of losses - decrease	-	-	-	-	(3,202,689)	(3,202,689)
Dividend payments	-	-	-	-	(2,134,000)	(2,134,000)
Total transactions with the owners	-	-	3,202,689	-	(5,336,689)	(5,336,689)
Balance as at 31 December of the current year	**23,607,620**	**562,156**	**53,740,761**	**203,067**	**7,107,136**	**85,220,740**

Belgrade, February 11, 2022

Signed on behalf of the management of UniCredit Bank Srbija A.D., Beograd by:

Nikola Vuletić
Management Board Chairperson

Dimitar Todorov
Member of the Management Board
Head of Strategy and Finance Division

Mirjana Kovačević
Head of the Accounting Department

Translation of the Bank's Consolidated Financial Statements and Notes to the Consolidated Financial Statements issued in the Serbian language

CONSOLIDATED STATEMENT OF CASH FLOWS
Year Ended December 31, 2021
(Thousands of RSD)

	Note	2021	2020* reclassified
Cash inflows from operating activities		**21,020,299**	**15,930,269**
Interest receipts		11,972,891	8,715,866
Fee and commission receipts		8,794,303	6,973,420
Receipts of other operating income		253,105	240,983
Cash outflows from operating activities		**(12,845,570)**	**(11,980,102)**
Interest payments		(1,855,814)	(2,053,700)
Fee and commission payments		(2,404,534)	(2,025,282)
Payments to, and on behalf of employees		(3,397,561)	(3,290,477)
Taxes, contributions and other duties paid		(660,551)	(526,072)
Payments for other operating expenses		(4,527,110)	(4,084,571)
Net cash inflows from operating activities prior to increases/decreases in financial assets and financial liabilities		**8,174,729**	**3,950,167**
Decrease in financial assets and increase in financial liabilities		**47,761,596**	**26,071,844**
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers		47,614,703	25,865,387
Increase in other financial liabilities		146,893	206,457
Increase in financial assets and decrease in financial liabilities		**(37,546,215)**	**(13,094,145)**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers		(36,920,937)	(12,786,649)
Increase in receivables under securities and other financial assets not intended for investment		(562,727)	(241,647)
Decrease in liabilities under derivatives designated as hedging instruments and changes in the fair value of hedged items		(62,551)	(65,849)
Net cash generated by operating activities before income taxes		**18,390,110**	**16,927,866**
Income tax paid		(339,374)	(671,519)
Net cash generated by operating activities		**18,050,736**	**16,256,347**
Cash inflows from investing activities		**4,293,097**	**-**
Proceeds from investing in investment securities		4,293,097	-
Cash outflows from investing activities		**(1,232,950)**	**(5,529,858)**
Cash used for investing in investments securities		-	(4,640,468)
Cash used for the purchases of intangible assets, property, plant and equipment		(1,232,950)	(889,390)
Net cash generated by investing activities		**3,060,147**	**-**
Net cash used in investing activities		**-**	**(5.529.858)**

(Continued)

CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)
Year Ended December 31, 2021
(Thousands of RSD)

	Note	2021	2020* reclassified
Cash inflows from financing activities		**1,529,491**	**14,016,838**
Borrowings, inflows		1,529,491	14,016,838
Cash outflows from financing activities		**(441,238)**	**(418,351)**
Other outflows from financing activities		(441,238)	(418,351)
Net cash generated by financing activities		**1,088,253**	**13,598,487**
TOTAL CASH INFLOWS		**74,604,483**	**56,018,951**
TOTAL CASH OUTFLOWS		**(52,405,347)**	**(31,693,975)**
NET CASH INCREASE		22,199,136	24,324,976
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3.l, 41	**55,791,428**	**31,544,300**
Foreign exchange Gains, net		221,407	-
Foreign exchange Losses, net		-	(77,848)
CASH AND CASH EQUIVALENTS, END OF YEAR	3.l, 41	**78,211,971**	**55,791,428**

* Certain amounts presented here do not correspond to the amounts from 2020 financial statements and reflect the reclassification performed (note 2.f)

Belgrade, February 11, 2022

Signed on behalf of the management of UniCredit Bank Srbija A.D., Beograd by:

Nikola Vuletić
Management Board Chairperson

Dimitar Todorov
Member of the Management Board
Head of Strategy and Finance Division

Mirjana Kovačević
Head of the Accounting Department

1. BANKING GROUP'S ESTABLISHMENT AND ACTIVITY

The Banking Group (hereinafter: the "Group") is comprised of the parent entity UniCredit Bank Srbija a.d. Beograd (hereinafter: the "Parent Entity" or the "Bank") and its subsidiaries UniCredit Leasing Srbija d.o.o. Beograd and UniCredit Partner d.o.o. Beograd. In January 2016 the Bank became the sole (100%) owner of each of the aforesaid subsidiaries.

(a) Establishment and Activity of the Bank

UniCredit Bank Srbija a.d. Beograd (the: "Bank") was originally established as HVB Banka Jugoslavija ("HVB") in 2001 after obtaining an operating license from the National Bank of Yugoslavia on July 2, 2001. On October 1, 2005, a status change of merger and acquisition of entities HVB Banka Srbija i Crna Gora A.D. Beograd, as the Acquirer and Eksport-Import banka Eksimbank A.D. Beograd, as the Acquiree was registered. The Bank changed its name to UniCredit Bank Srbija a.d. Beograd on March 30, 2007.

The Bank is a member of UniCredit Group. In accordance with the reorganization of the Banking Group's activities in Central and Eastern European countries, under the Demerger and Takeover Agreement executed by and between UniCredit Bank Austria AG and UCG Beteillingsverwaltung GmbH on August 31, 2016 and Merger and Acquisition Agreement executed by and between UCG Beteillingsverwaltung GmbH and UniCredit SpA on September 30, 2016, UniCredit Bank Austria AG transferred its sole (100%) ownership of the Bank to the Austrian holding company UCG Beteillingsverwaltung GmbH. Through merger of UCG Beteillingsverwaltung GmbH with UniCredit SpA, UniCredit SpA became the sole shareholder of UniCredit Bank Srbija a.d., Beograd.

The Bank is registered in the Republic of Serbia to provide banking services associated with payment transfers, lending and depositary activities in the country and abroad and other activities defined by the Law on Banks and the Bank's own Statute.

In January 2016 the Bank became the sole owner of entities UniCredit Leasing Srbija d.o.o., Beograd and UniCredit Partner d.o.o., Beograd.

As of December 31, 2021, the Bank was comprised of the Head Office in Belgrade, 72 branch offices and 2 counters located in towns throughout the Republic of Serbia (December 31, 2020: 72 branch offices and 2 counters).

As of December 31, 2021, the Bank had 1,342 employees (December 31, 2020: 1,319 employees).

(b) Establishment and Activity of the Subsidiary UniCredit Leasing Srbija d.o.o. Beograd

The Subsidiary UniCredit Leasing Srbija d.o.o. Beograd (hereinafter: "Leasing") was established under Decision of the Commercial Court in Belgrade, registry card no. 1-92733-00, dated May 18, 2004 under the name of HVB Leasing d.o.o. Beograd. The founder of Leasing was Bank Austria Creditanstalt Leasing GmbH, Vienna. On April 11, 2007, Leasing changed its name into UniCredit Leasing d.o.o. Beograd. Change of the founder was registered with the Serbian Business Registers Agency under no. 4109/2009 dated February 10, 2009 with UniCredit Global Leasing S.p.A, Milan registered as the new founder. In January 2016, in accordance with the Agreement on Sale and Purchase of Equity Interest and upon obtaining the National Bank of Serbia's approval, the Bank became the sole (100%) owner of Leasing. The aforedescribed change in ownership was registered with the Serbian Business Registers Agency on January 26, 2016.

The Leasing Company is principally involved in finance lease activities.

As of December 31, 2021, Leasing had 32 employees (December 31, 2020: 30 employees).

1. BANKING GROUP'S ESTABLISHMENT AND ACTIVITY (Continued)

(c) Establishment and Activity of the Subsidiary UniCredit Partner d.o.o. Beograd

The Subsidiary UniCredit Partner d.o.o. Beograd (hereinafter: "Partner") was founded on May 3, 2006 under the name of HVB Partner d.o.o. za zastupanje u osiguranju Beograd [HVB Partner Limited Liability Company for Insurance Agency Services, Belgrade]. Partner's founder was BA-CA Leasing Versicherungs Service GmbH, Vienna, Austria. The Company's foundation was registered with the Serbian Business Registers Agency under Decision no. BD 3370/2007 on March 13, 2007. On June 2008, Partner Changed its name to UniCredit Partner d.o.o. za zastupanje u osiguranju Beograd [UniCredit Partner Limited Liability Company for Insurance Agency Services, Belgrade]. Change of the founder to a new founder Allegro Leasing Gesellschaft m.b.H. was registered under Decision of the Serbian Business Registers Agency no. BDŽU 30358/2013/01-01 dated April 9, 2013.

In January 2016, in accordance with the Agreement on Sale and Purchase of Equity Interest and upon obtaining the National Bank of Serbia's approval, the Bank became the sole (100%) owner of Partner. The aforedescribed change in ownership was registered with the Serbian Business Registers Agency on January 12, 2016.

Partner is registered to perform the activities of an agent and intermediary in insurance. On April 16, 2007 Partner executed the Agency Agreement with Wiener Staedtische osiguranje a.d. Beograd, (headquartered at no. 1, Trešnjinog Cveta St., Belgrade) as the main insurer. Based on the written approval obtained from the main insurer and other insurance companies, Partner acts as an agent of the following insurers: Generali osiguranje a.d. Beograd, DDOR Novi Sad a.d., Novi Sad, Dunav osiguranje a.d., Beograd, AMS osiguranje a.d., Beograd, Triglav osiguranje a.d., Beograd, Milenijum osiguranje a.d, Begrad, Sava neživotno osiguranje a.d, Beograd, UNIQA osiguranje a.d., Beograd and the insurance company taken acquired by UNIQA osiguranje „Basler osiguranje“ a.d., Beograd.

As of December 31, 2021 Partner had 3 employees (December 31, 2020: 3 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(a) Basis of Preparation and Presentation of the Consolidated Financial Statements

Legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity with the Law on Accounting. As a large legal entity, the Bank is required to apply International Financial Reporting Standards ("IFRS"), which as per the aforementioned law comprise the following: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS"), as well as the related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and additional related interpretations issued by the International Accounting Standards Board ("IASB").

The accompanying consolidated financial statements are presented in the format prescribed under the Decision on the Forms and Contents of the Items in the Forms of the Financial Statements of Banks (Official Gazette of RS no. 93/2020).

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

- financial assets stated at fair value through other comprehensive income,
- financial assets and liabilities at fair value through profit and loss,
- derivative financial instruments stated at fair value, and
- investment property stated at fair value and
- property used for performance of the Bank's own business activity that are stated at revalued method.

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

(a) Basis of Preparation and Presentation of the Consolidated Financial Statements (Continued)

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique according to IFRS 13. Upon estimating the fair value of assets or liabilities, the Group takes into account characteristics of assets or liabilities that other market participants would also consider upon determining the price of assets or liabilities at the measurement date. Fair value for measurement and/or disclosure purposes in the accompanying consolidated financial statements was determined in the aforesaid manner, except for share-based payment transactions, which are in the scope of IFRS 2, leasing transactions, which are in the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as the net realizable value in IAS 2 or value in use in IAS 36.

According to IFRS 13, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

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

The Group's consolidated financial statements are stated in thousands of dinars (RSD). Dinar is the official reporting currency in the Republic of Serbia.

Standards/amendments to the existing standards and interpretations issued that came into effect in the current period are disclosed in Note 2(b). Standards/amendments to the existing standards and interpretations in issue but not yet in effect are disclosed in Note 2(c).

(b) Adoption of the New Standards and Revised/Amended Standards Effective for the Current Year

In 2021, the Group has adopted and applied the following new standards and amendments to the existing standards that are effective for annual periods beginning on or after January 1, 2021:

- Amendments to IFRS9 "Financial Instruments", IAS39 "Financial Instruments: Recognition and Measurement", IFRS7 "Financial Instruments: Disclosures", IFRS4"Insurance Contracts" and IFRS16 "Leases" Interest Rate Benchmark Reform - Phase 2;
- Amendments to IFRS4 IFRS4 "Insurance Contracts" - deferral of IFRS9;
- Amendments to IFRS16 "Leases": Covid-19-Related Rent Concessions beyond 30 June 2021.

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Group's consolidated financial statements.

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

(c) New and Revised IFRS Standards in Issue but not yet Effective

At the date of authorization of these financial statements, the following new standards, amendments to existing standards and new interpretation were in issue, but not yet effective:

- Amendments to IFRS3 Business Combinations; IAS16 Property, Plant and Equipment; IAS37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018-2020" applicable to reporting starting from 1 January 2022
- IFRS 17 Insurance Contracts; including Amendments to IFRS 17 applicable to reporting starting from 1 January 2023
- Amendments to IAS1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current
- Amendments to IAS1 Presentation of Financial Statements - Disclosure of Accounting policies
- Amendments to IAS8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates
- Amendments to IAS12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 – Comparative Information

The Group's management has elected not to adopt these new standards, amendments to the existing standards and new interpretations in advance of their effective dates. The Group anticipates that the adoption of these standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Group in the period of initial application.

(d) Impact of the pandemic COVID-19

After the World Health Organization declared the COVID-19 pandemic in March 2020, which affected the whole world, not only a deep health crisis occur, but there were great changes in the global economy and the economies of individual countries. The imposed measures of isolation and social distancing have affected the reduction of the scope, and in certain cases the complete cessation of certain economic activities. This has had an impact on accelerating the mass digitization of financial institutions and moving towards a new operational model with more remote/network channels for customer service.

COVID-19 and global slowdown, according to available data, had a less severe impact on Serbia compared to most European countries, due to achieved macroeconomic and financial stability, growth momentum, and large and timely monetary and fiscal support package aimed at corporations and individuals. In 2020 the GDP contracted by 0,9% and its recovery to pre-crisis level was accomplished already in Q1 2021 while in Q3 it reached a growth rate of 7.7%. Owing to this result, the NBS increased its 2021 growth projection as well as the medium term growth rate estimate having in mind a new investment cycle and planned infrastructure projects. Due to the prolonged duration of the pandemic the Government and the NBS continued to provide comprehensive fiscal and monetary support measures in 2021 in order to mitigate the negative effects of the crisis on the financial and non-financial sector. During 2021 additional measures aimed at corporations and households were introduced which amounted to 4.2% of GDP. These measures consisted of targeted support for sectors that suffered most during the pandemic (catering, tourism and transport) as well as direct support to the private sector - 50% minimal wage to all enterprises in duration of three months. Besides this, the existing guarantee scheme for the corporate sector was extended and an additional one was established for the most vulnerable sectors/enterprises. The NBS kept the key policy rate unchanged at its historically low level of 1.0% throughout 2021. Additionally, up until the end of September the NBS continued with the repo purchase auctions of dinar securities with a favorable interest rate of 0.10% in order to provide additional local currency liquidity and ensure an efficient functioning of the banking system. However, by utilizing the flexibility of its monetary framework, the National bank of Serbia has started to gradually decrease the level of monetary policy expansiveness without changing the key policy rate due to the increasing inflationary pressures in the global and domestic environment and the necessity to influence inflation expectations. Besides stopping the repo purchase auctions which offered dinar liquidity to the banks in the previous period, the NBS has gradually started to increase the average weighted interest rate on reverse repo auctions through which excess liquidity is being pulled out from the banking system for a period of one week.

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

(d) Impact of the pandemic COVID-19 (Continued)

The Group, as well the UniCredit Group, has introduced preventive measures to deal with the pandemic, including tightening risk monitoring, and continues to proactively manage the development of the situation. Non-financial risk arising from restrictions on the movement and remote operation of staff, other contracting parties, customers and suppliers is identified and monitored and adequately managed.

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

The considerations of the Group's management regarding the impact of COVID-19, including estimates and assumptions, on individual items of the financial statements are set out below:

Calculation of the expected credit loss

The slow-down in economic activity resulting from the COVID-19 pandemic and the associated related lock-down measures have affected the calculation of expected credit losses and the Group has updated the macro-economic scenarios during 2020. Considering the fact that the measurement of credit risk is affected by the degree of uncertainty in the context of the pandemic evolution, the effect of mitigation measures and the degree of economic recovery, and that these indicators recorded significant economic recovery in 2021, the Group revised its macroeconomic scenarios in 2021 in terms of further forecasts. For additional information on credit exposure measurement refer to Note 4 (b). The expectation regarding the evolution of macroeconomic factors is such that in the upcoming financial years, less classification of credit exposures as non-performing and less additional provisions for credit losses is expected compared to 2020. In this context, significant facts that resulted in positive forecasts are the first results that show the regularity of clients in servicing debts after the moratorium expires, as well as the benefits granted under the financial support programs.

Non-financial assets

With reference to the valuation of non-financial assets, it is worth to mention the valuation of real estate portfolio which has became relevant following the adoption, starting from December 2019, of the fair value model (assets held for investment) and the revaluation model (assets used in business). For these assets, on 31 Decembar 2021, fair value has been determined through external appraisals. Further information has been provided in Notes 29.2 and 30. In this context, it is worth to note that in the upcoming financial years, the fair value of these assets might be different from the fair value observed as at 31 December 2021 as a result of evaluation of real estate market wich will also depnd on situation and economic recovery.

Although estimates have been made on the basis of information considered reasonable and acceptable as of December 31, 2021, they may be subject to change that is not currently foreseeable as a result of the development of the parameters used for the assessment. Given the uncertainty relating to development of COVID-19 and limited experience of the economic and financial impacts of such a pandemic, the actual outcomes for the Group in the future may differ from the assumptions that have been applied in the measurement of the Group's assets and liabilities.

All amounts expressed in thousands of RSD, unless otherwise stated.

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

(e) Interest Rate Benchmark Reform (IBOR)

A comprehensive reference rates reform is currently taking place following the concerns raised in recent years about the integrity and reliability of major financial market benchmarks. In order to assess the relevant risks associated with the global benchmark reforms mandated by the Financial Stability Board (FSB), and taking appropriate actions to ensure an adequate transition to alternative or reformed benchmark rates ahead of the deadline of the end of 2021 specified in the revised EU Benchmark Regulation BMR, UniCredit Group launched in October 2018 a Group wide project in order to manage the IBORs discontinuation.

Accordingly, a multiyear roadmap has been defined based on both UniCredit Group exposure (mainly focused on Euro) and transition timeline.

In 2021, UniCredit Group has followed up the activities defined to ensure a smooth transition away from LIBOR, consistently with the latest international working groups' developments and recommendations.

In this sense, after a slowdown due to COVID-19 crisis, during the last part of the year, a number of consultations have issued by European and other international working groups and bodies.

To address potential source of uncertainty on the effect of the Interbank offered rates (IBOR) reform on existing accounting hedge relationships the "Amendments to IFRS9, IAS39 and IFRS7 Interest Rate Benchmark Reform" (in further text: the Amendments) clarifies that the reform does not require to terminate such hedge relationships. The Amendments is effective for annual periods beginning on or after January 1, 2020. UniCredit Group and the Group opted for early adoption of Amendments in 2019.

The Amendments do not have an impact on the financial statements prepared for both 2021 and 2020 bearing in mind that the Group has active contracts of fair value hedging related only to the EURIBOR benchmark.

In order to closely follow the developments on IBORs and to proper manage the transition and the discontinuation impacts, UniCredit Group is continuously monitoring the market, participating to the relevant public consultations and working groups.

(f) Comparative Information

Comparative information in the accompanying consolidated financial statements represents the data from the Group's consolidated financial statements for 2020.

In accordance with the instructions of the National Bank of Serbia, in 2021 the Group has performed reclassification of income and expenditure on the purchase and sale of foreign currency and effective foreign currency from "Net foreign exchange gains/losses and currency clause effects" to "Net fee and commission income". Also, net income realized on the basis of currency derivatives is reclassified from "Net foreign exchange gains/losses and currency clause effects" to "Net gains/(losses) on changes in the fair value of financial instruments". The Group has also reclassified data for 2020, the effects of which are presented below:

	Before reclassification	After reclassification
Fee and commission income	5,365,537	7,125,746
Fee and commission expenses	(1,501,892)	(2,014,597)
Net fee and commission income	3,863,645	5,111,149
Net gains on changes in the fair value of financial instruments	-	70,049
Net losses on changes in the fair value of financial instruments	(57,395)	-
Net foreign exchange gains and positive currency clause effects	1,501,831	126,883

All amounts expressed in thousands of RSD, unless otherwise stated.

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

(g) Use of Estimates

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

These estimations and underlying assumptions are subject to regular review. The revised accounting estimates are presented for the period in which they are revised as well as for the ensuing periods.

Further explanations have been reported in Note 5.

(h) Statement of Compliance

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies presented hereinafter have been consistently applied by the Group for all years presented in the accompanying consolidated financial statements. The Group's main accounting policies applied to the current and previous reporting periods are presented in greater detail hereunder.

(a) Consolidation

The Group's consolidated financial statements include the consolidated statement of financial position as of December 31, 2021 and the related consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and notes to the consolidated financial statements.

The Group's consolidated financial statements as of and for the year ended December 31, 2021 include the financial statements of the Parent Entity (the Bank) and financial statements of the following subsidiaries:

	Equity Interest %	
	2021	2020
Subsidiary:		
UniCredit Leasing d.o.o., Beograd	100%	100%
UniCredit Partner d.o.o., Beograd	100%	100%

(b) Going Concern

Considering the circumstances caused by COVID-19 pandemic and uncertainty related to economic recovery, the Group's management believe with reasonable certainty that the Group will continue to operate profitably in the foreseeable future. As a result, the Group's financial statements have been prepared on a going concern basis, assuming that the Group will continue its operations for an indefinite period in the future.

(c) Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at official middle exchange rates effective at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies, as well as those indexed to a currency clause, are translated into dinars by applying the official middle exchange rates prevailing at the reporting date.

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign Exchange Translation (Continued)

Gains and losses incurred in realized transactions of purchase and sale of foreign currency and effective foreign currency with individuals and legal entities during the period are stated in the Bank's income statement, within the position "Net fee and commission income". Exchange differences resulting from the translation of one currency into another currency at different exchange rates, including exchange rate differences based on the currency clause, are stated in the Bank's income statement under "Net foreign exchange gains/losses and currency clause effects".

Non-monetary assets and liabilities denominated in foreign currencies measured at fair value are translated to the functional currency at the exchange rate effective at the date that the fair value was determined. Non-monetary assets and liabilities that are stated at historical cost in a foreign currency are translated using the exchange rates effective at the dates of the transactions.

The official exchange rates determined by the NBS and applied in the translation of the statement of financial position's components into dinars for the following major currencies were as follows:

	December 31, 2021	December 31, 2020
USD	103.9262	95.6637
EUR	117.5821	117.5802
CHF	113.6388	108.4388

(d) Interest Income and Expenses

(i) The Effective Interest Method

Interest income and expenses are recognized in the income statement in the period they relate to using the effective interest method for all interest-bearing financial instruments measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI).

The effective interest rate is the rate that precisely discounts estimated future payments or receipts over the expected life of the financial instrument or over a shorter period, where appropriate, to the net carrying value of the financial asset or financial liability. In calculation of the effective interest rate, the Bank estimates cash flows taking into account all the contractually agreed terms of the financial instrument but does not consider future credit losses. The effective interest rate calculation includes all fees and amounts paid or received between the counterparties and transaction costs that form an integral part of the effective interest rate.

Transaction costs are costs directly attributable to the acquisition or the issuance of a financial asset or liability. These include fees and commissions paid to agents, advisers, brokers and dealers, fees from regulatory agencies and stock exchanges, as well as taxes and fees related to the transfer if exist. Transaction costs do not include premiums or discounts, financing costs or internal administrative costs or maintenance costs. Only transaction costs that are certain or determinable are included in the amortized cost at the initial recognition of a financial asset. If the Group receives a fee from a client that offsets similar charges paid by the Group, only the net amount is included in the amortized value of the asset. If transaction costs are not material compared to the fair value of the related financial asset at initial recognition, they can be recognized within expenses/income for the period.

Fees that are integral part of the effective interest rate of a financial instrument include:

a) "origination fees" – fees charged by the Group in connection with issuance or acquisition of a financial asset; such fees include fees for evaluation of the financial position of borrowers, for evaluating and recording guarantees, collaterals and other security arrangements, for negotiating the terms of an instrument, preparing and processing documents and closing transactions;
b) "commitment fees" - fees received for the issue of a loan when it is probable that the loan arrangement will be realized,
c) "origination fees" - fees payable based on the issue of financial liabilities that are measured at amortized cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Interest Income and Expenses (Continued)

(i) The Effective Interest Method (Continued)

Interest income on debt securities at FVtPL is recognized at the nominal coupon interest rate and is included in interest income. Interest income and expense on derivative financial instruments are also included in interest income and expense.

The Group calculates interest income by applying the effective interest rate to the gross carrying amount of financial assets other than those that are credit-impaired. Regular interest income from impaired financial assets is calculated based on the net value of the financial asset using the effective interest method. Calculation of default interest income from impaired financial assets is suspended from the moment when the client becomes credit-impaired and is recorded from then on within off-balance sheet items, except for a portion of the legally prescribed default interest penalty interest on written-off loans without debt acquittal, which is recorded when collected.

Impaired loans and receivables are those loans and receivables due from clients who are in the status of default (internal ratings 8-, 9 and 10), i.e., classified in Stage 3 under IFRS 9. If the status of a financial asset is improved so that it is no longer impaired, the Group resumes calculation of interest income on a gross basis. For financial assets classified under IFRS 9 as POCI ("purchased or originated credit-impaired" assets), the Group calculates interest income by applying the credit-adjusted effective interest rate on the amortized cost of an asset. Credit-adjusted effective interest rate is the interest rate that, on initial recognition, discounts expected cash flows including credit losses to the amortized value of the POCI financial asset.

(ii) Presentation

Interest income and expenses recognized in profit or loss include:
- interest on financial assets and financial liabilities that are measured at amortized cost (AC) calculated using the effective interest rate method;
- interest on securities measured at fair value through other comprehensive income (iFVtOCI) calculated using the effective interest rate method; and
- interest on coupon securities held for trading.

Interest income and expense from all trading assets and liabilities (other than interest on coupon securities) are deemed secondary to the trading activities of the Group and are presented together with all other changes in the fair value of trading assets and liabilities within net gains on financial assets held for trading.

(e) Fee and Commission Income and Expenses

Fee and commission income and expenses that are integral part of the effective interest rate of a financial asset or liability are included in the calculation of the effective interest rate and therefore stated within interest income and expenses.

Fees that are not integral part of the effective interest rate of a financial instrument and are therefore accounted for in accordance with IFRS 15 include:
a) "monitoring" or "management" fees – fees charged by the Bank for loan servicing;
b) "commitment fees" – fees for issuing a loan when it is unlikely that the loan arrangement will be realized; and
c) syndicated loan fees received by the Group as a transaction agent/arranger.

In accordance with IFRS 15, two approaches for the recognition of fee and commission income are provided: "at a point in time" and "over time". Fee and commission income includes revenues from international and domestic payment services, issuance of guarantees, letters of credit and other banking services as well as income from realized transactions of foreign exchange purchases/sales and effective foreign currency transactions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Fee and Commission Income and Expenses (continued)

Fee and commission expenses mostly relate to fees for transactions and services provided and are recorded upon receipt of services. Fee and commission expenses also include expenses from realized transactions of foreign exchange purchases/sales and effective foreign currency transactions.

(f) Net Gains/Losses on Changes in the Fair Value of Financial Instruments

Net gains/losses on the change in the fair value of financial instruments include the effects of fair value adjustment of derivatives, except for derivatives designated as risk hedging instruments and fair value adjustment of financial assets and financial liabilities carried at fair value through profit or loss.

(g) Net Gains/Losses on Derecognition of Financial Instruments Measured at Fair Value

Net gains/losses from derecognition of the financial instruments measured at fair value include the effects of the derecognition of financial assets and financial liabilities measured at fair value through profit or loss, as well as financial assets measured at fair value through other comprehensive income.

(h) Net Gains/(Losses) on Risk Hedging

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

(i) Net Gains/Losses on Derecognition of Financial Instruments Measured at Amortized Cost

Net gains/losses from derecognition of the financial instruments measured at amortized cost include the effects arising from derecognition of financial assets at amortized cost.

(j) Income Tax Expenses

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

(i) Current Income Tax

Current income tax is an expected tax payable or receivable as per taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to the tax payable in respect of previous years. Current income tax represents an amount calculated in accordance with the Republic of Serbia Corporate Income Tax Law. The prescribed tax rate for 2021 equals 15%. The taxable income is the profit before taxes shown in the income statement, adjusted in accordance with the tax regulations of the Republic of Serbia.

During 2021 the Article 30 of the Law on Corporate Income tax has been changed to provide the taxpayer with the opportunity (under certain conditions) not to include in the corporate income tax base capital gains made by transferring intellectual property rights (copyright, copyright related rights, and the right relating to invention) in the capital of a resident legal entity. Above mentioned amendment to the Law on Corporate Income tax did not affect the taxable profit of the Group for 2021.

(ii) Deferred Income Taxes

Deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxes are measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted by the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Income Tax Expenses (Continued)

(ii) Deferred Income Taxes (Continued)

Based on their future tax consequences, temporary differences can be:

- taxable temporary differences, which will result in taxable amounts in determining taxable profit (tax loss) of future periods when the carrying amount of the asset is recovered or the liability is settled in accordance with the appropriate tax regime; or
- deductible temporary differences, which will result in amounts that can be deducted in determining the taxable profit (tax loss) of the future period in which the carrying amount of the asset will be recovered or the liability settled in accordance with the appropriate tax regime.

(iii) Other Taxes and Contributions

According to the relevant legislation in the Republic of Serbia, the Group pays various taxes, contributions, and duties payable, such as property tax, payroll contributions charged to the employer and other public duties. These are included under other expenses within the income statement.

(k) Financial Assets and Liabilities

(i) Recognition and Initial Measurement

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

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

(ii) Classification and Subsequent Measurement

Financial Assets

Upon initial recognition, the Group classifies its financial assets in one of the following three categories:

- financial assets at amortized cost (AC);
- financial assets at fair value through other comprehensive income (FVtOCI); and
- financial assets through profit or loss (FVtPL).

The requirements regarding the classification of debt and equity instruments are described below:

Debt Instruments

Debt instruments are those instruments that meet the definition of a financial liability from the perspective of the issuer, such as loans, securities, and other similar receivables.

Classification and measurement of financial assets depend on the following two main criteria:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(ii) Classification and Subsequent Measurement (Continued)

Financial Assets (Continued)

Debt Instruments (Continued)

Business Model
The business model reflects the manner in which the Group manages its financial assets in order to generate cash flows therefrom, i.e., the business model determines whether the cash flows will result from holding the assets (“hold to collect” business model) or from their holding as well as sales (“hold to collect and sell” business model). If neither of the aforesaid is applicable (e.g. a financial asset is held for trading), such an asset is held within the “other” business model and classified as measured at fair value through profit or loss (FVtPL). Business model assessment is performed at the level of a group of financial assets such as portfolio or sub-portfolio level, taking into account all the relevant and objective information such as sales of assets that were realized in the past, management's intentions regarding future sales, risk management, valuation the assets’ performance and reporting thereon to the management, etc. Business model assessment is based on realistic future expectations. Reclassification of a financial asset is made if the business model within which the asset is managed is changed. The Group does not expect frequent changes of its business models.

SPPI Criterion
In instances of “hold to collect” or “hold to collect and sell” business models, the Group assesses whether the contractual cash flows of the financial asset represent solely payments of the principal and interest payment ("SPPI test"). the purpose of this assessment, "principal" is defined as the fair value of a financial asset at the date of initial recognition. "Interest" is defined as consideration for the time value of money, the accepted level of credit risk of the borrower, other basic lending risks as well as an appropriate margin. If the contractual terms of a financial asset include exposure to risks that are not in accordance with the underlying loan arrangement, a financial asset is classified and measured at fair value through profit or loss.

Based on the above explained criteria, debt instruments are classified into the following asset categories:

1) Financial Assets at Amortized Cost (AC)

A financial asset that is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and contractual cash flows represent solely payments of principal and interest, and is not irrevocably classified as financial asset at fair value through profit or loss, is measured at amortized cost. The amortized value of these financial assets is subsequently adjusted for estimated impairment as explained in Note 3.(k)(viii). Interest income on these financial assets is recognized using the effective interest method and is included in the item of interest Income within in the income statement.

2) Financial Assets at Fair Value through Other Comprehensive Income (FVtOCI)

A financial asset that is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and whose contractual cash flows represent solely payments of principal and interest, and is not irrevocably classified as financial asset at fair value through profit or loss, is classified and measured at fair value through other comprehensive income. The effects of the change in fair value in the subsequent measurement of these assets are recorded in the other comprehensive income. As with financial assets at amortized cost, the impairment, interest income and foreign exchange gains/losses are recognized in the income statement.

Upon derecognition, cumulative gains and losses previously recognized in the other comprehensive income are reclassified and presented within net gains/losses on derecognition of financial assets measured at fair value in the income statement. Interest income on these financial assets is recognized at the effective interest method and is included in the item of interest Income within the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(ii) Classification and Subsequent Measurement (Continued)

Financial Assets (Continued)

Debt Instruments (Continued)

3) Financial Assets at Fair Value through Profit or Loss (FVtPL)

A financial asset that does not meet the criteria for classification at amortized cost or at fair value through other comprehensive income is measured at fair value through profit or loss. In addition, the following assets are classified as FVtPL:

- held-for-trading financial assets if they are acquired for purpose of sale or repurchase in the near term or when they are initially recognized as part of a portfolio of financial instruments that are managed together in order to achieve short-term profits;
- financial assets that the Group, upon initial recognition, designates as assets at fair value through profit or loss, irrespective of the business model and cash flow characteristics, in order to eliminate or significantly reduce the so-called "accounting mismatch".

Subsequent changes in the fair value of these assets are recorded through profit or loss within the line item of net gains/losses on the change in the fair value of financial instruments. Interest income on coupon securities held for trading is included in the interest income within the income statement.

Equity Instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective, i.e., instruments that do not contain the contractual obligation of payment and represent a share in the net assets of the issuer.

The Group 's equity instruments are measured at fair value through other comprehensive income, except when they are traded, in which case they are measured at fair value through profit or loss.

Such a classification is performed for each equity instrument individually. Equity instruments at fair value through other comprehensive income are initially recognized at fair value plus transaction costs directly attributable to their acquisition, unless the Group assesses in some cases that the cost is the best estimate of their fair value.

Effects of the changes in the fair value of equity instruments that are measured at FVtOCI in subsequent measurement are recognized in the other comprehensive income and are never reclassified to the income statement, even when the asset is derecognized. The provisions of IFRS 9 regarding impairment of financial assets relate only to debt instruments. For equity instruments at FVtOCI, the effects of impairment are not recognized through the income statement. Instead, all changes in their fair value are recorded within the other comprehensive income.

Dividends are recognized within the line item of other operating income in the income statement when the Group 's right to receive a dividend is established.

Effects of changes in the fair value of equity instruments at FVtPL are recorded under the item of net gains/losses on the change in the fair value of financial instruments in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(ii) Classification and Subsequent Measurement (Continued)

Financial Liabilities

The Group classifies financial liabilities, except for irrevocable commitments for loans and financial guarantees, as liabilities measured at amortized cost or as fair value through profit or loss (please refer to Note 3.(v)).

Financial liabilities at fair value through profit or loss include derivatives, financial liabilities held for trading (e.g. short positions in a trading book) and other financial liabilities that are designated at FVtPL on initial recognition. However, in respect of the measurement of financial liabilities initially designated at FVtPL, IFRS 9 requires that the changes in the fair value of a financial liability that relate to changes in the Group's own credit risk are presented in the other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk would cause or increase an accounting mismatch in the income statement. Changes in the fair value of liabilities arising from credit risk are not subsequently reclassified to the income statement.

(iii) Derecognition

Financial Assets

The Group derecognizes a financial asset when:

- the contractual rights to the cash flows from the financial asset expire;
- when the Group transfers substantially all the risks and rewards associated with ownership of the financial asset or it neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset but does not retain control over a financial asset;
- when contractual terms of a financial asset are significantly modified contractual terms (please refer to Note 3.(k)(iv)).

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset acquired less any new liability assumed) and (ii) any cumulative gain or loss that was previously recognized in other comprehensive income is recognized in profit or loss.

The Group enters into transactions whereby it transfers assets recognized in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion thereof. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repo transactions. When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similarly to repo transactions since the Group retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Group neither retains nor transfers substantially all the risk and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognize the asset to the extent of its continuing involvement in the asset, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial Liabilities

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or have expired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(iv) Modification

Derecognition due to Significant Modification of Contractual Terms

In instances of amendments to the contractual terms, the Group assesses whether cash flows have been significantly modified. If the cash flows of a financial asset/liability are significantly modified in relation to originally contracted, asset/liability is derecognized and new financial asset/liability is recognized at fair value increased by any transaction costs. Any difference between the carrying amount of the existing asset/liability and fair value of a new financial asset/liability is recognized in the income statement within the net gains/losses on derecognition of the financial instruments recognized at fair value and net gains/losses on derecognition of the financial instruments recognized at amortized cost.

Under significant modification of cash flows, the Group considers: changes of contracts due to commercial reasons that are in accordance with market conditions, changes in the currency or debtor, as well as changes that introduce contractual provisions resulting in non-compliance with the SPPI criteria. In accordance with IFRS 9, a new financial asset is classified in Stage 1 for ECL measurement of expected credit losses (in further text: ECL), unless it is a POCI asset (purchased or originated credit-impaired asset).

Modifications of a Financial Asset that do not Lead to Derecognition

Amendments to the contracts due to the financial difficulties of the borrower are not considered a significant modification and do not lead to derecognition of a financial asset.

In accordance with IFRS 9, the Group determines the new gross carrying amount of a financial asset and recognizes a modification gain/loss in the income statement (the line item of net gains/losses on impairment of financial assets not recognized at fair value through profit or loss). The gross carrying amount of the financial asset is determined as the present value of the modified cash flows discounted at the original effective interest rate. Any transaction costs adjust the carrying amount of a modified financial asset and are amortized over its useful life.

In accordance with ESMA's declaration ("Accounting implications of the outbreak of COVID-19 on the calculation of expected credit losses in accordance with IFRS 9") it is unlikely that the contractual changes resulting from the moratorium can be considered as substantial. Accordingly, the Group has calculated a loss based on the modification for the deferral period (Notes 2 (d) and 13).

(v) Offsetting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Group has a legal right to offset the recognized amounts and it intends either to settle the liability on a net basis or to realize the asset and settle the liability simultaneously.

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

(vi) Amortized Cost Measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is subsequently measured, minus principal repayments, plus or minus the cumulative amortization, using the effective interest method, of any difference between the initial amount recognized and the maturity amount, less any reduction for impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(vii) Fair Value Measurement

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

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

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and other optional models. The selected valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

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

Assets and long positions are measured at a bid price and liabilities and short positions are measured at an asking price. When the Group has position with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

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

(viii) Impairment Identification and Measurement

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(viii) Impairment Identification and Measurement (Continued)

Expected credit losses (ECL) are recalculated on each reporting date in order to reflect the changes occurred in the credit risk since the initial recognition of a financial instrument. Such an approach results in earlier recognition of credit losses as it is necessary to recalculate expected credit losses over a 12-month period for all credit exposures (the so-called Stage 1). It is necessary to recalculate lifetime expected credit losses for all exposures that have significant increase in the credit risk (the so-called Stage 2).

In ECL calculation, the Group uses forward-looking information and macroeconomic factors, i.e., the Group considers not only the historical information adjusted to reflect the effects of the present conditions and information providing objective evidence of the financial asset being impaired or actual losses incurred, but reasonable and supportable information as well, which include projections of future economic conditions in calculation of expected credit losses, both on individual and at collective bases. The amount of provisions for credit losses will increase with deterioration of the projected economic conditions and decrease with their improvement.

<u>The Basic Principles and Rules Used by the Group in Calculation of Allowances under IFRS 9</u>

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

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

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

For financial assets in Stage 1, the Group calculates 12-month expected credit losses. For financial assets in Stage 2, the Bank calculates lifetime expected credit losses.

For financial assets in Stage 3, the Group calculates lifetime expected credit losses.

Financial assets are transferred from Stage 1 to Stage 2 when the credit risk has increased significantly since the instruments' initial recognition. The transfer logic is based on quantitative and qualitative criteria and must be applied to on exposures that are within the scope of the ECL model. Deterioration of the probability of default (PD) is the key parameter underlying the quantitative criterion of the transfer logic. The following additional four qualitative criteria are applied after the said quantitative parameter:

- Forbearance status classification results in automatic classification to Stage 2 for the following 9 months (as from that status classification date). After that period, if there are no other significant indicators of credit risk deterioration, the transaction may be reclassified to Stage 1;
- 30 days past due – if a transaction reaches 30 days past due, it should be classified into Stage 2;
- All performing exposures included in Watch List 2 should be classified into Stage 2;
- All performing exposures transferred to the remit of the Loan Restructuring and Workout departments are automatically classified into Stage 2.

Watch list 2 means clients with higher risk, showing structural/strategic problems, bad business health, profitability issues. Of course, this WL2 status cannot be assigned to financial instrument at origination, this status is assigned in case of deterioration in credit risk compare to initial credit risk at inception.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(viii) Impairment Identification and Measurement (Continued)

The Basic Principles and Rules Used by the Group in Calculation of Allowances under IFRS 9 (Continued)

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

(ix) Write-Off

When certain financial assets are determined to be irrecoverable, these are written off. Write-off of an asset represents derecognition of that asset within the statement of financial position, where write-off of assets without debt acquittal is distinguished from write-off with debt acquittal.

Assets are written off without debt acquittal in instances where the Group has estimated that the assets will not be collected, but does not waive its contractual and legal rights in respect of such assets. In such cases, the Group estimates that it is economically justified to undertake further activities related to the collection of a financial asset. The Group also has the right to calculate legally prescribed default interest after write off without debt acquittal, but ceases to record it until collection. The Group performs write-offs without debt acquittal (accounting write-offs) based on the decisions of its competent bodies and/or the relevant NBS decision for financial assets with low collectability rates that are fully impaired (100% provided for). Given that the Group does not waive the right to collect financial assets, write-off without debt acquittal, (accounting write-off) represents derecognition of the financial assets in the statement of financial position and recording those within the off-balance sheet items. When the Group estimates that there is no justification for undertaking further activities related to the collection of a financial asset (completed bankruptcy or liquidation procedure, court ruling and the like), the Group's competent bodies enact a decision on derecognition of the asset from the off-balance sheet items.

The Group writes off financial assets with debt acquittal when these are estimated as irrecoverable and that it is not economically justifiable to take further actions toward their collection. In such instances, the written-off financial assets are derecognized from the statement of financial position without any further recording.

In the event that the Group collects a financial asset previously written-off, the income is recognized in the income statement under the net gains/losses on impairment of financial assets not recognized at fair value through profit or loss.

(l) Cash and Balances Held with the Central Bank

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

For the purposes of cash flow statement preparation, cash and cash equivalents include funds held on the accounts with foreign banks, while the obligatory foreign currency reserve held with the central bank is not included in the cash flow statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Receivables and Liabilities under Derivatives

Derivatives are derivative financial instruments or other contracts that have three basic characteristics: their value changes depending on changes in some basic or underlying value, they require no or relatively little initial net investment, and they are settled on a specific future date. Derivatives include forward transactions, currency swaps, interest rate swaps as well as interest options. In the statement of financial position they are presented within assets if their fair value is positive and within liabilities if their fair value is negative. They are initially recognized at fair value and the effects of the change in fair value on subsequent measurement are presented in the income statement, within the line item of net gains/losses on the change in the fair value of financial instruments.

(n) Derivatives Held as Risks Hedging Instruments and Hedge Accounting

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument and the hedged item, including the risk management objective and strategy in undertaking the hedge, along with the method that will be used to assess the effectiveness of the hedging relationship. The Group assesses, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instrument is expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged item during the period for which the hedge is designated, and whether the actual results of each hedge are within a range from 80% to 125%.

(i) Fair Value Hedges

When a derivative is designated as the hedging instrument in a hedge against a change in the fair value of a recognized asset or liability that could affect the profit or loss, changes in the fair value of the derivative are recognized immediately in the profit or loss (income) statement, together with changes in the fair value of the hedged item that are attributable to the risk hedged.

If only certain risks attributable to hedged items are subject to hedging, the recognized changes in fair value of the hedged items that are not associated with the risk subject to hedging are recognized in accordance with the Group's policy on financial instrument measurement depending on the instrument classification.

(ii) Cash Flow Hedges

When a derivative is designated as the hedging instrument in a hedge against a change in the cash flows of a recognized asset or liability that could affect the profit or loss, changes in the fair value of the derivative are recognized:

- the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognized in other comprehensive income; and
- the ineffective portion of the gain or loss on the hedging instrument shall be recognized in profit or loss.

The recognized changes in fair value of the hedged items are recognized in accordance with the Bank's policy on financial instrument measurement depending on the instrument classification.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Loans and Receivables

Line items "loans and receivables due from banks and other financial institutions" and "loans and receivables due from customers" in the Group's statement of financial position include financial assets that are measured at amortized cost or at fair value through profit or loss (please refer to Note 3(k)(ii)). If they are measured at amortized cost, loans and receivables are presented net of allowances for impairment in the statement of financial position (Note 3(k)(viii)). Allowance for impairment is made by reducing the carrying amount of a loan or receivable identified as being impaired in order to reduce their values to the recoverable amounts. If, in a subsequent period, the amount of impairment loss decreases, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of reversal is recognized in the income statement within the line item of net gains/losses on the reversal of impairment/impairment of financial assets not measured at fair value through profit or loss.

(p) Securities

The line item of securities in the statement of financial position includes debt securities that can be classified into all three categories of financial assets depending on the business model and SPPI criteria. For classification and measurement, please refer to Note 3(k)(ii).

(q) Property, Plant and Equipment

(i) Recognition and Measurement

Items of property and equipment are initially measured at cost or purchase price. Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of such equipment.

Subsequent to the initial recognition:

- the Group measures equipment at cost net of accumulated depreciation and any accumulated impairment losses,
- while property items are measured at revalued amounts, being their fair values at the revaluation date net of accumulated depreciation and any accumulated impairment losses.

Revaluation is made with sufficient regularity to ensure that the carrying value of the property does not depart materially from the fair value thereof at the end of the reporting period. According to the instructions received from the Group, the "local office" revaluations should be performed by certified appraisers on a semi-annual basis. If such a revaluation reveals that fair value departs by more than 10% from the carrying value, the "full" fair value assessment is to be undertaken.

Recording of the revaluation effects depends on whether the difference between the carrying value and the fair value is positive or negative at the revaluation date. Positive revaluation effects are recognized as increase in the revaluation reserves and/or gains on the change in the fair value of the asset to the extent of the of the decrease previously charged for the same property due to revaluation. Negative revaluation effects are recognized as decrease in the previously made revaluation reserves and/or losses on the change in the fair value of the asset. Revaluation reserves made in this respect are fully reclassified to the retained earnings upon derecognition of the property. Revaluation reserves are reclassified/transferred to the retained earnings even during the use of the property, on a straight-line basis. However, revaluation reserves cannot be reclassified to the profit or loss.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Any gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and the difference is recognized net within other income/expenses in the profit or loss statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Property, Plant and Equipment (continued)

(ii) Subsequent Expenditure

Subsequent expenditure is capitalized only when it is probable that the future economic benefits thereof will flow to the Group.

The cost of replacing part of an item of property or equipment is recognized within the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Items of property and equipment are depreciated from the month following the month when they become available for use. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The depreciation rates used for the current and comparative periods are as follows:

Assets	Estimated Useful Life (Years)	Minimum Annual Rate %
Buildings	Maximum 50	2%
Furniture	Maximum 25	4%
IT equipment and electronic systems	Maximum 15	6.67%
Other	Maximum 10	10%

The base for depreciation calculation is the cost of assets or, in case of property, the revalued amount of property.

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted as appropriate. There was no change compared to last year.

(r) Intangible Assets

The Group's intangible assets comprise software, licenses and other intangible assets.

Intangible assets are stated at cost less accumulated amortization and any accumulated impairment losses.

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

Amortization is recognized in the profit or loss on a straight-line basis over the estimated useful life of an intangible asset, from the month following the month when the asset becomes available for its intended use. The estimated useful life of intangible assets is five years and amortization rate used equals 20%, except for the assets whose usage periods are contractually defined, when these assets are amortized over the contractually defined periods.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Investment Property

Investment property is property held by the owner either to earn rental income or for capital appreciation or both.

Upon acquisition, investment property is initially measured at cost or purchase price. After initial measurement, Group use the fair value model for investment property measurement. The Group's investment property is no longer depreciated or subject to impairment assessment Gains or losses arising from the fair value adjustment of investment property are recognized as income or expenses in the period when realized/incurred.

(t) Leases

(i) The Group as the Lessee

IFRS 16 defines a lease as a contract or a part of a contract that conveys the right to control the use an identified assets for a period time in exchange for a consideration. A right-of-use (ROU) asset is recognized if the following conditions are cumulatively met:
- the underlying assets may be either explicitly or implicitly identified;
- the lessee has the right to obtain substantially all of the economic benefits from the use of the asset throughout the lease period; and
- the lessee has the right to direct the use of the identified asset, i.e., decide about how and for what purpose the asset will be used throughout the period of use.

The Group does not apply the requirements of IFRS 16 to leases with low-value underlying assets i.e. value up to EUR 5,000 in RSD counter value, short-term leases (with lease terms of up to a year) and leases of intangible assets. Typical low-value underlying assets are: printers, water dispensers, POS terminals, tablets, computers, telephones and small office furniture items. Such leases are recognized as expenses in the Group's income statement on a straight-line basis.

When a contract is assessed to be/contain a lease, the right-of-use asset is recognized within assets, while the lease liability is recognized within equity and liabilities on the Group's statement of financial position. The right-of-use asset is initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made and deposits placed at or before the commencement date;
- any initial direct costs incurred by the lessee;
- decrease for any lease incentives received from the lessor; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located, or restoring the underlying asset to its original condition.

After the initial recognition, the right-of-use asset is measured at cost less any accumulated depreciation and any accumulated impairment losses, adjusted for any re-measurement of the lease liability. ROU assets are depreciated on a straight-line basis. Calculation of the depreciation charge commences on the first calendar following the month when the asset became available to the Group.

The lease liability is initially measured at the net present value of the future lease payments (net of value added tax), discounted using the interest rate implicit in the lease, or, if it cannot be readily determined, at the Group's incremental borrowing rate. The incremental borrowing rate is determined based on the cost of financing of liabilities with a similar term and with a similar security to the liability defined by the lease contract.

Future lease payments that are included in the amount of the lease liability after discounting encompass:
- fixed lease payments less any lease incentives received;
- variable lease payments, which depend on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the Group, as the lessee, is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group, as the lessee, exercising an option to terminate the lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Leases (Continued)

(i) The Group as the Lessee (Continued)

After initial recognition, the lease liability is decreased by the amount of the lease payments made and increased by the interest accrued on the lease liability and adjusted for the following:
- a change in future lease payments resulting from a change in an index or a rate initially used to determine those payments,
- a change in the assessment of an option to purchase the underlying asset;
- a change in the amounts expected to be payable under a residual value guarantee; and
- a change in the lease term.

Adjustment to the amount of the lease liability requires a corresponding adjustment of the right-of-use assets. In respect of each lease, the Group recognizes depreciation charge and interest expenses in its income statement.

(ii) The Group as the Lessor

As a lessor, the Group needs to assess whether a lease is a finance or an operating lease. If the Group assesses that a lease contract transfers substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, such a lease is classified as a finance lease. Otherwise, it will be an operating lease. IFRS 16 does not introduce any significant changes for the lessor lease accounting in comparison to IAS 17.

(u) Impairment of Non-Financial Assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets with indefinite useful life are tested for impairment on annual basis. An impairment loss is recognized in the amount that the carrying value of an asset or a cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or a cash-generating unit.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount (as the difference between the two). Impairment losses are recognized in profit or loss. Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(v) Deposits, Borrowings and Subordinated Liabilities

Deposits, borrowings and subordinated liabilities are the Group's main source of debt funding.

The Group classifies equity instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments. Deposits, borrowings and subordinated liabilities are initially measured at fair value increased by directly attributable transaction costs and are subsequently measured at their amortized cost using the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The Group does not perform discounting of the future cash flows that are, as per the best estimates, expected to arise in the near term.

(x) Financial Guarantees

Financial guarantees represent contracts whereby the Group is obligated to make the designated payment to the guarantee holder for the loss incurred due to the designated debtor's failure to make the relevant payment in timely manner in accordance with the debt instrument terms.

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

(y) Employee Benefits

In accordance with regulatory requirements of the Republic of Serbia, the Group is under obligation to pay contributions to tax authorities and state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of contributions by the employer, in amounts computed by applying the specific, legally prescribed rates. The Group is also legally obligated to withhold contributions from gross salaries to employees, and, on behalf of its employees, transfer the withheld portions directly to the government funds. These taxes and contributions payable on behalf of the employee and employer are charged to employee salaries and personal expenses in the period in which they arise.

Pursuant to the Labor Law, the Group has an obligation to disburse an employment retirement benefit to a retiree. Long-term provisions for retirement benefits payable upon fulfillment of the prescribed criteria reported at December 31, 2021 represent the present value of the expected future payments to employees determined by actuarial assessment using actuarial assumptions. In determining provisions for retirement benefits, the Group used data and assumptions such as the official statistical mortality rate tables, employee turnover and disability rates, the projected annual salary growth rate of 7.5%, and an annual discount rate of 4.5%. In addition, in 2021, the Group accrued expenses for unused annual leaves (vacations).

Liabilities for short-term employee benefits are recognized on undiscounted basis as an expense when the service is provided. Long-term benefits refer to payments based on long-term remuneration schemes of employees which are included in these schemes based on the criteria of contributing to the long-term and growing profitability of the Group. Liabilities for long-term employee benefits are recognized using the appropriate discount rate.

4. FINANCIAL RISK MANAGEMENT

(a) Introduction and Overview

In its operations the Group is particularly exposed to the following risks:

- Credit risk;
- Market risk;
- Operational risk
- Liquidity risk,
- Compliance risk;
- Money laundering and terrorist financing risks;
- Strategic risk;
- Business risk;
- Reputational risk;
- Interest rate risk in the banking book;
- IT risks; and
- Model risk.

Risk Management Framework

The most important role in the risk management as part of the internal control system is assigned to the Supervisory Board of the Bank, which is responsible for risk management system establishment and oversight. The Supervisory Board defines strategies and policies for managing key risk types that the Bank and the Group are exposed to in their operations. In addition, the Supervisory Board is in charge of prior approval of large exposures to a single entity or a group of related entities exceeding 10% of the Bank's own equity as well as of increase of such exposures to above 20% of the Bank's own equity. The Bank's Audit Committee assists the Supervisory Board in performance of its function by considering the Bank's most important internal bylaws and enactments before these are adopted by the Supervisory Board. The Management Board of the Bank is in charge of implementation of the approved risk management strategies and policies, and adoption and implementation of the procedures for risk identification, measurement and assessment.

The relationships between the Parent Entity and the subsidiaries is strictly defined in line with the regulatory provisions governing the area of related party transactions and taking into account legally defined crediting limits prescribed by the NBS. Important role in the loan approval process is assigned to the Credit Committee, which assesses loan applications and makes about those within its competence level, or refers those and provides recommendations to a higher loan approval competence level.

Internal organization of the Group ensures functional and organizational separation of risk management and other regular business activities. The Bank has a separate Risk Management Division in its organizational structure. Reporting line of relevant departments and the technical structures is organized directly to the member of the Management Board in charge of risk management, thereby ensuring avoidance of conflicts of interest and separation of the risk management and regular operating activities.

4. FINANCIAL RISK MANAGEMENT (Continued)

(a) Introduction and Overview (Continued)

Internal Audit Department

The Internal Audit Department conducts its activities based on the annual operating plan and strategic five year internal audit plan approved by the Supervisory Board. Regularity of internal audit (frequency or length of an audit cycle) of a particular business area varies from one to five years and directly depends on the estimated risk level. The Internal Audit Department regularly monitors implementation of recommendations provided in its reports (action plans) and reports to the Management Board, Audit Committee and the Supervisory Board on all potential delays in the implementation of the measures.

(b) Credit Risk

Credit risk is the risk of possible adverse effects on the Group's financial performance and capital due to counterparty failure to perform their obligations towards the Group or potential deterioration of the clients' credit quality.

Credit process in the Group is based on strict segregation of the competences and responsibilities in credit operations between risk assuming activities in charge of the business (sales) function, and risk managing activities. Business function is comprised of departments in charge of the client acquisition and client relationship management, while the risk management function encompasses departments within the Risk Management Division, which are in charge of loan underwriting, monitoring, restructuring and collection. According to the "four eye" principle, a decision on a loan application is proposed by the business function (first vote) and the final decision or recommendation for loan approval decision is given by the risk management function (second vote). Exceptions can be made for certain standardized products in the retail segment – individuals and SMEs, when, due to a large number of relatively small loan amounts and simplification of the procedure, the approval process can be completely realized within the business function, with mandatory application of the "four-eye" principle in accordance with predefined criteria and parameters approved by the risk management function.

With the aim to ensure adequate and timely risk management in the area of crediting activity, the Group applies the following internal bylaws: Risk Management Rulebook, Rules on Competences for Credit Business, documents which define rules for internal credit rating assignment, Rules of Procedure for the Credit Committee, Credit Risk Mitigation Policy, Policy, Real Estate Valuation Policy, Guidelines for the Management of Corporate Special Credit Clients, Guidelines for the monitoring of customers with increased risk and rules on management of Special Credit Clients, Rules on the IAS/IFRS Provisioning and other enactments. The Group's goal is to protect itself from the negative impact and to optimize the level of the risks assumed by defining adequate procedures and individual responsibilities in the risk management process.

In order to define consistent guidelines for the credit activity and a general framework for risk management, the Group enacts credit risk management strategies for the retail and corporate segments for each financial year. The strategies include general guidelines for the basic parameters of risk management, principles for analysis of the creditworthiness of each customer segment, and definition of the direction of development of individual products, as well as detailed strategy direction of portfolio development per certain industries. In this manner, the Group ensures that the adopted business policies are implemented resulting in acceptable credit risk exposure at the level of individual loans, as well as adequate diversification and general quality of the loan portfolio.

The Group also considers analysis of the money laundering and terrorist financing risk in making decisions on the credit risk assumption.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Competences, responsibilities and authorities of persons involved in the risk management system are defined by the Rules on Competences for Crediting Business. In credit process decision making, the "four eye" principle has to be followed irrespective of the decision-making level in order to ensure that the two sides involved in the credit process check each other – the one proposing and the other approving a loan.

The main goal in 2021 was to control the potential negative effects of the COVID19 pandemic, since the effects were already known, so there was a modification of the credit process, in terms of introducing flexibility in lending rules. Certainly the focus was on clients from industries that are less affected by the negative effects of the pandemic. In cases where increased risk was observed in corporate clients or an increase in risk was expected due to the industry in which the client operates, the classification of clients was changed through the existing process (transfer to watch list or Restructuring where necessary). In addition, the focus was on the changed processes and rules during the introduction of the moratorium and lending through the guarantee scheme of the Republic of Serbia, as well as on the enhanced monitoring of all activities in the credit process.

Credit Risk Reporting

The Group manages credit risk, sets credit risk limits and controls it in all segments of its business and for all relevant types of corporate and retail loans. Timely identification, measuring, monitoring and managing of the credit risk on the Group's portfolio level is supported by the Risk Management Information System ("RMIS"). By reporting at the total portfolio level or at the individual client level, RMIS provides complete, accurate and timely information about the balance, quality and movements of the loan portfolio.

RMIS has to fulfil the following four main functions:

1. Collect and process data and credit risk indicators;
2. Analyze movements and changes of the entire loan portfolio and its structural characteristics;
3. Continuously monitor credit risk; and
4. Provide a basis for the process of decision-making on the credit risk management.

The scope of credit risk monitoring, management and reporting on a portfolio level includes monitoring of loan loss provisions (impairment allowances of balance sheet assets and provisions for probable losses per off-balance sheet items).

Credit Risk Parameters

Credit risk is quantified by measuring the expected credit losses (ECL). Main indicators that are used to monitor credit risk and to calculate expected credit losses are as follows:

- Exposure of the Group at default (EaD);
- Probability of default (PD); and
- Loss given default (LGD).

The Group uses internal credit rating models. Rating models define specific rating for clients with similar credit risk levels. Each rating grade is related to a certain PD parameter value on the master rating scale. The Group also internally calculates other credit risk parameters.

Internal credit risk assessment models, credit risk parameters and collaterals are used for loan loss provisions calculation in line with IFRS, as defined by the Bank's special bylaws.

In order to fulfil the aforesaid functions, RMIS uses IT systems of UniCredit Group and internally generated databases with information about the portfolio at the individual loan facility level. The Group's systems provide rating and past-due days data as important client's credit risk parameters.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Limits

The Group manages credit risk concentration of the portfolio by setting appropriate limits. Limits are defined by the Group's internal bylaws and/or NBS regulations and compliance with those is monitored and reported on an ongoing basis.

Reports

In monitoring of the credit risk on the portfolio level, the following reports are used:

			Report user					
Report	**Responsible organizational unit**	***Frequency***	**CRO Division**	**Credit committee**	**ALCO**	**Management Board**	**Audit committee**	**Supervisory Board**
CRO report/SB presentation	CFO / Risk management division	Quarterly (as needed)		-		+*	+*	+
Credit Risk Dashboard	Credit risk control Unit	monthly***	+	-		-	-	-
Credit portfolio overview	Risk management division	quarterly	+	+**		+	-	-
Risk appetite report	Integrated risk	quarterly			+		+	+
Bank's Risk profile	Financial and market risk Unit	monthly			+			
Management summary report	Financial and market risk Unit	daily				+****		
Operational risk report	Operational and reputational risk technical structure	monthly				+*****		
Reputational risk report	Operational and reputational risk technical structure	quarterly				+******		

*report is presented for consideration and analysis, before final presentation on Supervisory Board.

**report is presented to relevant Credit Committee after analysis on Management Board.

***the predefined report form is updated monthly according to the availability of the most recent data. The report is made available to the Head of the Risk Management Division and directors of the department and units within the CRO function.

****Report recepients are the following organizational structures: Members of the Management Board (CEO and Division Heads: Strategy and Finance, CIB, Retail, Risk Management), Trading, Investment services Unit, Finance Unit, Financial and market risk Unit, UCL CEO , but also and UniCredit Group represenatives (on demand).

***** Report recepients are the following organizational structures: Management team of the Bank and CEO Leasing, Internal Audit Department, Compliance Department, Banking operations Department, Organisation Department, ICT Department, Security Unit, Strategic risk management and control Department, Fraud Management. The report represents the monthly overview of operational risk events.

****** Report recepients are the Management team of the Bank. The report represents quarterly overview of the analysis results and effect on reputational risk.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Reports (Continued)

CRO Report to the Supervisory Board is prepared quarterly or more frequently if necessary, depending on the schedule of the Supervisory Board's meetings. All organizational units within the Risk Management Division participate in preparation of the report while the Strategic Risk Management and Control Department is responsible for coordination and delivery of the report. The report is prepared in the form of a presentation and includes, among other things, the following:

- Status overview of the most relevant activities of the Risk Management Division;
- Information on the structure and movements of the loan portfolio;
- Information on the key indicators of the portfolio quality, balance and movements of non-performing loans (NPLs), provisions for credit losses, risk costs and coverage of NPLs with credit loss provisions;
- Basic information on the portfolio concentration and compliance with the set limits, including the list of 10 largest client groups and 10 largest non-performing clients by their overall exposure.

Credit Risk Dashboard Report is updated on a monthly basis by the Strategic Risk Management and Control Department and delivered to the Management Board member in charge of the Risk Management Division and Directors of all departments within this division. The information is presented at the sub-segment level (large corporate clients, middle-sized corporate clients, real estate financing, business clients and entrepreneurs and individuals) with comparative data for the previous month and previous year-end. The report includes the following information:

- Loan structure (type and currency);
- Portfolio structure per internal credit rating categories;
- Portfolio structure per (non)-default client status;
- Data on the asset quality at the sub-segment level (exposure, NPL volume and ratio, amount of credit loss provisions, NPLs coverage with credit loss provisions);
- PD and LGD per segment;
- Credit loss provisioning costs per sub-segment (charge and release/reversal as compared to the beginning of year and previous month); and
- cost of risk per sub-segment.

Credit Portfolio Overview is prepared on a quarterly basis and is presented to the Bank's Management Board and thereafter to the Bank's Credit Committees for their information. All organizational units dealing with the credit risk management within the Risk Management Division participate in preparation of the report. Among other things, the report includes the following information:

- detailed information on the structure and movements of the loan portfolio, overall and per segment;
- data on the key portfolio quality indicators and movements of NPLs, provisions for credit losses, costs of risk, NPLs coverage with credit loss provisions, portfolio distribution per rating, etc.;
- the list of 10 largest client groups and 10 largest non-performing clients by their overall exposure;
- portfolio status and overview of the key activities and results according to the internal portfolio classification (Standard, WL, Restructuring, Workout);
- information on the portfolio concentration and compliance with the set limits.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Reports (Continued)

The risk appetite report is compiled on a quarterly basis and presented at the ALCO board meeting. The organizational units of the Bank that participate in the development of the risk appetite framework participate in the preparation of the report. The report involves monitoring the behavior of key performance risk indicators over time, which aim to:

- to ensure that business is conducted up to risk tolerance at the level of the Bank, which is additionally through the 'bottom up' process agreed with the Holding Company and adopted by the local Supervisory Board;
- to warn of potentially significant negative developments of key indicators and their components, as well as to provide an explanation of the same;
- to support the development of future strategic decisions in accordance with its risk profile.

In addition to the standardized reports, there are many activities undertaken in order to provide accurate parameters used in credit risk monitoring: ad hoc analyses and reporting and other activities that contribute to the accuracy of the credit risk parameters.

Ad hoc analyses and reporting are applied in cases of the Bank's higher risk exposure, especially if the credit risk level is changing drastically and abruptly and when timely reaction is expected – for example: deterioration of internally assigned rating grades, significant need for additional provisions, signs of mismatching in organization, implemented system or procedures, change of any of the credit risk parameters or in calculation of provisions.

Other activities conducted by the Group include: quality verification of data used in monitoring, managing of and reporting on the credit risk, improvement of the existing systems and procedures, annual process of budgeting and subsequent control and any adjustments of the budgeted parameters.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Credit Risk Exposure

The table below shows the Group's maximum credit risk exposure per financial instrument type:

	Cash and balances held with the central bank (Note 21)		Securities (Note 24)		Loans and receivables due from banks and other fin. institutions (Note 25)		Loans and receivables due from customers (Note 26)		Other assets (Note 31)		Off-balance sheet items	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Individually impaired												
Corporate clients, rating 10	-	-	-	-	-	-	300,205	777,552	8,879	11,299	-	4,957
Corporate clients, rating 9	-	-	-	-	-	-	-	47,785	-	-	-	-
Corporate clients, restructured loans *	-	-	-	-	-	-	9,878,160	7,665,411	3,149	4,340	141,810	275,752
Retail clients, > 90 days past due	-	-	-	-	-	-	3,760,201	2,133,295	56,656	20,974	3,461	578
Gross loans	-	-	-	-	-	-	13,938,566	10,624,043	68,684	36,613	145,271	281,287
Impairment allowance		-		-	-		8,085,675	6,002,331	62,163	31,176	82,855	101,972
Carrying value	-	-	-	-	-	-	5,852,891	4,621,712	6,521	5,437	62,416	179,315
Group-level impaired												
Corporate clients, rating 1 - 6	67,572,925	57,151,931	109,210,970	100,749,619	42,253,381	27,783,048	191,996,886	177,829,013	220,307	139,355	204,916,205	168,925,916
Corporate clients, rating 7	-	-	-	-	-	-	7,652,855	9,910,494	160	795	5,430,044	4,574,415
Corporate clients, rating 8	-	-	-	-	-	-	1,706,472	10,176,395	313	853	87,361	1,754,874
Retail clients, < 90 days past due	-	-	-	-	-	-	119,756,720	92,406,415	21,831	1,666	4,636,389	1,599,862
Gross loans	67,572,925	57,151,931	109,210,970	100,749,619	42,253,381	27,783,048	321,112,933	290,322,317	242,611	142,669	215,069,999	176,855,067
Impairment allowance	2	84	79,515	268,440	4,124	36,219	4,370,983	3,951,168	330	860	176,305	235,395
Carrying value	67,572,923	57,151,847	109,131,455	100,481,179	42,249,257	27,746,829	316,741,950	286,371,149	242,281	141,809	214,893,694	176,619,672
Carrying value of rated assets	67,572,923	57,151,847	109,131,455	100,481,179	42,249,257	27,746,829	322,594,841	290,992,861	248,802	147,246	214,956,110	176,798,987
Carrying value of non-rated assets	-	-	2,791,886	2,073,599	-	-	-	-	1,196,474	1,139,969	-	-
Total carrying value	**67,572,923**	**57,151,847**	**111,923,341**	**102,554,778**	**42,249,257**	**27,746,829**	**322,594,841**	**290,992,861**	**1,445,276**	**1,287,215**	**214,956,110**	**176,798,987**

* Category "corporate clients – restructured loans" includes corporate customers with internal rating 8-, whose impairment allowance was made on a group-level and not individually.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Implementation of Basel Standards

In the area of application of Basel standards related to credit risk models, the focus of activities was primarily on the continued development of models for medium-sized legal entities, as well as software implementation, testing and launch of a new rating model for individuals launched in September 2021.

Internal Rating System (Rating Scale)

The ranking rules for customers are established at the level of UniCredit Group and as such are uniform for each member of the Group. The Group's rating system was developed and has been in use since 2004 at the group level for clients in the corporate segment. For retail clients and entrepreneurs, the rating system was internally developed and has been in use since 2010. The Group uses the UniCredit Group's rating models for multinational companies, banks, insurance companies and exposures to states/governments. The master rating scale is used as a unique rating assignment method, which ensures that customers with the same rating have the same credit characteristics and the same probability that they will not settle their liabilities, in part or in full, within the period of 1 year.

The master scale is divided into 10 rating classes that are further broken down into a total of 26 rating subgroups. The internal master scale is compliant with Basel Standards, meaning that each rating subgroup has a PD parameter associated with it, with probability that a customer with particular characteristics will be unable to settle liabilities toward the Group and enter the default status. For the first 23 subgroups the probability of default ranges between 0.02% and 20.00%, where those clients are rated between 1+ and 8. Their probability of default is based on the statistical analyses of the historical data.

Ratings from 1+ to 6-: These rating notches are reserved for customers determined in an internal credit assessment to have a credit standing of very good to just acceptable. For customers with this rating periodic review of creditworthiness is performed once a year.

Ratings 7+ to 7-: These cover three subgroups for transactions with low credit rating clients. Customers assigned these rating notches have substantially higher risk factors and must be constantly monitored.

Ratings 8+ and 8- cover those clients that are not determined for individual provisioning but are subject to special loan restructuring or debt reduction measures.

Rating 8- relates to customers in default according to the Basel Standards criteria.

Rating 9 refers to customers with loans provided for on an individual basis or those where a portion of the receivables has been written off.

Rating 10 is assigned to the clients in the process of liquidation or bankruptcy.

Ratings 8-, 9 and 10 are by definition assigned to customers in default in accordance with Basel Standards criteria, with special credit loss provisioning calculation.

Methodology for Calculation of Expected Credit Losses

In accordance with the current Rulebook on IFRS Loan Loss Provisioning, the Group calculates 12-month ECL or a lifetime ECL of a financial instruments depending on the significance of the change in its credit risk occurred since the instrument's initial recognition. For these purposes, the Group uses the following three stages of impairment:

- Stage 1 includes all new financial assets at initial recognition (except POCI) and instruments without significant credit quality deterioration since their initial recognition, or instrument with low-level credit risk;
- Stage 2 includes financial instruments with significant credit quality deterioration since their initial recognition yet with no objective evidence of impairment based on credit losses;

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (Continued)

- Stage 3 includes financial instruments where objective evidence of impairment exists at the reporting date.

Stages 1 and 2 include only performing financial assets. Stage 3 includes only non-performing financial assets. For financial assets in Stage 1, the Group calculates 12-month expected credit losses. For financial assets in Stage 2, the Group calculates lifetime expected credit losses.

Financial assets are transferred from Stage 1 to Stage 2 when the credit risk has increased significantly since the instruments' initial recognition. The transfer logic is based on quantitative and qualitative criteria and must be applied to all the financial instruments. Deterioration of the probability of default (PD) is the key parameter underlying the quantitative criterion of the transfer logic. The following additional four qualitative criteria are applied after the said quantitative parameter:

- Forbearance status classification results in automatic classification to Stage 2 for the following 9 months (as from that status classification date). After that period, if there are no other significant indicators of credit risk deterioration, the transaction may be reclassified to Stage 1;
- 30 days past due – if exposure per transaction reaches 30 days past due, it should be classified into Stage 2;
- All performing exposures included in Watch List 2 should be classified into Stage 2;
- All performing exposures transferred to the remit of the Loan Restructuring and Workout departments are automatically classified into Stage 2.

Rules and Principles for ECL Calculation for Non-Performing Financial Assets – Stage 3

In accordance with the current Rulebook on IFRS Loan Loss Provisioning, if there is objective evidence of impairment (default status) on the financial statements' preparation date, all financial assets are classified into Stage 3. According to Art. 178 of the EU regulation n. 575/2013 a 'default' shall be considered to have occurred with regard to a particular obligor when either or both of the two following events have taken place: 1) the obligor is past due more than 90 days on any material credit obligation or/and 2) the obligor is unlikely to pay at least one of his credit obligations in full without recourse actions to be taken by the respective legal entity. For financial instruments classified into Stage 3, the rule is that impairment is based on the calculation of lifetime ECL. In this process, the Group specifically treats clients in the default status whose exposure is considered significant and such loans or clients are individually assessed by the Group on a case by case basis, whereas the loans that are not individually significant are assessed on a collective basis.

A financial asset is impaired and impairment has occurred if there is objective evidence of impairment arising from one or more events that occurred after the date of initial recognition of the asset, which have an impact on the estimated future cash flows of that financial asset. If any such evidence exists, the Group is required to calculate the amount of such impairment in order to determine whether the impairment loss should be recognized. In other words, if there is any evidence of impairment, the Group should estimate the amount that can be recovered for that asset or group of assets and recognize the impairment losses.

When determining the adequate amount of the provision, the Group must differentiate the need to calculate the specific provision on an individual basis and the specific provision on a collective basis for clients that are grouped into categories with similar risk characteristics, based on the segment to which the client belongs and the total amount of exposure at the client level. The total exposure of the client is comprised of the balance sheet and off-balance sheet receivables, including undrawn loan funds.

The process of determining a specific provision on an individual basis is intended to measure the impairment loss at the client level. An individual provision is assessed as the difference between the carrying amount of the receivable and the present value of the expected future cash flows (excluding future impairment losses that are not identified as incurred) discounted at the effective interest rate of the financial asset (e.g., the effective interest rate specified when upon contract execution). In other words, the provision will be determined in the amount of an individual receivable that is not expected to be recovered.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (Continued)

Rules and Principles for ECL Calculation for Non-Performing Financial Assets – Stage 3 (Continued)

In the event that the effective interest rate is not available, an alternative interest rate that is defined in accordance with the Group's bylaws will be used to calculate the provision. When determining the present value of the receivables, the discounted cash flow from the repayment of principal, interest or any other cash flow from a loan is calculated first. Thereafter, the discounted cash flow from the net realizable value of collateral for that loan is calculated. The final net present value of future cash flows of the loan is compared to its carrying amount and the amount of provision for impairment losses for the given loan that are recognized in the profit or loss statement is determined.

The calculation of provisions for exposures with impairment that are not classified as individually significant is carried out on a collective basis by grouping the default status clients into homogeneous categories with similar risk characteristics. When defining homogeneous categories, the Group applies the criteria used for segmentation when developing a model for calculating the loss rate due to default status (LGD model). The calculation of collective provisions in Stage 3 is performed for the default status clients that do not meet the requirements for an individual assessment of the provision. Calculation of the provision on the collective basis is made using the following calculation formula:

ECL = unsecEAD x LGDs3 (time in default)

Where:
- unsecEAD designates exposure in default reduced by the value of the collateral, and
- LGDs3 (time in default) designates loss at the moment of default.

If a receivable is fully collateralized and for this reason unsecEAD is equal to 0, the following formula is applied:

ECL = EAD x provisioning weight for Stage 1

The provisioning weight for Stage 1 is determined semi-annually, by recalculating this value based on the average level of provisions per portfolio segments. Values of LGDs3 (time in default) depend on the client segment, number of years the repayment lasts, and the period that the client has spent in the default status.

Impact of COVID-19 on ECL

Due to the complexity of the impact of COVID-19 pandemic on citizens and the economy, the Group has introduced certain measures and activities in order to adequately manage credit risk which means timely recognition of potential difficulties with debtors and taking appropriate steps. Regarding ECL calculation, the impact of COVID-19 has resulted in updates to the Group’s macroeconomic assumptions used in determining ECL (especially forward looking information). Macroeconomic information and assumptions relating to COVID-19 have been considered in ECL scenarios in a way to adjusted current PD and LGD parameters resulting in increased level of ECL (reflecting forecast of GDP, unemployment rate, interest rates, etc.).

Client support as part of the COVID-19 support package (moratorium defined by the NBS) does not necessarily result in a significant increase in credit risk (SICR – significant increase in credit risk) or is a trigger for automatic migration from Level 1 to Level 2 or automatic trigger for the default event (Level 3) unless there is other evidence of repayment inability (UTP - Unlikely to Pay). However, unlike the first two rounds of support from the NBS (so-called “opt out” moratoriums), after the 3rd moratorium (so called “opt in” moratorium) the Group undertook concrete actions in terms of downgrading rating of clients which have chosen reliefs for the third time, resulting mainly in their reclassification to Watch list 2 or Level 2 classification.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (Continued)

Impact of COVID-19 on ECL (continued)

Overview of loans and receivables subject of the moratorium as of 31.12.2021

		Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
			Performing *			Non performing *				Performing *			Non performing *			
				Of which: exposures with forbeara-nce measures *	Of which: Instrume-nts with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)*		Of which: exposures with forbeara-nce measures *	Of which: Unlikely to pay that are not past-due or past-due <= 90 days *			Of which: exposures with forbeara-nce measures *	Of which: Instrument s with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)*		Of which: exposures with forbeara-nce measures*	Of which: Unlikely to pay that are not past-due or past-due <= 90 days *	Inflows to non-perfo-rming exposures* *
1	Loans and advances subject to moratorium	128,588,009	118,057,194	2,823,384	20,215,544	10,530,815	4,119,137	6,175,964	(8,643,158)	(2,501,252)	(152,179)	(1,568,292)	(6,141,906)	(2,208,685)	(3,199,384)	1,916,372
2	of which: Households	55,138,883	52,255,167	214,710	6,607,197	2,883,716	118,192	910,286	(3,800,474)	(1,862,340)	(32,170)	(1,085,166)	(1,938,135)	(97,968)	(572,608)	403,126
3	of which: Collateralized by residential immovable property	21,749,535	21,387,839	61,790	1,092,131	361,697	5,033	107,901	(87,355)	(32,592)	(1,193)	(10,927)	(54,763)	(277)	(4,180)	48,035
4	of which: Non-financial corporations	72,560,849	64,913,750	2,608,674	13,608,225	7,647,099	4,000,945	5,265,678	(4,841,147)	(637,376)	(120,009)	(483,124)	(4,203,771)	(2,110,717)	(2,626,777)	1,513,247
5	of which: Small and Medium-sized Enterprises	34,556,283	29,986,722	680,280	8,298,441	4,569,561	1,006,424	2,218,346	(3,152,741)	(521,863)	(73,126)	(411,446)	(2,630,878)	(589,314)	(1,084,069)	1,513,247
6	of which: Collateralized by commercial immovable property	42,064,578	36,521,770	2,022,299	7,437,435	5,542,808	3,100,101	4,073,933	(3,380,268)	(150,635)	(46,885)	(123,743)	(3,229,634)	(1,803,015)	(2,341,248)	909,801
7	of which: Leasing	3,878,884	3,494,285	5,986	599,736	384,599	148,668	261,799	(301,614)	(49,743)	(677)	(15,040)	(251,871)	(86,410)	(140,710)	-

* Loans and receivables of customers as of December 31, 2021 by next categories: Performing, Non performing, Forbearance measures, Stage 2, Unlikely to pay.

** Shown inflows to Non performing after Moratoria period (as at December 31, 2021).

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (Continued)

Impact of COVID-19 on ECL (continued)

Overview of loans and receivables subject of the moratorium as of 31.12.2021 (continued)

		Number of clients	Gross carrying amount		
				Of which: legislative moratoria	Of which: expired
1	Loans and advances for which moratorium was offered	148,013	294,840,661		
2	Loans and advances subject to moratorium (granted)	106,767	128,588,009	128,588,009	128,588,009
3	of which: Households		55,138,883	55,138,883	55,138,883
4	of which: Collateralized by residential immovable property		21,749,535	21,749,535	21,749,535
5	of which: Non-financial corporations		72,560,849	72,560,849	72,560,849
6	of which: Small and Medium-sized Enterprises		34,556,283	34,556,283	34,556,283
7	of which: Collateralized by commercial immovable property		42,064,578	42,064,578	42,064,578

		Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
			of which: forborne*	Public guarantees received	Inflows to non-performing exposures**
1	Newly originated loans and advances subject to public guarantee schemes	29,563,672	408,406	7,078,165	-
2	of which: Households	-			-
3	of which: Collateralized by residential immovable property	-			-
4	of which: Non-financial corporations	29,558,576	408,406	7,076,941	652,820
5	of which: Small and Medium-sized Enterprises	28,145,407			652,820
6	of which: Collateralized by commercial immovable property	824,996			-

* Loans and receivables from customers as of December 31, 2021 by the presented categories.
** Category shows increase in Non-performing exposures after new approval under guarantee scheme (as of December 31, 2021).

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (Continued)

Impact of COVID-19 on ECL (continued)

Overview of loans and receivables subject of the moratorium as of 31.12.2020

		Gross carrying amount							Accumulated impairment, accumulated negative changes in fair value due to credit risk							Gross carrying amount
			Performing *			Non performing *				Performing *			Non performing *			
				Of which: exposures with forbeara-nce measures*	Of which: Instrume-nts with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)*		Of which: exposures with forbeara-nce measures*	Of which: Unlikely to pay that are not past-due or past-due <= 90 days *			Of which: exposures with forbeara-nce measures*	Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)*		Of which: exposures with forbeara-nce measures*	Of which: Unlikely to pay that are not past-due or past-due <= 90 days *	Inflows to non-perfo-rming exposures**
1	Loans and advances subject to moratorium	217,291,435	207,012,724	6,094,837	43,234,422	10,278,711	5,053,963	7,029,226	(381,930)	(345,319)	(13,957)	(69,489)	(36,611)	(25,576)	(21,456)	4,061,779
2	of which: Households	72,944,387	70,833,741	352,871	10,096,859	2,110,646	101,542	106,243	(290,873)	(281,318)	(2,498)	(44,641)	(9,555)	(921)	(814)	697,190
3	of which: Collateralized by residential immovable property	24,143,290	23,860,777	87,434	1,322,410	282,513	4,768	4,862	(59,865)	(59,541)	(266)	(3,525)	(324)	(8)	(12)	38,543
4	of which: Non-financial corporations	134,015,071	126,117,484	5,431,790	31,376,925	7,897,587	4,952,421	6,849,635	(90,918)	(27,056)	(11,459)	(24,711)	(63,862)	(24,655)	(20,642)	3,298,498
5	of which: Small and Medium-sized Enterprises	58,100,916	54,333,087	691,556	15,236,975	3,767,829	1,259,283	2,767,781	(44,975)	(17,296)	(2,793)	(7,753)	(27,679)	(14,895)	(16,910)	1,894,041
6	of which: Collateralized by commercial immovable property	66,683,846	61,165,391	4,476,946	15,950,406	5,518,455	3,936,393	5,381,765	(45,472)	(4,920)	(8,878)	(19,079)	(40,552)	(3,137)	(4,873)	1,824,867
7	of which: Leasing	9,888,491	9,624,751	310,176	1,547,243	263,740	-	73,348	-	-	-	-	-	-	-	66,091

* Loans and receivables of customers as of December 31, 2020 by next categories: Performing, Non performing, Forbearance measures, Stage 2, Unlikely to pay.
** Shown inflows to Non performing after Moratoria period (as at December 31, 2020).

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (Continued)

Impact of COVID-19 on ECL (continued)

Overview of loans and receivables subject of the moratorium as of 31.12.2020 (continued)

		Number of clients	Gross carrying amount		
				Of which: legislative moratoria	Of which: expired
1	Loans and advances for which moratorium was offered	140,215	300,946,360		
2	Loans and advances subject to moratorium (granted)	110,196	217,291,435	217,291,435	217,291,435
3	of which: Households		72,944,387	72,944,387	72,944,387
4	of which: Collateralized by residential immovable property		24,143,290	24,143,290	24,143,290
5	of which: Non-financial corporations		134,015,071	134,015,071	134,015,071
6	of which: Small and Medium-sized Enterprises		58,100,916	58,100,916	58,100,916
7	of which: Collateralized by commercial immovable property		66,683,846	66,683,846	66,683,846

		Gross carrying amount		Maximum amount of the guarantee that can be considered	Gross carrying amount
			of which: forborne*	Public guarantees received	Inflows to non-performing exposures**
1	Newly originated loans and advances subject to public guarantee schemes	22,415,809	153,288	5,379,794	-
2	of which: Households	-			-
3	of which: Collateralized by residential immovable property	-			-
4	of which: Non-financial corporations	22,415,809	153,288	5,379,794	270,163
5	of which: Small and Medium-sized Enterprises	20,947,828			270,163
6	of which: Collateralized by commercial immovable property	257,847			-

* Loans and receivables from customers as of December 31, 2020 by the presented categories.
** Category shows increase in Non-performing exposures after new approval under guarantee scheme (as of December 31, 2020).

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (Continued)

Rules and Principles for ECL Calculation for Non-Performing Financial Assets – Stage 3 (Continued)

The table below shows a breakdown of gross and net non-performing loans due from banks and customers.

	Securities (Note 24)		Loans and receivables due from banks and other financial institutions (Note 25)		Loans and receivables due from customers (Note 26)		Other assets (Note 31)		Off-balance sheet items	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
December 31, 2021										
Corporate clients, rating 10	-	-	-	-	300,205	61,924	8,879	912	-	-
Corporate clients, rating 9	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans	-	-	-	-	9,878,160	4,560,551	3,149	537	141,810	61,230
Retail clients, > 90 days past due	-	-	-	-	3,760,201	1,230,416	56,656	5,072	3,461	1,186
Total	**-**	**-**	**-**	**-**	**13,938,566**	**5,852,891**	**68,684**	**6,521**	**145,271**	**62,416**
December 31, 2020										
Corporate clients, rating 10	-	-	-	-	777,552	167,216	11,299	891	4,957	1,128
Corporate clients, rating 9	-	-	-	-	47,785	15,771	-	-	-	-
Corporate clients, restructured loans	-	-	-	-	7,665,411	3,642,771	4,340	384	275,752	177,884
Retail clients, > 90 days past due	-	-	-	-	2,133,295	795,954	20,974	4,162	578	303
Total	**-**	**-**	**-**	**-**	**10,624,043**	**4,621,712**	**36,613**	**5,437**	**281,287**	**179,315**

The aging structure of matured and unimpaired loans as of December 31, 2021 is provided in the table below:

	Up to 30 days past due	31 to 60 days past due	61 to 90 days past due	Over 90 days past due	Total
Loans and receivables due from customers					
Gross carrying value	2,507,221	474,766	43,845	178,655	3,204,487
Impairment allowance	(206,780)	(148,491)	(17,516)	(63,849)	(436,636)
Net carrying value	**2,300,441**	**326,275**	**26,329**	**114,806**	**2,767,851**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021
All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Movements of the Gross Carrying Values of Assets per Class of Assets and per Impairment Stage

(i) Cash and balances held with the central bank

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2021	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2021
Stage 1	57,151,931	10,420,994	-	-	-	-	-	-			-	-	67,572,925
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**57,151,931**	**10,420,994**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**67,572,925**

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2020	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2020
Stage 1	59,710,331	-	(2,558,400)	-	-	-	-	-			-	-	57,151,931
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**59,710,331**	**-**	**(2,558,400)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**57,151,931**

(ii) Securities at amortized cost (AC) and at fair value though other comprehensive income (FVtOCI)

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2021	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2021
Stage 1	100,749,619	46,441,924	(26,452,050)	-	-	-	-	-			(15,454,816)	3,926,293	109,210,970
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**100,749,619**	**46,441,924**	**(26,452,050)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(15,454,816)**	**3,926,293**	**109,210,970**

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2020	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2020
Stage 1	105,078,855	2,548,114	(20,963,136)	-	-	-	-	-			(592,783)	14,678,569	100,749,619
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**105,078,855**	**2,548,114**	**(20,963,136)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(592,783)**	**14,678,569**	**100,749,619**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Movements of the Gross Carrying Values of Assets per Class of Assets and per Impairment Stage (Continued)

(iii) Loans and receivables due from banks and other financial institutions

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2021**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2021**
Stage 1	27,752,880	18,253,625	(3,947,508)	(573)	(573)	-	-	-			(93,333)	251,762	42,216,853
Stage 2	30,168	959	-	425	425	-			-	-	(32)	5,008	36,528
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**27,783,048**	**18,254,584**	**(3,947,508)**	**(148)**	**(148)**	**-**	**-**	**-**	**-**	**-**	**(93,365)**	**256,770**	**42,253,381**

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2020**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2020**
Stage 1	2,907,274	26,196,345	(1,230,426)	4,722	-	4,722	-	-			(368,692)	243,657	27,752,880
Stage 2	35,946	14	(1,075)	(4,704)	-	(4,704)			-	-	(14)	1	30,168
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**2,943,220**	**26,196,359**	**(1,231,501)**	**18**	**-**	**18**	**-**	**-**	**-**	**-**	**(368,706)**	**243,658**	**27,783,048**

(iv) Loans and receivables due from customers

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2021**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2021**
Stage 1	227,085,215	3,304,130	(27,434,668)	(3,137,555)	(14,741,433)	15,106,376	(3,771,269)	268,770	-	-	(56,685,934)	121,653,965	264,785,153
Stage 2	63,236,901	1,299,870	(3,614,182)	(6,995,553)	13,000,923	(17,296,432)	-	-	(2,917,537)	217,493	(19,171,760)	21,573,139	56,328,415
Stage 3	10,624,244	70,046	(980,679)	5,308,232	-	-	3,340,270	(373,933)	2,613,526	(271,630)	(1,797,633)	713,721	13,937,931
Total	**300,946,360**	**4,674,046**	**(32,029,529)**	**(4,824,876)**	**(1,740,510)**	**(2,190,056)**	**(430,999)**	**(105,163)**	**(304,011)**	**(54,137)**	**(77,655,327)**	**143,940,825**	**335,051,499**

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2020**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2020**
Stage 1	235,661,180	3,545,908	(22,588,682)	(2,468,523)	(18,055.358)	16,197,821	(883,538)	272,553	-	-	(49,332,007)	62,267,339	227,085,215
Stage 2	40,362,349	139,099	(1,675,787)	(280,628)	19,616,497	(17,964,472)	-	-	(2,199,967)	267,314	(7,673,577)	32,365,445	63,236,901
Stage 3	9,703,186	27,263	(511,976)	2,303,219	-	-	772,795	(293,438)	2,112,079	(288,219)	(2,661,921)	1,764,473	10,624,244
Total	**285,726,715**	**3,712,270**	**(24,776,445)**	**(445,932)**	**1,561,139**	**(1,766,651)**	**(110,743)**	**(20,885)**	**(87,888)**	**(20,905)**	**(59,667,505)**	**96,397,257**	**300,946,360**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Movements of the Gross Carrying Values of Assets per Class of Assets and per Impairment Stage (Continued)

(v) Other assets

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2021**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2021**
Stage 1	1,293,131	84,617	(41,917)	(49,004)	(42,551)	353	(6,806)	-			(42,937)	37,901	1,281,791
Stage 2	14,995	-	(2,352)	93,390	97,269	(3,879)			-	-	(2,980)	54,967	158,020
Stage 3	11,125	202	(1,270)	11,016			11,016	-	-	-	(8,008)	54,893	67,958
Total	**1,319,251**	**84,819**	**(45,539)**	**55,402**	**54,718**	**(3,526)**	**4,210**	**-**	**-**	**-**	**(53,925)**	**147,761**	**1,507,769**

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2020**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2020**
Stage 1	1,114,952	210,871	(19,348)	(6,379)	(7,931)	1,577	(34)	8			(24,553)	17,588	1,293,131
Stage 2	-	3,489	(6,083)	8,030	12,260	(3,315)			(1,904)	989	(20,935)	30,494	14,995
Stage 3	-	3,290	(1,575)	691			39	(24)	1,272	(595)	(13,266)	21,985	11,125
Total	**1,114,952**	**217,650**	**(27,006)**	**2,342**	**4,329**	**(1,738)**	**5**	**(16)**	**(632)**	**394**	**(58,754)**	**70,067**	**1,319,251**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Movements of the Impairment Allowance of Assets per Class of Assets and per Impairment Stage

(i) Cash and balances held with the central bank

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2021	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2021
Stage 1	84	-	(82)	-	-	-	-	-			-	-	2
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	**84**	**-**	**(82)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2**

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2020	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2020
Stage 1	153	-	(69)	-	-	-	-	-			-	-	84
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**153**	**-**	**(69)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**84**

(ii) Securities at amortized cost (AC) and at fair value though other comprehensive income (FVtOCI)

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2021	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2021
Stage 1	268,440	16,679.000	(172,381)	-	-	-	-	-			(36,117)	2,894	79,515
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**268,440**	**16,679**	**(172,381)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(36,117)**	**2,894**	**79,515**

		Changes within the Stage			Transfers among Stages								
Stage	January 1, 2020	Increases (+)	Decreases (-)	Total transfers	S1 (-) to S2 (+)	S2 (-) to S1 (+)	S1 (-) to S3 (+)	S3 (-) to S1 (+)	S2 (-) to S3 (+)	S3 (-) to S2 (+)	Exit (-)	Newly approved (+)	December 31, 2020
Stage 1	344,977	203	(111,295)	-	-	-	-	-			(524)	35,079	268,440
Stage 2	-	-	-	-	-	-			-	-	-	-	-
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**344,977**	**203**	**(111,295)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(524)**	**35,079**	**268,440**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Movements of the Impairment Allowance of Assets per Class of Assets and per Impairment Stage (Continued)

(iii) Loans and receivables due from banks and other financial institutions

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2021**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2021**
Stage 1	35,983	633	(33,917)	(4)	(4)	-	-	-			(89)	1,055	3,661
Stage 2	236	3	-	123	123	-			-	-	-	101	463
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**36,219**	**636**	**(33,917)**	**119**	**119**	**-**	**-**	**-**	**-**	**-**	**(89)**	**1,156**	**4,124**

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2020**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2020**
Stage 1	1,759	34,947	(743)	11	-	11	-	-			(319)	328	35,983
Stage 2	249	3	-	(16)	-	(16)			-	-	-	-	236
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**2,008**	**34,950**	**(743)**	**(5)**	**-**	**(5)**	**-**	**-**	**-**	**-**	**(319)**	**328**	**36,219**

(iv) Loans and receivables due from customers

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2021**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2021**
Stage 1	1,501,530	318,803	(326,512)	(71,420)	(158,293)	160,773	(82,598)	8,697	-	-	(273,073)	733,783	1,883,111
Stage 2	2,449,632	326,113	(184,949)	64,423	1,063,576	(678,987)	-	-	(395,551)	75,385	(493,541)	325,833	2,487,511
Stage 3	6,002,337	721,657	(666,604)	2,722,540	-	-	1,937,191	(210,421)	1,126,866	(131,097)	(1,201,270)	507,376	8,086,036
Total	**9,953,499**	**1,366,573**	**(1,178,065)**	**2,715,543**	**905,283**	**(518,214)**	**1,854,593**	**(201,724)**	**731,315**	**(55,712)**	**(1,967,884)**	**1,566,992**	**12,456,658**

		Changes within the Stage			Transfers among Stages								
Stage	**January 1, 2020**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2020**
Stage 1	729,342	481,366	(132,470)	230,257	(56,511)	271,716	(6,468)	21,520	-	-	(108,826)	301,861	1,501,530
Stage 2	1,547,447	395,120	(168,203)	182,539	964,800	(635,020)	-	-	(212,305)	65,063	(158,215)	650,944	2,449,632
Stage 3	5,644,906	481,366	(239,349)	965,804	-	-	340,485	(140,433)	886,227	(120,475)	(1,737,516)	887,126	6,002,337
Total	**7,921,695**	**1,357,852**	**(540,022)**	**1,378,600**	**908,289**	**(363,304)**	**334,017**	**(118,913)**	**673,922**	**(55,412)**	**(2,004,557)**	**1,839,931**	**9,953,499**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Movements of the Impairment Allowance of Assets per Class of Assets and per Impairment Stage (Continued)

(v) Other assets

		Changes within the Stage					Transfers among Stages					
Stage	**January 1, 2021**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2021**
Stage 1	19,766	3	(118)	(3,622)	(106)	-	(3,516)	-			(18,003)	32	(1,942)
Stage 2	78	-	(24)	282	304	(22)			-	-	(21)	275	590
Stage 3	12,192	302	(1,106)	10,069			10,069	-	-	-	(7,478)	49,866	63,845
Total	**32,036**	**305**	**(1,248)**	**6,729**	**198**	**(22)**	**6,553**	**-**	**-**	**-**	**(25,502)**	**50,173**	**62,493**

		Changes within the Stage					Transfers among Stages					
Stage	**January 1, 2020**	**Increases (+)**	**Decreases (-)**	**Total transfers**	**S1 (-) to S2 (+)**	**S2 (-) to S1 (+)**	**S1 (-) to S3 (+)**	**S3 (-) to S1 (+)**	**S2 (-) to S3 (+)**	**S3 (-) to S2 (+)**	**Exit (-)**	**Newly approved (+)**	**December 31, 2020**
Stage 1	19,770	6	(48)	7	(17)	25	(1)	-			(32)	63	19,766
Stage 2	-	167	(60)	(15)	30	(17)			(51)	23	(287)	273	78
Stage 3	-	5,943	(1,351)	523			38	(24)	1,081	(572)	(10,698)	17,775	12,192
Total	**19,770**	**6,116**	**(1,459)**	**515**	**13**	**8**	**37**	**(24)**	**1,030**	**(549)**	**(11,017)**	**18,111**	**32,036**

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Security Instruments - Collaterals

Credit risk is mitigated through adequate collateral management process. The purpose of acquiring all available collaterals, proper booking, assessment and monitoring is to minimize the risk as much as possible. Therefore, the Group is especially dedicated to the management of collaterals in order to maintain the acceptable relationship between the undertaken risk and the realistic rate of the collateral recovery, control and mitigation of risks related to quality, concentration, or securitization of the receivables, maturity, currency, etc. Aiming at further enhancement of processes and systems with regards to credit risk mitigation, the Group set up a special organizational unit, whose activities include collateral appraisal, process of collateral monitoring, accurate reporting, management of the relationships with external associates (licensed certified valuers and appraisers, insurance companies and supervisors), preparations of expert opinions, internal appraisal reports and the overall legal and economic collateral assessment, improvement of data quality and statistical monitoring of collaterals.

The Group uses relevant policies and procedures for collateral management. The most significant collaterals accepted and used by the Group for minimizing credit risk comprise:

- financial collaterals (cash deposits), allowed to be recognized in full amounts;
- payment guarantees issued by first-class banks and governments, allowed to be recognized at full amounts;
- mortgages on residential or commercial property, recognized up to 70% and 60%, respectively, of the appraised value of the property; and
- securities issued by governments, central banks or institutions with adequate credit rating.

In the event that the currency of a security instrument differs from the currency of the loan for which it provides security, the value of the security instrument must be further reduced using a factor defined for every currency combination, as prescribed by the Group's internal bylaws governing the process of credit risk mitigation.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Security Instruments - Collaterals
Appraised fair values of collaterals securitizing the Group's loans up to the credit risk exposure level as of December 31, are presented in the table below:

	Loans and receivables due from banks and other financial institutions		Loans and receivables due from customers		Securities		Other assets		Off-balance sheet assets	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Corporate clients, rating 10	**-**	**-**	**76,195**	**68,347**	**-**	**-**	**-**	**-**	**-**	**287**
Real estate	-	-	75,855	67,432	-	-	-	-	-	-
Cash deposit	-	-	-	-	-	-	-	-	-	-
Guarantee	-	-	340	915	-	-	-	-	-	-
Pledge	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	287
Corporate clients, rating 9	-	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Real estate	-	-	-	-	-	-	-	-	-	-
Cash deposit	-	-			-	-	-	-	-	-
Guarantee	-	-			-	-	-	-	-	-
Pledge	-	-			-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans	**-**	**-**	**6,697,392**	**5,133,006**	**-**	**-**	**-**	**-**	**61,427**	**70,375**
Real estate	-	-	5,644,361	4,770,318	-	-	-	-	61,027	68,551
Cash deposit	-	-	126,288	18,103	-	-	-	-	400	1,824
Guarantee	-	-	821,296	155,275	-	-	-	-	-	-
Pledge	-	-	105,447	189,310	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Retail clients, > 90 days past due	**-**	**-**	**425,624**	**238,397**	**-**	**-**	**-**	**-**	**-**	**-**
Real estate	-	-	414,831	238,397	-	-	-	-	-	-
Cash deposit	-	-	186	-	-	-	-	-	-	-
Guarantee	-	-	10,607	-	-	-	-	-	-	-
Pledge	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Group-level impairment allowance based on collateral appraisal	**295,210**	**588,019**	**110,862,404**	**116,372,023**	**-**	**-**	**-**	**-**	**18,915,487**	**23,636,670**
Real estate	-	-	89,846,414	97,175,794	-	-	-	-	6,951,173	4,966,806
Cash deposit	293,935	587,911	3,914,158	3,371,821	-	-	-	-	4,921,100	2,780,402
Guarantee	1,275	108	13,781,267	11,918,508	-	-	-	-	6,787,427	15,806,387
Pledge	-	-	3,133,154	3,884,450	-	-	-	-	255,787	82,774
Other	-	-	187,411	21,450	-	-	-	-	-	301
Total	**295,210**	**588,019**	**118,061,615**	**121,811,773**	**-**	**-**	**-**	**-**	**18,976,914**	**23,707,332**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market Risks

Market risks represent the possibility of adverse effects on the financial performance and the Group 's capital due to changes in the value of on-balance sheet and off-balance sheet items that arise from the fluctuations of market prices. The market risks include foreign exchange risk, price risks in respect of debt and equity securities.

The set up system of limits for the Group 's exposure to the market risks establishes threshold for the total absorption of economic capital as well as the acceptable level of economic loss both for the activities carried out through the trading book and for the overall business activity of the Group in accordance with its risk-taking capacities.

One of the basic indicators for monitoring of the Bank's exposure to the market risks during 2021 is:

- VaR (Value at Risk) – a potential loss of portfolio value in one day with 99% confidence interval; VaR is calculated based on the historical simulation approach and is monitored daily. The main risk factors that are covered by this calculation are: interest rate risk, credit spread risk, foreign exchange risk, volatility and inflation,

In addition to these basic indicators, when monitoring and managing exposure to market risks, the Bank also uses some additional granular limits - aimed at preventing increased exposure within individual risk factors, as well as in risk factors that are not sufficiently taken into account in VaR analyses. The most important of these indicators are sensitivity analyses – BPV (Basis Point Value Sensitivity) and CPV (Credit Point Value Sensitivity).

During 2021, the Bank's exposure to market risks was within defined limits and in accordance with its risk-taking capacities.

Breakdown of VaR position of the trading portfolio includes only the trading book items of the Bank:

	At December 31	Average	Maximum	Minimum
2021				
Foreign exchange risk	540	1,441	4,634	157
Interest rate risk	633	2,956	5,601	633
Credit spread risk	3,070	14,208	31,876	2,650
Covariance	(951)	-	-	-
Total	3,292	14,595	34,459	3,041
2020				
Foreign exchange risk	2,235	2,329	22,705	300
Interest rate risk	1,089	10,101	25,439	1,089
Credit spread risk	11,139	22,580	35,567	8,277
Covariance	(4,344)	-	-	-
Total	10,119	38,896	76,361	10,119

Retroactive testing (back-testing) of the VaR model is monitored on a monthly basis and reported to the ALCO. If the realized loss is higher than the loss shown by the VaR model, it is considered as overdraft. Retroactive testing refers to the period of last 250 working days in relation to the date of observation.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market Risks (Continued)

There were no strategic changes relating to liquidity and market risk management compared to 2020. Basic updates in internal policies relate to the revision of existing process roles and activities, updating of appropriate limits for indicators and implementation of deposit modeling without agreed maturity (from the point of view of liquidity and interest rate risk). During 2021, the increased focus was on the simulation of indicators due to the COVID-19 crisis, as well as monitoring market trends and interventions in the local market.

Foreign Exchange (Currency) Risk

Foreign exchange (currency) risk is the risk of potential negative effects on the Group's performance and capital due to fluctuations in the foreign currency exchange rates.

The foreign currency risk ratio is the total open foreign currency position relative to the Group's capital, calculated in accordance with the relevant regulator's decision on the capital adequacy of banks. The Bank is under obligation to maintain the ratio between assets and liabilities in such a way that its total open foreign currency position at the end of a working day must not exceed 20% of its capital. The Financial Market Risk Unit prepares a report on the Bank's foreign exchange risk for the purposes of NBS on an intraday basis (the report is sent at noon and at 2 p.m.), as well as on daily and monthly bases.

The Group is exposed to the effects of exchange rate fluctuations for major foreign currencies on its financial position and cash flows. The Group's management sets limits for the risk exposure per particular foreign currencies and constantly monitors whether balances (positions) in various foreign currencies are within the prescribed limits. Limits apply to all the relevant foreign currency products within the Markets Department. They cover trading items as well as selected strategic foreign currency of Finance Unit. All sensitivities that result from foreign currency balances are limited by the general VaR limit set level, both at the Group aggregate level and for the Markets Department and Finance Unit.

In order to protect itself against the risk of fluctuations in the foreign currency exchange rates, the Group executes derivative contracts and loan contracts with a foreign currency index clause.

The Group's foreign currency risk management at the operating level is the responsibility of the Markets Department.

	2021	2020
Foreign exchange risk ratio:		
- as at December 31	3.02	1.00
- maximum for the period – December*	4.04	4.66
- minimum for the period – December*	0.27	0.14

*The max and min ratios are provided for the Bank only.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market Risks (Continued)

Foreign Exchange (Currency) Risk (Continued)

The Group's net currency position as at December 31, 2021:

	USD	EUR	CHF	Other currencies	RSD	Total
Cash and balances held with the central bank	167,190	32,197,297	163,048	143,607	34,901,781	67,572,923
Receivables under derivative financial instruments	-	671,133	-	-	81,491	752,624
Securities	-	18,066,958	-	-	93,856,383	111,923,341
Loans and receivables due from banks and other financial institutions	3,877,858	37,763,526	63,529	524,714	19,630	42,249,257
Loans and receivables due from customers	475,554	195,215,481	114,404	-	126,789,402	322,594,841
Receivables under derivatives designated as risk hedging instruments	-	9,493	-	-	-	9,493
Other assets	16,143	184,693	-	8	1,244,432	1,445,276
Total assets	**4,536,745**	**284,108,581**	**340,981**	**668,329**	**256,893,119**	**546,547,755**
Liabilities under derivative financial instruments	-	701,365	-	-	22,560	723,925
Deposits and other liabilities due to banks, other financial institutions and the central bank	88,324	107,883,942	3,108	827	25,485,721	133,461,922
Deposits and other liabilities due to customers	9,782,687	154,442,018	3,775,055	943,720	145,263,612	314,207,092
Liabilities under derivatives designated as risk hedging instruments	-	132,490	-	-	-	132,490
Other liabilities	152,983	3,745,545	10,724	35,470	11,225,998	15,170,720
Total liabilities	**10,023,994**	**266,905,360**	**3,788,887**	**980,017**	**181,997,891**	**463,696,149**
Off-balance sheet financial instruments	5,496,681	(19,167,005)	3,448,938	346,169	9,939,373	64,156
Net currency position as of December 31, 2021	**9,432**	**(1,963,784)**	**1,032**	**34,481**	**84,834,601**	**82,915,762**

*Note: Assets and liabilities with a currency clause index are stated within currency to which they are indexed

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(c) Market Risks (Continued)

Foreign Exchange (Currency) Risk (Continued)

The Group's net currency position as at December 31, 2020:

	USD	EUR	CHF	Other currencies	RSD	Total
Cash and balances held with the central bank	208,390	30,528,075	622,845	148,562	25,643,975	57,151,847
Pledged financial assets	-	-	-	-	11,630,733	11,630,733
Receivables under derivative financial instruments	-	1,399,309	-	-	48,334	1,447,643
Securities	1,520,776	18,044,566	-	-	82,989,436	102,554,778
Loans and receivables due from banks and other financial institutions	7,053,889	20,179,887	137,270	363,115	12,668	27,746,829
Loans and receivables due from customers	443,021	190,570,094	122,772	-	99,856,974	290,992,861
Other assets	16,551	121,613	-	1	1,149,050	1,287,215
Total assets	**9,242,627**	**260,843,544**	**882,887**	**511,678**	**221,331,170**	**492,811,906**
Liabilities under derivative financial instruments	-	1,436,308	-	-	196,453	1,632,761
Deposits and other liabilities due to banks, other financial institutions and the central bank	28,887	104,986,659	2,036	645	24,650,611	129,668,838
Deposits and other liabilities due to customers	8,329,475	136,878,886	2,534,318	1,049,733	119,581,064	268,373,476
Liabilities under derivatives designated as risk hedging instruments	-	116,377	-	-	-	116,377
Other liabilities	136,135	3,589,148	8,820	14,324	8,805,774	12,554,201
Total liabilities	**8,494,497**	**247,007,378**	**2,545,174**	**1,064,702**	**153,233,902**	**412,345,653**
Off-balance sheet financial instruments	(681,096)	(12,707,068)	1,665,410	744,500	10,823,831	(154,423)
Net currency position as of December 31, 2020	**67,034**	**1,129,098**	**3,123**	**191,476**	**78,921,099**	**80,311,830**

*Note: Assets and liabilities with a currency clause index are stated within currency to which they are indexed

4. FINANCIAL RISK MANAGEMENT (Continued)

(d) Operational Risks

Operational risk is the risk of loss resulting from errors, breaches, interruptions or damages caused by internal processes, employees or systems or external events. Operational risk is defined as an event occurring as a result of inappropriate or unsuccessful internal processes, actions of employees and systems or systemic and other external events: internal or external embezzlement, employment practice and safety at work, receivables from clients, distribution of products, fines and penalties for injury, damage to property, disruption in operations and system errors and failures in the process management. Strategic risks, business risks and reputational risks differ from operational risks, while legal risk and compliance risk are included in the definition of operational risk.

Monitoring and managing of the operational risks is in the responsibility of the Risk Management Division (CRO) and accordingly Team for Operational and Reputational Risk. Decision making, management and reporting is done through Management Board while monitoring of mitigation actions as a result of 2nd level controls is performed through Non-financial risk committee (NFRC).

(e) Liquidity Risk

Liquidity risk is a risk of adverse effects on the Group's financial performance and capital caused by the Group's inability to settle its matured liabilities due to drawdown of the existing sources of financing, i.e., the Group's inability to obtain new sources of financing or difficult conversion of assets into liquid funds because of market disruptions.

The main objective of the overall liquidity management of the Group is to maintain adequate liquidity and financing position, which will enable the Group to fulfil its payment obligations not only in regular business, but in stressful circumstances as well.

The liquidity risk that the Group is faced with in everyday business may have different forms:

- Intraday liquidity risk – the liquidity risk during the day occurs when the Group is unable to meet its payment obligations in a timely manner, both under normal and stress conditions;
- Short-term liquidity risk refers to a risk of mismatch between the amounts and/or the maturities of cash inflows and outflows over a short period of time (up to one year);
- Market liquidity risk is a risk that the Group may face a significant loss of its liquid assets' value whenever it is necessary to liquidate them through sales or repo transactions;
- Structural liquidity risk is defined as the inability to obtain the necessary funds to maintain an adequate relationship between mid-term and long-term (over one year) assets and liabilities at reasonable price levels, in a stable and sustainable manner, without affecting the daily operations or the financial position of the Group;
- The risk of unforeseen or stressful circumstances relates to future and unexpected obligations that could require the Group to maintain higher liquidity than what is considered a sufficient amount for conducting regular business operations;
- Financing concentration risk occurs when the Group uses a limited number of sources of financing, so that they become such that a withdrawal of one or more of them could cause liquidity problems;
- Foreign currency liquidity risk (FX risk) arises from the current and projected liquidity mismatch between the cash inflows and outflows in foreign currencies, or a different allocation of assets and liabilities in foreign currencies within a time horizon.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

Within the liquidity risk management, the Group addresses each of the above listed sources of liquidity risk through the appropriately set up system of limits.

The limit system used in daily liquidity risk management ensures that the Bank maintains liquidity and financing position that is strong enough to bear the potential effects of unfavorable scenarios in which the above listed risks can be materialized. The limit system for the Group is defined in the Risk Appetite Framework (RAF) as well as other granular limits. RAF defines the level of risk that the Bank is willing to take in achieving its strategic goals and business plan, taking into account the interest of its shareholders, as well as capital and other regulatory and legal requirements. As such, RAF is approved by the Supervisory Board, while the granular limits (or other form of limitation) are derived from RAF: their approval and escalation process, however, includes other Group's committees or functions that are set at a lower hierarchy level in the Group's organization.

Some of the main liquidity indicators included in RAF for 2021 were:

- the Bank's liquidity ratio,
- the Bank's rigid liquidity ratio,
- the liquidity coverage ratio (LCR)-consolidated, and
- the net stable funding ratio (NSFR).

During 2021, the Group's liquidity was at an adequate level and there was no breach of any of the defined limits.

The Group's liquidity ratio and the rigid/cash liquidity ratio

In accordance with the NBS Decision on Liquidity Risk Management of Banks, the liquidity and quick/cash liquidity ratios are calculated for the Group only. The Bank is under obligation to maintain the ratio between the sum of liquid receivables of the first order and liquid receivables of the second order, on one hand, and the sum of the Group's demand deposit liabilities and deposits without contractual maturity and deposits with contracted maturity, as follows:

- at least 1.0 – when calculated as an average of all working days in a month;
- not below 0.9 – for over three consecutive working days; and
- at least 0.8 – when calculated for one working day.

In addition, the Group is obligated to maintain the liquidity levels so that the rigid/cash liquidity ratios are as follows:

- at least 0.7 – when calculated as an average of all working days in a month;
- not below 0.6 – for over three consecutive working days; and
- at least 0.5 – when calculated for one working day.

The Group is under obligation to report to the NBS if the liquidity ratios are non-compliant with the prescribed parameters for two consecutive working days, and must do so on the next working day. If the Group determines a critically low liquidity ratio, it must report this to the NBS at the latest by the next working day. Such a report should contain information on the amount of shortfall liquid assets, on the reasons for the lack of liquidity and on the activities planned for resolving the causes of illiquidity. The Financial and Operational Risk Department prepares a report on daily liquidity for the NBS on a daily basis.

The Group's realized values of the liquidity and rigid liquidity ratios indicate a high level of liquidity maintained during 2021:

	2021	2020
The Group's liquidity ratio		
- as at 31 December	1.98	2.00
- average for the period – December	1.99	2.17
- maximum for the period – December	2.15	2.32
- minimum for the period – December	1.86	1.88

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

	2021	2020
The Bank's rigid liquidity ratio		
- as at 31 December	1.73	1.68
- average for the period – December	1.45	1.88
- maximum for the period – December	1.73	2.09
- minimum for the period – December	1.31	1.45

Liquidity Coverage Ratio (LCR)

This indicator represents the ratio of the Group's high quality liquid assets (liquidity buffer) to the net outflows of its liquid assets that would occur during the next 30 days from this indicator calculation date under the assumed stress conditions. This ratio is calculated on a monthly basis for the Bank and twice annually for at the Group's consolidation level. The Group is required to maintain the liquidity coverage ratio observing the total in all currencies at a level not lower than 100%.

The Group's realized LCR values indicate a high level of liquidity maintained during 2021:

As at December 31	2021	2020
Liquidity buffer	121,061,671	109,555,088
Net outflows of liquid assets	73,434,512	62,550,677
Liquid assets coverage ratio	165%	175%

The liquidity risk management system also defines specific limits that ensure that the liquidity reserves are high enough to cover even the intense stress periods. The liquidity risk stress test is carried out on a weekly basis and is based on the scenario analyses. The objective of the scenario analysis is testing of the Group's ability to continue its business activities while facing a stressful event. Three basic scenarios are analyzed:

- Market scenario (stressful circumstances caused by market events);
- The name crisis (stressful circumstances caused by unfavorable news in the media or events related to the Group); and
- Combined scenario (combination of the above two scenarios).

In order to ensure timely and adequate actions in cases of increased liquidity risk, the Group has adopted the Business Continuity Plan, which is tested on an annual basis and which:

- Precisely defines procedures for early detection of the Group's liquidity problems, including a list of early warning indicators;
- Clearly defines activities, obligations and responsibilities in liquidity crisis management; and
- Precisely defines the manner of accessing available or potential sources of liquidity, as well as procedures for securing access to supplementary sources of financing, or sources that are not used in regular business.

Impact of COVID 19 on the Group's liquidity

The Group's liquidity position was stable throughout the period. Emergency capital policy was not activated (nor was there a need for it). With a stable and adequate liquidity potential, the Group has not experienced an outflow of retail and corporate deposits, nor restrictions on the money market due to the reduction of limits by other financial institutions. The introduction of the "warning phase" on April 10, 2020 was only an additional precaution during the COVID-19 crisis in order to ensure an adequate level of foreign exchange LCR indicators. Early warning indicators EWI indicators, both for the Group and the market, are set at an appropriate distance from the RAF or the level of regulatory constraint, leaving time for the Group to respond in a timely manner during potential or actual crises.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

The following table provides breakdown of relevant maturity groups of the Group's financial assets and liabilities as of December 31, 2021:

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and balances held with the central bank	67,572,923	-	-	-	-	67,572,923
Receivables under derivative financial instruments	-	-	752,624	-	-	752,624
Securities	1,846	601,947	11,030,754	58,972,937	41,315,857	111,923,341
Loans and receivables due from banks and other financial institutions	41,755,252	323,654	89,649	67,393	13,309	42,249,257
Loans and receivables due from customers	16,368,012	19,003,623	97,256,469	89,182,087	100,784,650	322,594,841
Receivables under derivatives designated as risk hedging instruments	-	-	9,493	-	-	9,493
Other assets	-	-	1,445,276	-	-	1,445,276
Total assets	**125,698,033**	**19,929,224**	**110,584,265**	**148,222,417**	**142,113,816**	**546,547,755**
Liabilities						
Liabilities under derivative financial instruments	-	-	723,925	-	-	723,925
Deposits and other liabilities due to banks, other financial institutions and the central bank	24,324,146	1,888,643	69,164,293	25,434,581	12,650,259	133,461,922
Deposits and other liabilities due to customers	279,227,184	1,834,531	20,813,017	6,646,886	5,685,474	314,207,092
Liabilities under derivatives designated as risk hedging instruments	-	-	132,490	-	-	132,490
Other liabilities	4,167,762	69,586	9,497,784	1,253,028	182,560	15,170,720
Total liabilities	**307,719,092**	**3,792,760**	**100,331,509**	**33,334,495**	**18,518,293**	**463,696,149**
Net liquidity gap as at December 31, 2021	**(182,021,059)**	**16,136,464**	**10,252,756**	**114,887,922**	**123,595,523**	**82,851,606**

The structure of asset and liability maturities as at December 31, 2021 is indicative of maturity mismatch between the outstanding maturities of assets and those of liabilities in the time buckets, with marked negative mismatch in the buckets of up to a month. This mismatch is primarily due to maturity structure of deposits, i.e., a significant share of demand deposits in the total deposits. Such customer behavior, i.e., focus on shorter maturities is a logical consequence of the current decline in the market interest rates on savings deposits, where the customers prefer demand to term deposits. However, based on historical data and experience, a significant portion of demand deposits may be considered a long-term source of financing given their stability, growth rate and withdrawal rate. At the same time, we underline that the Group is in possession of liquid instruments, i.e., securities and other liquidity reserves, that can be pledged with the National Bank of Serbia at any time, or sold on a secondary market, and has at its disposal funds from the parent bank and international financial institutions in accordance with the adopted financing plan for the current year, all of which can be used to cover potential outflows of funds at any time, even in the stress scenarios. The stress scenario analyses are performed and analyzed by the relevant Group's units and teams on an ongoing basis.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

The following table provides breakdown of relevant maturity groups of the Group's financial assets and liabilities as of December 31, 2020:

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
Assets						
Cash and balances held with the central bank	57,151,847	-	-	-	-	57,151,847
Pledged financial assets	-	-	-	11,630,733	-	11,630,733
Receivables under derivative financial instruments	2,500	11,708	28,655	495,200	909,580	1,447,643
Securities	2,079,583	91,284	7,801,668	70,177,207	22,405,036	102,554,778
Loans and receivables due from banks and other financial institutions	27,049,458	2,662	684,765	9,944	-	27,746,829
Loans and receivables due from customers	6,146,434	8,263,812	34,022,414	121,669,006	120,891,195	290,992,861
Other assets	1,287,215	-	-	-	-	1,287,215
Total assets	**93,717,037**	**8,369,466**	**42,537,502**	**203,982,090**	**144,205,811**	**492,811,906**
Liabilities						
Liabilities under derivative financial instruments	9,867	21,039	170,091	485,186	946,578	1,632,761
Deposits and other liabilities due to banks, other financial institutions and the central bank	12,107,019	21,689,070	19,138,008	54,371,768	22,362,973	129,668,838
Deposits and other liabilities due to customers	227,133,021	15,295,032	16,642,838	8,208,947	1,093,638	268,373,476
Liabilities under derivatives designated as risk hedging instruments	-	-	-	116,377	-	116,377
Other liabilities	3,295,861	75,973	7,468,348	1,428,222	285,797	12,554,201
Total liabilities	**242,545,768**	**37,081,114**	**43,419,285**	**64,610,500**	**24,688,986**	**412,345,653**
Net liquidity gap as at December 31, 2020	**(148,828,731)**	**(28,711,648)**	**(881,783)**	**139,371,590**	**119,516,825**	**80,466,253**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

The following table provides breakdown of relevant maturity groups of the derivative financial instruments for liquidity risk monitoring purposes:

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
FX derivative financial instruments – receive side	29,141,616	190,102	4,166,596	427,990	-	33,926,303
FX derivative financial instruments – pay side	29,098,857	190,090	4,152,119	426,348	-	33,867,413
Net maturity gap as at December 31, 2021	**42,759**	**12**	**14,477**	**1,642**	**-**	**58,890**

	Up to 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	Over 5 years	Total
FX derivative financial instruments – receive side	32,018,881	4,944,689	5,235,874	2,494,419	-	44,693,863
FX derivative financial instruments – pay side	32,020,567	4,967,150	5,360,793	2,493,445	-	44,841,954
Net maturity gap as at December 31, 2020	**(1,686)**	**(22,460)**	**(124,919)**	**974**	**-**	**(148,091)**

The maturity structure of FX derivative financial instruments which is relevant from the aspect of monitoring and managing liquidity risk does not indicate a significant existence of maturity mismatch of the remaining maturity period by time baskets. FX derivative financial instruments are included in all indicators used to monitor both short-term and structural liquidity, thus ensuring adequate management of potential liquidity risk that may arise from these positions.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

Structural FX Gap

The Structural FX Gap monitors maturity matching for material currencies (EUR and other currencies in total) in time baskets above one year. It is based on the "adjusted NSFR" metric methodology with the following exceptions:

- cash flows from derivative financial instruments that affect liquidity risk are included in the calculation for the remaining time to maturity;
- cash flows from a contracts with currency clause are considered cash flows in the original currency

	2021	2020
EUR FX Gap >1Y		
Liabilities in time baskets >1Y	136,700,140	139,742,963
Receivables in time baskets >1Y	124,704,716	133,037,575
Trigger (max)	(17,637,315)	(20,576,535)
FX Gap	**11,995,424**	**6,705,388**

	2021	2020
Other FX Gap >1Y		
Liabilities in time baskets >1Y	10,245,759	7,564,063
Receivables in time baskets >1Y	90,725	100,568
Trigger (max)	(2,351,642)	(2,821,925)
FX Gap	**10,155,034**	**7,463,495**

Positions that provide stable sources of financing and net short-term liabilities in significant currencies other than the domestic currency (EUR and other currencies in total) are sufficient to cover positions that require stable sources of financing in time baskets over one year.

(f) Compliance Risks

Compliance risk represents a possibility of adverse effects on the Group's financial performance and capital due to the failure of the Group to align its operations with the effective laws and regulations, professional standards, procedures for prevention of money laundering and terrorist financing and other procedures, best business practices, business ethics and the Bank's internal bylaws and other enactments governing banking operations. It particularly relates to the risk of regulatory sanctions, the risk of financial losses and reputational risk. The Group, as the parent entity, has organized a special organizational unit whose competence covers compliance review, while Leasing has in place an organizational unit in charge of the legal and compliance affairs.

The primary task of the Group's Compliance Department is to identify and asses the Group's compliance risk and report thereon to the Management Board and Audit Committee and, as appropriate, the Supervisory Board and to propose plans on management of the main compliance risks. The Compliance Department assess risks in accordance with the adopted Methodology and Annual Activity Plan.

Moreover, the Group's compliance function supports other organizational units of the Group in defining procedures, introducing new products or modifying the existing ones, in implementation of the laws and bylaws, rules, standards and the Bank's internal bylaws and enactments specifically governing the following areas: prevention of money laundering and terrorist financing, financial sanctions, banking secrets, protection of personal data, insider information and market abuse, professional market conduct standards, conflict of interests, corruption, loansharking, professional conduct with clients and provision of adequate advice to clients in accordance with the Code of Conduct and Ethical Principles, application of standards on the protection of financial service users and transparency in behavior, protection of competition and other regulatory areas in accordance with the rules of UniCredit Group and the adopted program for the Bank's compliance function.

4. FINANCIAL RISK MANAGEMENT (Continued)

(f) Compliance Risks (Continued)

Within the Group's Compliance Directorate a separate organizational unit has been formed – Unit for Prevention of Money Laundering and Terrorist Financing, where the number of staff members who perform the tasks of identification, measurement and monitoring and managing the risk of money laundering and terrorist financing is proportionate to the volume, type and complexity of the Group's organizational structure, its risk profile and its exposure to this risk.

(g) The Risk of Money Laundering and Terrorist Financing

The risk of money laundering and terrorist financing is a risk of possible adverse effects on the Group's financial performance, capital or reputation due to the use of the Group for money laundering and/or terrorist financing.

The risk of money laundering and terrorist financing arises particularly as a result of the failure of the Group to align its business operations with the effective legislation, regulations and internal bylaws governing prevention of money laundering and terrorist financing, or as a result of mutual non-alignment of the Group's internal bylaws governing this matter.

The Group has in place adequate policies and procedures for identification, measurement, assessment and management of the risk of money laundering and terrorist financing. The Group protects itself from this risk by means of an internal control system in place in its competent organizational units, timely information and high-quality training and education as well as testing of its employees, which is a key factor in the management of the risk of money laundering and terrorist financing.

Within the Compliance Directorate a separate organizational unit has been formed – Unit for Prevention of Money Laundering and Terrorist Financing – to take care of the improvement and continuous implementation of the policies and procedures for managing the risk of money laundering and terrorist financing. The Bank has provided the staff of the Unit with appropriate HR, material, technical , IT and other resources for work as well as with ongoing professional education and trainings.

(h) Strategic Risks

Strategic risk is a risk of adverse effects on the Group's financial performance and capital due to a lack of adequate strategies and policies in place and/or their inadequate implementation as well as due to changes in the environment the Group operates in or the Group's failure to respond appropriately to such changes.

Each and every employee within the Group's risk management system is responsible for strategic risk management, with the Supervisory Board having the key role in this system establishment, while the Management Board is in charge of its implementation, as well as for the risk identification, measurement and assessment. Among other things, the Group's governing bodies monitor the strategic risk through creation and monitoring of the budget, which is prepared annually, as well as through preparation of the multiannual strategic plan, which allows them, at least quarterly, to get to know and be able to respond to all the changes in the environment the Group operates in. The system of reporting to the Group's management, which is in place in all the operating segments, ensures an adequate and timely set of information required for the decision-making process on the part of the Group's management in order to enable prompt responses to the changes in the business environment.

The Group's organizational structure, set up by the above said governing bodies, is defined and adjusted in such a manner that there are resources dedicated to the preparation and application of policies and strategies, development and implementation of the Group's methodologies, rulebooks and other bylaws. The Bank continuously monitors, assesses and adjusts all the relevant bylaws and processes and proposes improvements or actions to be taken in response to the changes in the environment in order to adequately alleviate their impact on the Group's financial performance and capital.

4. FINANCIAL RISK MANAGEMENT (Continued)

(h) Strategic Risks (Continued)

The critical element of the strategic risk management is the Group's internal control system, which enables continuous monitoring of all the risks the Group is or may be exposed to in its operations. The said system ensures implementation of adequate strategies and policies in the Group's practice and elimination of weaknesses or inconsistences, if any, which represents additional monitoring and management of the strategic risk that the Group is exposed to.

(i) Business Risk

Business risk is defined as a measure of the difference between unexpected and expected unwanted changes in future revenues of the Group.

Business risk may result from extremely unfavorable developments in the market environment, changes in competition or client behavior, as well as changes in the legal framework. Sources of such information represent a series of financial statements that include items whose variability is assessed within other types of risk (credit, market, operational risks). Therefore, in order to avoid overlapping with the assessment of other types of risks (e.g. credit, market, operational), the focus here is on specific types of income and expenses of the Group, which, after assessment, are identified and aggregated with other types of risks in order to obtain the total assessment of the risk profile through the economic capital of the Group.

(j) Reputational Risk

Reputational risk is a current or future risk of falling profits as a result of the negative perception of the Bank's image by clients, contracting parties, shareholders, investors or the regulator.

In order to adequately organize the risk management process and clearly segregate the responsibilities of the employees within the Risk Management Division, as well as define and implement risk mitigation measures in this area, the Bank has adopted and implemented policies and other subordinate bylaws.

(k) Interest Rate Risk in the Banking Book

Interest rate risk is defined as a possibility of adverse effects on the Group's financial performance and equity per items in the Group's banking book due to changes in interest rates.

The Group 's exposure to the interest rate risk is considered from two perspectives:
- Impact on the economic value - when changes in interest rates affect the basic value of assets. liabilities and off-balance sheet instruments, because the economic value of future cash flows changes (and in some cases. The cash flows themselves); and
- Impact on the financial result - when changes in interest rates affect earnings by changing the net interest income.

The system of limits for measuring exposure to the interest rate risk is used for monitoring potential changes in the economic value (EV) and changes in the expected net interest income (NII) or profit, addressing all the material sources of risk, in particular:
- Repricing risk - arises from the structure of the banking book and relates to timing mismatch in the maturity and repricing period of assets and liabilities;
- Yield curve risk - arising from changes in the yield curve shape and or slope;
- Basis risk to which the Bank is exposed due to different reference interest rates applicable to the interest-sensitive items with similar characteristics in terms of maturity or repricing; and
- Optionality risk to which the Bank is exposed due to embedded options in relation to interest rate-sensitive positions (loans with the option of early repayment, deposits with the option of early withdrawal).

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(k) Interest Rate Risk in the Banking Book (Continued)

The Group has implemented the framework of interest rate risk scenarios that address all the aforesaid sources of interest rate risk and, depending on the strength of the assumptions used, those can be divided into two basic groups:

- regular business scenarios, and
- stress test scenarios.

The scenarios vary depending on the specific risk generator, whose parameters are changed or stressed:

- assumptions of stress on interest rates (parallel, non-parallel changes in interest rates);
- assumptions of stress on the balance sheet (dynamic balance sheet, constant balance sheet);
- single-factor analysis; and
- multifactor analysis.

The effects of all scenarios are analyzed from the viewpoint of the change in the economic value and net interest income.

Interest rate risk scenarios included in RAF 2021:

- Economic value (EV) sensitivity, and
- Sensitivity of net interest income (NII).

One of the tasks of the Group's Finance Unit is to establish procedures for the Group to comply with the defined limits for the interest rate risk. This is accomplished through activities in the financial markets (through interbank transactions, securities transactions) conducted in cooperation with the Markets Department as well as other ALM activities used to manage interest gaps for protection against the interest rate risk, in line with the Bank's and the Group's preferred risk profile.

At the same time, the Finance Unit and the Markets Department are involved in the management of the Group's investment portfolio, which, together with the approved instruments, enables the achievement of a strategic position that ensures stability of interest income from the banking book. For protection against the interest rate risk, the Finance Department and the Markets Department undertake hedging transactions to hedge certain portfolios or transactions.

An analysis of the Group's sensitivity to increases or decreases in the market interest rates in respect of the positions in the banking book (EV), assuming no asymmetric trends in yield curves, is presented as follows:

	Parallel increase of 200 bp	Parallel decrease of 200 bp
2021		
As at December 31	(137,754)	(363,040)
Average for the year	27,740	(981,988)
Maximum for the year	1,621,700	643,918
Minimum for the year	(1,111,195)	(3,205,844)
2020		
As at December 31	(178,783)	(771,856)
Average for the year	(157,129)	(739,993)
Maximum for the year	807,560	3,101,725
Minimum for the year	(3,404,245)	(2,003,157)

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(k) Interest Rate Risk in the Banking Book (Continued)

The Group's exposure to interest rate changes as at December 31, 2021 is presented for the entire interest-bearing portion of the statement of the financial position:

	Carrying amount	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest bearing
Cash and balances held with the central bank	67,572,923	25,629,593	-	-	-	-	41,943,330
Receivables under derivative financial instruments	752,624	-	-	-	-	-	752,624
Securities	111,923,341	13,075	20,663	10,465,653	60,201,939	41,222,011	-
Loans and receivables due from banks and other financial institutions	42,249,257	37,251,986	102	523,641	-	-	4,472,753
Loans and receivables due from customers	322,594,841	3,520,268	61,010,003	231,656,623	12,424,938	11,686,365	2,296,644
Receivables under derivatives designated as risk hedging instruments	9,493	-	-	-	-	-	9,493
Other assets	1,445,276	-	-	-	-	-	1,445,276
Total assets	**546,547,755**	**66,414,922**	**61,030,768**	**242,645,917**	**72,627,652**	**52,908,376**	**50,910,627**
Liabilities under derivative financial instruments	723,925	-	-	-	-	-	723,925
Deposits and other liabilities due to banks, other financial institutions and the central bank	133,461,922	20,929,526	11,760,999	77,202,000	16,240,025	-	7,329,372
Deposits and other liabilities due to customers	314,207,092	38,489,753	12,605,181	14,455,655	2,786,424	-	245,870,079
Liabilities under derivatives designated as risk hedging instruments	132,490	-	-	-	-	-	132,490
Other liabilities	15,170,720	-	-	-	-	-	15,170,720
Total liabilities	**463,696,149**	**59,419,279**	**24,366,180**	**91,657,655**	**19,026,449**	**-**	**269,226,586**
Net interest rate risk exposure at December 31, 2021	**82,851,606**	**6,995,643**	**36,664,588**	**150,988,262**	**53,601,203**	**52,908,376**	**(218,315,959)**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(k) Interest Rate Risk in the Banking Book (Continued)

The Group's exposure to interest rate changes as at December 31, 2020 is presented for the entire interest-bearing portion of the statement of the financial position:

	Carrying amount	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Non-interest bearing
Cash and balances held with the central bank	57,151,847	21,380,143	-	-	-	-	35,771,704
Pledged financial assets	11,630,733	-	-	-	11,630,733	-	-
Receivables under derivative financial instruments	1,447,643	-	-	-	-	-	1,447,643
Securities	102,554,778	5,984	91,284	7,801,669	71,125,835	23,530,006	-
Loans and receivables due from banks and other financial institutions	27,746,829	19,490,198	2,662	688,763	5,947	-	7,559,259
Loans and receivables due from customers	290,992,861	63,234,230	50,749,378	159,651,095	9,959,913	4,305,313	3,092,932
Other assets	1,287,215	-	-	-	-	-	1,287,215
Total assets	**492,811,906**	**104,110,555**	**50,843,324**	**168,141,527**	**92,722,428**	**27,835,319**	**49,158,753**
Liabilities under derivative financial instruments	1,632,761	-	-	-	-	-	1,632,761
Deposits and other liabilities due to banks, other financial institutions and the central bank	129,668,838	5,363,204	50,900,268	47,576,381	20,703,314	-	5,125,671
Deposits and other liabilities due to customers	268,373,476	21,528,974	16,984,936	26,461,206	4,605,992	-	198,792,368
Liabilities under derivatives designated as risk hedging instruments	116,377	-	-	-	-	-	116,377
Other liabilities	12,554,201	-	-	-	-	-	12,554,201
Total liabilities	**412,345,653**	**26,892,178**	**67,885,204**	**74,037,587**	**25,309,306**	-	**218,221,378**
Net interest rate risk exposure at December 31, 2020	**80,466,253**	**77,218,377**	**(17,041,880)**	**94,103,940**	**67,413,122**	**27,835,319**	**(169,062,625)**

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(k) Interest Rate Risk in the Banking Book (Continued)

An analysis of the interest rate gap sensitivity to an interest rate increase/decrease, assuming a parallel change in the yield curve and static banking book is shown in the table below:

	December 31, 2021 The effect of a parallel change in the interest rate by 1 bp	December 31, 2020 The effect of a parallel change in the interest rate by 1 bp
RSD	(17,305)	(12,225)
EUR	18,514	15,013
USD	67	(2)
GBP	-	-
CHF	(42)	(49)
Other currencies	-	-
Total effect*	**35,928**	**27,289**

* The total effect is equal to the sum of the absolute values by currencies.

Exposure based on the sensitivity analysis of the interest rate gap during 2021 was within the defined limits.

(l) IT Risks

IT risks refer to a possible occurrence of adverse effects on the Group's financial performance and capital, achievement of its business goals, regulatory compliance and reputation due to inadequate information system management and/or other weaknesses in the Group's information system that adversely affect its functionality or safety and compromises the Group's business continuity.

In order to control and mitigate this type of risks and improve its management, the Group has adopted and implemented the Information System Development Strategy. For adequate organization of the IT risk management process as well as for clear segregation of the employees' responsibilities and definition and application of the risk mitigation measures, the Group implements work rules, procedures and other subordinate bylaws in this area.

(m) Model Risk

The model risk pertains to potential errors in modeling for the main types of risks the Group is exposed to (credit risk, market risks and operational risk), such as inadequate modelling methodology, improper model application, lacking parameters and inputs.

Model risk analysis is based on the assessment of the risk model components arising from various types of risks. In order to ensure adequate model risk management and define and implement measures for risk mitigation in this area, the Group applies and regularly evaluates an appropriate set of internal bylaws.

(n) Capital Management

As the Group’s regulator, the NBS defines the method of calculating capital and capital adequacy based on Basel III Regulatory Framework. The regulatory capital, capital adequacy ratios and calculation of risk-weighted assets are defined by the Decision on Capital Adequacy of Banks, including all amendments, effective as from June 30. 2017 (the “Decision”). The Group monitors its capital adequacy ratio on a quarterly basis using the standardized approach.

4. FINANCIAL RISK MANAGEMENT (Continued)

(n) Capital Management (Continued)

The Group is required to calculate the following capital adequacy ratios:

1. the Common Equity Tier 1 capital ratio (CET 1 ratio) represents the common equity tier 1 capital relative to the risk-weighted assets, expressed as percentage. The minimum CET 1 ratio defined by the Decision is 4.5%;
2. the Tier 1 capital ratio (T1 ratio) is the core capital adequacy ratio, representing the core capital relative to the risk-weighted assets, expressed as percentage. The minimum T1 ratio defined by the Decision is 6%;
3. the total capital adequacy ratio (CAR) represents the capital relative to the risk-weighted assets, expressed as percentage. The minimum CAR defined by the Decision is 8%.

The Group is required to maintain its core capital in RSD equivalent amount of EUR 10,000,000 at all times, using the official middle exchange rate of NBS effective as at the calculation date. In addition, the Group is required to maintain at all times its capital in the amount necessary for coverage of all risks the Group is or may be exposed to in its operations, yet no less than the amount required to maintain the minimum capital adequacy ratios or increased capital adequacy ratios – in case NBS orders the Group to achieve and maintain capital adequacy ratios higher than the prescribed ones.

In 2021, the NBS maintained capital adequacy ratios higher than prescribed, at the level determined for 2020.

The Group's capital is the sum of the core capital (Tier 1) and supplementary capital (Tier 2). The core capital is the sum of the common equity Tier 1 capital and additional Tier 1 capital.

The Group's common equity Tier 1 capital is the sum of the following items adjusted for the regulatory adjustments less deductible items:

- shares and other equity instruments;
- relevant share premium with the common equity Tier 1 instruments;
- the Bank's profit;
- revaluation reserves and other unrealized gains;
- reserves from profit and other reserves of the Bank;
- reserve funds for general banking risks.

Regulatory adjustments – When calculating the value of its capital components, the Group is bound to exclude from any capital component any increase in equity determined under IFRS/IAS resulting from securitization of exposures. Since the Republic of Serbia has no regulations enacted to govern this area, the said regulatory adjustment is not applicable.

The Group does not include in its capital the following:

- fair value reserves relating to gains or losses in cash flow hedging instruments for financial instruments measured at other than fair value, including the projected cash flows;
- gains or losses on the Group's liabilities measured at fair value, resulting from the changes in the Group's credit quality;
- gains or losses arising from the credit risk for liabilities per derivatives measured at fair value, where the Group may not offset such gains or losses against those arising from its counterparty credit risk.

Unrealized gains or losses on assets or liabilities measured at fair value, except for the above listed gains or losses, are included in the calculation of capital.

4. FINANCIAL RISK MANAGEMENT (Continued)

(n) Capital Management (Continued)

Deductible from the common equity Tier 1 capital are:

- current and prior year's losses and unrealized losses;
- intangible assets, including goodwill, decreased for the amount of deferred tax liabilities that would be derecognized in case of impairment or derecognition of intangible assets under IFRS/IAS;
- deferred tax assets dependable on the Group's future profitability in line with the effective regulations;
- defined benefit pension fund assets on the Group's balance sheet;
- the Group's direct, indirect and synthetic holdings of its own common equity Tier 1 instruments, including those that the Group is under an actual or contingent obligation to repurchase by virtue of a constructive obligation;
- the Group's direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where those entities have reciprocal holdings in the Group, designed to artificially inflate the bank's capital;
- the Group's applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Group holds no significant investments in accordance with Articles 19 and 20 of the Decision;
- the Group's applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Group holds significant investments in accordance with Sections 19 and 20 of the Decision;
- the amount for which the Group's additional Tier 1 capital deductible items exceed the Group's additional Tier 1 capital;
- the amount of exposures qualifying for application of a risk weight of 1.25%, where the Group decides to deduct the exposure from the common equity Tier 1 rather than apply the said risk weight, such as:
  - holdings in non-FSI entities exceeding 10% of their capital and/or holdings enabling effective exertion of significant influence on the management of such entities or their business policies;
  - securitized items in accordance with Section 201, paragraph 1, item 2), Section 202, paragraph 1, item 2), and Section 234 of the Decision;
  - free deliveries, if the counterparty has failed to settle its liability within four working days from the agreed delivery/payment date, in accordance with Section 299 of the Decision;
- any tax charge relating to the common equity Tier 1 items foreseeable at the moment of its calculation, except where the Group has previously suitably adjusted the amount of common equity Tier 1 items insofar as such tax charges reduce the amount up to which those items may be used to absorb risks or losses;
- gross amount of receivables due from a private individual debtor (other than a farmer and sole trader/entrepreneur) for consumer loans, cash or other loans recorded on accounts 102, 107 and 108 in accordance with NBS decision prescribing the chart of accounts and contents of the accounts within the chart of accounts for banks, where the credit indebtedness of the debtor prior to the loan approval was higher than the percentage rate defined in line with NBS decision governing classification of the balance sheet assets and off-balance sheet items of banks, or the said percentage rate will be higher due to the loan approval, where this item will be deducted regardless of whether after the loan approval, the debtor's credit indebtedness decreased below the said percentage rate;
- gross amount of receivables due from a private individual debtor (other than a farmer and sole trader/entrepreneur) for consumer loans, cash or other loans approved, except for the loans specified under the bullet above, which are recorded on accounts 102, 107 and 108:
  - for which the contractually defined maturity is over 2,920 days, if such loans were approved from January 1, 2019 up to December 31, 2019;
  - for which the contractually defined maturity is over 2,555 days, if such loans were approved from January 1, 2020 up to December 31, 2020;
  - for which the contractually defined maturity is over 2,190 days, if such loans were approved from January 1, 2021.
- gross amount of receivables due from a private individual debtor (other than a farmer and sole trader/entrepreneur) for consumer loans approved for purchase of motor vehicles, which are recorded on account 102, for which the contractually defined maturity is over 2,920 days, if such loans have been approved as from January 1, 2019; and
- amount of the required reserve for estimated losses in accordance with NBS regulations, if such regulations prescribe the Group's obligation to form such a reserve.

4. FINANCIAL RISK MANAGEMENT (Continued)

(n) Capital Management (Continued)

From the calculation of deductible items from indents 13 and 14 of the previous paragraph, the period in which the moratorium on the basis of approved loans defined by those indents lasted is not included in the number of days of agreed maturity for the purposes of application of these provisions. The moratorium means a delay in the repayment of obligations in accordance with the provisions of the decision which regulates the temporary measures for preserving the stability of the financial system in the Republic of Serbia in the conditions of the pandemic caused by COVID-19.

Upon determining deductible deferred tax assets items and the Group's applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Group holds significant investments, the Group is not required to deduct from the common equity Tier 1 capital the amounts of items that in the aggregate are equal to or lower than the limit which is arrived at by multiplying the common equity Tier 1 items remaining after the regulatory adjustments and decrease for deductible items by 17.65%:

- deferred tax assets dependable on the Group's future profitability, arising from the temporary differences in the amount lower than or equal to 10% of the Bank's common equity Tier 1 capital calculated in accordance with Section 21, paragraph 2 of the Decision;
- the Group's direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Group holds significant investments in the amount lower than or equal to 10% of the Group's common equity Tier 1 capital calculated in accordance with Section 21, paragraph 2 of the Decision.

As of December 31, 2021, the Group did not reduce its common equity Tier 1 capital for the amount of direct holdings of common equity Tier 1 instruments or for deferred tax assets dependable on the Group's future profitability, arising from the temporary differences since their aggregate amount was below the defined limit.

The Group's additional Tier 1 capital consists of the sum of the following items less respective deductibles:

- shares and other equity instruments that meet the requirements referred to in Section 23 of the Decision;
- relevant share premium.

As of December 31, 2021, the Group had no additional Tier 1 capital.

The Group's supplementary (Tier 2) capital consists of the sum of the following items less respective deductibles:

- shares and other Tier 2 instruments and liabilities under subordinated loans;
- the relevant share premium, i.e., amounts paid in above the par value of such instruments;
- general credit risk adjustments gross of tax effects, of up to 1.25% of the risk-weighted credit risk exposures for banks calculating the risk-weighted exposures amounts by applying the standardized approach.

The amount in which the supplementary Tier 2 capital instruments, i.e., subordinated liabilities, are included in the calculation of the supplementary Tier 2 capital during the final five years before they mature, is calculated as follows: the quotient their nominal value and/or the principal amount on the first day of the final five-year period before their mature and he number of calendar days in that period is multiplied by the number of the calendar days remaining to maturity of the instruments or subordinated liabilities at the calculation date.

As of December 31, 2021, the Group had no supplementary Tier 2 capital.

All amounts expressed in thousands of RSD, unless otherwise stated.

4. FINANCIAL RISK MANAGEMENT (Continued)

(n) Capital Management (Continued)

The following table presents the Group's balance of capital and total risk-weighted assets as of December 31, 2021 and 2020:

	2021	2020
Common equity Tier 1 capital - CET1		
Paid in common equity Tier 1 instruments	23,607,620	23,607,620
Relevant share premium with the common equity Tier 1 instruments	562,156	562,156
Current year's profit qualifying for inclusion into CET 1 capital	1,090,483	1,090,483
Revaluation reserves and other unrealized gains	317,947	2,946,840
(-) Unrealized losses	(114,880)	(41,010)
Other reserves	53,740,761	50,538,071
(+) Fair value of reserves related to gains (-) or losses (+) from cash flow hedging instruments not valued at fair value, including projected cash flows	69,026	-
(-) Intangible assets, including goodwill, decreased for the amount of deferred tax liabilities)	(2,571,469)	(2,138,539)
(-) Gross amount of receivables due from a private individual debtor (other than a farmer and sole trader/entrepreneur) for consumer loans, cash or other loans recorded on accounts 102, 107 and 108 in accordance with NBS decision prescribing the chart of accounts and contents of the accounts within the chart of accounts for banks, where the credit indebtedness of the debtor prior to the loan approval was higher than the percentage rate defined in line with NBS decision governing classification of the balance sheet assets and off-balance sheet items of banks, or the said percentage rate will be higher due to the loan approval, where this item will be deducted regardless of whether after the loan approval, the debtor's credit indebtedness decreased below the said percentage rate	(87,713)	(123,902)
(-) Gross amount of receivables due from a private individual debtor (other than a farmer and sole trader/entrepreneur) for consumer loans, cash or other loans approved, except for the loans specified under the bullet above, which are recorded on accounts 102, 107 and 108 in accordance with NBS decision prescribing the chart of accounts and contents of the accounts within the chart of accounts for banks, which based on the maturity criterion meet condition for deduction from CET 1 capital:	(147,482)	(130,484)
of which (-) whose contractual maturity is longer than 2920 days – if these loans are approved in period from January 1 to December 31 2019	(57,275)	(78,582)
of which (-) whose contractual maturity is longer than 2920 days – if these loans are approved in period from January 1 to December 31 2020	(37,358)	(51,902)
of which (-) whose contractual maturity is longer than 2190 days – if these loans are approved in period from January 1 to December 31 2021	(52,849)	-
Total common equity Tier 1 capital - CET1	**76,466,449**	**76,311,235**
Additional Tier 1 capital - AT1	-	-
Total core Tier 1 capital - T1 (CET1 + AT1)	**76,466,449**	**76,311,235**
Supplementary capital - T2	-	-
Total regulatory capital (T1 + T2)	**76,466,449**	**76,311,235**

In both 2021 and 2020 the Group achieved capital adequacy ratios within the limits prescribed by NBS Decision on Capital Adequacy of Banks and Decision on Risk Management.

5. USE OF ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

These disclosures supplement the comments on financial risk management (Note 4).

Critical Accounting Estimates and Judgments in Applying the Bank's Accounting Policies

The COVID-19 pandemic has significantly increased estimation uncertainty in the preparation of these financial statements regarding the extent and duration of business interruptions arising from actions by governments, legal entities and clients to prevent the spread of viruses, the extent and duration of expected economic downturns and subsequent recovery as well as effectiveness of measure to support the economy and the individuals. For more details on the impact of the COVID-19 see the Note 2 (d).

(i) Provisions for Expected Credit Losses

Impairment of financial assets is assessed in the manner described in accounting policy 3(k)(viii).

Under IFRS 9, measurement of ECL for all categories of financial assets requires estimates and judgements to be made, particularly those relating to determining the amount and expected timing of the future cash flows, both from operation and from collateral foreclosure upon determining the expected credit losses and assessing whether there has been a significant credit risk increase. The said estimates are based on a number of factors, the combination and interaction of which may result in different amounts of expected credit loss provisions in different scenarios analyzed.

The Group's ECL calculations are a result of complex models involving a number of assumptions concerning a selection of input variables and their interdependence. Elements of ECL models that are included in the accounting judgments and estimates include the following:

- the internal model for assessing credit quality, which is used to assign PD values to individual credit rating categories;
- the Group 's criteria for assessing whether there has been a significant credit risk increase, which consequently result in lifetime ECL calculation using the quantitative criteria (a change in PD compared to the initial recognition date of a financial asset) as well as qualitative assessments (forbearance or restructuring classification, 30 days past due or watch list 2 classification);
- segmentation of the financial assets when their ECL need to be assessed on a collective basis;
- development of ECL models, including various formulas and inputs to be selected;
- establishing relations between macroeconomic scenarios and economic inputs, such as GDP movements, movements in unemployment rates, salaries and interest rates and modelling of their relations and impacts on the used PD and LGD; and
- selection of macroeconomic forward-looking scenarios in collaboration with UniCredit Group and probability-weighting of those scenarios in order to arrive at the relation between the ECL models and possible economic trends.

In line with its internal policies, the Group will regularly review, maintain and adjust its models within the context of its actually experienced credit losses when necessary.

The Group assess impairment of financial assets and probable losses per off-balance sheet items for individually significant receivables on an individual basis. The individual impairment assessment involves determining whether there is objective evidence of impairment, i.e., whether the default status exists. The amount of impairment of financial assets is determined as the difference between the carrying value of each receivable and the present value of the expected future cash flows from the receivable, while the assessment of ECL per off-balance sheet items entails assessing recoverability of the future cash flows for each off-balance sheet commitment.

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

Critical Accounting Estimates and Judgments in Applying the Bank's Accounting Policies (Continued)

(i) Provisions for Expected Credit Losses (Continued)

The Group assess impairment of financial assets and ECL per off-balance sheet items on a collective basis for all receivables where the impairment losses cannot be directly linked to the receivables, but may be estimated to be present in the loan portfolio based on the experience.

Upon performing the said assessment, the Group groups receivables according to their similar credit risk characteristics, which reflect the ability of the borrowers to settle their liabilities in accordance with contractual terms (portfolio segments, rating categories, etc.). collective impairment assessment represents a joint estimate of the future cash flows for a group of receivables based on the historical information on the losses incurred in prior periods per receivables with credit risk characteristics similar to those in that group, in accordance with the Group's methodology.

More information related to impact of the COVID-19 pandemic on the calculation of ECL has been provided in Notes 2 (d) and 4 (b).

(ii) Measurement of Financial Instruments at Fair Value (Note 3 (k)(vii)

Determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(k)(vii). For financial instruments that are traded infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on inputs other than quoted prices for identical instruments, observable either directly (as prices) or indirectly (e.g., derived from prices). This category includes instruments measured using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs are not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are measured based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

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

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

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

Critical Accounting Estimates and Judgments in Applying the Bank's Accounting Policies (Continued)

(ii) Measurement of Financial Instruments at Fair Value (Note 3 (k)(vii) (Continued)

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

(iii) Estimated Useful Lives of Intangible Assets, Property and Equipment and Amortization/Depreciation Rates Used (Note 3 (q), 3 (r), 28 i 29)

The calculation of amortization/depreciation charge and amortization/depreciation rates applied are based on the estimated useful lives of intangible assets, property and equipment, which are subject to an ongoing review. The estimated useful lives are reviewed for adequacy at least annually, or more frequently if there is any indication that significant changes have occurred to the factors determining the previously defined estimated useful lives or other events affecting the estimated useful lives. Useful life estimates require the management to make significant estimates and judgments based on the historical experience with similar assets, as well as anticipated technical advancement and changes in economic and industrial factors that may affect the useful lives of assets.

(iv) Impairment of Non-Financial Assets (Note 3 (u))

At each reporting date, the Group's management reviews the carrying amounts of the its non-financial assets other than investment property and deferred tax assets in order to determine the indications of impairment losses. 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 impairment loss. If the estimated recoverable amount of an asset is below its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is immediately recognized as an expense of the current period. Assessment of indicators and objective evidence of impairment requires the management to make significant estimates regarding the expected cash flows, discount rates and usage capacity of the assets subject to review.

(v) Fair value of property and investment property (Notes 3 (k)(vii), 3 (q), 3 (s), 29 and 30)

The Group uses the fair value model for the valuation of investment property and the revaluation model for real estate that it uses for its own business purposes. Fair value measurement is performed regularly to reconcile the carrying amount at the end of the reporting period.

(vi) Deferred Tax Assets (Notes 3 (j) and 37)

Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which such deferred tax assets may utilized. The Group's management needs to make prudent assessments of deferred tax assets which may be recognized, based on their period of inception and amounts, as well as on the amount of future taxable income and tax policy planning strategy.

(vii) Provisions for Litigations (Notes 3 (w) and 36)

The Group is involved in a number of lawsuits and labor disputes. Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of past events, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Estimating of the provisions for legal suits requires the Group's management and Legal Unit to make significant estimates and judgments, including the estimate of the probability of negative suit outcomes and probable and reasonable estimates of loss amounts. The required provision amounts represent the best estimates made by the management based on the information available as at the reporting date. However, they may be subject to future changes due to new events taking place or new information obtained.

All amounts expressed in thousands of RSD, unless otherwise stated.

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

(b) Critical Accounting Estimates and Judgments in Applying the Bank's Accounting Policies (Continued)

viii) Provisions for Employee Benefits (Notes 3 (y) and 36)

The costs of provisions for employee retirement benefits determined by actuarial calculation. The actuarial calculation includes an assessment of the discount rate, future salary growth rate, future employee turnover rate and mortality rates. Actual outcome may vary significantly from the said estimates, particularly given the long term they relate to.

6. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES

The following tables show the breakdown of financial instruments measured at fair value at the end of the reporting period, grouped in fair value hierarchy levels:

2021	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Receivables under derivatives	23	-	752,624	-	752,624
Receivables under derivatives designated as risk hedging instruments	27	-	9,493	-	9,493
Securities					
- at FVtPL	24	522,382*	2,269,504	-	2,791,886
- at FVtOCI	24	24,935,338*	47,292,312	730,454**	72,958,104
		25,457,720	**50,323,933**	**730,454**	**76,512,107**
Liabilities under derivatives	32	-	723,925	-	723,925
Liabilities per derivatives designated as risk hedging instruments	35	-	132,490	-	132,490
	23	**-**	**856,415**	**-**	**856,415**

* Securities at FVtPL and at FVtOCI – Level 1 include bonds issued by the Republic of Serbia, denominated in EUR and listed in EU Stock Exchanges and RSD treasury bills (benchmark securities) as highly liquid assets.
** In 2021 municipal bond measured at FVtOCI has been transferred from Level 2 to Level 3 due to the lack of quotations and other observable market parameters for its evaluation.

2020	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Pledged financial assets	22		11,630,733		11,630,733
Receivables under derivatives	23	-	1,447,643	-	1,447,643
Securities					
- at FVtPL	24	93,772*	1,979,827	-	2,073,599
- at FVtOCI	24	4,770,934*	83,900,835	14,602**	88,686,371
		4,864,706	**98,959,038**	**14,602**	**103,838,346**
Liabilities under derivatives	32	-	1,632,761	-	1,632,761
Liabilities per derivatives designated as risk hedging instruments	35	-	116,377	-	116,377
		-	**1,749,138**	**-**	**1,749,138**

* Securities at FVtPL and at FVtOCI – Level 1 include bonds issued by the Republic of Serbia, denominated in EUR and USD and listed in EU Stock Exchanges as highly liquid assets.
** In 2020 municipal bond measured at FVtOCI has been transferred from Level 2 to Level 3 due to the lack of quotations and other observable market parameters for its evaluation.

All amounts expressed in thousands of RSD, unless otherwise stated.

6. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES (Continued)

(i) Fair Value Hierarchy for Assets and Liabilities Other than Measured at Fair Value

Estimated fair values of financial assets and liabilities other than measured at fair value are provided in the table below, according to the fair value hierarchy levels under IFRS 13:

	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
2021.						
Cash and balances held with the central bank	21	-	67,572,923	-	67,572,923	67,572,923
Securities						
- securities measured at amortized cost (AC)	24	30,934,871	5,204,742	33,796	36,173,409	36,173,351
Loans and receivables due from banks and other financial institutions	25	-	-	42,246,576	42,246,576	42,249,257
Loans and receivables due from customers	26	-	-	325,479,208	325,479,208	322,594,841
Other assets	31	-	-	1,445,276	1,445,276	1,445,276
		30,934,871	**72,777,665**	**369,204,856**	**472,917,392**	**470,035,648**
Deposits and other liabilities due to banks, other financial institutions and the central bank	33	-	-	134,466,514	134,466,514	133,461,922
Deposits and other liabilities due to customers	34	-	-	314,320,425	314,320,425	314,207,092
Other liabilities	38	-	-	15,170,720	15,170,720	15,170,720
		-	**-**	**463,957,659**	**463,957,659**	**462,839,734**

	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
2020.						
Cash and balances held with the central bank	21	-	57,151,847	-	57,151,847	57,151,847
Securities						
- securities measured at amortized cost (AC)	24	4,385,522	7,389,280	20,298	11,795,100	11,794,808
Loans and receivables due from banks and other financial institutions	25	-	-	27,746,016	27,746,016	27,746,829
Loans and receivables due from customers	26	-	-	294,307,687	294,307,687	290,992,861
Other assets	31	-	-	1,287,215	1,287,215	1,287,215
		4,385,522	**64,541,127**	**323,361,216**	**392,287,865**	**388,973,560**
Deposits and other liabilities due to banks, other financial institutions and the central bank	33	-	-	131,750,226	131,750,226	129,668,838
Deposits and other liabilities due to customers	34	-	-	268,838,994	268,838,994	268,373,476
Other liabilities	38	-	-	12,554,201	12,554,201	12,554,201
		-	**-**	**413,143,421**	**413,143,421**	**410,596,515**

All amounts expressed in thousands of RSD, unless otherwise stated.

6. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES (Continued)

(i) Fair Value Hierarchy for Assets and Liabilities Other than Measured at Fair Value (Continued)

Valuation techniques and models the Group uses for fair value calculations are disclosed in Note 5b(i).

(ii) Assets The Fair Values of which Approximate their Carrying Values

For financial assets and financial liabilities that are highly liquid or having a short term original maturity (less than one year) it is assumed that the carrying amounts approximate their fair values. The basic assumption used here is that in the near term, for highly liquid assets, no significant market changes will occur that can affect the fair value. This assumption is also applied to demand deposits, savings accounts without specified maturity and all variable interest rate financial instruments.

(iii) Financial Instruments with Fixed Interest Rates

The fair values of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair values of fixed interest bearing financial instruments are based on discounted cash flows using prevailing money-market interest rates for financial instruments with similar credit risk characteristics and maturities.

Financial assets held to maturity and loans and deposits include a portion of the loan portfolio at fixed interest rates, which causes differences between the carrying amounts and fair values of such instruments.

7. NET INTEREST INCOME

Net interest income includes:

	2021	2020
Interest income from		
Cash and balances held with the central bank	66,746	136,528
Receivables under derivative financial instruments	362,230	326,372
Securities at fair value through profit or loss	138,164	113,118
Securities at fair value through OCI	2,664,350	3,330,513
Securities at amortized cost	661,811	189,518
Loans and receivables due from banks and other financial institutions	41,564	53,441
Loans and receivables due from customers	11,408,026	11,409,069
Financial derivatives and assets held for risk hedging purposes	182,013	195,989
Total interest income	15,524,904	15,754,548
Interest expenses from		
Liabilities under derivative financial instruments	(362,231)	(326,695)
Liabilities per financial derivatives designated as risk hedging instruments	(64,697)	(64,093)
Deposits and other liabilities due to banks, other financial institutions and the central bank	(1,230,927)	(1,303,758)
Deposits and other liabilities due to customers	(499,687)	(709,212)
Lease liabilities	(43,072)	(47,508)
Total interest expenses	(2,200,614)	(2,451,266)
Net interest income	**13,324,290**	**13,303,282**

In accordance with the Group's accounting policy 3 (d), interest income from non-performing impaired loans amounted to RSD 267,613 thousand in 2021 (2020: RSD 291,772 thousand).

All amounts expressed in thousands of RSD, unless otherwise stated.

8. NET FEE AND COMMISSION INCOME

Net fee and commission income includes:

	Private individuals		Corporate clients		Total	
	2021	2020	2021	2020	2021	2020
Fee and commission income						
Payment transfer activities	363,829	269,045	1,609,263	1,268,322	1,973,092	1,537,367
Fees related to loans	147,192	194,908	470,090	273,425	617,282	468,333
Fees arising from card operations	395,182	315,754	1,319,298	1,041,523	1,714,480	1,357,277
Maintaining of current accounts	464,067	374,026	131,603	93,493	595,670	467,519
Brokerage fees	-	-	13,869	15,511	13,869	15,511
Custody fees	36	354	453,472	423,218	453,508	423,572
Fees on issued guarantees and other contingent liabilities	2,432	3,281	814,884	714,001	817,316	717,282
Fee on foreign exchange purchases/sales and foreign cash transactions	193,458	147,594	1,953,928	1,612,615	2,147,386	1,760,209
Other fees and commissions	136,755	159,864	336,164	218,812	472,919	378,676
Total fee and commission income	1,702,951	1,439,604	7,102,571	5,686,142	8,805,522	7,125,746
Fee and commission expenses						
Payment transfer activities	-	-	(297,326)	(191,340)	(297,326)	(191,340)
Fees arising from card operations	-	-	(1,419,013)	(1,154,940)	(1,419,013)	(1,154,940)
Fees arising on guarantees, sureties and letters of credit	-	-	(13,062)	(12,375)	(13,062)	(12,375)
Fee arising on on foreign exchange purchases/sales and foreign cash transactions	(6,211)	(6,108)	(512,413)	(506,597)	(518,624)	(512,705)
Other fees and commissions	-	-	(151,132)	(143,237)	(151,132)	(143,237)
Total fee and commission expenses	(6,211)	(6,108)	(2,392,946)	(2,008,489)	(2,399,157)	(2,014,597)
Net fee and commission income	**1,696,740**	**1,433,496**	**4,709,625**	**3,677,653**	**6,406,365**	**5,111,149**

Fee on foreign exchange purchases/sales and foreign cash transactions presented in table above resulted from reclassification done during 2021 in accordance with instructions from NBS (note 2.f). The Group has also reclassified comparative data for 2020.

9. NET GAINS ON THE CHANGES IN THE FAIR VALUE OF FINANCIAL INSTRUMENTS

Net gains on the changes in the fair value of financial instruments include:

	2021	2020
Net gains on the changes in the fair value of derivatives at FVtPL	361,832	59,929
Net (losses)/gains on the changes in the fair value of securities at FVtPL	(13,809)	10,120
Net gains on the changes in the fair value of financial instruments	**348,023**	**70,049**

Net gains on the changes in the fair value of derivatives at FVtPL in the amount of RSD 361,832 thousand as of 31.12.2021 (2020: RSD 59,929 thousand) include also net gain on currency swaps in the amount of RSD 81,002 thousand (2020: RSD 127,444 thousand) resulting from reclassification according to NBS instructions (Note 2.f). The Group has also reclassified comparative data for 2020.

All amounts expressed in thousands of RSD, unless otherwise stated.

10. NET GAINS ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT FAIR VALUE

Net gains on derecognition of financial instruments measured at fair value include:

	2021	2020
Net gains on derecognition of securities measured at FVtOCI	710,534	592,882
Net gains on derecognition of securities measured at FVtPL	44,213	140,879
Net gains on derecognition of financial assets measured at fair value	**754,747**	**733,761**

11. NET (LOSSES)/GAINS ON RISK HEDGING

Net (losses)/gains on risk hedging include:

	2021	2020
Net losses on the change in the value of hedged loans, receivables and securities	(76,189)	(39,098)
Net gains on the change in the value of derivatives designated as risk hedging instruments	69,685	39,962
Net (losses)/gains on risk hedging	**(6,504)**	**864**

Net loss on risk hedging of RSD 6,504 thousand in 2021 relates to micro fair value hedging (Note 35), while in 2020 the Group has realized gain of RSD 864 thousand on the same basis.

12. NET FOREIGN EXCHANGE (LOSSES)/GAINS AND (NEGATIVE)/POSITIVE CURRENCY CLAUSE EFFECTS

Net foreign exchange (losses)/gains and (negative)/positive currency clause effects include:

	2021	2020
Foreign exchange gains and positive currency clause effects	9,973,280	14,509,817
Foreign exchange losses and negative currency clause effects	(10,202,632)	(14,382,934)
Net foreign exchange (losses)/gains	**(229,352)**	**126,883**

During 2021, according to instructions received from NBS, the Group has made following reclassifications from position Net foreign exchange gains and positive currency clause effects:

- Gains and losses on foreign exchange purchases/sales and foreign cash transactions are reclassified to position Net fee and commission income; fee income on this basis as of 31 December 2021 was in the amount of RSD 2,147,386 thousand (2020: RSD 1,760,209 thousand) and fee expenses in the amount of RSD 518,624 thousand (2020: RSD 512,705 thousand);
- Gains and losses on currency swaps are reclassified into position Net gains/losses on the changes in the fair value of financial instruments; net gain on this basis as of 31 December 2021 was RSD 81,002 thousand (2020: RSD 127,444 thousand).

As of 31 December 2021, the Group had net foreign exchange losses of RSD 229,352 thousand (2020: net foreign exchange gains RSD 126,883 thousand) which include gains/losses on exchange differences resulting from translation of different currencies at different exchange rates including also exchange rate differences based on currency clause.

The Group has also reclassified comparative data for 2020.

All amounts expressed in thousands of RSD, unless otherwise stated.

13. NET LOSSES ON IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

Net losses on impairment of financial assets not measured at fair value through profit or loss include:

	2021	2020
Loans and receivables due from customers		
Net increase in individual impairment allowance	(1,573,101)	(943,368)
Net increase in collectively assessed impairment	(1,796,104)	(2,672,209)
	(3,369,205)	(3,615,577)
Net decrease in impairment charge per securities measured at FVtOCI	112,493	46,199
Contingent liabilities		
Net (increase)/decrease in individual impairment allowance (Note 36.2)	21,383	(39,250)
Net (increase)/decrease in collectively assessed impairment (Note 36.2)	56,824	(103,851)
	78,207	(143,101)
Gains/(losses) on modification	61,006	(407,175)
Write-offs	(5,255)	(2,728)
Recovery of the receivables previously written off	339,936	231,569
Total net losses	**(2,782,818)**	**(3,890,813)**

In 2021 the Group made gains on modification of RSD 61,006 thousand. In 2020, losses on modification amounted to RSD 407,175 thousand and included mostly losses on modification relating to moratorium in the amount of RSD 379,405 thousand. In 2021 no losses on modification related to moratorium have been made.

14. NET GAINS ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST

Net gains on derecognition of financial assets measured at amortized cost include:

	2021	2020
Gains on the sales of placements measured at amortized cost	31,264	23,527
Total net gains	**31,264**	**23,527**

15. OTHER OPERATING INCOME

Other operating income includes:

	2021	2020
Rental income, reimbursement and other operating income	13,342	8,813
Total other operating income	**13,342**	**8,813**

16. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

Salaries, salary compensations and other personal expenses include:

	2021	2020
Employee salaries, net	(2,162,616)	(2,079,383)
Payroll taxes and contributions	(825,554)	(786,437)
Net expenses per provisions for employee retirement benefits and unused annual leaves	(33,888)	(24,890)
Other personnel expenses	(444,764)	(392,428)
Total personnel expenses	**(3,466,822)**	**(3,283,138)**

All amounts expressed in thousands of RSD, unless otherwise stated.

17. DEPRECIATION/AMORTIZATION CHARGE

Depreciation/amortization charge includes:

	2021	2020
Amortization charge for intangible assets (Notes 28.2; 28.3)	(522,490)	(492,475)
Depreciation charge for property, plant and equipment (Notes 29.2; 29.3)	(260,351)	(280,154)
Depreciation charge for right-of-use assets (Note 29.5, 29.6)	(457,109)	(441,714)
Total depreciation/amortization charge	**(1,239,950)**	**(1,214,343)**

18. OTHER INCOME

Other income includes:

	2021	2020
Reversal of provisions for litigations (Note 36.2)	50,487	98,902
Gains on the valuation of investment property	-	1,060
Gains on the valuation of tangible assets	20,465	30,401
Other income	119,617	102,994
Total other income	**190,569**	**233,357**

The item “Other income” includes income from performance awards, compensation for damages from insurance companies and similar income.

19. OTHER EXPENSES

19.1. Other expenses include:

	2021	2020
Business premises costs	(112,209)	(118,227)
Office and other supplies	(54,820)	(63,692)
Rental costs (Note 19.2)	(371,977)	(373,567)
Information system maintenance	(1,026,745)	(920,731)
Property and equipment maintenance	(81,157)	(61,394)
Marketing, advertising, entertainment, culture and donations	(138,692)	(59,182)
Lawyer fees, other consultant and research services and auditing fees	(414,678)	(464,203)
Telecommunications and postage services	(139,945)	(154,047)
Insurance premiums	(777,882)	(667,351)
Security services – for property and money transport and handling	(152,309)	(192,420)
Professional training costs	(25,984)	(20,043)
Servicing costs	(97,365)	(98,766)
Transportation services	(2,837)	(4,710)
Employee commuting allowances	(31,409)	(29,471)
Accommodation and meal allowances – business travel costs	(6,410)	(7,840)
Other taxes and contributions	(541,950)	(515,079)
Provisions for litigations (Note 36.2)	(2,351,215)	(1,092,180)
Losses on the valuation of investment property	-	(1,061)
Losses on the valuation of tangible assets	(50)	(24,036)
Losses on disposal, retirement and impairment of property, equipment and intangible assets	(8,281)	(12,475)
Other costs	(592,508)	(631,060)
Total other expenses	**(6,928,423)**	**(5,511,535)**

The item "Other costs" refers to court and administrative fee expenses, costs for occupational safety and environmental protection, costs of participation in financing persons with disabilities, costs related to lost litigations, archiving and scanning costs, costs of licensees up to one year, compensation costs from regular business and similar expenses.

All amounts expressed in thousands of RSD, unless otherwise stated.

19. OTHER EXPENSES (Continued)

19.2. Rental costs of RSD 371,977 thousand incurred in 2021 relate to the costs which, in line with IFRS 16 and the Group's accounting policy (Note 3.t) are not included in the measurement of the lease liability. The breakdown of the said rental costs is provided in the table below:

	2021	2020
Rental cost per leases with low-value underlying assets	(147,554)	(147,374)
Rental costs per short-term leases	(8,910)	(12,240)
VAT payable per leases recognized in accordance with IFRS 16	(74,935)	(73,888)
Assets not identifiable in accordance with IFRS 16	(139,836)	(139,458)
Variable lease payments	(742)	(607)
Total	**(371,977)**	**(373,567)**

20. INCOME TAXES

20.1. Basic components of income taxes as at December 31 were as follows:

	2021	2020
Current income tax expense	(714,380)	(428,742)
Increase in deferred tax assets and decrease in deferred tax liabilities	262,263	100,414
Total	**(452,117)**	**(328,328)**

20.2. Numerical reconciliation of the effective tax rate is provided below:

	2021	2020
Profit before taxes	6,414,731	5,711,856
Income tax at the legally prescribed tax rate of 15%	(962,210)	(856,778)
Tax effects of permanent differences:		
Tax effects of expenses not recognized for tax purposes	(297,941)	(146,178)
Tax effects of income adjustment relate to interest on debt securities issued by RS	545,771	574,214
Tax effects of temporary differences:		
Differences in amortization for tax and accounting purposes	(98,155)	88,292
Tax effects of IAS19	2,836	1,885
Tax effects of losses which will be recognized in future periods	412,954	65,609
Tax effects of reductions of current tax according to legal regulations and IFRS application	(55,372)	(55,372)
Tax effects presented in the income statement	**(452,117)**	**(328,328)**
Effective tax rate	**7.05%**	**5.75%**

20.3 Income taxes recognized within other comprehensive income are provided below:

	2021			2020		
	Before taxes	**Tax expense**	**After taxes**	**Before taxes**	**Tax expense**	**After taxes**
Gains on the change in the fair value of debt instruments at FVtOCI	(3,097,587)	464,638	(2,632,949)	(1,391,647)	208,747	(1,182,900)
Increase in revaluation reserves based on intangible assets and fixed assets (Notes 39.3)	4,774	(716)	4,058	5,734	(860)	4,874
Actuarial(losses)/gains	(5,699)	854	(4,845)	(27,481)	4,123	(23,358)
Losses on cash flow hedging instruments	(81,207)	12,181	(69,026)	-	-	-
Balance at December 31	**(3,179,719)**	**476,957**	**(2,702,762)**	**(1,413,394)**	**212,010**	**(1,201,384)**

20.4 The calculated current income tax payable for the year 2021 amounted to RSD 714,380 thousand (for 2020: RSD 428,742 thousand). Given that the calculated amount of the tax payable was above the sum of the monthly income tax advance payments the Group paid during the year, as of December 31, 2021, the Group reported current tax liabilities in the amount of RSD 71,242 thousand (for 2020: current tax assets of RSD 303,763 thousand).

All amounts expressed in thousands of RSD, unless otherwise stated.

21. CASH AND BALANCES HELD WITH THE CENTRAL BANK

21.1 Cash and balances held with the central bank include:

	2021	2020
RSD cash on hand	4,446,621	4,262,874
Gyro account balance	30,454,163	21,380,227
Foreign currency cash on hand	1,567,279	3,052,670
Other foreign currency cash funds	35,344	35,274
Obligatory foreign currency reserve held with NBS	31,069,518	28,420,886
	67,572,925	57,151,931
Impairment allowance	(2)	(84)
Balance at December 31	**67,572,923**	**57,151,847**

The gyro account balance includes the RSD required reserves, which represent the minimum amount of RSD reserves allocated in accordance with the Decision on Required Reserves Held with the NBS. In accordance with the said Decision, the required RSD reserves are calculated based on the average daily carrying amount of RSD deposits, loans, securities and other RSD liabilities during a single calendar month, using a rate in the range between 0% and 5%, depending on the maturity of liabilities and their sources of funding. Group is obliged to keep the average daily balance of allocated dinar reserves at the level of the calculated dinar reserve requirements. In 2021NBS paid interest on the balance of the Group's obligatory RSD reserve at the annual interest rate of 0.10%.

The 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, calculated dinar required reserves, pays interest at an interest rate increased by 0.5% 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, or the Law establishing a guarantee scheme as a measure of economic support to mitigate the consequences of the COVID-19 SARS-CoV-2 if each individual loan included in that balance is approved at an interest rate that is at least 0.5% lower than the maximum interest rate prescribed by the Decree or the Law for loans approved in dinars.

The required foreign currency reserve with the National Bank of Serbia represent the minimum foreign currency reserve amount allocated in accordance with the Decision on Required Reserves Held with the NBS. In accordance with the said Decision, the required foreign currency reserves are calculated based on the average daily carrying amount of foreign currency deposits, loans and other foreign currency liabilities or those in RSD with a currency clause index (EUR to RSD) during a single calendar month. The required foreign currency reserve rates remained unaltered during 2021 and equaled 20% for foreign currency liabilities with maturities of up to 2 years and 13% for foreign currency liabilities with maturities of over 2 years. The rate applied to the portion of the foreign currency reserve comprised of RSD liabilities with a currency clause index is 100%.

The Group is obliged to keep the average daily balance of allocated foreign currency reserves at the level of the calculated foreign currency reserve requirements. Foreign currency obligatory reserve does not accrue interest.

21.2 Movements on the account of impairment allowance of cash and balances held with the central bank during the year are provided in the table below:

	Individual		Collective	
	2021	2020	2021	2020
Balance at January 1	-	-	(84)	(153)
Impairment losses:				
Reversal for the year	-	-	82	69
Total for the year	-	-	82	69
Balance at December 31	**-**	**-**	**(2)**	**(84)**

All amounts expressed in thousands of RSD, unless otherwise stated.

22. PLEDGED FINANCIAL ASSETS

As of 31 December 2021, the Group does not have pledged financial assets. As at 31 December 2020, in order to secure liabilities based on repo transactions with NBS, the Group pledged coupon Treasury bills of the Republic of Serbia issued in dinars with a nominal value of RSD 10,750,000 thousand.

	2021	2020
Pledged financial assets	-	11,630,733
Balance at December 31	**-**	**11,630,733**

23. RECEIVABLES UNDER DERIVATIVE FINANCIAL INSTRUMENTS

Receivables under derivative financial instruments include:

	2021	2020
Receivables per forward revaluation and currency swaps	81,491	48,333
Receivables per interest rate swaps	631,878	1,322,313
Receivables per interest rate options	39,255	69,694
Receivables per commodity swaps	-	7,303
Balance at December 31	**752,624**	**1,447,643**

24. SECURITIES

24.1 Securities include:

	2021	2020
Securities measured at amortized cost	36,199,498	11,822,472
Securities measured at fair value through OCI	73,011,472	88,927,147
Securities measured at fair value through profit or loss	2,791,886	2,073,599
Total	112,002,856	102,823,218
Impairment allowance	(79,515)	(268,440)
Balance at December 31	**111,923,341**	**102,554,778**

24.2 Movements on the account of impairment allowance of securities at AC and at FVtOCI during the year are provided in the table below:

	Individual		Collective	
	2021	2020	2021	2020
Balance at January 1	-	-	(268,440)	(344,977)
Impairment losses:				
Reversal for the year	-	-	114,010	18,542
Foreign exchange effects	-	-	(49)	215
Effects of the sales of securities	-	-	74,964	57,780
Total for the year	-	-	188,925	76,537
Balance at December 31	**-**	**-**	**(79,515)**	**(268,440)**

24.3 Breakdown of securities per measurement and issuer is presented in the table below:

	Measurement	2021	2020
Receivables discounted bills of exchange	AC	33,738	20,006
Treasury bills issued by the Republic of Serbia	AC	36,139,613	11,774,802
	FVtOCI	66,027,993	82,657,099
	FVtPL	2,791,886	2,073,599
Municipal bonds	FVtOCI	-	14,602
Treasury bills of the Republic of Serbia and municipal bonds – hedged items	FVtOCI	6,930,111	6,014,670
Balance at December 31		**111,923,341**	**102,554,778**

All amounts expressed in thousands of RSD, unless otherwise stated.

24. SECURITIES (Continued)

As of December 31, 2021, the Group's receivables per discounted bills of exchange of RSD 33,738 thousand represent investments with maturities of up to a year and at a discount rate equal to 1-month BELIBOR plus 2% to 2.2% per annum and 1-month BEONIA plus 3.5% per annum.

As of December 31, 2021, the Group's securities measured at amortized cost of RSD 36,139,613 thousand refer to the investments in the Treasury bills issued by the Republic of Serbia maturing up to 2032.

As of December 31, 2021, the Group's securities measured at fair value through profit or loss of RSD 2,791,886 thousand pertain to the investments in the Treasury bills issued by the Republic of Serbia maturing up to 2032.

As of December 31, 2021, the Group's securities measured at fair value through other comprehensive income totaling RSD 6,930,111 thousand refer to the investments in the local governance (municipal) bonds as hedging items maturing up to 2023 and Treasury bills issued by the Republic of Serbia as hedged items, with maturities up to 2029. The amount of RSD 66,027,993 thousand represents investments in the Treasury bills issued by the Republic of Serbia maturing up to 2032.

For protection of the municipal bonds and Treasury bills of the Republic of Serbia against the interest rate risk, the Group implemented fair value micro hedging, i.e., it designated as hedged items its investments in the municipal bonds and Treasury bills of the Republic of Serbia with the total nominal value of EUR 57.8 million whereas interest rate swops with the total nominal value of EUR 57.8 million were designated as hedging instruments. As of December 31, 2021, the Group performed a hedge effectiveness test, which demonstrated that the hedge was highly effective.

25. LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

25.1. Loans and receivables due from banks and other financial institutions include:

	2021	2020
Foreign currency accounts held with:		
- other banks within UniCredit Group	32,146,962	26,680,673
- other foreign banks	9,538,776	379,710
- Central Bank	22,826	-
Total foreign currency accounts	41,708,564	27,060,383
Overnight deposits:		
- in RSD	-	4,300
Total overnight deposits	-	4,300
Guarantee foreign currency deposit placed for purchase and sale of securities	4,703	4,703
Foreign currency earmarked deposits	12,068	11,108
Short-term loans:		
- in RSD	12,540	4,363
Total short-term loans	12,540	4,363
Long-term loans:		
- in RSD	507,623	681,074
Total long-term loans	507,623	681,074
RSD finance lease receivables	7,883	17,117
Total	42,253,381	27,783,048
Impairment allowance	(4,124)	(36,219)
Balance at December 31	**42,249,257**	**27,746,829**

All amounts expressed in thousands of RSD, unless otherwise stated.

25. LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

25.2. Movements on the account of impairment allowance of loans and receivables due from banks during the year are provided in the table below:

	Individual		Collective	
	2021	2020	2021	2020
Balance at January 1	-	-	(36,219)	(2,008)
Impairment losses:				
(Charge for the year)/reversal	-	-	32,254	(36,192)
Foreign exchange effects	-	-	(172)	1,981
Write-off without debt acquittal	-	-	13	-
Total for the year	-	-	32,095	(34,211)
Balance at December 31	**-**	**-**	**(4,124)**	**(36,219)**

25.3. The Group's balances/foreign currency accounts held with banks members of UniCredit Group are listed below:

	2021	2020
UniCredit Bank Austria AG, Vienna	309,231	383,256
UniCredit Bank AG, Munich	15,878	11,299
UniCredit Bank Hungary Z.r.t., Hungary	9,882	30,305
UniCredit Bank Czech Republic and Slovakia A.S.	261	2,186
UniCredit S.P.A. Milan	31,647,616	26,244,505
Zagrebačka banka d.d.	1,183	738
UniCredit Bank BIH	2,474	3,299
UniCredit Bank ZAO Moscow	160,437	5,085
Balance at December 31	**32,146,962**	**26,680,673**

26. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

26.1 Loans and receivables due from customers include:

	2021	2020
Short-term loans:		
- in RSD	40,420,193	22,040,804
- in foreign currencies	104,787	487,297
Total short-term loans	40,524,980	22,528,101
Long-term loans:		
- in RSD	272,093,149	252,259,388
- in foreign currencies	6,225,948	12,557,906
Total long-term loans	278,319,097	264,817,294
RSD factoring receivables	837,570	860,317
RSD finance lease receivables	15,369,852	12,630,675
Other RSD loans and receivables	-	109,973
Total	335,051,499	300,946,360
Impairment allowance	(12,456,658)	(9,953,499)
Balance at December 31	**322,594,841**	**290,992,861**

Loans with a currency clause index (EUR, CHF, USD) are presented within RSD loans in the table on the previous page.

All amounts expressed in thousands of RSD, unless otherwise stated.

26. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

26.2. Movements on the account of impairment allowance of loans and receivables due from customers during the year are provided in the table below:

	Individual		Collective	
	2021	2020	2021	2020
Balance at January 1	(4,065,935)	(3,950,973)	(5,887,564)	(3,970,722)
Impairment losses:				
Charge for the year	(1,664,233)	(1,030,677)	(1,778,893)	(2,571,566)
Foreign exchange effects	(234)	72	(1,516)	(8)
Unwinding (time value)	6,165	12,472	572	611
Effects of the portfolio sales	47	154,593	-	-
Write-off with debt acquittal	586	-	9,077	541
Write-off without debt acquittal*	371,603	748,578	553,667	653,580
Total for the year	(1,286,066)	(114,962)	(1,217,093)	(1,916,842)
Balance at December 31	**(5,352,001)**	**(4,065,935)**	**(7,104,657)**	**(5,887,564)**

*Write-off without debt acquittal, i.e., accounting write-off, is a write-off of receivables made in accordance with the Decision on the Accounting Write-Off of Bank Balance Sheet Assets of the NBS (Official Gazette of RS no. 77/2017), effective as from September 30, 2017. In line with the said Decision, the Bank writes off balance sheet assets with highly unlikely recoverability, i.e., makes a full accounting write-off of impaired receivables. Within the meaning of the aforesaid Decision, the accounting write-off entails transfer of the written-off receivables from the Bank's balance sheet assets to its off-balance sheet items.

26.3. Breakdown of loans and receivables due from customers is provided below:

	2021		
	Gross Amount	Impairment Allowance	Carrying Amount
Public sector	11,023,342	(56,643)	10,966,699
Corporate customers	220,670,404	(7,256,192)	213,414,212
Retail customers	103,357,753	(5,143,823)	98,213,930
Balance at December 31	**335,051,499**	**(12,456,658)**	**322,594,841**

	2020		
	Gross Amount	Impairment Allowance	Carrying Amount
Public sector	2,089,368	(9,756)	2,079,612
Corporate customers	199,076,819	(5,745,709)	193,331,110
Retail customers	99,780,173	(4,198,034)	95,582,139
Balance at December 31	**300,946,360**	**(9,953,499)**	**290,992,861**

26. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

26.4. Corporate loans were mostly approved for maintaining current liquidity (current account overdrafts), financing working capital and investments. They were used for funding business activities in trade and services, manufacturing industry, construction industry, agriculture and food industry and other purposes. Short-term loans were approved for periods ranging from 30 days to a year. Interest rates on short-term loans with a currency clause index ranged from 1-month, 3-month or 6-month EURIBOR increased by 2.21%, on the average, while RSD short-term loans accrued interest at the rates between 1-month, 3-month or 6-month BELIBOR increased by 1.18% on the average.

Long-term corporate loans were approved for periods up to 10 years. Interest rate applied to long-term loans with a currency clause index ranged from 1-month, 3-month or 6-month EURIBOR increased by 3.09% annually on the average, while RSD long-term loans accrued interest at the rates between 1-month, 3-month or 6-month BELIBOR increased by 2.42% annually on the average, in line with the other costs and the Group's interest rate policy.

In its product mix, the Group has housing loans at fixed, variable and combined interest rates. Retail housing loans were approved for periods of 5 to 30 years, at the nominal interest rates ranging from 6-month EURIBOR plus 2.7% to 3.6% annually for loans at variable rates, while the fixed interest rates ranged from 2.09% to 4.15% per annum.

During 2021, the Bank initiated several offers in which clients had the opportunity to apply for cash loans with a repayment period of up to 71 months, and up to 95 months for prolongation of loans, both with variable and fixed interest rates, thus responding to customer needs when it comes to interest rate variability for this type of loans. Interest rates on cash loans at variable interest rates ranged from 3-month BELIBOR increased by 6.75% to 7.89% annually with salary transfer and 7.5% to 10.5% annually without salary transfer. While those applied to cash loans at fixed interest rates were in the range between 5.5% and 11.2% annually with salary transfer and 18.5% to 21.5% annually without salary transfer.

In 2021, interest rates applied to investment foreign currency funding of small entities and entrepreneurs equaled 6-month or 12-month EURIBOR plus 1.8% to 4.2% per annum, or,. interest rates applied to RSD investments loans were in the range between 1-month or 3-month BELIBOR increased by 1% to 6.6% annually, or, in instances of fixed-rate loans, from 1% to 5.85% annually.

Interest rates applicable to loans for financing of the working and permanent working capital were set in the range from 6-month/12-month EURIBOR plus 1.28% to 5.98% annually. Annual interest rates on RSD working capital loans equaled 1-month or 3-month BELIBOR plus 1.88% to 10.18% or ranged from 3.29% to 25% if fixed.

Finance lease loans were approved to corporate clients for purchases of vehicles and equipment at interest rates in the range between 1.60% and 6.99% annually with for periods from 2 to 7 years. Finance lease funds were approved to individuals for purchase of automobiles at the average interest rate of 3.52% p.a. for periods from 2 to 7 years.

During 2021, the Group has implemented cash flow hedging to hedge against exposure to changes in cash flows of loan interest which have variable interest rate by using interest rate swaps. Having in mind that part of loans with variable interest rate is financed from sight deposits with fixed interest rate, the Group has decided to apply cash flow hedge concept which converts loans financed from sight deposits, by using interest rate swaps, from variable to fixed rate loans.

All amounts expressed in thousands of RSD, unless otherwise stated.

26. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

26.5. The concentration of total loans and receivables due from customers per industry was as follows

	2021	2020
Corporate customers		
- Energy	11,667,129	5,822,591
- Agriculture	7,739,475	7,325,798
- Construction industry	29,876,625	34,669,030
- Mining and industry	54,877,096	46,823,963
- Trade	42,901,665	43,107,263
- Services	32,606,815	31,856,799
- Transportation and logistics	34,082,863	20,310,021
- Other	6,918,736	9,161,354
	220,670,404	199,076,819
Public sector	11,023,342	2,089,368
Retail customers		
- Private individuals	96,315,153	93,861,040
- Entrepreneurs	7,042,600	5,919,133
	103,357,753	99,780,173
Total	**335,051,499**	**300,946,360**
Impairment allowance	(12,456,658)	(9,953,499)
Balance at December 31	**322,594,841**	**290,992,861**

The Group manages credit risk concentration in portfolio by determining limits. Limits are determined by internal acts and/or NBS regulations, and they are regularly monitored and reported on.

With defining industrial limits, the Group controls credit risk through regular analysis of borrowers and potential borrowers solvency to determine their ability to meet interest and principal repayment obligations and by changing the limits set for a single borrower, as appropriate. Exposure to credit risk is also partially managed by obtaining collaterals.

27. RECEIVABLES UNDER DERIVATIVES DESIGNATED AS RISK HEDGING INSTRUMENTS

Receivables under derivatives designated as risk hedging instruments include:

	2021	2020
Receivables under interest rate swaps designated as hedging instruments		
- fair value hedge - micro	9,493	-
Balance at December 31	**9,493**	**-**

In micro fair value hedging, the Bank uses an interest rate swap to protect itself against exposure to changes in the fair value of local municipality bonds and RS Treasury bills (Note 24.3)

28. INTANGIBLE ASSETS

28.1 Intangible assets, net:

	2021	2020
Software and licenses	1,532,461	1,437,345
Investments in progress	1,039,008	701,194
Balance at December 31	**2,571,469**	**2,138,539**

All amounts expressed in thousands of RSD, unless otherwise stated.

28. INTANGIBLE ASSETS (Continued)

28.2 Movements on the account of intangible assets in 2021 are presented in the table below:

	Software and licences	Investment in Progress	Total
Cost			
Balance at January 1, 2021	4,943,620	701,194	5,644,814
Additions	633,275	345,668	978,943
Impairment losses	-	(7,384)	(7,384)
Other	(16,506)	(470)	(16,976)
Balance at December 31, 2021	5,560,389	1,039,008	6,599,397
Accumulated amortization and impairment losses			
Balance at January 1, 2021	3,506,275	-	3,506,275
Amortization charge for the year	522,490	-	522,490
Other	(837)	-	(837)
Balance at December 31, 2021	4,027,928	-	4,027,928
Net book value at December 31, 2021	**1,532,461**	**1,039,008**	**2,571,469**
Net book value at January 1, 2021	**1,437,345**	**701,194**	**2,138,539**

28.3 Movements on the account of intangible assets in 2020 are presented in the table below:

	Software and licences	Investment in Progress	Total
Cost			
Balance at January 1, 2020	4,389,930	539,584	4,929,514
Additions	625,749	161,610	787,359
Impairment losses	(12,844)	-	(12,844)
Other	(59,215)	-	(59,215)
Balance at December 31, 2020	4,943,620	701,194	5,644,814
Accumulated amortization and impairment losses			
Balance at January 1, 2020	3,019,983	-	3,019,983
Amortization charge for the year	492,475	-	492,475
Impairment losses	(3,377)	-	(3,377)
Other	(2,806)	-	(2,806)
Balance at December 31, 2020	3.506.275	-	3.506.275
Net book value at December 31, 2020	**1,437,345**	**701,194**	**2,138,539**
Net book value at January 1, 2020	**1,369,947**	**539,584**	**1,909,531**

29. PROPERTY, PLANT AND EQUIPMENT

29.1 Property, plant and equipment comprise:

	2021	2020
Buildings	556,145	543,338
Equipment and other assets	566,440	706,981
Leasehold improvements	135,917	177,750
Investments in progress	217,345	30,316
Right-of-use assets	1,836,442	2,120,063
Balance at December 31	**3,312,289**	**3,578,448**

All amounts expressed in thousands of RSD, unless otherwise stated.

29. PROPERTY, PLANT AND EQUIPMENT (Continued)

29.2 Movements on the account of property and equipment in 2021 are presented below:

	Buildings	Equipment and other assets	Leasehold improvements	Investments in progress	Right-of-use assets	Total
Cost/Revalued value						
Balance at January 1, 2021	704,469	2,153,029	565,930	30,316	2,974,101	6,427,845
Additions	-	189,043	-	251,383	70,666	511,092
Transfer from investments in progress	-	63,023	1,331	(64,354)	-	-
Disposal and retirement	-	(221,793)	(1,441)	-	(32,540)	(255,774)
Effect of the change in fair value	35,877	-	-	-	-	35,877
Modifications	-	-	-	-	120,171	120,171
Balance at December 31, 2021	740,346	2,183,302	565,820	217,345	3,132,398	6,839,211
Accumulated depreciation and impairment losses						
Balance at January 1, 2021	161,131	1,446,048	388,180	-	854,038	2,849,397
Depreciation charge for the year	14,242	202,945	43,164	-	457,109	717,460
Disposal and retirement	-	(32,131)	(1,441)	-	(15,191)	(48,763)
Effect of the change in fair value	8,828	-	-	-	-	8,828
Balance at December 31, 2021	184,201	1,616,862	429,903	-	1,295,956	3,526,922
Net book value at December 31, 2021	**556,145**	**566,440**	**135,917**	**217,345**	**1,836,442**	**3,312,289**
Net book value at January 1, 2021	**543,338**	**706,981**	**177,750**	**30,316**	**2,120,063**	**3,578,448**

Following the change in accounting policy as of December 31, 2019, property used for performance of the Group's own business activity is valued using the revaluation method. As of December 31, 2021, Group has hired a certified appraisers NAI WMG doo, Belgrade and CBS International d.o.o. Belgrade to assess the fair value of the properties used for performance of Group's own business activity in accordance with IFRS 13. The appraisers determined the fair, liquidation and construction value of each individual property using the yield method as well as valuation techniques for which there were sufficient available data. Given that in the real estate market of the Republic of Serbia there are no quoted prices or prices achieved for properties identical to those owned by the Bank, the appraiser used Level 2 and Level 3 inputs in the fair value assessment. Level 2 inputs are observable from the market data such as publicly available information on the transactions reflecting the assumptions that the other market participants would use. Level 3 inputs are assumed (unobserved) inputs developed by the appraiser using the best information available in the current circumstances.

If the Group had continued to apply the cost model, the net present value as of December 31, 2021 would have been RSD 508,390 thousand for property used for performance of the Group's business activity.

The Group does not have pledged property, plant and equipment.

All amounts expressed in thousands of RSD, unless otherwise stated.

29. PROPERTY, PLANT AND EQUIPMENT (Continued)

29.3 Movements on the account of property and equipment in 2020 are presented below:

	Buildings	Equipment and other assets	Leasehold improvements	Investments in progress	Right-of-use assets	Total
Cost/Revalued value						
Balance at January 1, 2020	685,688	1,937,810	540,211	143,719	2,735,561	6,042,989
Additions	-	1,959	-	150,236	177,762	329,957
Transfer from investments in progress	-	233,909	29,730	(263,639)	-	-
Disposal and retirement	-	(20,649)	(4,011)	-	(2,954)	(27,614)
Effect of the change in fair value	18,781	-	-	-	-	18,781
Modifications	-	-	-	-	63,732	63,732
Balance at December 31, 2020	704,469	2,153,029	565,930	30,316	2,974,101	6,427,845
Accumulated depreciation and impairment losses						
Balance at January 1, 2020	142,644	1,239,596	348,755	-	415,278	2,146,273
Depreciation charge for the year	13,507	223,211	43,436	-	441,714	721,868
Disposal and retirement	-	(16,759)	(4,011)	-	(2,954)	(23,724)
Effect of the change in fair value	4,980	-	-	-	-	4,980
Balance at December 31, 2020	161,131	1,446,048	388,180	-	854,038	2,849,397
Net book value at December 31, 2020	**543,338**	**706,981**	**177,750**	**30,316**	**2,120,063**	**3,578,448**
Net book value at January 1, 2020	**543,044**	**698,214**	**191,456**	**143,719**	**2,320,283**	**3,896,716**

29.4 The right-of-use assets include:

	2021	2020
Business premises	1,746,442	2,016,517
Storage and warehouse area	2,972	3,622
Parking spots	64,146	78,236
Automobiles	22,023	20,450
Other equipment	859	1,238
Balance at December 31	**1,836,442**	**2,120,063**

All amounts expressed in thousands of RSD, unless otherwise stated.

29. PROPERTY, PLANT AND EQUIPMENT (Continued)

29.5 Movements on the right-of-use assets during 2021 are presented below:

	Business premises	Storage and warehouse	Parking spots	Automobiles	Other equipment	Total
Gross carrying value						
Balance at January 1, 2021	2,829,040	4,862	107,375	28,401	4,423	2,974,101
Additions	62,986	-	-	7,680	-	70,666
Disposal and retirement	(31,022)	-	-	(1,518)	-	(32,540)
Modifications						
- positive effects	120,730	36	728	1,054	2,053	124,601
- negative effects	(4,430)	-	-	-	-	(4,430)
	116,300	36	728	1,054	2,053	120,171
Balance at December 31, 2021	2,977,304	4,898	108,103	35,617	6,476	3,132,398
Accumulated depreciation						
Balance at January 1, 2021	812,523	1,240	29,139	7,951	3,185	854,038
Depreciation charge	432,012	686	14,818	7,161	2,432	457,109
Disposal and retirement	(13,673)	-	-	(1,518)	-	(15,191)
Balance at December 31, 2021	1,230,862	1,926	43,957	13,594	5,617	1,295,956
Net book value at December 31, 2021	**1,746,442**	**2,972**	**64,146**	**22,023**	**859**	**1,836,442**

28.6 Movements on the right-of-use assets during 2020 are presented below:

	Business premises	Storage and warehouse	Parking spots	Automobiles	Other equipment	Total
Gross carrying value						
Balance at January 1, 2020	2,614,132	4,803	105,408	9,620	1,598	2,735,561
Additions	156,476	-	-	18,781	2,505	177,762
Disposal and retirement	(2,954)	-	-	-	-	(2,954)
Modifications						
- positive effects	149,658	59	1,967	-	320	152,004
- negative effects	(88,272)	-	-	-	-	(88,272)
	61,386	59	1,967	-	320	63,732
Balance at December 31, 2020	2,829,040	4,862	107,375	28,401	4,423	2,974,101
Accumulated depreciation						
Balance at January 1, 2020	396,074	561	14,457	3,227	959	415,278
Depreciation charge	419,403	679	14,682	4,724	2,226	441,714
Disposal and retirement	(2,954)	-	-	-	-	(2,954)
Balance at December 31, 2020	812,523	1,240	29,139	7,951	3,185	854,038
Net book value at December 31, 2020	**2,016,517**	**3,622**	**78,236**	**20,450**	**1,238**	**2,120,063**

All amounts expressed in thousands of RSD, unless otherwise stated.

30. INVESTMENT PROPERTY

Movements on the account of investment property in 2021 are presented below:

	Investment property	Investments in progress	Total
Fair value			
Balance at January 1, 2021	3,527	-	3,527
Effect of the change in fair value	-	-	-
Balance at December 31, 2021	**3,527**	**-**	**3,527**
Balance at January 1, 2021	**3,527**	**-**	**3,527**

Following the change in accounting policy as of December 31, 2019, investment property is valued at fair value. Certified Appraiser NAI WMG doo, Belgrade performed assessment of the fair value of investment property for the purpose of financial reporting as of December 31, 2021 in accordance with IFRS 13. The appraiser determined the fair, liquidation and construction value of each individual property using the yield method as well as appraisal techniques for which sufficient data were available. If the Group had continued to apply the cost model, the net present value as of December 31, 2021 would have been RSD 1,233 thousand for investment property.

31. OTHER ASSETS

31.1. Other assets relate to:

	2021	2020
Other assets in RSD:		
Fee and commission receivables calculated per other assets	113,161	99,073
Advances paid, deposits and retainers	106,869	66,271
Receivables per actual costs incurred	221,526	350,938
Receivables from the RS Health Insurance Fund	58,583	50,601
Other receivables from operations	712,627	502,234
Assets acquired in lieu of debt collection	5,517	7,667
Receivables for prepaid taxes and contributions	29	10
Accrued other income receivables	30,242	24,733
Deferred other expenses	142,253	137,683
	1,390,807	1,239,210
Other assets in foreign currencies:		
Fee and commission receivables calculated per other assets	7	364
Other receivables from operations	40,719	4,692
Accrued other income receivables	76,236	74,985
	116,962	80,041
Total	1,507,769	1,319,251
Impairment allowance	(62,493)	(32,036)
Balance at December 31	**1,445,276**	**1,287,215**

31.2. Movements on the impairment allowance accounts of other assets during the year are provided in the table below:

	Individual		Collective	
	2021	2020	2021	2020
Balance at January 1	(2,132)	(2,498)	(29,904)	(17,272)
Impairment losses:				
(Charge for the year)/reversals	(22,285)	366	(145,480)	(86,733)
Foreign exchange effects	-	-	4	-
Write-off with debt acquittal	-	-	11,364	69
Write-off without debt acquittal	-	-	125,940	74,032
Total for the year	(22,285)	366	(8,172)	(12,632)
Balance at December 31	**(24,417)**	**(2,132)**	**(38,076)**	**(29,904)**

All amounts expressed in thousands of RSD, unless otherwise stated.

32. LIABILITIES UNDER DERIVATIVE FINANCIAL INSTRUMENTS

Liabilities under derivative financial instruments include:

	2021	2020
Types of instruments:		
- currency swaps and forwards	22,560	196,453
- interest rate swaps	662,111	1,359,311
- interest rate options	39,254	69,694
- commodity swap	-	7,303
Balance at December 31	**723,925**	**1,632,761**

33. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK

33.1. Deposits and other liabilities due to banks, other financial institutions and the central bank include:

	2021	2020
Demand deposits:		
- in RSD	6,032,517	3,422,016
- in foreign currencies	1,112,209	947,160
Total demand deposits	7,144,726	4,369,176
Overnight deposits:		
- in RSD	46,305	674,344
- in foreign currencies	11,803,912	4,026,360
Total overnight deposits	11,850,217	4,700,704
Short-term deposits:		
- in RSD	10,404,223	4,960,151
- in foreign currencies	8,304,260	11,538,622
Total short-term deposits	18,708,483	16,498,773
Long-term deposits:		
- in RSD	350,688	1,474,198
- in foreign currencies	39,179,451	38,086,854
Total long-term deposits	39,530,139	39,561,052
Long-term borrowings:		
- in RSD	8,698,036	3,642,575
- in foreign currencies	47,337,415	50,272,464
Total long-term borrowings	56,035,451	53,915,039
Loans under repo transactions:		
- in RSD	-	10,536,370
Total loans under repo transactions:	-	10,536,370
Other financial liabilities:		
- in RSD	179	276
- in foreign currencies	192,727	87,448
Total other financial liabilities	192,906	87,724
Balance at December 31	**133,461,922**	**129,668,838**

Short-term RSD deposits were placed by other banks for periods of up to a year at annual interest rates up to 2.1%, while short-term foreign currency deposits of other banks maturing within a year accrued interest at the rates ranging from -0.9% to 0.25% annually, depending on the currency. The Group received long-term foreign currency deposits placed by banks for periods of 5 years at interest rates of 0.36% per annum.

All amounts expressed in thousands of RSD, unless otherwise stated.

33. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK (Continued)

33.2. Breakdown of foreign currency long-term borrowings from banks is provided below:

	2021	2020
European Bank for Reconstruction and Development (EBRD)	26,422,925	24,901,509
Kreditanstalt fur Wiederaufbau Frankfurt am Main (KfW)	3,625,937	3,610,813
International Finance Corporation, Washington	-	344,219
European Fund for Southeast Europe SA, Luxembourg	9,509,448	9,640,007
Green for Growth Fund, Southeast Europe, Luxembourg	5,891,704	4,407,012
UniCredit S.P.A. Milano	10,585,437	11,011,479
Balance at December 31	**56,035,451**	**53,915,039**

The above listed long-term borrowings were approved to the Group for periods from 3 to 12 years at nominal interest rates up to 2.5% per annum.

34. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

34.1. Deposits and other liabilities due to customers comprise:

	2021	2020
Demand deposits:		
- in RSD	123,469,458	100,327,925
- in foreign currencies	143,489,003	113,452,178
Total demand deposits	266,958,461	213,780,103
Overnight deposits:		
- in RSD	1,552,569	2,521,472
- in foreign currencies	751,026	2,497,072
Total overnight deposits	2,303,595	5,018,544
Short-term deposits:		
- in RSD	16,025,631	15,401,218
- in foreign currencies	12,771,675	17,178,171
Total short-term deposits	28,797,306	32,579,389
Long-term deposits:		
- in RSD	4,042,078	1,222,260
- in foreign currencies	10,844,998	14,368,365
Total long-term deposits	14,887,076	15,590,625
Long-term borrowings:		
- in foreign currencies	311,656	874,197
Total long-term borrowings	311,656	874,197
Other financial liabilities:		
- in RSD	173,876	108,189
- in foreign currencies	775,122	422,429
Total other financial liabilities	948,998	530,618
Balance at December 31	**314,207,092**	**268,373,476**

34.2. Breakdown of deposits and other liabilities due to customers:

	2021	2020
Public sector	3,835,211	579,296
Corporate customers	204,247,536	176,431,571
Retail customers	105,812,689	90,488,412
Long-term borrowings (Note 34.3)	311,656	874,197
Balance at December 31	**314,207,092**	**268,373,476**

All amounts expressed in thousands of RSD, unless otherwise stated.

34. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (Continued)

RSD demand deposits of corporate customers accrued interest at the annual rate of 0.08%, on the average, while EUR-denominated demand deposits accrued interest at the annual rate of 0.05%. Corporate RSD term deposits accrued interest at the rates of as much as up to 1.40% annually on the average, while EUR-denominated corporate deposits were placed at an interest rate of 1.04% per annum.

Retail customers' RSD demand deposits accrued interest at annual rates of up to 0.15% Foreign currency retail demand deposits accrued interest at the rates ranging up to 0.1% annually, while funds held on current accounts accrued interest at the annual rate of 0.05% annually.

Short-term foreign currency deposits of retail customers were placed at interest rates ranging from 0% to 1.30% annually, depending on the period of placement. Short-term RSD deposits of retail customers accrued interest at the rates ranging from 0.2% to 1.7% annually, depending on the period of placement. RSD deposits placed by small entities and entrepreneurs were deposited at annual interest rates between 0.10% and 1.45% while foreign currency deposits of these customers accrued interest at the rates ranging from 0.1% to 0.4% per annum.

34.3. Breakdown of long-term foreign currency borrowings from customers is provided below:

	2021	2020
NBS - European Investment Bank, Luxembourg	311,656	874,197
Balance at December 31	**311,656**	**874,197**

Long-term borrowings obtained from customers were approved to the Group for periods from 6 to 13 years at nominal interest rates to 0.012% per annum.

35. LIABILITIES UNDER DERIVATIVES DESIGNATED AS RISK HEDGING INSTRUMENTS

Liabilities under financial derivatives designated as risk hedging instruments include:

	2021	2020
Liabilities under interest rate swaps designated as hedging instruments		
- micro hedging	52,461	116,377
- cash flow hedging	80,029	-
Balance at December 31	**132,490**	**116,377**

In micro fair value hedging, the Group uses an interest rate swap to protect itself against exposure to changes in the fair value of local municipality bonds and RS Treasury bills (Note 24.3).

During 2021, the Group has implemented cash flow hedging to hedge against exposure to changes in cash flows of loan interest which have variable interest rate by using interest rate swaps. Having in mind that part of loans with variable interest rate is financed from sight deposits with fixed interest rate, the Group has decided to apply cash flow hedge concept which converts loans financed from sight deposits, by using interest rate swaps, from variable to fixed rate loans.

36. PROVISIONS

36.1 Provisions relate to:

	2021	2020
Individual provisions for off-balance sheet items	76,371	97,754
Collective provisions for off-balance sheet items	182,789	239,613
Provisions for other long-term employee benefits	162,425	137,427
Provisions for potential litigation losses	3,666,163	1,824,328
Balance at December 31	**4,087,748**	**2,299,122**

All amounts expressed in thousands of RSD, unless otherwise stated.

36. PROVISIONS

36.2 Movements on the accounts of provisions during the year are provided below:

	Individual Provisions for Off - Balance Sheet Items (Notes 4(b) and 5(i)	Collective Provisions for Off - Balance Sheet Items (Notes 4(b) and 5(i)	Provisions for Long-Term Employee Benefits (Notes 3(y) and 5(viii)	Provisions for Potential Litigation Losses (Notes 3(w), 5(vii) and 42.1)	Total
Balance at January 1	97,754	239,613	137,427	1,824,328	2,299,122
Charge for the year:					
- in the income statement	65,560	147,464	21,888	2,351,215	2,586,127
- in the statement of other comprehensive income	-	-	5,699	-	5,699
	65,560	147,464	27,587	2,351,215	2,591,826
Release of provisions	-	-	(2,589)	(458,893)	(461,482)
Reversal of provisions (Notes 13 and 18)	(86,943)	(204,288)	-	(50,487)	(341,718)
Balance at December 31	**76,371**	**182,789**	**162,425**	**3,666,163**	**4,087,748**

All amounts expressed in thousands of RSD, unless otherwise stated.

37. DEFERRED TAX ASSETS AND LIABILITIES

37.1 Deferred tax assets and liabilities relate to:

	2021			2020		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	56,437	-	56,437	154,457	-	154,457
Deferred tax assets in respect of unrecognized current year expenses	606,576	-	606,576	190,921	-	190,921
Deferred tax assets in respect of the first-time adoption of IFRS	13,662	-	13,662	27,324	-	27,324
Deferred tax assets in line with the Law on Conversion of Housing Loans Indexed to CHF	-	-	-	41,710	-	41,710
Deferred tax assets on gains/losses in respect of cash flow hedging instruments	12,181	-	12,181	-	-	-
Deferred tax liabilities as per change in the value of fixed assets	-	(10,412)	(10,412)	-	(9,696)	(9,696)
Deferred tax liabilities arising from revaluation of securities	-	(45,696)	(45,696)	-	(510,334)	(510,334)
Deferred tax assets in respect of actuarial losses on defined benefit plans	8,091	-	8,091	7,237	-	7,237
Total	**696,947**	**(56,108)**	**640,839**	**421,649**	**(520,030)**	**(98,381)**

37.2 Movements on temporary differences during 2021 are presented as follows:

	Balance at January 1	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Balance at December 31
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	154,457	(98,020)	-	56,437
Deferred tax assets in respect of unrecognized current year expenses	190,921	415,655	-	606,576
Deferred tax assets in respect of the first-time adoption of IFRS	27,324	(13,662)	-	13,662
Deferred tax assets in line with the Law on Conversion of Housing Loans Indexed to CHF	41,710	(41,710)	-	-
Deferred tax assets on gains/losses in respect of cash flow hedging instruments		-	12,181	12,181
Deferred tax liabilities as per change in the value of fixed assets	(9,696)	-	(716)	(10,412)
Deferred tax liabilities arising from revaluation of securities	(510,334)	-	464,638	(45,696)
Deferred tax assets in respect of actuarial losses on defined benefit plans	7,237	-	854	8,091
Total	**(98,381)**	**262,263**	**476,957**	**640,839**

All amounts expressed in thousands of RSD, unless otherwise stated.

38. OTHER LIABILITIES

38.1 Other liabilities include:

	2021	2020
Advances received. deposits and retainers:		
- in RSD	178,707	84,093
- in foreign currencies	3,575	4,820
Trade payables:		
- in RSD	276,225	241,983
- in foreign currencies	152,747	245,920
Lease liabilities (Note 37.2):		
- in RSD	423,018	502,592
- in foreign currencies	1,458,629	1,646,566
Other liabilities:		
- in RSD	9,825,202	7,664,355
- in foreign currencies	1,660,087	1,142,715
Fees and commissions payable per other liabilities:		
- in RSD	1,945	5,358
- in foreign currencies	251	3
Deferred other income:		
- in RSD	311,211	231,666
- in foreign currencies	60,769	63,495
Accrued other expenses:		
- in RSD	620,759	555,710
- in foreign currencies	95,742	41,936
Liabilities per managed funds	19,586	30,024
Taxes and contributions payable	82,267	92,965
Balance at December 31	**15,170,720**	**12,554,201**

38.2 Breakdown of maturities of the lease liabilities is provided below:

	2021		2020	
	Present value	Undiscounted cash flows	Present value	Undiscounted cash flows
Maturity:				
- within a year	446,059	482,446	435,140	476,730
- within 2 years	394,890	422,584	407,531	440,939
- within 3 years	368,610	388,182	366,827	392,303
- within 4 years	339,641	351,513	340,867	358,712
- within 5 years	149,887	155,851	312,996	323,630
- after 5 years	182,560	197,602	285,797	304,505
Balance at December 31	**1,881,647**	**1,998,178**	**2,149,158**	**2,296,819**

38.3 Breakdown of the total payments, i.e., outflows per lease arrangements is provided below:

	2021	2020
Fixed payments	249,094	231,333
Variable payments	235,215	234,526
Total outflows	**484,309**	**465,859**

Variable payments that are included in the measurement of the lease liabilities are payments dependent on an index. Out of the total outflows of RSD 484,309 thousand, RSD 441,238 thousand pertains to the repayment of principal, which is presents within cash flows from financing activities, while RSD 43,071 thousand refers to the payment of interest, which is presented within cash flows from operating activities in the Bank's statement of cash flows.

All amounts expressed in thousands of RSD, unless otherwise stated.

38. OTHER LIABILITIES (Continued)

38.4. Breakdown of income and expenses per lease arrangements is provided in the following table:

	2021	2020
Depreciation charge of the right-of-use assets (Note 29.5, 29.6)	(457,109)	(441,714)
Interest expenses per lease liabilities (Note 7)	(43,072)	(47,508)
Rental costs (Note 19.2)	(371,977)	(373,567)
Sublease income	1,357	1,263
Balance at December 31	**(870,801)**	**(861,526)**

39. RECONCILIATION OF OUTSTANDING BALANCES OF RECEIVABLES AND LIABILITIES WITH CREDITORS AND DEBTORS

In accordance with the Law on Accounting, the Group reconciled its balances of payables and receivables with its debtors and creditors.

Unreconciled receivables totaled to RSD 3,438,265 thousand (1,290 open items) which represents 1.33% of total amount of receivables for balance reconciliation (RSD 258,257,401 thousand), i.e. 1.48% of total number of receivable items (87,201 open items).

Unreconciled liabilities totaled to RSD 56,400,458 thousand (2,236 open items) which represents 16.06% of total amount of liabilities for balance reconciliation (RSD 351,104,435 thousand), i.e. 3.02% of total number of items of liabilities (73,953 open items).

40. EQUITY

40.1. Equity is comprised of:

	2021	2020
Issued capital – share capital	23,607,620	23,607,620
Share premium	562,156	562,156
Retained earnings	7,107,136	6,479,350
Reserves	53,943,828	53,443,901
Balance at December 31	**85,220,740**	**84,093,027**

As of December 31, 2021, the Group's share capital totaled RSD 23,607,620 thousand and comprised 2,360,762 common stock (ordinary) shares with the individual par value of RSD 10,000. All shares issued by the Group are ordinary shares.

Ordinary shareholders are entitled to dividend payment pursuant to the relevant decision on profit distribution enacted by the Bank's Supervisory Board and to one vote per share in the Bank's Shareholder General Meeting.

In accordance with the reorganization of the Banking Group's activities in Central and Eastern European countries, under the Demerger and Takeover Agreement executed by and between UniCredit Bank Austria AG and UCG Beteillingsverwaltung GmbH on August 31, 2016 and Merger and Acquisition Agreement executed by and between UCG Beteillingsverwaltung GmbH and UniCredit SpA on September 30, 2016. UniCredit Bank Austria AG transferred its sole (100%) ownership of the Bank to the Austrian holding company UCG Beteillingsverwaltung GmbH. Through merger of UCG Beteillingsverwaltung GmbH with UniCredit SpA, UniCredit SpA became the sole shareholder of UniCredit Bank Srbija a.d., Beograd.

Reserves from fair value adjustments relate to the net cumulative changes in the fair values of securities measured at fair value through other comprehensive income, changes in fair value of property, plant and equipment and changes in fair value of derivatives used as cash flow hedge instruments.

All amounts expressed in thousands of RSD, unless otherwise stated.

40. EQUITY (Continued)

40.2. Breakdown of other comprehensive income after taxes is provided in the table below:

	2021	2020
Actuarial losses per defined employee benefits	(4,844)	(23,358)
Net fair value adjustments of debt financial instruments measured at FVtOCI	(2,473,654)	(1,094,336)
Net fair value adjustments of debt financial instruments measured at FVtOCI due to impairment	(159,296)	(88,564)
Net fair value adjustments of fixed assets	4,058	4,874
Net change related to cash flow hedging instruments	(69,026)	-
Other comprehensive income after taxes	**(2,702,762)**	**(1,201,384)**

41. CASH AND CASH EQUIVALENTS

Breakdown of cash and cash equivalents as reported within the statement of cash flows is provided below:

	2021	2020
In RSD:		
Gyro account (Note 21)	30,454,163	21,380,227
Cash on hand (Note 21)	4,446,621	4,262,874
	34,900,784	25,643,101
In foreign currencies:		
Foreign currency accounts (Note 25)	41,708,564	27,060,383
Cash on hand (Note 21)	1,567,279	3,052,670
Other cash funds (Note 21)	35,344	35,274
	43,311,187	30,148,327
Balance at December 31	**78,211,971**	**55,791,428**

42. CONTINGENT LIABILITIES AND COMMITMENTS

42.1. Litigation

As of December 31, 2021, there were 37,685 legal suits filed against the Group (including 10 labor lawsuits) with claims totaling RSD 8,368,750 thousand. In 494 of these proceedings plaintiffs are legal entities and in 37,191 proceedings private individuals appear as plaintiffs/claimants.

The Group made provisions of RSD 3,666,163 thousand in respect of the legal suits filed against it (Note 36). The aforesaid amount of provisions includes those for the labor lawsuits filed.

In the majority of lawsuits filed against the Group, both individuals and legal entities in the capacity of plaintiffs, they mostly refer to lawsuits for loan processing fees (cash and housing), loan monitoring fees and fees to NKOSK, and to a lesser extent to lawsuits for exchange rate differences, interest rates, currency clauses and changed circumstances, as the basis of the dispute. The subject of the lawsuits is also the determination of the nullity of the mentioned provisions of the loan agreement and the acquisition without grounds.

For certain lawsuits, provisions were not made in the exact amount of the claim, primarily based on the estimate of the outcome of such suits as favorable for the Group, i.e., the estimate that the Group will incur no outflows in respect of those legal suits or that there are minor contingent liabilities at issue, which require no provisioning.

All amounts expressed in thousands of RSD, unless otherwise stated.

42. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

42.2. Off-balance sheet exposed to credit risk are presented in table below:

	2021	
	Off-Balance Sheet Items exposed to credit risk	Provisions for Off - Balance Sheet Items
Guarantees and other irrevocable commitments	119,983,409	(155,228)
Other Off-Balance Sheet Items	95,231,861	(103,932)
Balance at December 31	**215,215,270**	**(259,160)**

	2020	
	Off-Balance Sheet Items exposed to credit risk	Provisions for Off - Balance Sheet Items
Guarantees and other irrevocable commitments	123,994,252	(201,627)
Other Off-Balance Sheet Items	77,380,242	(135,740)
Balance at December 31	**201,374,494**	**(337,367)**

42.3. The Group's contingent liabilities are provided in the table below:

	2021	2020
Contingent liabilities		
Payment guarantees		
- in RSD	11,803,314	11,503,916
- in foreign currencies	16,975,135	14,052,969
Performance guarantees		
- in RSD	74,384,398	54,757,825
- in foreign currencies	2,879,064	3,543,423
Letters of credit		
- in RSD	-	13,647
- in foreign currencies	2,465,590	1,891,309
Foreign currency sureties received	3,645,045	3,644,986
Irrevocable commitments for undrawn loans	19,395,896	14,039,674
Other irrevocable commitments	16,743,290	20,561,520
Balance at December 31	**148,291,732**	**124,009,269**

In the ordinary course of business, the Group enters into agreements for contingent liabilities held in off-balance sheet record, which include guarantees, letters of credit, unused credit lines and credit card limits. These financial liabilities are recognized in the balance sheet if and when they become payable.

42.4. Breakdown of the Group's irrevocable commitments is provided below:

	2021	2020
Commitments		
Current account overdrafts approved	3,442,151	4,444,473
Unused portion of approved credit card loan facilities	1,224,823	982,260
Unused framework loans	12,167,619	7,584,412
Letters of intent	2,561,303	1,028,529
Other irrevocable commitments	16,743,290	20,561,520
Balance at December 31	**36,139,186**	**34,601,194**

42.5 The Group's undrawn foreign line of credit funds amounted to RSD 13,639,524 thousand as of December 31, 2021 (2020: RSD 10,523,996 thousand).

All amounts expressed in thousands of RSD, unless otherwise stated.

43. RELATED PARTY DISCLOSURES

The Group is under control of UniCredit S.p.A., Milan, domiciled and registered in Italy, which is the sole owner of the Group's common stock shares (100%). Related parties of the Group are: parent bank, subsidiaries of the Group, entities that are members of the same group or are under joint control, members of the Board of Directors and the Audit Committee, the Management Board and managers who as members of the Group's board (ALCO and credit committees) have the authority and responsibility to plan, direct and control the activities of the Group ("key management"), close family members of key management as well as legal entities that are under the control or influence of key management and close members of their families, in accordance with IAS 24.

In the normal course of business, a number of banking transactions are performed with related parties. These include loans, deposits, investments in equity securities and derivative instruments. Related party transactions are performed at arm's length.

43.1 Related party transactions

Exposures and liabilities as of December 31, 2021 arising from related party transactions are presented below:

	2021		
	Parent Bank	Key management	Other related parties*
Financial assets			
- Loans, receivables and other assets	31,732,779	92,315	2,990,545
Financial liabilities			
- Deposits and other liabilities	57,720,040	108,393	1,308,927
Off balance sheet items			
- Contingent liabilities for given guarantees and sureties	3,749,030	-	8,847,629
- Commitments for undrawn loans	-	390	632,580
- Received guarantees and sureties	5,914,036	-	9,393,716
- Liabilities for guarantees issued in favor of creditors of the bank	3,645,045	-	-
- Nominal value of the derivatives	-	-	52,685,584

Exposures and liabilities as of December 31, 2020 arising from related party transactions are presented below:

	2020		
	Parent Bank	Key management	Other related parties*
Financial assets			
- Loans, receivables and other assets	26,273,402	101,199	2,531,684
Financial liabilities			
- Deposits and other liabilities	57,039,267	207,095	1,064,812
Off balance sheet items			
- Contingent liabilities for given guarantees and sureties	3,867,595	-	7,144,094
- Commitments for undrawn loans	-	620	818,772
- Received guarantees and sureties	5,477,140	-	7,815,468
- Liabilities for guarantees issued in favor of creditors of the bank	3,644,986	-	-
- Nominal value of the derivatives	-	-	49,844,575

	2021			2020		
	Parent Bank	Key management	Other related parties*	Parent Bank	Key management	Other related parties*
Impairment allowance for balance and off balance exposures	2,074	101	10,086	35,779	16	6,121

All amounts expressed in thousands of RSD, unless otherwise stated.

43. RELATED PARTY DISCLOSURES (Continued)

43.2 Related party transactions (Continued)

Revenues and expenses generated in 2021 arising from transactions with related parties are presented in the following table:

	2021		
	Parent Bank	Key management	Other related parties *
Interest incomes	-	2,399	152,599
Interest expenses	(423,333)	(157)	(483,311)
Fee and commission incomes	90,399	242	364,641
Fee and commission expenses	(11,051)	-	(313,267)
Other incomes	10,813	-	23,212
Other expenses	(51,662)	-	(748,015)
Total	**(384,834)**	**2,484**	**(1,004,141)**

Revenues and expenses generated in 2020 arising from transactions with related parties are presented in the following table:

	2020		
	Parent Bank	Key management	Other related parties *
Interest incomes	8,524	2,061	104,066
Interest expenses	(505,435)	(521)	(470,229)
Fee and commission incomes	51,029	139	344,610
Fee and commission expenses	(8,880)	-	(269,780)
Other incomes	-	-	5,546
Other expenses	(203,050)	-	(701,494)
Total	**(657,812)**	**1,679**	**(987,281)**

Loan loss provison (ECL) for balance and off-balance exposures of relatied parties recognized in income statement are presented below:

	2021			2020		
	Parent Bank	Key management	Other related parties*	Parent Bank	Key management	Other related parties*
Net increase/(decrease) in impairment allowance	33,705	(85)	(3,965)	(34,987)	252	(1,815)

*Other related parties include entities that are member of the same UniCredit Group or under joint control, close family member of key management as well as legal entities that are under the control or influence of key management and close member of their families.

43.2 Key management payments

Key management payments during 2021 and 2020 are presented below:

	2021	2020
Short-term employee benefits	212,578	249,015
Other long-term benefits	1,724	14,582
Share-based payments	6,265	3,851
Balance at December 31	**220,567**	**267,448**

Other long-term benefits include payments based on long-term reward schemes. Employees - members of key management involved in these remuneration schemes, were selected based on the criteria of contributing to the long-term and growing profitability of the Group. Share-based payments include payments during the year based on shares granted under appropriate reward schemes.

Compensations for members of the Management Board and the Audit Committee paid in 2021 amounts to RSD 5,984 thousand (in 2020: RSD 5,978 thousand) and they are included in the amount of short-term remuneration of key management.

44. EVENTS AFTER THE REPORTING PERIOD

As of these financial statements' issuance date, the impact of the COVID-19 pandemic continues. The duration of the pandemic and the extent of the impact on the economy are uncertain. With a strong capital and liquidity position, the Group actively monitors developments and assesses the impact on its operations, financial results, financial position and cash flows. At the date of issue of these financial statements, there were no significant events that would require adjustments to or disclosures in the accompanying unconsolidated financial statements of the Group (adjusting events).

Belgrade, February 11, 2022

Signed on behalf of the management of UniCredit Bank Srbija A.D., Beograd by:

UniCredit Bank Srbija a.d. Beograd
UniCredit Bank Serbia JSC Belgrade
07

Nikola Vuletić
Management Board Chairperson

Dimitar Todorov
Member of the Management Board
Head of Strategy and Finance Division

Mirjana Kovačević
Head of the Accounting Department

UNICREDIT BANK SERBIA

ANNUAL REPORT 2021

Belgrade, February 2022

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ADDRESSING OF CEO

Dear readers,

Another year marked by the COVID-19 pandemic is behind us. Despite all the challenges, stemming from such a large-scale worldwide pandemic, the domestic economy, the banking sector and particularly our Bank remained stable. While 2020 was a year of quick change and even quicker adaptation to them, 2021 was the year of improving those new tools and ways of work. Even though 2021 was marked by perhaps even greater pandemic waves than in 2020, accelerated digitalization, readiness for innovation as well as clear operating models have allowed our Bank to have stable continuity of operations in this year as well, as well as to introduce numerous innovations into its operations. Safety and health of employees and clients were and remained the priority of UniCredit Bank, but that never moved the focus from improving and expanding our portfolio of services and products, as well as organic growth of our bank, despite all changes and the significant consolidation of the local banking market, which we witnessed in 2021.

During last year, 2021, UniCredit Bank continued the trend of good results thanks to the total growth of the retail loan portfolio of 2.3%, which was our result which includes the last quarter of 2021, with the growth of housing loans of almost 7.8% in comparison to the same period in 2020 standing out in particular. In the segment of corporate-investment banking, we have remained a reliable partner and the first choice of as many as 75 to 100 of the best companies in Serbia, with a growth of loan portfolio of almost 14.6%, while at the same time maintaining the level of NPLs at a low and stable level, despite the complex environment.

During 2021, we remained committed to finding a solution which will help the local economy mitigate the consequences of the pandemic, so we have signed an agreement with the European Investment Bank in regard to a loan facility worth more than EUR 50 million, intended for financing small and medium enterprises and companies with a medium market capitalization in Serbia, with the aim of a more efficient recovery from the consequences of the COVID-19 pandemic. The funds are designated for companies which have the need to overcome financial difficulties caused by the pandemic, and maintain their liquidity and jobs.

We have remained one of the leaders in green financing, and with the refinancing of the Alibunar wind farm in the amount of EUR 53 million, we have confirmed our leading position in financing wind energy. Thanks to a partnership with the Green for Growth Fund, which we entered into in December 2021, domestic businesses will soon have access to a loan facility worth RSD 1.76 billion, which will help support the recovery of green projects in Serbia. This is also our contribution to the efforts to dinarize our loan services, considering that in this way, we will offer all Bank clients the option to invest and upgrade their operations using dinar-indexed loan facilities, and to therefore protect their business from exposure to foreign currency risk which could negatively impact their cash flows.

During last year, the new strategic plan of our UniCredit Group, "UniCredit Unlocked", had also been presented, and it represents the guide for UniCredit's operations over the next three years. This plan focuses on digitalization and empowering communities for joint progress. The role of the local UniCredit Bank in Serbia in this new strategic plan is, like always, significant and major, and even though the new plan puts digitalization as the focus of future development, 2021 was also a year in which we made major digital steps.

At the end of the year, we have celebrated an important anniversary for our bank, since we have, during December 2021, proudly marked the day when, twenty years ago, UniCredit Bank began its operations in the local, Serbian market. We have celebrated our first twenty successful years together with our clients, and during this year, we will be committed to investing in the well-being and progress of the community we have been operating in successfully for 20 years now. On the occasion of the first 20 years of UniCredit Bank in Serbia, we launched a campaign titled "For 20 years we have been working to start good things together", as a part of which more than RSD 13 million were collected over two months. The importance of our campaign for the general community and support for our initiative was recognized last year by the Ministry of Environmental Protection as well, with which we have signed a Memorandum on Cooperation and have undertaken that we will invest the funds raised during the campaign into programs for supporting preservation of the environment, and into 11 protected areas in Serbia.

This activity was however not the only one with which we have demonstrated our dedication to responsible operations and our striving to make a positive contribution to the community, so during the third and fourth quarters of 2021, within a UniCredit Foundation program, we awarded grants in the amount of EUR 30,000 for four organizations and their implementation of projects dedicated to children and adolescents, and we have also supported the Government of Serbia in the process of mass immunization and created a campaign to encourage students to get vaccinated and make a contribution to the fight against the coronavirus pandemic.

Stability and profitability of UniCredit Bank in Serbia have been confirmed by numerous awards last year as well. Since the beginning of 2021, our Bank has been declared the best bank for financing trade in Serbia according to the

Euromoney survey, for the fourth year in a row, as well the best bank for custody services for international investors in Serbia, for the eight time. We have received an award for exceptional results within the Euromoney survey on cash management in 2021, and retained the status of Market Leader in their study, while during November, the Association of Business Women of Serbia recognized our dedication to gender equality and improving the position of women in society, and awarded us a special award for continued career development of managers.

Having in mind all of the above, as well as the challenges facing us in these times which are certainly without precedent in modern history, I would like to personally thank all our employees for excellent results and great achievements, which would not be possible without their selflessness, dedication and professionalism. I would particularly like to thank all our shareholders, members of the Board of Directors, associates and especially the National Bank of Serbia and the Government of Serbia for being drivers of progress during these times, and improving the circumstances in the domestic economic and financial environment. Finally, I would like to thank all our clients for their trust during the previous year, as well as all these years, as well as for their continuous support for our vision, which is why UniCredit Bank Serbia remained their bank of choice and the best partner for all their financial decisions.

Nikola Vuletić, President of the Executive Board of UniCredit Bank Serbia

ABOUT UNICREDIT GROUP

UniCredit is a pan-European Commercial Bank with a unique franchise in Italy, Germany, Central Europe and Eastern Europe and a Corporate & Investment Banking across all group markets. We meet real client needs with real solutions. We offer local and international expertise, providing unparalleled access to market leading products and services in 13 core markets through our European banking network. Leveraging on an international network of representative offices and branches, UniCredit serves clients in another 15 countries worldwide.

MACROECONOMIC OVERVIEW

Following the economic recovery after the strong impact of COVID-19 crisis in previous year, total economic activity of the Republic of Serbia in 2021, measured by the real movements of the Gross domestic product (GDP), was estimated to make the total growth of 7.5% when compared to 2020. According to the last estimation, fixed capital formation in 2021 have real annual growth of 14.1% participating in GDP with 22.8%. The overall external trade, in euro amounts, has increasing trend with 24.6% estimated annual growth rate. As of data from third quarter 2021 the contribution to positive movement of GDP is made also by private consumption with recorded growth of 8.2% and government consumption with 7.8% growth rate. Looking on a production side, at the end of third quarter 2021 the major contribution to positive development of GDP (5.5 pp) was made by service sector (except trade) with annual growth rate of 10.2%. Significant growth rate was recorded in construction (15.8%) followed by trade (10.9%). Retail trade turnover recorded real growth equalling 9.8%, while the wholesale trade turnover increased by 22.0% in nominal terms. The transportation sector had volume growth of 39.9%, and telecommunications recorded growth of 2.9% while agriculture suffered decline of 4.8%.

According to results in November 2021, exports of goods expressed in euros, have increased by 26.8% compared to the same period in previous year while imports of good recorded increase of 23.4%. The coverage of imports by exports is 76.4% (2 pp higher than last year). Such results in exports in first nine months were mainly driven by manufacturing sector with 25.3% increase and agriculture products exports with 15.6% annual increase. In product structure, top five exports are related to: electrical machines and apparatus, vegetables and fruits, iron and steel, cereals and cereal products, propulsion machines and devices. The result of imports in first nine months was mostly influenced also by manufacturing sector, with 77.6% increase followed by mining sector with 26.5% annual increase. Product wise, top five imports are related to: electrical machines and apparatus, petroleum, petroleum products, road vehicles, medical and pharmaceutical products, industrial machines for general use. The most important external trade partner of Serbia in 2021 was Germany, followed by Italy and China. The current account deficit amounted to EUR 1.1 billion in first eight months which is EUR 454.9 million less than last year. Year-on-year improvement is caused by surplus increase in trade in services and the surplus in secondary income. External trade deficit of goods and services amounted to EUR 6.0 billion and higher by 13.6% YoY. In the observed period, deficit of primary income was higher by 9.6% (increase of EUR 89.9 million), and the secondary income surplus was higher by 23.8% (amounted to EUR 2.7 billion) mostly due to the inflows of remittances from abroad. Net FDI inflow was 2.4 billion euros, which is an increase of 46.1% year on year.

Given that pandemic crisis continued throughout 2021, the labour market did not suffer too much as the unemployment rate in Q3 2021 according to Labour Force Survey was 10.5%, which was lower by 0.6 pp from previous quarter. In the same time, the employment rate in Q3 was at the level of 50.0% (growth of 1.7 pp), driven by employment growth in the formal segment of the labour market. The average monthly salary amounted to 66,048 RSD, which represents annual growth of 9.9% nominal and 3.1% real growth rate compared to the same period last year. The largest growth of wages since the beginning of 2021 was noted in the cinematographic and television production and music publishing and wastewater disposal.

According to Statistical Office the estimated annual inflation rate at the end of 2021 was 7.9% while monthly increase in December 2021 was 0.4%. Consumer prices in November 2021, compared to the same period previous year, increased by 7.5%. Higher level of inflation in Serbia compared to the beginning of the year, is mainly a consequence of last year's low base and factors on the supply side. However, core inflation has been kept within the target range for what was mostly accountable the stability of exchange rate. In the first months of 2021, there was an increase in prices due to higher price of electricity and the application of new excises. Energy prices and unprocessed food prices were main drivers for inflation increase. Energy prices, in December recorded annual increase of 13.4% triggered by global increase of crude oil prices and consequently petroleum products increased 23.5% on local market. Similarly, in the same period prices of unprocessed food went up 20.9%, predominantly raw meat, fruit and vegetables. NBS confirmed that inflation rate will temporarily oscillate above the upper target band (3 ± 1.5%) until the second quarter 2022 when inflationary expectations imply a gradual decline, bringing inflation to the level of lower target band by the end of the year. Dinar's value prevailed stable during whole year, whereas NBS intervened in the market continuing to buy/sell foreign currency in the periods of stronger appreciation/depreciation pressures. In the period Jan-Nov, NBS bought net amount of EUR 850 million. At the end of November gross FX reserves amounted to EUR 16.5 billion (increased by EUR 3 billion or 22%) covering 144% of money supply M1 and six-months-worth of imports of goods and services.

From the very start of the pandemic crisis, NBS immediately reacted with key policy rate cut by 50 bps and later by additional 25 bps ending up with reference rate of 1%, which is so far the lowest level of the rate since inflation targeting regime was adopted. Given the increased cost pressures and the need to influence inflation expectations, NBS decided in December 2021 to slowly reduce the expansion of monetary policy without changing the base interest rates. In addition to suspending auctions of repo purchase of securities through which dinar liquidity was provided to banks in the previous period, the National Bank of Serbia is gradually increasing the percentage of dinar liquidity surpluses through reverse repo auctions (repo sale of securities). Since October, this rate has increased from 0.11%, as it was on average since the beginning of the year, to 0.50%, as it was at the last reverse repo auction.

According to rebalance of the Budget, consolidated fiscal deficit is envisaged at the level of 4.9% of GDP (from previous 6.7%), which although still high represents a good base for further stabilization of public finances needed in the coming years. Out of that the biggest part (3.5% of GDP) is related to extraordinary measures that are not a permanent budget expense (payments of the minimum to private companies, non-selective assistance to citizens, etc.). Looking in November 2021 figures, fiscal revenues have grown by 20.4% compared to the same period last year, whilst expenditures surged by 7.2%. The largest part of it is owing to measures that the Government undertook in order to support local economy to combat the negative effect of corona pandemic together with significant budget amounts that had to be used for procurement of necessary equipment and improvement of healthcare infrastructure.

Total set of measures that the Government launched amounted to 260.5 BRSD or 4.2% of GDP. Prolongation of the existing and implementation of new Guarantee scheme in 2021 enabling banks to approve cheap loans for liquidity and working capital to micro, SME and entrepreneurs guaranteed by the State, which amounted to 1.9% of GDP or 120 BRSD. Other measures related to private sector support in total amount of 60.3 BRSD (1% of GDP) include: minimum wage payments (0.8% of GDP), direct help to vulnerable sectors such as transportation, tourism, hotel management. Further, measures for fiscal stimulus - stimulating domestic demand and vaccination bonus (related to pandemic measures) additionally amount to 80.2 BRSD (1.3% of GDP). Public debt surged to 30 BILLION EUR or 57.1% of GDP at the end of Nov 2021, increasing 12% YoY. In 2021, the Republic of Serbia issued two regular Eurobonds with longest maturity so far. In February, they issued 12Y Eurobond in the amount of EUR 1bn, while in September they issued 15Y bond in the amount of EUR 750 million. Adoption of Green Bond Framework by the Government in September enabled Finance Minister to issue inaugural Green Eurobond as first country in the region to come to green market by issuing 7y Green bond in the amount of EUR 1bn. Locally issued Serbian RSD bonds (maturing in 2026, 2028 and 2032) became part of JP Morgan's Government Bond Index Emerging Market (GBI-EM) as of June 30th. As of October 2021, CLearstream enabled settlement of Serbian government bonds denominated in RSD.

In December 2021 Standard and Poor's confirmed Republic of Serbia credit rating at BB+, revising Serbia outlook from stable to positive. The Agency states that its decision is supported by the fact that Serbia's economy has been recovering strongly achieving its pre-pandemic GDP levels much quicker than most other countries. The key factors are financial and fiscal stability, and stability of the exchange rate with boosted FX reserves as well as high net FDI inflows. Fitch Ratings also confirmed Republic of Serbia credit rating at BB+, supported by a credible macroeconomic policy framework, relatively low inflation, somewhat higher foreign exchange reserves, and stronger governance, human development and GDP per capita compared with 'BB' medians.

IMF approved to Serbia a new Policy Coordination Instrument. Given the overall economic progress achieved by Serbia, the new program of cooperation does not involve the use of financial resources, but will be exclusively of an advisory nature. IMF confirmed that the advisory program is aimed at supporting Serbia's faster economic recovery from the effects of the pandemic, preservation of macroeconomic and financial stability, implementing an ambitious plan of structural reforms to encourage high, inclusive and sustainable growth in the medium run.

SERBIAN FINANCIAL SECTOR

Banking sector

While the first pandemic year was marked with lockdowns and efforts to maintain the production capacities and employment, the second year of the pandemic brought on new challenges in form of supply chain shortages, reduced supply of goods and services and growing inflation pressures on a global level due to unlocking and surging demand all of which consequently affected Serbia as well. The worsening situation surrounding the pandemic due to the spread of new COVID-19 variants had a negative effect on the speed of the global recovery, while the fiscal capacity for additional support measures for corporations and households presented an additional downside risk. While the inflation pressures were at first marked as temporary by the majority of central banks, NBS included, towards the end of the year some of the leading central banks and monetary authorities in the region started to reduce the expansionary character of the monetary policy.

In order to support the financial and real sector the NBS kept the key policy rate unchanged at its historically low level of 1,0% throughout 2021. Additionally, up until the end of September the NBS continued with the repo purchase auctions of dinar securities with a favorable interest rate of 0,10% in order to provide additional local currency liquidity and ensure an efficient functioning of the banking system. In this way banks were provided with RSD 86 billion during the first nine months of 2021 which represents an increase of RSD 44 billion in comparison to 2020. However, by utilizing the flexibility of its monetary framework, the National bank of Serbia has started to gradually decrease the level of monetary policy expansiveness without changing the key policy rate due to the increasing inflationary pressures in the global and domestic environment and the necessity to influence inflation expectations. Besides stopping the repo purchase auctions which offered dinar liquidity to the banks in the previous period, the NBS has gradually started to increase the average weighted interest rate on reverse repo auctions through which excess liquidity is being pulled out from the banking system for a period of one week. The average weighted interest rate on the last reverse repo auction held in 2021 reached 0,50% which represents an increase of 39 basis points since the start of the monetary policy contraction process when this rate was 0,11%. In making this decision it was taken into consideration that the positive effects of prior monetary and fiscal policy responses can be expected in the period ahead and that favorable financing conditions can be maintained even with a slightly smaller degree of monetary policy expansiveness due to the need to influence inflation expectations of the market participants.

The financing conditions on the local market remained favourable during 2021 and contributed to the recovery trend of economic activity and employment. The interest rates on new dinar loans for corporates and households were at a slightly lower level compared to the end of last year and at the end of November reached 8,3% for households and 3,0% for corporates (compared to 8,5% and 3,2% respectively for year-end 2020). The interest rates for newly disbursed euro-indexed loans for corporates also saw a gradual decrease from 3,0% to 2,5% while the euro-indexed lending rate for households remained unchanged. This created the preconditions for the trend of credit activity growth to continue and provide a valuable source for investment and final consumption. Besides maintaining favourable financing conditions, the NBS has extended the measures aimed at easier loan repayment and easier access to new credit throughout 2021. To debtors which have been the most affected by the negative effects of the pandemic a six-month grace period has been enabled towards banks and leasing companies with the fulfilment of necessary conditions. This option was used by 51.000 debtors in total amount of RSD 111 billion. An additional support was provided by the extension of temporary measures introduced in 2020 for an additional 12 months which include easier loan conditions for first homebuyers (lower down payment and lower degree of construction completion), an extension of the maturity for mortgage loans up to five years and the approval of cash loans up to RSD 90.000 and up to two years with minimum documentation necessary. Moreover, the existing State guarantee scheme aimed at supporting the corporate sector has been extended into 2021 and a second one was initiated in order to provide help to the most endangered sectors/entities.

The banking sector finished the third quarter of 2021 with 24 banks and total net assets of RSD 4.935 billion, posting a nominal growth rate of 9,4% compared to the same period last year. In contrast to 2020 when the number of banks operating on the Serbian market remained the same, in 2021 the consolidation trend of the banking sector continued as three bank mergers have been completed during the year. At the end of April, the merger of OTP and Vojvodjanska banka was completed which enabled OTP to take the second position on the market in terms of total assets, after which followed the merger of MTS bank into Postanska Stedionica in June and the merger of Direktna banka into Eurobank at year-end. This trend is expected to continue in the period ahead given that two additional takeovers were announced during 2021 on the local banking market and the completion of which is expected in the future. The two announced takeovers in question are the takeover of Credit Agricole by Raiffeisen bank and the acquisition of Sberbank by Aik bank. Apart from the mentioned deals, the completion of the Komercijalna bank and NLB bank is expected to be completed in 2022.

At the end of the third quarter of 2021, total gross loans expanded by 6,6% year-on-year excluding the FX rate effect owing to monetary policy easing, which is slightly speeding up compared to first half of 2021, despite still present effect of high base from previous year due to moratorium on loan repayments. As of September, corporate loans have achieved an annual growth rate of 5,1% while in the same period the retail loan growth rate reached 9,2%. In the first nine months of 2021 the corporate loan growth was mostly driven by increased demand for liquidity and working capital (supported by Government guarantee scheme) and investment loans, while import loans were falling during the first half of the year, but they recovered in Q3. Since its inception and ending with the third quarter of 2021 the amount disbursed through the guarantee scheme amounted to almost EUR 2,15 billion of which 61,5% were disbursed in dinars. Interest rate on new dinars loans continued to be at its lowest levels, which is result of monetary policy easing as well as National bank of Serbia decision to pay higher remuneration rate to banks which issue loans in dinars with at least 0,5 basis points lower rate than maximum rate according to first and second guarantee scheme law. On the other hand, to more favourable interest rate in euro contributed lower interest rate in Eurozone markets, as well as lower risk premium of the country. Liquidity and working capital loans participated 45,9% in total corporate loans at the end of September, and they became most represented category instead of investment loans, which participation were 41,6%.

In the first nine months of 2021, cash and mortgage loans mostly drove the demand on retail side, which accounted for 44% and 38%, respectively of retail lending as of September. Growth of mortgage loans were especially noticeable during the first nine months of 2021, when their year-on-year growth hit 16,4% at the end of Q3. That growth was driven by favourable lending conditions and measures taken by NBS last year (lowering first home participation amount and minimum level of object construction for which lending is possible, prolongation of loan repayment period), as well as increase of available income due to favourable conditions on jobs market. Higher volumes of mortgage loans affected higher demand for real estates and continuous supply of apartments. Cash credits also recorded continuous growth, in great extent thanks to measures implemented last year by NBS, and prolonged during the 2021.

Compared to the year-end 2020 level, the “dinarization” of loans was considerably increased, given that the share of dinar loans in total corporate and retail lending in the first nine months of 2021 reached an all-time-high value of 38,6%, which represents a growth of 4,1 percentage points since year-end. Since last quarter of 2020dinarization of retail loans decreased, mainly because of the increase of the mortgage loans with currency clause under all-time-lowest interest rate level. Share of dinar loans to private individuals at the end of Q2 2021 was 55%, which is decrease of 0,9 percentage points compared to end of 2020. The share of dinar loans to corporate clients increased in first nine months of 2021 and as of September 2021 ended at a level of 23,8%. The growth was in large part driven by liquidity and working capital loans approved mostly through the guarantee scheme.

The share of RSD deposits of households and corporates in total deposits at the end of 3Q 2021 reached 39%, which is for 1,1 percentage points lower than at the end of 2020. The share of RSD deposits compared to the end of 2020 rose in household segment, while in corporate segment fell. Degree of deposit dinarisation of corporate sector reached 58% at the end of September and it is lower for 3,3 percentage points compared to the end of last year. This decline was result of high amount of corporate sector RSD deposits during the last year, in conditions of Government and NBS measures to curb the consequences of the pandemic on domestic economy. Indicator of household deposit dinarisation reached new all-time-high of 27,3% in Q3 of 2021, which represents growth of 0,5 percentage points compared to the end of last year. Strong growth of RSD household savings continued in 2021, and for the first nine months it was increased for 8,4 billion RSD (9,1%) and exceeded level of 100 billion RSD. At the end of Q3 participation of RSD saving in total saving remained unchanged compared to end of 2020 and was 6,5%. Total foreign currency saving at the end of 3Q 2021 was 12,3 billion EUR. Ratio of loans to deposits, which was at the end of September 2021 84,5% speaks about stable structure of banking sector funding.

At the end of the third quarter of 2021, the banking sector employed 22.503 people, which represents a decrease of 355 employees compared to the same period last year. The branch network consisted of 1.536 different organizational units, a reduction of 40 units in a period of twelve months.

At the end of the third quarter of 2021, the average capital adequacy ratio of the banking sector amounted to 21,7%, which is significantly higher than the required minimum of 8% but 0,7 percentage points lower than at the end of 2020.

The NPL ratio remained below the pre-crisis level and amounted to 3,55% at the end of September in comparison to the 4,1% level in the months leading up to the pandemic. The banks continued to keep sufficient provisioning levels in order to provide protection against credit losses, covering the NPL’s with more than 59,3% of IFRS provisions as of September 2021.

The preliminary aggregated profit before tax of all twenty-four banks amounted to RSD 41,5 billion, representing 4,5% decrease year-on-year. The biggest drivers that led to the drop in profitability was the reduction of other income and normalized for this effect in 2020 the year-on-year growth of profit before tax would amount to 8,5%. An additional negative effect was brought by an increase of other expenses position which is in part attributable to the additional provisioning for legal claims due to the rise in lawsuits against the banks. On the other side, positive effects came from lower net losses from the impairment of financial assets not carried at fair value through the income statement and an increase in net fee and commission income while net interest income remained at approximately the same level as in the third quarter of 2020. The Return on assets (ROA) indicator was 1.2% at the end of the third quarter of 2021 (Q3 2020 1.4%), while in the same period the Return on equity (ROE) indicator was 7.7% (Q3 2021 8.1%).

Leasing sector

During 2021, the leasing market in Serbia partially recovered from the strong negative impact of pandemic, given that international transportation industry is still among the most affected sectors. Since the main focus of economic entities in the previous year was on finding a way to preserve liquidity instead of investing or increasing long term debts, the awaking of the economy in 2021 made a positive impact on leasing business.

At the end of third quarter 2021, according to the statistics of the National Bank of Serbia, 16 financial leasing companies were operating on the Serbian market with total assets reaching RSD 126.7 billion. These receivables, in absolute terms, amounted to RSD 114.7 billion and were 8.7% higher compared to the same period of 2020 (RSD 105.6 billion).

The major part of receivables were receivables indexed in foreign currency (94%), the same as last year. Looking at economic sectors distribution, the biggest portion of financing 85.0% (or RSD 97.5 billion in absolute amount) was related to legal entities including privately owned companies, small businesses and entrepreneurs, 1.0% (or RSD 1.2 billion in absolute amount) to public sector and 13.8% (or RSD 15.7 billion in absolute amount) to private individuals.

According to the data of Association of Leasing Companies, financial leasing institutions in 2021 were still financing mainly vehicles out of which 48.6% passenger vehicles and 27.9% trucks, trailers and buses. In terms of industry segment 26.0% of leasing financing was in Traffic, Storage and Information tech and communication sector, 14.9% in Trade and Automotive repair, 11.5% in Manufacturing, Processing, Water supply and Waste management, 14.8% in Construction and Real Estate and 2.6% in Agriculture sector, Forestry and Fisheries.

By the end of third quarter 2021 in Serbia the number of new vehicles financed through leasing was 6.439 (passenger cars and light commercial vehicles) which was 18.9% higher than in the same period previous year, while the share of new vehicles purchased via leasing in total number of new vehicles sold, remained almost the same (28%).

CONSOLIDATED FINANCIAL PERFORMANCE OF UNICREDIT BANK SERBIA IN 2021

UniCredit Bank Serbia, consolidated financial statements (UniCredit Bank Srbija a.d. Beograd, UniCredit Leasing Srbija d.o.o Beograd, UniCredit Partner d.o.o. Beograd)			
in thousands RSD	**2021**	**2020**	**Change**
Income statement			
Net interest income	13,324,290	13,303,282	0.2%
Net fee and commission income	6,406,365	5,111,149	25.3%
Other non-interest income	1,102,089	931,557	18.3%
Operating expenses	-11,635,195	-10,009,016	-16.2%
Net impairment loss on financial assets	-2,782,818	-3,890,813	28.5%
Profit after tax	5,962,614	5,383,528	10.8%
Balance sheet			
Loans and receivables to banks	42,249,257	27,746,829	52.3%
Loans and receivables to customers	322,594,841	290,992,861	10.9%
Deposits and other liabilities from banks	133,461,922	129,668,838	2.9%
Deposits and other liabilities from customers	314,207,092	268,373,476	17.1%
Equity	85,220,740	84,093,027	1.3%
Total balance sheet assets	553,075,879	498,836,183	10.9%
Capital adequacy			
Total risk weighted assets	347,643,988	319,090,586	8.9%
Regulatory capital	76,466,449	76,311,235	0.2%
Capital adequacy ratio	22.0%	23.9%	-190 bp
Key performance indicators			
Cost/Income ratio	55.9%	51.0%	+485 bp
ROA (Return on assets after tax)	1.1%	1.1%	-
ROE (Return on equity after tax)	7.0%	6.3%	+74 bp
Loans to Deposits ratio	102.7%	108.4%	-570 bp
Asset(avg)/Number of employees(avg)	385,316	353,879	8.9%
Cost of risk	0.9%	1.4%	-54 bp
Resources			
Number of employees	1,378	1,352	26
Number of branches	72	72	0

In 2021, the Bank confirmed its strong orientation towards continuous growth and preservation of high standards in terms of profitability, productivity and efficiency. Also, due to an unstable epidemiological situation during the whole previous year, the bank has continuously provided the highest health and safety standards for its employees and clients, following recommendations from state regulatory and health bodies. According to Q3 2021 data, the Bank was ranked as third on the market in terms of total assets, with a market share of 10,7%, which is one position lower compared to last year due to the process of bank mergers and acquisitions on the domestic market and the non-organic balance sheet growth which accompanied it. Total assets at the end of December 2021 stood at RSD 538,1 billion and achieved a growth rate of 10.6% compared to year-end 2020.

Driven by respectable year-on-year growth of net customer loans of 10,4%, the Bank maintained a high market share in net loans to customers (10.7% based on Q3 2021 data), despite the fact that in terms of the size of its credit portfolio it took one place lower compared to previous year and ranked as third due to process of mergers and acquisitions on Serbian banking market. The growth was mostly driven by the corporate sector lending activity as a result of an excellent realization of working capital and liquidity loans disbursed through the first and second State guarantee scheme program. At the end of December 2021 the Bank’s market share in total loans disbursed through the first guarantee scheme reached 12,5%, whilst the Bank’s market share in loans disbursed through the second guarantee scheme reached 18,3%. A somewhat moderate growth was achieved with the loans disbursed to the household sector, out of which the most notable growth was achieved with mortgage loans.

Besides the expansion of the largest asset category – the customer loan portfolio, the bank continued to invest into debt instruments, which mostly consist of sovereign bonds of the Republic of Serbia. This type of investment is characterized with a high degree of security and besides earning interest income by holding them the Bank achieved a positive financial result from their sales which increased 3% compared to the record result achieved a year before.

The aforementioned growth of assets was financed with an extraordinary growth of customer deposits of 17,1% compared to the previous year, where both the corporate and retail sector achieved double-digit growth rates compared to the year before of 15,8% and 16.9% respectively. A strong growth of the customer deposit base resulted in the reduction of the customer loan to deposit ratio, which ended the year at a level of 97,9%, which represents a significant decline compared to year-end 2020 when it amounted 103,8%. A continuous improvement of the deposit base, on both corporate and retail side can be seen as a confirmation of UniCredit Bank's image as one of the most sound and reliable banks on the local market.

The dynamics of net interest income compared to the year before was mostly influenced by the movement of the reference rate and money market rates (BELIBOR) which contributed to lower interest rates on local currency volumes of customer loans and debt securities. Beside the dynamics of market rates, lower net interest income was also influenced by downward price pressure due to increased competition in the retail segment.

On the other hand, the Bank achieved an expansion of the credit portfolio denominated in local currency in both corporate and retail sector as well as the growth of local currency debt securities which in part managed to offset lower interest income caused by the decline in market rates. Moreover, a drop in local currency rates on customer deposits was also recorded which further neutralized lower interest income coming from the dinar-denominated part of the portfolio.

A slight decrease of net interest income was completely offset by the growth of net fee and commission income which more than doubled compared to end of previous year and recorded a growth rate of 67,4%. This kind of development of net fee and commission income was a result of the growing client base, volume of transactions, usage of digital channels but also due to the lower base effect from the previous year because of the lockdown period, when the level of economic activity was very low.

The dynamics of loan loss provisions mostly was influenced by lower write down in Retail sector, as well as better macroeconomic assumptions compared to the prudential approach taken by the Bank in the previous year due to the foreseen worsening of the economic situation. Moreover, the Bank continued with the successful management of NPLs, which was confirmed by keeping the ratio on a low and stable level which at the end of December stood at the level of 4.4%.

At the end of 2021, the Bank achieved a net profit after taxes of RSD 5.9 billion, which represents an increase of 10,1% compared to the result achieved during the previous year. The return on equity indicator (ROE) also grew at the end of 2021 and stood at 7,0%, which is 60 basis points more compared to previous year. This was achieved at the same time whit the strengthening of the Bank's capital base in previous 12 months. Even though the revenue growth was still affected by the effects the COVID-19 pandemic the Bank confirmed its earning capability in conditions of extended duration of pandemic thanks to a stable and sustainable business practice focused on creating value for its clients. Apart from traditional commercial banking, the Bank also continued with successful trading with financial instruments as one of the leaders on both local and international market.

The achieved Cost-to-income ratio of 56.2% is well below the sector average, with which the Bank confirmed once again its ability to maintain high standards in terms of operational efficiency. Despite the fact that the ratio is somewhat higher compared to the year before (51,1% at the end of 2020), this was mainly due to increased provisions for lawsuits against the bank. On the cost side the bank continued to invest in its employees and ICT infrastructure, despite the present systemic risk in form of lawsuits for loan processing fees which reached its peak during previous year and to a great extent increased provisions for this purpose and influenced in other expenditure growth. Parallel with the increase in salaries and wages, the growth of operating expenses and depreciation was to a large extent attributable to the growth of ICT expenses and investments since the Bank continued to invest in the digital transformation of its business model in order to create additional value for all its stakeholders. For the clients that means access to more innovative products, which come with simplified procedures, while for its employees it created room for time optimization, increased automation and higher efficiency, which will in turn have a favourable effect on the reduction of operating expenses over time.

The Bank in 2021 continued to increase the number of employees confirming its orientation towards constant growth and positioning itself as an employer of choice on the market.

Owing to its strategic focus on the quality of service and customer satisfaction the Bank is continuously enlarging its client base. The number of clients compared to December 2020 increased by over 9,000. At the same time, excellent results were made in increasing the number of active users of internet and mobile banking, thanks to a successful implementation of digital banking channels.

UniCredit Leasing LLC continues its business expansion with new businesses and increasing its market share at the end of Q3 2021 on 16%. Thanks to growth of client investments, which are at the end of December 2021 for 21% higher compared to same period 2020, UniCredit Leasing achieved annual asset growth of 13%, focusing its business on SME, construction, agriculture and IT industry segments.

Successful business of UniCredit Partner LLC is confirmed with achieved revenues from agency in insurance, which are at the end of Q4 2021 for 15% higher than for the same period last year.

Overall, on a consolidated basis UniCredit Bank Serbia completed the business year of 2021 with excellent results taking into consideration the situation caused by the prolong pandemic of COVID-19 virus and continued to build a long-term partner relationship with its customers and to fully support the local economy.

With a total consolidated capital adequacy ratio of 22.0% at the end of 2021, UniCredit Bank Serbia maintains a solid capital base, fully comprised of high-quality common equity tier one instruments and significantly exceeds the regulatory requirements for total combined capital buffers.

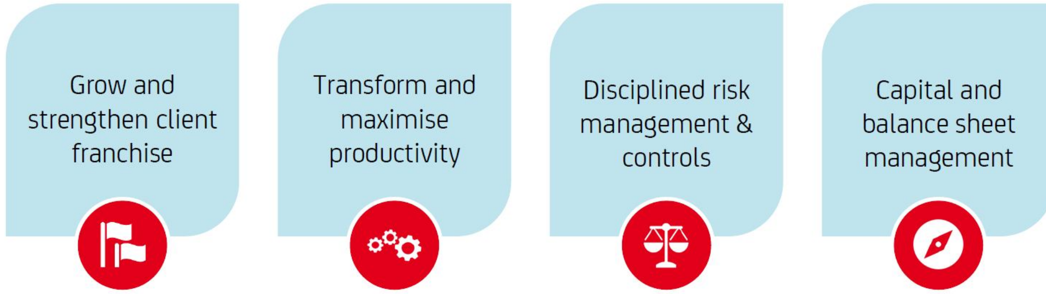
The Bank is under control of UniCredit S.p.A., Milan, domiciled and registered in Italy, which is the sole owner of the Banks's common stock shares (100%). Related parties of the Group are: parent bank, subsidiaries of the Group, entities that are members of the same group or are under joint control, members of the Board of Directors and the Audit Committee, the Management Board and managers who as members of the Group's board (ALCO and credit committees) have the authority and responsibility to plan, direct and control the activities of the Group ("key management"), close family members of key management as well as legal entities that are under the control or influence of key management and close members of their families, in accordance with IAS 24. In the normal course of business, a number of banking transactions are performed with related parties. These include loans, deposits, investments in equity securities and derivative instruments. Related party transactions are performed at arm's length.

STRATEGY FOR THE UPCOMING PERIOD

During 2021 multi-year plan for period 2021-2023 named **Team 23** was still in force. The main strategic objective of UniCredit Bank Serbia set in Team 23 strategic plan was to ensure long-term profitability and self-sustainability based on following key elements:

- **Clients** – focus on existing clients and acquisition of the new ones, by offering high quality products and services, increasing customer satisfaction and achieving a long term partnership;
- **Products** – further improvement of products and services, with a clear focus on selected products, but also on the development of new and innovative ones based on specific customer's needs;
- **Sales channels** – further development of alternative sales channels, acceleration of the digital transformation process together with a synergy between Corporate and Investment Banking Division, Retail Divisions and Leasing;
- **Operating model** – major processes and system improvements through adapting to the new conditions on the market and;
- **Risk management** – maintain and improve portfolio quality along with strengthening the common Risk culture among all Bank's employees.

This strategic plan was based on the following **Four Pillars**:

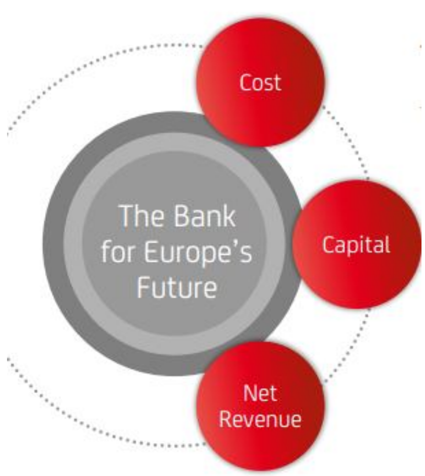


In late 2021, UniCredit Bank Serbia adopted a new strategic plan for period 2022-2024 named UniCredit Unlocked, as part of UniCredit Group's strategic plan which was presented on Strategic Day, held on December 9, 2021.

From December 2021 UniCredit Bank Serbia is a part of new, three-year Group Strategic plan **UniCredit Unlocked** for period 2022-2024, which optimizes the Group today and builds a clear long-term program for tomorrow while moving into an era of purpose, growth and value creation for all our stakeholders**.** UniCredit Unlocked delivers the following strategic imperatives and financial ambitions:

- Grow in our **regions** and develop our **client** franchise: quality growth both from our existing and new clients, together with developing best-in-class product and services, either in house or with external partners;
- Change our **business model** and how our **people** operate: grow capital-light business, focusing on value-added products and services for clients, together with targeted cost efficiency to fund investment and deliver operating leverage;
- Deliver **economies of scale** from our footprint of banks that provides us with diversification, client access, multicultural mindset and cross-border operations;
- Transform our **technology** leveraging **Digital and Data** to create more personalized service and a more efficient bank for all of our clients;
- Embed **sustainability** in all what we do – strong internal ESG ambitions while supporting clients in their green and social transition.

UniCredit Unlocked will deliver sustainable performance and profitable growth over the cycle, via combination of three interacting levers, optimally balancing growth, strength and profitability:



Cost efficiency, deliver a lower absolute cost base while funding Digital & Data transformation and investing in the Business;

Optimal capital allocation, generating organic capital from increased profitability and capital-light model, optimal capital allocation and active portfolio management;

Net revenue growth that delivers profitability above the cost of equity and recovery of market share.

Multi-Year plan of the Bank assumes full enforcement and alignment with all regulatory requests and set limits while achieving balanced growth. The plan also assumes keeping a strong track record of out-performing the market in terms of business growth, operating profitability and efficiency, with a focus on further process and system improvements, along with the aim to improve the portfolio quality and enlarge the active client base, in order to enable sustainable growth.

ORGANIZATIONAL STRUCTURE OF UNICREDIT BANK SERBIA

UniCredit Bank Serbia JSC BEOGRAD

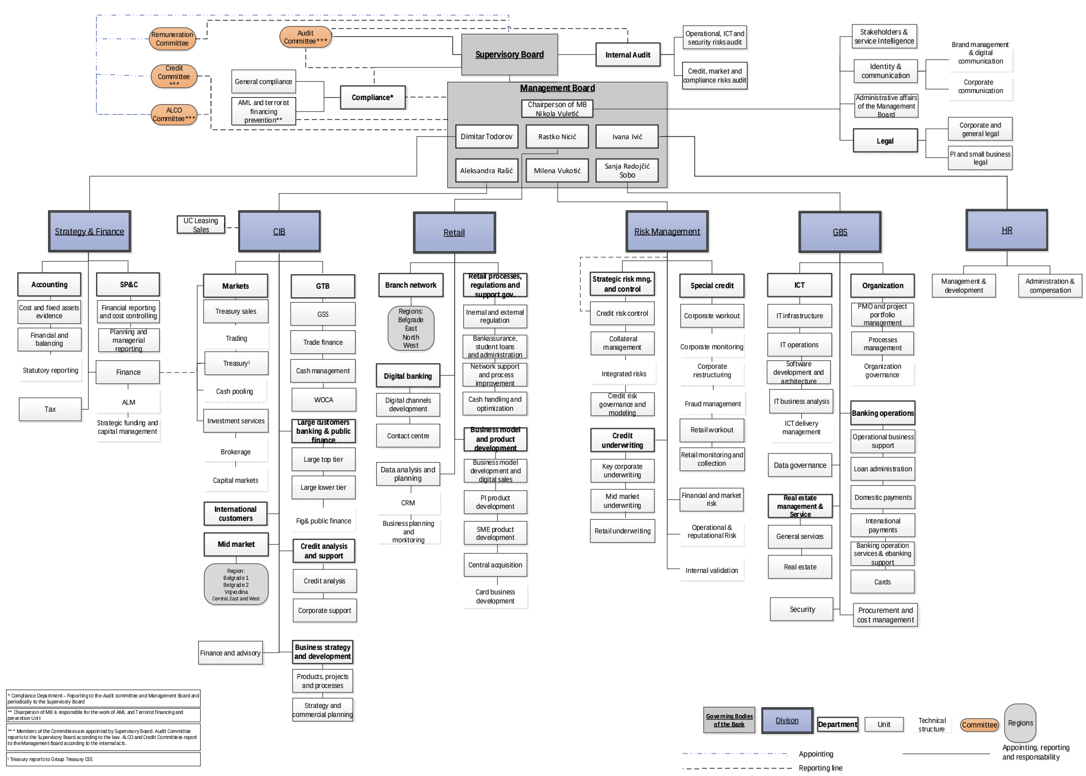
SUPERVISORY BOARD

Martin Klauzer, Chairman
Luboslava Uram, Member
Daniel Svoboda, Member
Ljubiša Tešić, Member
Lidija Barjaktarović, Member
Svetlana Kisić Zajčenko, Member

MANAGEMENT BOARD

Nikola Vuletić, Chairman
Aleksandra Rašić , Member
Ivana Ivić, Member
Milena Vukotić, Member
Dimitar Todorov, Member
Rastko Nicić, Member
Sanja Radojčić Sobo, Member

ORGANIZATIONAL STRUCTURE OF THE BANK



As of 2016, members of UniCredit Group Serbia besides UniCredit Bank Serbia JSC are UniCredit Leasing Srbija doo Beograd and UniCredit Partner doo for representation in insurance Belgrade. Following UniCredit Group entities were performing business also in Serbia in 2021: ALPHA RENT DOO BEOGRAD (formerly UniCredit Rent), UCTAM D.O.O. Beograd – u likvidaciji and Ambassador Parc Dedinje doo (until August 24, 2021, when it was deleted from the register due to the status change of the merger by merging with the company Uctam d.o.o. Beograd), which are representing parties related to the Bank.

UniCredit Leasing doo

SUPERVISORY BOARD
Nikola Vuletić, Chairman
Aleksandra Rašić, Member
Branko Radulović, Member

MANAGEMENT BOARD
Ana Milić, Chairwoman
Ratko Petrović, Member
Ivan Damjanović, Member

UniCredit Partner LLC

Zvonko Buden, Director
UniCredit Partner has no Supervisory or Management Board

CORPORATE & INVESTMENT BANKING

The Corporate and investment banking Division (CIB) during 2021 was oriented towards additional strengthening of its position on the market through growth across all business segments while supporting both the public and the private sector and providing the best service for all clients, deploying innovative solutions to improve its business, processes and products. The additional effort has been made to support the economic recovery after the negative effects of the corona virus pandemic. The Division continuously brings the Group worldwide expertise to support local innovation, product development and economic growth.

The loan portfolio of CIB amounted to RSD 196.8 billion at the end of 2021 with an annual growth rate of 17%, whilst deposits amounted to RSD 203.2 billion and increased by 20%. The total number of clients was 5,332 in the end of November.

The Markets Department sustained the leading position of the Bank on the local market. According to the NBS data for the January- November 2021 period, UniCredit Bank was ranked on the first position in FX trade with residents with a market share of 17.8% and on the first position in FX trade with non-residents with a market share of 39.3%. UniCredit Bank kept the first position on the market in euro trade on interbank market with a market share of 19.2%.

During 2021, the Bank continued its efforts to promote hedging products, as a way to protect businesses from interest rate, FX fluctuations and commodities prices variations on the market by offering interactive workshops for both large enterprises and medium-sized companies. The Bank was aiming to be ahead of its competitors with its innovative approach and in doing so it affirmed its leadership position in the design and sales of these products. UniCredit Bank remained a market leader in trading with financial instruments on both primary and secondary markets with a market share of 25% and 35% respectively.

The Bank continued to support enterprises with long-term investment plans and ventures, as well as those that require working capital financing. With the aim to strengthen competitiveness and entrepreneurship, UniCredit secured an easier access to financing through the guarantee scheme programs that enable reduced collateral requirements through the COSME or EDIF guarantee programs. The COSME program covers loans of up to EUR 150,000, while the EDIF program covers loans of up to EUR 500,000. In addition, the Bank supports small and medium size enterprises that are looking to improve existing processes and products in an innovative way by providing access to finance and reduced collateral requirements through the InnovFin Program. Under the Social Impact Banking program and the Impact Financing, the Bank aims to support projects that generate a clear and measurable positive impact on the social community, with a particular focus on hiring of endangered categories and social inclusion, as well as providing support for projects in devastated and less developed regions in Serbia. Furthermore, CIB continued to offer favourable financing conditions to its clients in 2021 via Guarantee scheme program adopted by the Government in order to provide support for micro and SME dealing with the negative consequences of the crisis caused by COVID-19. CIB Division also participated in implementation of second Guarantee scheme program initiated by the Government intended for the most vulnerable industries such as international transportation, hotel management, tourism and catering.

The CIB Division continued to focus on providing support for export-oriented industries, with a strong belief in their importance for Serbia's economic growth and the implementation of the economic and industry strategy of the Republic of Serbia. The Division focused on expanding the cooperation with the existing clients and the acquisition of new clients in a range of industries that have been recording positive growth rates or possess a significant recovery potential, as well as on the expansion of the SME client base. It also sustained financing public sector (central and local self-governments), while it continued working on improving public services for citizens. Furthermore, CIB tended to motivate its clients to take out loans in local currency through various campaigns and stimuluses. In addition, the Division made an effort to innovate its products portfolio by implementing new products and by offering hedging to corporates in order to protect their stability in a constantly changing market environment. In addition to the above, Division strived to deepen and further increase long-term partnerships with new and existing customers based on reciprocity and trust. Related improvement and optimization of risk-adjusted pricing policy was a part of all year agenda in order to better capture the risk profile of a client and provide an adequate reward for the risk assumed. Corporate customer satisfaction represents a crucial indicator of a successful partnership with all our customers.

In 2022 CIB Division will aim to maintain its leading position on the local FX, money and capital markets. CIB business processes efficiency and effectiveness represent a key factor for achieving business goals and the entire Division structure will be proactively involved in the improvement, digitalization and automation of processes. In pursuit of this vision, the focus will be on: the reduction of concentration along business segments and increasing the share in the clients' portfolio by strengthening relationships, further innovation of the product portfolio by implementing new products, increasing the penetration in the segment of small and medium-sized enterprises, providing support for public projects, diversification of the customer portfolio and revenue base as well as increasing the loan portfolio balance in terms of the currency structure.

Despite slow recovery of leasing market after pandemic impact on the automotive and transportation industry sector and downturn of investments in previous year, UniCredit Leasing recorded an annual growth rate of 19% with total portfolio in the amount of RSD 15.4 billion at the end of 2021.

In 2021 UCL had new business financing in the amount of EUR 84.3 million which was twice as much as last year. According to Association of leasing companies ALCS data at the end of the third quarter, UCL market share in new business financing increased by 6.5% (compared to the same period last year)

The largest growth was recorded in the segment of Vehicles were at the end of the third quarter of 2021 UCL achieved EUR 37,9 million new business sales taking the fourth position with market share of 13%. In the segment of Equipment financing UCL confirmed the first market position with EUR 20.9 million of new business with market share 31%.

During 2021, UniCredit Leasing focused on strengthening its cooperation with vendors, supporting the SME segment, construction, agriculture and the IT industry sectors as well as on innovation and developing tools for faster and easier processing of clients requests. UniCredit Leasing successfully continued to provide programs with subsidies and easier financing access through EDIF and EBRD funds and State supported programs. Special attention was dedicated to green economy and sustainable energy programs where UCL will continue to contribute in coming years.

RETAIL BANKING

In spite of extremely complex business environment, strongly affected by prolonged impact of COVID-19 pandemic, the growing trend of Retail Division was kept also during 2021. Overall loan portfolio increased by 2,5% compared to the previous year, where volumes of deposits recorded strong year-on-year growth of 16%.

Clients continued to show the trust in Bank's product offer and service quality and reliability of the service. In the segment of Private Individuals (PI), key credit products in 2021 were housing loans with a variable interest rate and cash loans with the insurance coverage in case of unemployment. Thanks to favourable offer to clients, optimization of the approval process and implementation of pre-approval concept and despite the challenging environment and increased competition, Bank achieved solid growth of PI lending portfolio by almost 3% compared to 2020, with housing loans with an increase of 8% YoY being the main driver. As far as lending to Small business clients is concern, stable development of loan portfolio was achieved mostly by working capital loans from guarantee scheme program introduced by Government of the Republic of Serbia.

UniCredit Bank is recognized by the clients as one of the most sound and reliable bank on the local market, also in the conditions of uncertainty caused by COVID-19 pandemic, considering the fact that deposit volume of private individuals recorded excellent growth of 17% compared to 2020.

Overall active clients' base for Private Individuals was enlarged by almost 7% comparing to end of 2020, which proves the capability of the Bank to understand and satisfy the needs of its customers through strengthening and widening of the cooperation with existing clients and establishing cooperation with the new ones.

2021 was a year of further growth of digital banking, which is even more important considering the fact that Bank put health and safety of its clients and employees as key priorities of its business during COVID-19 pandemic. Number of mobile active users increased for 30% compared to end of 2020, thus making more than 54% of total client base active on mBanking in a period of 30 days. During 2021, the mBanking application was improved in the field of user experience and new functionalities with the aim of making our clients' financial lives simpler with easier daily budgeting and monitoring of finance and by saving their time and money. We single out the most important ones: paying the bill by scanning the QR code, P2P - payment by using the phone number and redesign of the cover page and navigation, which provides a clearer insight into the user's finances. Focus on improving the user experience was also achieved through intensive educational and onboarding campaigns and programs for both, clients and employees. We always pay special attention to security, so the mobile banking application has been improved by adding tools to increase security during use.

At the beginning of the year, the AI Chat bot was implemented, which significantly improved the satisfaction of clients and employees in the form of availability and faster response to the client with reduced workload of contact centre agents.

Since mid-April 2021, we have enabled clients to open accounts completely without paper documentation in our branches, using graphometric signing of documents and delivery of the same to the client on the selected communication channel. During the year, new tool for loan approval for private individuals was implemented, enabling significant improvement of customer experience by automation of loan approval process for cash loans, credit cards and overdraft and reduced time needed for realization of this product. This created solid foundation for implementation of end-to-end digital sales in the near future.

In the upcoming period, focus will still be on automations and simplifications with the aim of improvement of efficiency of the business processes. The goal is to continue with the controlled increase of market share based on the good relationship with customers. Regarding loan products, in addition to cash and housing loans, special focus will be on credit cards with standard possibilities for payments for goods and services in Serbia and abroad, as well as online payments and additional special features for benefits in line with clients' needs. Additionally, specifically created credit offers to small businesses in order to support their further growth. In accordance with modern trends and increased customer expectations, digitalization, as a concept of modernizing business, will continue to be one of the main priorities.

RISK MANAGEMENT

Risk Management Division is organized through the work of three departments, one unit and two specialized teams: Strategic Risk Management and Control Department, Credit Underwriting Department, Special Credit Department, Financial and Market Risk Unit, Operational and Reputational Risk Team and Internal Validation Team. They all report to the Member of the Management Board in charge of Risk Management, which provides control over all loan process phases, as well as a global overview and assessment of the risks to which the Bank is exposed.

In order to define a consistent policy for the credit activity and a general framework for risk management, each year, the Bank makes Credit risk management strategy for retail and corporate. Strategy includes general guidelines for the basic parameters of risk management, principles of analysis of the creditworthiness of each customer segment, and the determination of the direction of development of individual products, as well as detailed strategy direction of development portfolio by individual industries. In this way, the Bank provides that adopted business policies are carried out within the framework and that will result in an acceptable level of credit risk at the level of individual placement and adequate diversification and general quality of the loan portfolio.

The Bank takes into account when deciding on the assumption of credit risk, the outcome of the analysis of money laundering and terrorist financing risk.

The main goal in 2021 was to control the potential negative effects of the COVID-19 pandemic, since the effects were already known, so there was a modification of the credit process, in terms of introducing flexibility in lending rules. Certainly the focus was on clients from industries that are less affected by the negative effects of the pandemic. In cases where increased risk was observed in corporate clients or an increase in risk was expected due to the industry in which the client operates, the classification of clients was changed through the existing process (transfer to watch list or Restructuring where necessary). In addition, the focus was on the changed processes and rules during the introduction of the moratorium and lending through the guarantee scheme of the Republic of Serbia, as well as on the enhanced monitoring of all activities in the credit process.

Identification, measurement, control and management of the credit risk on the portfolio level is based on reporting system, which provides information about the condition, quality and evolution of the loan portfolio. During 2021 there was a continuity of reporting process improvement through increased automation of calculations relating to IFRS 9 provisioning calculation and RWA calculation, setting automatic controls and report generation improvement, in order to monitor key credit risk parameters.

In the area of Basel Standard implementation, the focus of activities was placed mainly on confirming the predictive capabilities of the internally developed rating models in use and appropriate credit risk parameters for corporate, retail and small business entity segments, as well as calibration and further development of rating models according to methodology of UniCredit Group and in line with Internal validation and Internal audit recommendations. During 2021, a new PD model for private individuals' loans approval was implemented.

During 2021, several projects/initiatives were implemented and launched that provided continuous monitoring of key risk indicators from various fields:

- Set of amendments to improve the implementation of the new default definition - new DoD project,
- The project of implementation of a new tool for group regulatory reporting in the part of COREP - the so-called Central Last Mile Engine is successfully finished;
- Activities on improving the second and third level automatic controls in the forbearance process and the process of registering groups of related parties;
- A project, regarding the request of the NBS regarding the establishment of the Register of Claims has been started;
- Activities related to the improvement of monthly LLP and RWA calculations have been started, i.e., reporting on that basis - the so-called Fast closing and new segmentation project;
- Improvement activities on group projects continued - automation of the calculation Expected loss new business, Group pricing tool, as well as activities on the overall rationalization of reporting to the Group;
- Automation of monitoring of Risk Appetite Framework indicators was implemented through the group "RAF and IRR Reporting Platform Re-engineering" umbrella project;
- The framework for credit concentration risk management has been enriched (primarily the risk of concentration of geographical regions and its integration into the automated dashboard).

Regarding the Corporate Special Credit Department, given the prolonged effects of the COVID-19 crisis, we continued to strengthen monitoring of clients and portfolios, and implement various measures to reduce risk in cooperation with clients on watch lists, as well as analysis of existing monitoring process in order to improve its efficiency and effectiveness and in order to identify risks earlier and to ensure a timely response of the bank. Although part of the loan portfolio has shown solid resilience to the crisis, one part of the clients is still strongly influenced by the crisis, which is estimated to continue during 2022. During 2021, there were a lot of fluctuations of clients on and from watch lists, while the number of clients on watch lists is still relatively high. In addition to the intensified activity of the bank in its efforts to reduce/mitigate the effects of the crisis through comprehensive restructuring procedures, government relief and increased monitoring of risky activities, there is an increase in problematic loans and an increase in the number of clients on special monitoring lists, due to business difficulties and a significant decline in business results. During 2021, there was a reduction in problematic loans, through regular collection, collection from collateral, sale of receivables, as well as the return of a number of clients to performing status. The fluctuation of clients in the restructuring portfolio was on a regular basis. In addition to the fact that several major placements have been transferred to the competence of the Corporate Restructuring Team, some clients have been returned to the standard portfolio in the regular process. At the end of 2021, the number of clients under the competence of the Corporate Restructuring Team was slightly higher than in the previous year, as well as the number of clients who underwent a comprehensive restructuring. The restructuring was significantly supported by state support measures for the economy affected by the effects of the COVID-19 crisis. A similar trend can be expected during the first part of 2021. Continued implementation and promotion of INSOL principles for managing problematic placements and clients in the conditions of a larger number of creditors.

In the Retail segment, for private individuals and small business clients and entrepreneurs, as well as companies, the focus in 2021 was on increasing the efficiency of all processes, improvement of the process of monitoring, collection and decreasing of NPL stock. All credit files transferred to the competence of the relevant Units were taken over and appropriate receivables collection procedures were initiated in a timely manner. In this respect, the Bank is in the process of implementation of new underwriting tools, has improved monitoring of delinquent portfolio and continued steps in further improvement of collection and decrease of NPL stock.

During 2021, Collateral Statistical Monitoring was completed as well as further improvement of cooperation with external associates: valuation companies, licensed appraisers, insurance companies, monitoring companies and lender supervisors. Aside from that, general improvements of collateral management process and practice were also implemented through more agile acquisition of valuations, insurance policies, more detailed tracking of mortgage inscriptions, etc. The Bank was adequately delivering regular monthly reports regarding real estate valuations to NBS, which are used for loan securitization purposes.

Relevant financial and operational risk taxonomies are defined for identifying and reporting risk exposures. Accurate and reliable risk data are generated to meet normal and stress/crisis reporting accuracy requirements. Data are aggregated on a largely automated basis, to minimize the probability of errors. Liquidity early warning indicators are defined for monitoring financial markets development and assessing its impact on the bank's liquidity position. The goal is to keep overall liquidity management at an efficient level of liquidity to allow the Bank to meet its payment obligations. Further improvement relating to accuracy, integrity, completeness and adaptability of the reporting processes will continue during next year.

Governance structure of the control system of operational risk management involves all relevant organizational levels and thus contributes to raising awareness about the importance of operational risk. Quantitative elements of operational risk measurement system (internal loss data, risk indicators and scenario analysis) are classified and collected by guaranteeing the data completeness, reliability and timely updates. Permanent working group continue its activities with the aim of identifying potential risk and defining measure for mitigating the risk. The system of identification, assessment and control of operational risk adequately reflects the risk profile and allows timely communication with management in order to mitigate the identified risk.

During 2021, the system of reputational risk management was further improved through: identification of sources of reputational risk (e.g., when entering new markets, products or lines of activity, outsourcing activities) and guidelines for assessing and measuring reputational risk through customer affiliation to sensitive industries as well as monitoring and reporting to the Management. The Reputation Risk Management Framework relies on an effective control system in terms of roles and responsibilities for different control levels (first, second and third line of defence), as well as the establishment of the Reputation Risk Subcommittee within the Nonfinancial Risk Committee

Based on the foregoing, it can be concluded that during 2021 the Bank enhanced risk management system, which, along with its capital adequacy and profitability levels, guarantying an adequate management and coverage of the risks to which the Bank is exposed.

Integrated risk management function within which, in accordance with the Law on financial leasing, UniCredit Leasing entrusted the tasks of identifying, measuring, assessing and managing risks to the risk management function of the Bank, was dedicated to improvement of economies of scale in credit business, support in commercial actions and credit process optimization.

Risk Management Division will continue with the efforts and actions aimed at improving the system of management of all risks to which the Bank is exposed in its operations. Special focus is planned towards further enhancement of the credit process in order to improve efficiency, as well as on creating a comparative advantage in the market through process optimization on one hand, and through improvement of the tools for identifying and mitigation of credit risk, on the other hand. In that way, adequate support to all organizational parts will be secured. In 2022 one of the main goals is to maintain and improve portfolio quality and enable base for sustainable growth with focus on further portfolio diversification, but always using proactive approach toward risk management enabling new client acquisition.

BANKING SUPPORT

The trend of constant support to business in the context of automation and process optimization continued during 2021. Working conditions were further improved during the COVID-19 pandemic, so that work was carried out smoothly and safely, both for employees and clients, regardless of whether it was done from home, from the workplace or from branches.

Information Technology Department had great focus on improving and renewing the infrastructure landscape, most of the investment has been focused on acquiring new core infrastructure in order to support the new applications development for the following years, considering as main goal to have a resilient infrastructure fully aligned with business continuity and disaster recovery requirements. On the application level consumer finance platform has been finalized and branch front end extended to cover not only retail needs but also corporate with the strategy to have one single platform able to cover requirements from both divisions of the bank. Micro-services architecture and Dev-ops have been additionally developed with increased focus and confirmed as a strategic direction also for the future. A new factoring platform has been lately released in production introducing new opportunity on business side as well as new security challenges on local IT side by exposing the DMZ to internet. Important investment have been made and knowledge acquired in order to handle this new set-up without exposing the bank to any tangible risk and opening the ICT landscape to support new business opportunities.

In line with the ICT strategy Bank continued with the established practice of projects initiation, project realization, status tracking and key performance indicators. Special focus was given to ICT governance process increasing awareness as well as mobilizing people in order to improve crucial processes like demand management, capacity management and change management with the goal to improve the delivery and reduce the related risk of introducing higher amount of changes in production.

During 2021, significant effort was still requested in order to support the challenges caused by the COVID-19 pandemic, Bank's Security Unit, Real Estate management and Service Department and Information Technology Department focused their attention to protection of employees and all business processes of the Bank along with providing adequate work from home as well as complying with NBS and UniCredit Group related requirements.

Simultaneously, in coordination with ICT Department, Security made improvements in the field of Cyber Security focusing on employees' awareness, data protection and constant fight against numerous Cyber threats by implementation of new and upgrading of existing tool and processes as well as investing in people level of expertise.

Real Estate management and Service Department was at all times available to colleagues from the network in terms of delivery of disinfectant material necessary for the normal functioning of colleagues in the branches in order to assure adequate health care in accordance to very strict criteria prescribed by the relevant institutions. In order to improve air quality in work space, decrease level of pollution and decrease of infections Real Estate management and Service Department and Retail Division initiate purchase Air purifier for Bank premises.

In order meet the client's requirement and growing needs, during 2021 two (2) branches were reallocated to new location. Branches are equipped and furnishing in accordance with the new modern concept and design.

Qualitative and quantitative control of archived active client documentation was carried out in cooperation with colleagues from the Retail Division and external service provider. Control measurement the completeness of the documentation as well as the qualitative verification of documentation full established and followed on monthly basis.

Procurement and Cost Management Unit is in the process taking over activities related to Outsourcing and Third Party Risk Management which will enable single point of contact for Contract Management with suppliers including risk assessments for Outsourcing related processes and processes which are including certain risks in domain of BCM, cloud services, cyber security and GDPR.

During 2021 Data governance did the full upgrade of SAS data management solution. This solution now includes new (improved) structure of business glossary required by Holding. The new structure will allow to establish correct data lineage between various data sources.

During 2021 Banking Operations Department has continued with the further processes optimization and automation including Robotic Process Automation tool and improvement of existing applications, with the aim to reduce operational risks, increase efficiency and to achieve better customer experience. All initiatives related to coronavirus pandemic situation were successfully supported by Banking Operations and implemented in regular processes including the 3rd type of the regulatory measures introduced by NBS and Guarantee scheme program. Thanks to the efficiency, flexibility and expertise, Banking Operations Department has significantly contributed to the business success in 2021.

Global Banking Support focus in 2022 will be on further improvements, process optimization and digitalization, especially given the organizational changes that will lead to even greater synergies between digitization and information technology.

HUMAN RESOURCES HR

The operations of the HR Division in 2021 were focused on providing strategic support to the realization of the Bank's planned business activities through:

• Strengthening the organization in the direction of maintaining business continuity and adequate adaptation to teleworking

• Empowering leaders through leadership development programs

• Empowering women leaders in the organization

Having in mind the strategic development plans of the Bank, as well as pandemic of COVID-19, in 2021 HR Division adequately supported the business in overcoming challenges and achieving goals and results by enabling adaption to changed ways of working, improving organizational culture and competencies in the field of skills and knowledge necessary for work from home regime, team culture, presentation skills, digital transformation and innovation.

This year, as well, the Bank also paid special attention to the development of leadership skills and talents of the Bank and motivating and retaining employees who achieve high achievements and have potential for further development.

In cooperation with external consulting companies numerous workshops and trainings were organized during 2021. For the Bank's Management Team the development programs were focused on leadership skills and effectively conducting meetings remotely, while for the organizational parts of the Bank which cooperate with clients the focus was on improving presentational and sales skills. In this year workshops were organized for all organizational levels on the topic of effectiveness and remote meetings with the aim to improve mutual communication, overcoming the challenges and better understanding of the needs of the team during remote working. In parallel, in order to strengthen the leadership skills and provide adequate support to UniCredit leaders, the HR Division in cooperation with a global provider, focused on a young talents of the Bank program, future leaders, aiming to strengthen and increase their digital and leadership skills in an era of constant market change.

In 2021, the HR Division has continued the initiative started in the previous year and finished the program which aim is to support and empower women leaders in our organization by providing support on the path of personal growth and further career progress. This pragmatic program supports building women's leadership in our organization.

At the beginning of 2021, HR Division has also finished Retail Sales Academy, for all positions within the Sales network of the Retail sector. The program strives to create a systematized and unified sales approach in the branch network, with a change in communication style with a greater understanding of customer needs, but also to improve sales results.

Human resources Division supported employees through a changed communicational approach and regular information in providing new career opportunities and promotions, as well as in enabling to change positions within various organizational parts of the Bank.

Striving to adequately empower and support employees in achieving their business goals and improve their performance, the HR Division has supported employees in improving their expert and social skills by organizing and providing budget for various trainings, domestic and foreign certificates, and international seminars and conferences that employees attended online during 2021.

As in previous years, in 2021 UniCredit Bank provided private health insurance for all employees, as well as reimbursement of testing costs for all colleagues infected with the COVID-19 virus. Apart from that, the Bank enabled to family members of the employee to obtain, under more favourable conditions, a "Health Package" in a particular medical institution. In 2021 the Bank continued to provide free online psychological counselling for its employees, as well as a support package for each infected team member that have been delivered to the employees' home addresses.

Moreover, UniCredit Bank has continued to implement previously adopted benefits and initiatives (Birthday Holiday, Healthy Wednesday, Free Day for employees whose children are in the first grade of primary school, Thank you Cards and Parental Support), and for the father of a newborn child the possibility to work part-time during the first month after the child's birth, with a proportional salary (so far this possibility has been provided only to mothers returning from maternity leave) was introduced.

In order to encourage employees to take more care of their health and good life habits, HR has launched and in 2021 continued with the "Really Important Knowledge" initiative, and in that sense organized a set of workshops held by specialist doctors, through which employees are encouraged to take care of their physical and mental health.

Cooperation with universities was continued through internship programs, study visits and scholarships for the best students.

In 2022, the Human Resources Division will continue to work on strengthening the organization and strengthening the organizational culture and employees of the Bank in the field of transformation towards digital business, development of talents and leaders in order to build a stable network of successors to leadership positions. It will also continue to promote a flexible work culture, create a balance between business and private life, support in the form of more comprehensive medical services and the promotion of healthy living habits.

IDENTITY AND COMMUNICATION

The numerous challenges that the pandemic posed to humanity in 2020 spilled over into 2021, but during the last year we responded to them readily and in unison. Identity and Communication has very adequately adjusted priorities and key messages to all stakeholders.

Due to the impact of the pandemic in 2021, it was extremely important for our employees, clients, community and regulators to be convinced that the priorities of UniCredit Bank are health and safety, and that we will proactively and continuously support and be someone they can rely on, further contributing to the fight against COVID-19. One of the priorities in relation to clients was to inform them in a timely manner about all changes in operations through all available channels. Primarily, changes in working hours, measures to prevent the spread of the virus, the use of electronic services, and the like. Although we may have been physically more distant from our clients than ever before, with daily communication through all available channels, we have done everything necessary to meet the highest criteria of transparency, as well as to provide them with accurate, timely, and up-to-date information at any time.

To our clients, as well as all employees, we have transparently and clearly presented the new Strategic Plan of UniCredit Group titled "UniCredit Unlocked", with the aim to inform them about all decisions and goals of the Bank.

The Identity and Communication team continued to work on the promotion of digital channels in 2021 with the aim of increasing the number of users, while we tried to regularly inform and guide existing clients about all the benefits provided by mBanking, eBanking services as well as multifunctional ATMs. Apart from being one of the ways to reduce physical contact during visits to branch offices, in line with recommendations, it was also our proactive approach to get users used to digital channels very quickly, which rapidly and in large numbers became and the basic mode of communication.

During the entirety of 2021, in cooperation with colleagues from Retail, as well as partners of the Bank, we worked on promoting all cards of UniCredit Bank - both in retail establishments and on their digital channels.

In April, we started the promotion of the Gold Account Package, in a campaign under the slogan “It is important for me to enjoy life", which focused on the benefits of the Package, such as individual travel insurance, Mastercard Gold card, more favourable exchange rate at the mBanking exchange and others.

Last year, we were focused on cooperation and strengthening relations with the bank's corporate clients, in order to create additional benefits for all of us. We promoted Flexia Mastercard credit cards, highlighting benefits such as making purchases in 12 interest-free instalments at our customers’ points of sale, but also for online payments. Such partnership campaigns, in addition to the acquisition of clients, are also aimed at creating loyalty at the time of purchase, at various points of sale, strengthening the positive image of the Bank.

The campaign for the premium Mastercard World Elite debit card, as part of the Prestige package of accounts, also contributed to the strengthening of the brand and the contribution to the Bank's image. The campaign for this exclusive card, which offers users special experiences, was launched on digital channels as well as posters on the screens at the Nikola Tesla Airport. With the cash loan campaign “Excellent Opportunity for Me”, which began in June, and was continued during the autumn months, clients were once again informed that the Bank is there for them in moments when its support is necessary and urgent.

In 2021, UniCredit Bank strived to maintain its presence in the media and thus further contribute to the growth of the Bank's visibility, its reputation and its position as a Bank that is one of the leaders in its field. When we look at communication with the media, in addition to focusing on highlighting products and services, we had a great focus on promoting our socially responsible projects, responsible behaviour and business during the pandemic, as well as the bank's commitment to sustainable green business, not only our operations, but also the business of our clients. Through various media formats and relevant interlocutors, we tried to emphasize the importance of the Bank's digital services, as well as our contribution to the fight against the effects of the pandemic, primarily through our campaign to promote vaccination among students. In the last quarter, our communication with the media and the general public was aimed at marking the Bank's anniversary, with the campaign "We have been striving to start good things together for 20 years", which resulted in the signing of a Memorandum of Cooperation with the Ministry of Environment. Thanks to us cultivating good relations with the media, with mutual respect, esteem and trust, we have successfully achieved our goals.

In 2021, internal communication played a very important role. At the beginning of the year, employees in our administrative buildings continued to work from home, and in the middle of the year we switched to a hybrid model of work, which includes rotation of work from home and work from the office, through precise scheduling of employee shifts. Realizing the importance of maintaining business continuity, but at the same time mental health, communication with employees via email and the internal portal of the Bank and UniCredit Group was very frequent and regular. And in 2021, it was crucial for us that employees know at all times that their health is a priority and that the Bank will do everything to protect them by undertaking recommended prevention activities.

With different internal campaigns, we strived to promote collegiality, team spirit, but also a healthier lifestyle, as well as new ways of learning and personal development. We also communicated individual stories and successes of our employees, colleagues who achieved the best results in our branches and who were at the service of clients all the time. We devised different ways to stay closely connected not only with colleagues but also with our families, by organizing a UniCredit Family Day. This time, the employees were given gift packages for the preparation of sweets, with the desire to spend beautiful moments with their loved ones, and we encouraged the spirit of togetherness with an internal photo contest. We wished a happy start to the new chapter to the children of all our employees who started school on September 1, 2021, while all employees who have had a first grade elementary student in their home since last September received a day off from the Bank for that occasion.

Through various internal communication channels, employees are regularly and transparently informed about all strategic changes and decisions of the local Bank and UniCredit Group, and at the end of 2021 we launched a campaign to present and remind about all current products that the Bank offers to our employees.

In 2022, Identity and Communications will remain focused on supporting the Bank's operations by informing clients through various communication channels. Also, great attention will be paid to further improving the Bank's reputation by continuing to implement various initiatives aimed at supporting the local community. Internal communication remains one of the basic forms of not only avoiding noise in communication between different sectors of the company, but also for employees to realize their full potential and to feel integrated in the activities and projects of the Bank.

NON-FINANCIAL REPORT FOR 2021

Foreword

As sustainability is becoming one of the imperatives of modern society, the role of banks on the path to green transition will grow and become increasingly more important. UniCredit Bank is committed to both empowering all individuals within its system, as well as in the community it operates in. The circumstances of the COVID-19 outbreak have further highlighted the importance of sustainability, but also the role which companies can have in leading communities toward a better future based on the principles of responsible behaviour and operations.

During the twenty years of its operations, UniCredit Bank has strived to make a positive impact in society, and through its activities, be more than just a Bank for the community it operates in – to be a partner for positive change. For UniCredit Bank, 2021 was one of the most important and successful years in the field of green projects and positive impact, and the scope of projects and activities which provided a positive and measurable contribution to the community are only an additional motivation to work on the green transition and the promotion of ESG principles with even more commitment in the coming years.

Environmental protection

ESG TACTICS MANAGEMENT APPROACH ON THE LEVEL OF UNICREDIT BANK SRBIJA AD/LEASING/PARTNER

The Bank carefully manages ESG related topics, ensuring proper origination, monitoring and management of the portfolios, following a holistic approach, with the ultimate aim to enhance and integrate in medium term:

- Portfolio steering through RAF & RAS, Credit strategies cascading and relevant policies issuing.
- Portfolio analysis and monitoring.
- Single client risk assessment (starting from Large Corporate).

Within the credit lending activities, the Bank takes into consideration the impact of climate-related and environmental risks, through the climate and environmental assessment of the risk profile of large corporate clients, that are the subject to consideration and approval by the Group Credit Committees, regardless of the industry in which clients operates**. As of November 2021, the share of total exposure of clients that were considered through the prism of climate and environmental risks was 13.3% of the total volume, i.e. the total Bank's portfolio.**

During 2021, the Bank continuously carried out activities related to the improvement of processes in the Climate and environmental risks area, where the focus was on initiatives and key projects, which took place in several streams:

- Starting from 2021, the Bank included in its lending process the specific climate and environmental questionnaire, which encompasses climate change and environmental area from the aspect of client's impact and the analysis of client's climate-related and environmental positioning, focusing on specific dimensions (e.g. level of emissions with relevant targets and strategy, transition risk, other environmental risk metrics, etc.). The questionnaire represents the scoring (through a series of key synthetic indicators), which assessing the borrower's positioning in terms of related risks, level of vulnerability and exposure, as well as in terms of potential economic/financial impacts. As a general rule, the questionnaire has to be completed at least once per year, unless new relevant information on Climate change and Environmental topics will be available. The whole process and all relevant rules are described in the internal act, RU 1180 Environmental and social framework in corporate credit process.

- Given that the risks of climate change, for the financial performance of the clients, can primarily materialize as physical risks (such as risks that arise from the physical effects of climate change, including liability risks for contributing to climate change), the Bank is focused at the enhancement of the methodology to assess vulnerable portfolios and mitigate related risks. Therefore, in 2021, the Bank was engaged in the initiative of mapping data related to collaterals, in order to provide a basis for the future recording of the physical risk data of its collateral instruments. Based on mentioned, in the coming period the Bank plans to include and develop fields for physical risk within the corporate workflow tool (which is currently being worked on) in order to have it for future evidence of physical risk.

- With the increased focus on Climate and Environmental related topics, the collection of environment-related information and their integration in Bank processes has become increasingly relevant. Therefore during 2021, the Bank has launched the project in order to address requirements of the initiative related to climate change topic. The main activities were related to framework definition of implementation and monitoring of energy class recovery data or the Bank's collateral instruments (both residential and commercial real estate), through the transaction system of the Bank.

KEY ENVIRONMENTAL PROTECTION POLICIES

UniCredit Bank Serbia deals with environmental protection matter indirectly, through defining policies in field of reputational risk. Key policies regulating Bank's behaviour in this subject are as follows:

1. Defence/Weapons Industry Reputational Risk Policy
2. Nuclear energy Environmental, Social and Reputational Risk Policy
3. Water infrastructure (Dam) Environmental, Social and Reputational Risk Policy
4. Mining industry Environmental, Social and Reputational Risk Policy
5. Coal sector Environmental, Social and Reputational Risk Policy
6. Arctic and non-conventional oil & gas industry Sector Reputational Risk Policy
7. General Principles for Credit Activity
8. Environmental and social framework in corporate credit process

KEY ENVIRONMENTAL PROTECTION PROJECTS, INITIATIVES AND RESULTS IN 2021

Following Group strategy, as well as relevant internal acts and procedures in this field, local Bank maintains it's real environmental impact through various projects and initiatives. At one side, particular activities contribute to sustainability of banking operations in doing everyday business, and on the other side there is a clear intention of integrating sustainability in core offerings of banking products and services, which led to innovation and development of offers that are closely related to client's activity in field of environmental protection.

Sustainability of Banking Operations

Optimization of everyday business is the precondition of achieving goals in environmental protection. Accordingly, decisions made related to business travel, office heating and cooling, use of business cars and paper consumption should contribute to making positive impact in terms of environmental protection, and in general lead to decreasing the consumption of non-renewable energy sources.

During 2021 below described initiatives were undertaken with achieved results:

- Certain business travel was subject to pre-approval, aiming to give advantage to virtual meetings;
- The Bank procurement of cooling equipment is in favour of buying ozone friendly appliances.
- By implementing the Green Policy, it is mandatory for all working stations to shut down every day at 9 pm;
- Between 2019 and 2020 Fuel consumption was decreased by 51%, while in 2021 that percent increased for 13,94%
- Paper consumption waste decreased by 31% for the period between 2019. And 2020, and as well increased in 2021 by 6,88%. Copy paper usage control is enabled through specific software bought for this purpose. Fuel consumption and paper consumption during the reporting period, compared to the period between 2019 and 2020, was conditioned by the improvement of the epidemiological situation caused by the COVID-19 virus, which resulted in the return of more colleagues to offices.
- Buying products with environmental certifications/labels such as: FSC, PEFC, Green range, Eco label

Consumtion of water and energy, paper saving and waste management

Electricity Consumption

Description	Unit	Quantity
Direct energy consumption (for premises) by primary energy source		
Total direct energy consumption	GJ	498.00
01 - Natural gas	GJ (Natural Gas)	498.00
02 - Diesel	GJ (Diesel)	0.00
03 - Other crude oil and petroleum products (e.g. Fuel Oil, Gasoline, etc). Please exclude all fuels used for travel transportation	GJ (Crude oil and petroleum products)	0.00
Total indirect energy consumption		
01 - Electricity energy consumed from purchased sources	kWh	3,481,316
02 - District heating, and if applicable cooling, consumed from purchased sources	kWh	774,918
Percentage of indirect renewable electricity from special agreements		
01 - Total amount of renewable electricity purchased from special agreements	GJ	3,759.81
02 - Total amount of indirect electricity consumption	GJ	12,532.7376
03 - Percentage of indirect renewable electricity from special agreements on total indirect electricity consumption	%	30%
Percentage of indirect renewable heating from special agreement		
01 - Total amount of renewable heating purchased from special agreements	GJ	N/A
02 - Total amount of indirect heating consumption (INCLUDING DATA PROCESSING CENTERS)	GJ	2,789.7048
03 - Percentage of indirect heating from special agreements on total indirect heating consumption	%	N/A
Total energy consumption from all sources (consumed purchased energy sources and self-generated self-consumed electricity from renewable sources)	GJ kWh	**15,820.4424** **4,394,444**

Waste Management

Total weight of waste creation by type	Unit	Quantity
Paper and cardboard - EWC codes: 200101, 150101 and others (please specify adding a note)	Kg	5,600
Other waste (steel)	Kg	434
Total waste	Kg	**6,034**

Water Consumption

Description	Unit	Quantity
Total water withdrawal		
01 – Total water consumption	m3	8,497

Total water consumption including tap water and water from water gallons.

Copy Paper Consumption

Type of paper used	Unit	Quantity
Total amount of paper used	Kg	81,806
Quantity of used paper that is labelled as FSC or PEFC (out of total amount of paper used)	Kg	74,855
Quantity of the remaining total paper consumption, that is labelled with other environmental certifications/labels.	Kg	6,781
Details of these other environmental certifications/labels..		ISO 9706, ISO 9001, ISO 14001, OHSAS 18001
How much of the total paper is not included in any of the above categories	Kg	170

Sustainability as a Core Ingredient of Banking Products

For many years now, the green economy has been an important part of the corporate business of UniCredit Bank, who is already market leader in financing wind energy projects, and increasingly strong market competitor when it comes to solar energy. In 2021, we started currently active projects, primarily through the leasing financing of solar panels, where the needs of the market and customers have been identified in the segment of green transition.

Based on that, during the reporting year, a partnership was concluded with the Green for Growth Fund, on the basis of which a credit line in the amount of RSD 1.76 billion will soon be available to the domestic economy, which should support the recovery of green projects in Serbia. In addition, the Bank helped refinance the Alibunar wind farm, which confirmed its leading position in financing wind energy, while within UniCredit Leasing there are several active and current solar financing projects.

Guided by the values of sustainable development and, above all, social responsibility, the CIB Division, in addition to individual infrastructure projects, participated in the initiatives of international investment and development banks. These programs are intended mostly for the segment of small and medium enterprises that have a very important role and impact on both economic and social development. The CIB Division continued to identify needs and support the development of this economic segment by providing them an easier access to funding sources.

To reach green transitions goals using support from EU, EU governments, Serbian government and other donor’s funds that pursue social and environmental goals, as well as the overall progress of the economy.

Aforementioned environmental goals serve to support the path to green transition. Thanks to the support from EU, German government and other donors, the impact is achieved through dedicated EBRD, KfW and GGF lines. The function of the lines is to finance projects which reduce the energy usage and the emission of CO2, by stimulating green energy sources. Client range stretches from private individuals to large scale renewable energy project financing. Also by adopting EU standards the companies will be more competitive on the EU market which will lead to more export of the final products on the high quality demand markets.

In cooperation with the EBRD, last year the CIB Division, through the EBRD Competitiveness Program, provided small and medium-sized enterprises with a combination of loans, incentives and technical assistance to strengthen SME's know-how. The funds were used to upgrade technology, processes or services, particularly those related to product quality, health and safety and EU environmental requirements. This method of financing enables companies to improve competitiveness and trade both in the region and in the EU countries, through targeted, grant-supported investments. **In 2021, more than 80% of total loans supported green technology and energy efficiency investments. Through 34 realized contracts, CIB Division successfully placed loans in the amount of EUR 9.9 million.**

UniCredit Leasing also participated in the EBRD program, financing investments in line with EU standards in the field of ecology, energy efficiency, health and safety hence contributing to a better quality of products relevant for society preservation. Since the beginning of the year**, a total number of 90 companies have been financed for the procurement of tools and equipment, in the amount of EUR 16.2 million, mostly in the field of transport industry, agriculture and construction.**

Through the GEFF program within the EBRD initiative, which provides funds for financing energy efficient technologies, UniCredit Leasing has successfully financed assets in the amount of EUR 20 million, through 248 leasing contracts. These investments in the green economy include a combination of energy efficiency, renewable energy sources and efficient utilization of resources (including water efficiency and waste reduction), contribute to a greater resilience to the effects of climate change, pollution reduction and protection of natural resources such as rivers, lakes, forests, etc.

The bank is also a beneficiary of the funds of the German KfW bank, and during 2021 the focus was on credit lines that contribute to the reduction of carbon dioxide emissions. Namely, with the financing of machines and machinery that reduce CO2 emissions by more than 20% compared to the old machine that is being stolen, the client receives a grant in the amount of 10% of the amount of financing. This opportunity has been used mostly to finance agricultural machinery, and the plan is to extend it to another option offered by this line, which is energy efficiency, with a focus on renewable energy projects.

Social and Labour Matters

SOCIAL MATTERS

ESG TACTICS MANAGEMENT APPROACH ON THE LEVEL OF UNICREDIT BANK SRBIJA AD/LEASING/PARTNER

UniCredit Bank Serbia continued to implement the strategy of corporate social responsibility in 2021, which it has carefully built over the years. In addition to involving employees in various volunteer activities, contributing to the fight against the consequences of the COVID-19 pandemic, the Bank began its anniversary - 20 years of operations in Serbia with a socially responsible project. Alongside a number of initiatives for supporting community development and empowerment, the Bank placed its impact through innovative Social Impact Banking concept that aims to provide access to banking products to those client groups who would hardly expect getting a loan under regular market terms.

KEY SOCIAL POLICIES

1. Working Instruction for Sponsorships and Donations
2. Global Policy for Social Impact Banking

UniCredit Bank's Global Policy aims to explain the concept and functioning of the Bank's innovative business concept called Social Impact Banking, which regulates the Bank's activities in supporting local community development, through the following areas: 1. microcredit, 2. impact financing, 3. financial education and employee volunteering.

KEY SOCIAL PROJECTS, INITIATIVES AND RESULTS IN 2021

Two decades striving to start the good things together

In less than two months since UniCredit Bank started its campaign "We have been striving to start good things together for 20 years", with which, together with its clients, marked the twentieth anniversary of doing business in our country, more than RSD 13 million have been raised. The money will be allocated, in cooperation with the Ministry of Environmental Protection of the Republic of Serbia, for projects to preserve the environment and natural resources of our country, through investments in national parks, special nature reserves and natural monuments. During November and December of 2021, for each cash loan and working capital loan issued in that period, UniCredit Bank earmarked RSD 2,000 per loan for aforementioned CSR projects, in the total amount of RSD 200,000.

Additional support in uncertain times

In times like these, when the pandemic is still present, it is important to be united and as a responsible member of the community in which we operate, to show by example how important it is for everyone to contribute, motivating others to show solidarity.

UniCredit Bank Serbia joined the appeals of doctors and epidemiologists that vaccination is the best way to stop the pandemic. Striving to contribute to the efforts of the Government and society, to immunize against the COVID-19 infection, primarily among the youth population, UniCredit Bank rewarded all students who confirmed in our selected branches that they were vaccinated.

Finance dictionary

In addition to continuous support to civil society organization „Junior Achievements" through employee corporate volunteering with aim to support high school students better understand the world of business and finance, at the end of 2021 the Bank launched the initiative „Finance dictionary" created by the employees in UniCredit Bank Serbia. By doing this, a wish to contribute to financial literacy of young people in interesting and a manner that is easy to understand, was achieved. Thanks to these projects, more than thousand young people received a training in basics in finance.

Cooperation with UniCredit Foundation

Together with our UniCredit Foundation based in Milan, in 2021 was organized a competition titled "Every Child Matters", in which we awarded grants to non-profit organizations dealing with children's problems and support, in the total amount of 45,000 euros . The following non-profit organizations were awarded:

- Novak Djokovic Foundation's project "Feel to Heal";
- Belgrade Development Centre - BERC with project "It matters now";
- Cultural Centre LAB with project "From stigmatization to integration":
- Centre for socially preventing activities - GRriG for the project "I'm not the problem, I have a problem".

In the coming year, we will continue to provide support to local communities and our partners in order to contribute to the improvement of living conditions of various categories of the population. If the situation with the COVID-19 virus allows, we will try to reactivate the live organization of volunteer activities, but also to implement them through new channels of communication, with a clear aim to include as many of our employees in projects that have positive impact and social significance to the broader community.

Bank with positive social impact

As a financial institution – UniCredit Bank has an opportunity to provide solution to social challenges directly through offering inclusive banking products to vulnerable society groups and economy subjects, that have restricted access to finance under commercial terms. Social goals relate to vulnerable groups, youth and women employment with special focus on the micro enterprises and start-ups. The support for latter is channelled through **EIF guarantee instruments – EaSI (Programme for Employment and Social Innovation)** and **Western Balkan Enterprise Development & Innovation Facility (WBEDIF)** intended for small and medium enterprises according to the EU definition, which has been present in the bank's offer since 2019. Placements to micro-enterprises have a special place in this program as well. In relation to regular lending conditions, there is a reduction in interest rates, fees and the requirement for collateral for loan users. These instruments provide first loss guarantee protection facilitating more clients being reach by loans.

Also, dedicated banking product in support of sustainable growth and social cohesion, which will offer grants in form of cash back for clients who meet agreed social impact goals is in final phase of preparation. The product development under EIB leadership using funds from **Economic Resilience Initiative (ERI Fund)** will be launched on the market in first half of 2022.

“The Social Impact Banking” program is another way to build a fair-minded and more inclusive society. The goal of the program is to recognize, finance and promote people and companies that have a positive impact on society. The model is based on three main pillars: Microfinancing, Impact Financing and Financial Education, supported by the volunteer work of UniCredit Bank employees.

The corporate investment sector focuses on raising positive impact in society (Impact financing pillar) through the financing of projects and activities that, in addition to economic benefits, intend to generate positive and measurable social impact.

For that reason, UniCredit Bank has established cooperation with the European Investment Bank (EIB) alongside the support of Frankfurt School of Finance and Management with aim to implement above mentioned project, in which the main focus will be on supporting the Bank and clients in raising social impact including:

- Gender equality;
- Inclusion of as many young people as possible, (Youth inclusion) and
- Inclusion of people with disabilities as well as those who are traditionally excluded from society (Social inclusion).

Through micro crediting, the Bank aims to support development of small businesses not only through offering its financial services, but as well through consulting and nurturing good client relationship, that is believed to be in the core of further business development. By doing this, the company wants to be involved in making positive surroundings for creating positive impact and supporting its clients through special products tailor made to their needs and opportunities.

Supporting competitiveness and increasing productivity and thus the progress of the economy is achieved through the offer of remaining guarantee instruments, through **two EIF projects**: **InnovFin -** financing for innovative small and medium enterprises and mid-cap companies present in the Bank since 2016 and **Cosme -** program for small and medium company, which has been on offer to the bank since 2017. The Cosme program provides loans of up to EUR 150,000 and is part of a strategy to support sustainable economic growth. Clients who need working capital loans can take them for a maturity of over 3 years.

Responsibility in working with suppliers

The sustainability segment is also integrated into the selection of suppliers with which the Bank cooperates. A qualification questionnaire is used for this purpose, and each supplier is obliged to fill in the mentioned document in order to qualify to become a supplier of UniCredit Bank. Part of this questionnaire is the section "Sustainability Requirements", which consists of the minimum requirements in the field of sustainability that a potential supplier must meet. The questionnaire requires the submission of the following information: the existence of an environmental policy; compliance with the basic principles of the United Nations Global Compact; compliance with ILO requirements; compliance with local regulations in the field of environmental protection; disclosure of aspects relevant to the environmental protection of products and services sold or offered by the supplier; whether the company is subject to audit in accordance with ISO 19011; confirmation that no proceedings have been instituted against the company in connection with the violation of labour rights and environmental laws. **During 2021, a total of 133 suppliers successfully met the criteria from the questionnaire.**

LABOUR MATTERS

ESG TACTICS MANAGEMENT APPROACH ON THE LEVEL OF UNICREDIT BANK SRBIJA AD/LEASING/PARTNER

The four important directions of human management, through the implementation of our strategy, essentially target the four key domains of human resources and are structured as follows:

A. Managing and planning of workforce, support the basic principles of mutual respect and fair dealing, transparent working methods and open communication; determining compensation in accordance with the criteria of the labour market, all in terms of new environmental requirements, digitalization and especially by changing the approach and understanding the way of doing business.
B. Improving labour skilling, by encouraging the requirements for personal development of employees, both through training, qualification and training, as well as the implementation of retaining and the acquisition of new skills. Also, refreshing youth teams, by joining the Government-approved youth program by implementing multi-annual employment planning strategies;
C. Better functioning of the operational model, with a special focus on reducing staff turnover and better organization of the work model and the organization as a whole, and further improving mobility within the Group and
D. Fairness, gender equality and promotion of internally equal opportunities for all employees.

KEY LABOUR POLICIES

Compliance with regulatory requirements is an important aspect of our corporate philosophy, and management is directly responsible for this aspect.

In order to implement the strategy described above, the Human Resources Department has carried out appropriate activities in accordance with the Bank's strategic documents relating to various areas of responsibility towards employees:

1. Framework for HR policies
2. UCB Employment Rulebook
3. Compensation policy
4. Global mobility
5. Employee training
6. Law on Safety and Health at Work

KEY PROJECTS, INITIATIVES AND RESULTS IN 2021

Behaviour based on UniCredit values and personal responsibility of management and employees are among our core principles and are embedded deep in the values of our company. By promoting the basic postulates of our company: cooperation and energy, focus on what is important, discipline and focus on achieving results, builds a fair and functional relationship of employees with each other and towards work.

The success of UniCredit is mainly due to the highly qualified and motivated employees of the company, because the innovation comes from the employees themselves who are dedicated to work and the company. This is the reason why training and professional development, as well as the promotion and development of talents, managers and experts, are carried out continuously.

Encouraging the young generation by promoting talent, advancement, training and working in the UniCredit Group, in other member countries, gives employees great opportunities for their professional advancement and career, as well as personal achievement.

Employee development is implemented, except through opportunities for advancement and career development, through the provision of personal development plans, giving benefits, and training, rewarding in accordance with the work and cultivating a culture of equality and respect for others as well.

Working environment during the pandemic

Following modern trends, especially during the COVID-19 pandemic, the Bank has organized its work in a safely manner and remotely among the first on the market, respecting all proposed safety measures in order to preserve the health of its employees. What we are especially proud of is the team spirit that has proven to be one of the greatest values of our employees, as well as the flexibility to adapt to a different working regime in a short time and possibility to continue to organize daily activities equally successful.

We believe that flexible working conditions that we practiced in the previous period, as well as the awareness of each employee about personal responsibility, has significantly contributed to the mentioned, and that the success of the employer is the personal success of employees as well.

Regular review and assessment

At UCB, all employees have the opportunity to participate in the creation of personal development plans, while the formal evaluation of work performance and individual development is conducted, also for all employees, once a year. At the end of each year, goals for the next year are defined for each employee. The final assessment of the realization of goals, successes and challenges achieved in the previous year is assessed at the meeting of the employee and the superior in the first quarter of the next year. Performance assessment also includes assessment of competencies, and from the overall performance assessment, opportunities for career development and total contracted earnings are assessed.

Salaries of employees in the Bank are calculated in accordance with the Labour Law and the Rulebook, so there is no difference in net salaries of employees with the Employer, but the net salary is the same for full-time employees regardless of the gender structure of employees. The level of earnings in accordance with market conditions and the employee's contribution to the company's results is an imperative for UniCredit in managing compensations and rewarding in accordance to performance.

Health and safety

Human resources Division and FM Department are in charge for health and safety at work in UniCredit.

The bank has hired an external company that is specialized in occupational health and safety and from which the Person for health and safety at work has been appointed.

In accordance with the law and according to the necessary dynamics, the organization of training on safe and healthy at work, basic training of employees in the field of fire protection, training for first aid (for which all managers and a certain number of other employees are trained), measurement of microclimate, testing of electrical installations, simulation of fire protection procedure, are conducted.

Safety and health at work is carried out in accordance with the Rulebook on safety and health at work, as well as in accordance with, adopted during the COVID-19 pandemic, UCB Working Protocol during the pandemic and the Plan for the implementation of measures to prevent and spread the COVID-19 pandemic.

Health protection

In accordance with the needs imposed by the environment and the current epidemiological situation, employees are provided with a package of health services that includes systematic examination and selection of other expert examinations by doctor's specialist, according to the needs of employees, at the expense of the Bank. Investing in safety and health and disease prevention leads to employee satisfaction, greater commitment to work and overall well-being of employees. Health care does not include only one systematic examination per year, as is usually the case on the market, but also implies the possibility for employees to use the specialist services of various doctors throughout the year as needed and up to a limit of 117,000 RSD per employee. Dentist and ophthalmologist are included in the package. In addition, the Bank has enabled the family members of the employee to acquire the same types of medical services in a certain medical institution under more favourable conditions. In 2021, the bank continued to provide free online psychological counselling for its employees, as well as a support package for each infected team member that was delivered at the employees' home address.

Regarding occupational diseases that employees could be exposed to due to prolonged sitting and working in front of a computer, as well as due to the most common diseases of modern society, online lectures were organized by advisory experts in the field of medicine referring various topics (cancer prevention, workplace ergonomics, challenges in parenting, etc.)

Other benefits

Also, the bank continued to implement previously adopted benefits and initiatives such as paid day off for birthday, days off for employees whose children are in the first grade of elementary school, and parental support, as well as the possibility for the mother of a new-born child to choose to work part-time for the first month after the end of maternity leave, with a proportional salary.

Employee training and education

At UniCredit Bank, we believe that knowledge is a rare thing that is multiplied by sharing. We nurture a culture of learning and development and we are committed to the implementation of trainings that are in the development plans of all employees, we further nurture talents through specially created programs and try to always keep up with trends through our optional initiatives.

In 2021, the Bank paid special attention to the development of leadership skills and talents of the bank and motivation and retention of employees who perform high achievements and have the potential for further development.

Numerous workshops and trainings were organized in 2021 in cooperation with external consulting companies. When it comes to the Bank's Management Team, the development programs were focused on improving leadership skills and effectively conducting meetings remotely, while for the organizational parts of the bank which cooperate with clients the focus was on improving presentation and sales skills. In this year workshops were organized for all organizational levels of on the topic of effectiveness and remote meetings with the aim to improve mutual communication, overcome challenges and better understand the needs of team members when working remotely. At the same time, in order to strengthen leadership skills and provide adequate support to UniCredit leaders, the Human Resources Division, in cooperation with a global provider, focused on the bank's young talent program, future leaders, striving to strengthen and increase their digital and leadership skills as future leaders.

In 2021, the HR Division has continued the initiative started in the previous year and finished the program which aim is to support and empower women leaders in our organization by providing support on the path of personal growth and further career progress. This pragmatic program supports building women's leadership in our organization.

At the beginning of 2021, HR Division has also finished Retail Sales Academy, for all positions within the Sales network of the Retail sector. The program strives to create a systematized and unified sales approach in the branch network, with a change in communication style with a greater understanding of customer needs, but also to improve sales results.

Striving to adequately empower and support employees in achieving their business goals and improve their work performance, the Human Resources Division has supported employees in improving their expert and social skills by organizing and providing budget for various trainings, domestic and foreign certificates and international seminars and conferences that employees attended online during 2021.

In this sense, 2000 MNDs are dedicated to online internal and external trainings related to development and over 1500 MND of mandatory trainings related to compliance culture and ICT security.

The topics we dealt with were, among other things:

- Effective presentation skills for Credit Committee,
- External training for the population of employees within CIB Division, Effective meetings,
- Training for all employees in the Head office and for regional managers in order to develop skills referring conducting remote meetings,
- Training dedicated to new employees,
- Onboarding for new employees,
- Regulatory required training such as: Fire safety as well as Mandatory training for insurance representatives in branches, for licensing.
- Local talent program
- Sales training for Retail
- IT training
- Digital awareness and development
- Effective meetings
- Initial group training for Management team members

This resulted in 24,350 employee training hours in 2021.

Supporting youth

Starting a professional career by gaining the first practical knowledge and experience in professional internships is extremely important for young people, primarily because it helps them to better position themselves in the competitive labour market.

UniCredit Bank strives to help young people to take their first professional steps and to get used to working in a business environment by cooperating with educational institutions.

In 2021, UniCredit Bank established cooperation with the Faculty of Computer Science, University of Belgrade, for the second year in a row, aiming to provide scholarships to the best students, where, after completing the scholarship study program, the selected student will be offered a job in the Bank on the basis of this scholarship.

Global mobility

At UniCredit, we believe that every voice, culture and experience enriches the diversity of our ideas that inspire us to grow and change.

Our international presence enables us global cooperation and teamwork both through different sectors and between different countries.

What makes us unique is that we are united in diversity.

Our differences encourage us to be more opened, flexible and tolerant, for new knowledge, new perspectives and new tastes. How successful the team of different profiles is best confirmed by our successful results and satisfied clients, and so on from year to year.

Better functioning of the operational model, with a special focus on reducing employee turnover

The fact is that we are transforming as a Bank, but also as a Group, and our business models and patterns are changing as well. In order to make this really happen, UniCredit is following these transformations in the organizational terms as well.

The goal of the changes we are implementing, which include simplification of the structure, is to strengthen our Bank, achieve greater flexibility, build a culture of personal responsibility of each employee individually, simplify processes and provide greater connectivity and interaction between colleagues, so that we get speed, quality, and thus the satisfaction of our clients and employees.

UCB's business is structured and dynamically managed, capable of quick reaction and faster response to opportunities and challenges.

To achieve this, the Bank seeks to establish fewer hierarchies in relationships and responsibilities, and more concrete and effective communication, engagement and visibility of everyone's work, less bureaucracy and unnecessary work procedures, and more space for a qualitative approach that gives real value, faster decision making, and less workload and greater job satisfaction, and a shift towards a culture of work based on the qualifications of our staff, strengthening of their expertise and space for further professional development.

Fairness, gender equality and promotion of internally equal opportunities for all employees

Taking into account legal norms, expertise and qualifications in employment, the Bank actively worked on preserving and improving the established gender balance in 2021. The Bank has paid special attention to equality in the workplace and provides equal opportunities for women and men in terms of career and personal development, as evidenced by the fact that **women occupy 4 out of 7 positions in the Management Board of the Bank.**

Awareness of the need for gender equality of employees is at a satisfactory level and numerous activities are dedicated to this topic.

There is no need to make gender differences for the purpose of employment in the Bank.

All employees have the right to maternity leave, and we especially support the return of the colleagues to work after the end of maternity leave. The Bank appointed local diversity manager. This policy is a way to continue to have a fair approach and to ensure a fair and respectful work environment, in which women and men have equal opportunities and rights, and whose work is valued on the basis of personal merit and potential, regardless of gender and other personal characteristics. Respect of diversity is an important part of our Strategic Plan to foster growth, a sense of belonging to the UniCredit Group and create a competitive advantage.

Our personal commitment and strong responsibility are extremely important for creating a positive work environment and for changing the way of thinking to real cultural change.

Accordingly, we have created a special training for all employees in management positions called "Unconscious Bias", because it can limit us in our daily work and prevent us from fully appreciating the people in our environment. Wider awareness and understanding of this phenomenon makes our work environment more inclusive, because during this training we learn how not to succumb our own and others' prejudices, on any basis. When we are aware that we may be unconsciously biased, it can actually become our strength.

Thanks to our strategic approach, in our bank **women make up almost 65% of the total number of employees, and more importantly, the percentage of women in management positions is above 50%**. We strive to become one of the best employers in Serbia, and in order to achieve that goal, it is clear to us that it is necessary to constantly invest in diversity and gender equality through numerous initiatives.

The full structure of employees in UniCredit Bank on 31st December 2021 is as follows

Description	Total number	Woman	Man
Number of employees	1342	884	458
Managerial positions	137	71	66
Executive positions	1205	813	392
Women on maternity leave	41	41	0
Women returning from maternity leave	17	17	0

During 2021, a total of 41 colleagues used the right to go on a maternity leave. In the same year, 17 colleagues returned to their jobs after the end of maternity leave, which began in 2020.

In 2019, we launched a program called “Women empowered” which aims to empower women in their career development. The second generation completed its program in 2021. Every moment in career can be a step towards something new, and the changes we are already experiencing today can become part of a comprehensive plan towards fulfilling personal potentials. It is important that we always move forward towards development. Talent, strength, empathy, self-confidence, are just some of the motives that adorn our community of Brave Women.

We are proud that after maternity leave, mothers can work 4 hours a day to make the period of separation from the child as painless as possible, that for the child's first grade parents get a day off, that we have created conditions for working from home, as well as for flexible working hours so that our employees can better balance their family life and business obligations, striving to nurture family relationships.

Human Rights Protection

ESG TACTICS MANAGEMENT APPROACH ON THE LEVEL OF UNICREDIT BANK SRBIJA AD/LEASING/PARTNER

Ethics and Respect

These values unite and define the culture of UniCredit Group: the way in which decisions are made and how those decisions are implemented. Together, they represented an evolution of the Integrity Charter. One simple guiding principle is to live in accordance with these values every day, in all parts of our operations: Do the right thing!

Do the right thing!

Applying these values and guiding principles in everything the company is doing, at every moment, supports our path to becoming the Bank we have always wanted to be:

- "Ethics and respect" guide the interactions of all colleagues across the Group
- "Ethics and respect" highlight the promotion of diversity and a work-life balance as crucial for our Group
- "Ethics and respect" strengthen our culture of free expression (speak up culture) and protect against reprisal
- "Ethics and respect" are applied to all business policies of the Group about sustainability and client interactions
- "Ethics and respect" represent fairness to all stakeholders, at any moment, in order to achieve sustainable results.

UniCredit Bank's HR policy framework is a fundamental document, which principles, implemented through procedures, are strictly adhered to in our day-to-day business. The mentioned document is based on the international principles of human rights, which are included in the Universal Declaration of Human Rights and the Declaration on Fundamental Principles and Rights at Work of the International Labour Organization.

UniCredit Bank provides a work environment free of discrimination, harassment and sexual harassment, which protects the dignity of employees and promotes a safe and professional working environment that develops teamwork, diversity and trust.

Prohibition of discrimination refers to direct and indirect discrimination based on sex, birth, language, race, colour, age, pregnancy, health, disability, nationality, religion, marital status, family obligations, sexual orientation, political or other beliefs, social origin, property status, membership in political or trade union organizations or some other personal characteristics.

In that sense, already on the induction day, during the onboarding of new employees, we dedicate some time to acquainting colleagues with the basic postulates on which our company operates and the principles of respect of human rights that all employees are obliged to adhere to.

KEY HUMAN RIGHTS PROTECTION POLICIES

- Prohibition of abuse of sexual harassment and abuse
- Anti-retaliation Policy

KEY PROJECTS, INITIATIVES AND RESULTS IN 2021

During the period covered by this report, no significant projects and initiatives related to the protection of human rights were implemented.

Anti-corruption and Anti-bribery

ESG TACTICS MANAGEMENT APPROACH ON THE LEVEL OF UNICREDIT BANK SRBIJA AD/LEASING/PARTNER

UniCredit Bank Serbia and its subsidiaries UniCredit Leasing and UniCredit Partner as members of UniCredit Group have declared zero tolerance for acts of corruption. Local banking Group has in place rules and mechanisms to prohibit facilitation payments and does not permit any transfer of value to public officials without approval.

The approach to anti-corruption and anti-bribery is set out in the Business Rule on Anti-Corruption and associated working instructions. The Business Rule sets out the minimum anti-corruption standards throughout the local group, by implementation of UniCredit Group wide standards and local regulation. Based on these rules, the entities have implemented an effective Anti-Corruption Programme.

In line with internal rules, an act of corruption is defined as the giving, offering, promising, receiving, accepting, demanding or soliciting directly or indirectly of monetary or non-monetary and tangible or intangible benefits in order to obtain or retain an undue advantage in the course of business activities, irrespective of:

- whether the recipient of the act of corruption is a domestic or a foreign individual, a public official or a private individual
- where the act is committed
- whether the result of such an act entails an actual undue advantage or the improper performance of a function or activity.

All employees are responsible for complying with the internal rules and all applicable anti-corruption laws in the performance of their duties. There are also in place mechanisms to assess bribery and corruption risk deriving from cooperation with various third parties. All contracts with third parties have in place adequate clauses to ensure adherence to zero tolerance standards.

All employees shall report to the Anti-Corruption Officer or the Head of Compliance any instances of actual or attempted acts of bribery or corruption they become aware of, whether they be offered, given or received. Although any reports must be made according to the established internal procedure, they must first of all be made to the Anti-Corruption Officer and, where actual or suspected money laundering is involved, also to the local AML Officer. Failure to make such a report may give rise, in certain jurisdictions, to individual criminal liability of the employee concerned, as well as exposing the bank or the Group to potential legal or regulatory action. Potential acts of bribery and corruption may be reported also under the Business Rule on Whistleblowing.

The following mechanisms have been put in place to monitor the effectiveness of the approach to preventing corruption and bribery:

- escalation procedures for significant and strategic issues;
- regular training cascaded to all employees;
- quarterly report to the management on risk level and results of second level controls;
- compliance risk assessment performed;
- internal audit reviews.

The last two mechanisms result in risk mitigation actions that must be completed on time to ensure the management of identified risks.

As of end of 2021, Anti-bribery and corruption area in the bank shows Medium level of risk as a result of the risk assessment and second level controls. No mitigation actions were identified as a result of performed activities.

KEY ANTI-CORRUPTION AND ANTI-BRIBERY POLICIES

1. Global Policy for combatting Anti-Corruption
2. Group Operational Instruction for combatting Anti-Corruption
3. Working instruction for combatting Anti-Corruption

KEY PROJECTS, INITIATIVES AND RESULTS IN 2021

For the reporting period, the Bank and its subsidiaries have not realized any larger project or initiative important for combating corruption and bribery. Regarding this matter, for new employees was assigned online training that is obligatory to attend.

Conclusion

We can only become a bank of the future if we are committed to sustainability and if we have the desire to support the communities in which we operate. Sustainability is at the very core of UniCredit's culture, but it is also at the very core of our business. Both at the Group level and at the local bank level, UniCredit strengthens its three basic ESG levers on a daily basis, and in addition to lending to clients in the field of sustainable business, we also develop ESG through a consulting approach. ESG is our way of supporting clients to be and become self-sustaining. As we were pioneers and then leaders in financing wind energy, we hope that all our efforts and sincere commitment on the path to green transition will be recognized by the positive contribution we want to make and leave in the community in which we operate.

Belgrade, February 11, 2022

Signed on behalf of the management of UniCredit Bank Srbija A.D., Beograd by:

Nikola Vuletić
Management Board Chairperson

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Dimitar Todorov
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