UNICREDIT BANK SRBIJA A.D., BEOGRAD

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

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

Basis for Opinion

We conducted our audit in accordance with 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 Separate Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the separate 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 matter

The Bank presented its standalone annual business report and consolidated annual business report as a single report and issued it along with the consolidated financial statements.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

Belgrade, February 14, 2022

Jelena Čvorović

Deloitte d.o.o. BEOGRAD IV

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

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

	Note	2021	2020* reclassified
Interest income	3.d, 7	15,110,996	15,387,832
Interest expenses	3.d, 7	(2,125,224)	(2,367,475)
Net interest income		**12,985,772**	**13,020,357**
Fee and commission income	3.e, 8	8,690,457	7,024,450
Fee and commission expenses	3.e, 8	(2,371,177)	(1,998,431)
Net fee and commission income		**6,319,280**	**5,026,019**
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	-	126,212
Net foreign exchange losses and positive currency clause effects	3.c, 12	(229,816)	-
Net losses on impairment of financial assets not measured at fair value through profit or loss	3.k, 13	(2,647,495)	(3,787,074)
Net gains on derecognition of the financial assets measured at amortized cost	3.i, 14	31,264	23,527
Other operating income	15	60,101	53,244
Total operating income, net		17,615,372	15,266,959
Salaries, salary compensations and other personal expenses	16	(3,382,880)	(3,204,581)
Depreciation and amortization charge	3.q, 3.r, 3.t, 17	(1,229,182)	(1,207,989)
Other income	18	174,085	223,082
Other expenses	19	(6,869,170)	(5,445,995)
Profit before tax		6,308,225	5,631,476
Current income tax expense	3.j, 20	(674,504)	(395,623)
Deferred tax gains	3.j, 38.2	242,168	99,135
Profit after tax		**5,875,889**	**5,334,988**
Result of the period - profit		**5,875,889**	**5,334,988**
EARNINGS PER SHARE			
Basic earnings per share (in dinars, without paras)	41.2	2,489	2,260
Diluted earnings per share (in dinars, without paras)	41.2	2,489	2,260

* 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

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

	Note	2021	2020
Net profit for the year		5,875,889	5,334,988
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		(5,418)	(26,929)
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	38.2	476,915	211,927
Total negative other comprehensive income for the year	41.3	(2,702,523)	(1,200,915)
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE YEAR		**3,173,366**	**4,134,073**

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

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	42,241,484	27,729,832
Loans and receivables due from customers	3.k, 3.o, 26	307,662,701	278,659,195
Receivables under derivatives designated as risk hedging instruments	3.n, 27	9,493	-
Investments in subsidiaries	3.z, 28	112,644	112,644
Intangible assets	3.r, 3.u, 29	2,545,479	2,119,711
Property, plant and equipment	3.q, 3.t, 3.u, 30	3,306,813	3,571,169
Investment property	3.s, 31	3,527	3,527
Current tax assets	3.j, 20.4	-	297,638
Deferred tax assets	3.j, 38	618,261	-
Other assets	32	1,329,348	1,217,549
Total assets		**538,078,638**	**486,496,266**
Liabilities under derivative financial instruments	3.m, 33	723,925	1,632,761
Deposits and other liabilities due to banks, other financial institutions and the central bank	3.k, 3.v, 34	119,929,606	118,600,560
Deposits and other liabilities due to customers	3.k, 3.v, 35	314,207,092	268,373,476
Liabilities under derivatives designated as risk hedging instruments	3.n, 36	132,490	116,377
Provisions	3.w, 3.y, 37	4,085,707	2,284,696
Current tax liabilities	3.j, 20.4	61,747	-
Deferred tax liabilities	3.j, 38	-	100,822
Other liabilities	3.t, 39	14,946,085	12,436,815
Total liabilities		**454,086,652**	**403,545,507**
Issued (share) capital	41.1	24,169,776	24,169,776
Profit	41.1	5,877,750	5,336,689
Reserves	41.1	53,944,460	53,444,294
Total equity		83,991,986	82,950,759
Total liabilities and equity		**538,078,638**	**486,496,266**

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 Unconsolidated Financial Statements and Notes to the Unconsolidated Financial Statements issued in the Serbian language

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	4,107,137	8,273,431	85,846,985
Adjusted opening balance as at 1 January of the previous year	23,607,620	562,156	49,296,641	4,107,137	8,273,431	85,846,985
Total negative other comprehensive income for the period	-	-	-	(1,200,915)	-	(1,200,915)
Profit for the current year	-	-	-	-	5,334,988	5,334,988
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	2,906,222	5,336,689	82,950,759
Opening balance as at 1 January of the current year	23,607,620	562,156	50,538,072	2,906,222	5,336,689	82,950,759
Adjusted opening balance as at 1 January of the current year	23,607,620	562,156	50,538,072	2,906,222	5,336,689	82,950,759
Total negative other comprehensive income for the period	-	-	-	(2,702,523)	-	(2,702,523)
Profit for the current year	-	-	-	-	5,875,889	5,875,889
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**	**203,699**	**5,877,750**	**83,991,986**

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 07

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

	Note	2021	2020* reclassified
Cash inflows from operating activities		**20,518,742**	**15,500,289**
Interest receipts		11,636,875	8,429,428
Fee and commission receipts		8,704,167	6,902,430
Receipts of other operating income		177,700	168,431
Cash outflows from operating activities		**(12,451,774)**	**(11,703,314)**
Interest payments		(1,782,296)	(1,934,028)
Fee and commission payments		(2,393,751)	(2,025,244)
Payments to, and on behalf of employees		(3,304,103)	(3,200,717)
Taxes, contributions and other duties paid		(536,549)	(459,110)
Payments for other operating expenses		(4,435,075)	(4,084,215)
Net cash inflows from operating activities prior to increases/decreases in financial assets and financial liabilities		**8,066,968**	**3,796,975**
Decrease in financial assets and increase in financial liabilities		**47,035,554**	**26,027,335**
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers		46,888,661	25,820,878
Increase in other financial liabilities		146,893	206,457
Increase in financial assets and decrease in financial liabilities		**(35,008,454)**	**(14,114,098)**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers		(34,383,176)	(13,806,602)
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		**20,094,068**	**15,710,212**
Income tax paid		(315,119)	(634,394)
Net cash generated by operating activities		**19,778,949**	**15,075,818**
Cash inflows from investing activities		**4,293,097**	**-**
Proceeds from investing in investment securities		4,293,097	-
Cash outflows from investing activities		**(1,214,199)**	**(5,509,625)**
Cash used for investing in investments securities		-	(4,640,468)
Cash used for the purchases of intangible assets, property, plant and equipment		(1,214,199)	(869,157)
Net cash generated by investing activities		**3,078,898**	**-**
Net cash used in investing activities		**-**	**(5,509,625)**

(Continued)

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

	Note	2021	2020* reclassified
Cash inflows from financing activities		**-**	**15,173,946**
Borrowings, inflows		-	15,173,946
Cash outflows from financing activities		**(658,247)**	**(418,351)**
Cash outflows from loans taken		(217,009)	-
Other outflows from financing activities		(441,238)	(418,351)
Net cash generated by financing activities		**-**	**14,755,595**
Net cash used in financing activities		**(658,247)**	
TOTAL CASH INFLOWS		**71,847,393**	**56,701,570**
TOTAL CASH OUTFLOWS		**(49,647,793)**	**(32,379,782)**
NET CASH INCREASE		22,199,600	24,321,788
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3.l, 42	**55,791,428**	**31,544,300**
Foreign exchange Gains, net		220,943	-
Foreign exchange Losses, net		-	(74,660)
CASH AND CASH EQUIVALENTS, END OF YEAR	3.l, 42	**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. BANK'S ESTABLISHMENT AND ACTIVITY

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.

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).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

(a) Basis of Preparation and Presentation of the 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 Bank's financial statements (the "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).

The Bank separately prepares and presents its consolidated financial statements in accordance with the International Financial Reporting Standards. The Bank holds respective sole (100%) equity interests in the subsidiaries UniCredit Leasing d.o.o., Beograd and UniCredit Partner d.o.o., Beograd. In the accompanying unconsolidated financial statements the Bank's equity investments in subsidiaries are stated at cost. The Bank's consolidated financial statements for 2021 were issued on February 11, 2022.

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

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

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

- financial assets 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.

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 Bank takes into account characteristics of assets or liabilities that other market participants would also consider upon determining the price of assets or liabilities at the measurement date. Fair value for measurement and/or disclosure purposes in the accompanying financial statements was determined in the aforesaid manner, except for share-based payment transactions, which are in the scope of IFRS 2, leasing transactions, which are in the scope of 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 unconsolidated financial statements, the Bank adhered to the accounting policies described in Note 3.

The Bank's 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 Bank 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 Bank's unconsolidated financial statements.

2. BASIS OF PREPARATION AND PRESENTATION OF THE 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 Bank'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 Bank anticipates that the adoption of these standards, amendments to the existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

(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 FINANCIAL STATEMENTS (Continued)

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

The Bank, 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 Bank 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 Bank'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 Bank 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 Bank 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 30.2 and 31. 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 Bank in the future may differ from the assumptions that have been applied in the measurement of the Bank's assets and liabilities.

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

2. BASIS OF PREPARATION AND PRESENTATION OF THE 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 Group exposure (mainly focused on Euro) and transition timeline.

In 2021, UniCredit 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 Bank 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 Bank 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 financial statements represents the data from the Bank's unconsolidated financial statements for 2020.

In accordance with the instructions of the National Bank of Serbia, in 2021 the Bank 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 Bank has also reclassified data for 2020, the effects of which are presented below:

	Before reclassification	After reclassification
Fee and commission income	5,264,617	7,024,450
Fee and commission expenses	(1,489,962)	(1,998,431)
Net fee and commission income	3,774,655	5,026,019
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	1,505,020	126,212

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

(g) Use of Estimates

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

These 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 Bank'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 Bank for all years presented in the accompanying financial statements. The Bank's main accounting policies applied to the current and previous reporting periods are presented in greater detail hereunder.

(a) Consolidation

The Bank holds sole (100%) equity interests in entities UniCredit Leasing Srbija d.o.o., Beograd and UniCredit Partner d.o.o., Beograd, each. Equity investments in subsidiaries are presented at cost in these unconsolidated financial statements. The Bank prepares and issues consolidated financial statements separately.

(b) Going Concern

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

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.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign Exchange Translation (Continued)

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 Bank receives a fee from a client that offsets similar charges paid by the Bank, 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 Bank 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Interest Income and Expenses (Continued)

(i) The Effective Interest Method (Continued)

The Bank 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 Bank 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 Bank 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 Bank 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 Bank 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 statutory statement of income, 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank manages a financial asset; and
b) characteristics of the contractual cash flows of a financial assets (the so-called SPPI criterion).

<u>Business Model</u>

The business model reflects the manner in which the Bank 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).

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 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 Bank 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 Bank 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) 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 Bank, 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”.

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)

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 Bank'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 Bank 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 Bank'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.

Financial Liabilities

The Bank 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 Bank'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 Bank derecognizes a financial asset when:

- the contractual rights to the cash flows from the financial asset expire;
- when the Bank 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)).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(iii) Derecognition (Continued)

Financial Assets (Continued)

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 Bank 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 Bank retains all or substantially all the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all the risk and rewards of ownership of a financial asset and it retains control over the asset, the Bank 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 Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or have expired

(iv) Modification

Derecognition due to Significant Modification of Contractual Terms

In instances of amendments to the contractual terms, the Bank 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 Bank 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 and/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 Bank 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).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(iii) Modification (Continued)

Modifications of a Financial Asset that do not Lead to Derecognition (Continued)

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 Bank 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 Bank 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 Bank'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.

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

If a market for a financial instrument is not active, the Bank 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 Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments.

Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument of based on other available observable market data. Assets and long positions are measured at a bid price and liabilities and short positions are measured at an asking price.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(vii) Fair Value Measurement (Continued)

When the Bank 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 Bank 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 Bank 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 Bank 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).

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 Bank uses forward-looking information and macroeconomic factors, i.e., the Bank 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 Bank in Calculation of Allowances under IFRS 9</u>

The Bank 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 Bank uses the following three stages of impairment:

- Stage 1 includes all new financial assets at initial recognition and instruments without significant credit quality deterioration since their initial recognition 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.

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 Bank in Calculation of Allowances under IFRS 9 (Continued)

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

For financial assets in Stage 1, the Bank 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 Bank 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.

In the impairment process, the Bank applies a special treatment to the purchases of already impaired assets from the so-called NPL portfolios and to the approval of new loans to the borrowers with already impaired loans within its portfolio, i.e. those already in NPL status. In accordance with the Standard, such assets are defined as POCI (purchased and/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 Bank 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 Bank estimates that it is economically justified to undertake further activities related to the collection of a financial asset. The Bank also has the right to calculate legally prescribed default interest after write off without debt acquittal, but ceases to record it until collection.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Financial Assets and Liabilities (Continued)

(ix) Write-Off (Continued)

The Bank 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 Bank 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 Bank 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 Bank's competent bodies enact a decision on derecognition of the asset from the off-balance sheet items.

The Bank 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 Bank 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.

(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 Bank designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Bank 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 Bank 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%.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(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 Bank'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.

(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 Bank'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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Property, Plant and Equipment

(i) Recognition and Measurement (Continued)

Subsequent to the initial recognition:

- the Bank 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.

(ii) Subsequent Expenditure

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

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 Bank 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%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Property, Plant and Equipment (continued)

(iii) Depreciation (continued)

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 Bank'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.

(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, Bank use the fair value model for investment property measurement. The Bank'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 Bank 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 Bank 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 Bank's income statement on a straight-line basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Leases (Continued)

(i) The Bank as the Lessee (Continued)

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 Bank'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 Bank.

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 Bank'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 Bank, as the lessee, is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Bank, as the lessee, exercising an option to terminate the lease.

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 Bank recognizes depreciation charge and interest expenses in its income statement.

(ii) The Bank as the Lessor

As a lessor, the Bank needs to assess whether a lease is a finance or an operating lease. If the Bank 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Impairment of Non-Financial Assets

The carrying amounts of the Bank'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 Bank's main source of debt funding.

The Bank 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.

(w) Provisions

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Employee Benefits

In accordance with regulatory requirements of the Republic of Serbia, the Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank. Liabilities for long-term employee benefits are recognized using the appropriate discount rate.

(z) Investments in Subsidiaries

A subsidiary is an entity under the Bank's control. Control over subsidiaries is achieved if the Bank has exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of returns. Investments in subsidiaries are initially measured at cost in accordance with IFRS 10 and IAS 27. At each reporting date, the Bank assesses whether there is objective evidence that investments in subsidiaries are impaired. Impairment losses are recognized in the income statement.

4. FINANCIAL RISK MANAGEMENT

(a) Introduction and Overview

In its operations the Bank 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.

4. FINANCIAL RISK MANAGEMENT (Continued)

Risk Management Framework

The most important role in the risk management as a part of internal control system is assigned to the Supervisory Board (SB) of the Bank, which is responsible for risk management system establishing and monitoring. SB is defining strategies and policies for managing key risk types that the Bank is exposed to in its operations. Also, SB is in charge of giving prior consent for the bank's exposure to each single person or a group of related persons which exceeds 10% of the bank's regulatory capital, and/or for the increase of this exposure in excess of 20% of bank's regulatory capital. Audit Committee is supporting SB in its functioning by considering the most important internal regulations of the Bank before final approval by SB. Management Board of the Bank is responsible for approval and implementation risk strategies and policies and for approval of risk management procedures i.e. procedures for identification, measuring, estimation and managing of risks. Important role in loan approval process is assigned to the Credit Committee, which is in charge of making decisions about credit applications within its competence level, or giving recommendation for higher credit approval competence level.

Internal organization of the Bank ensures functional and organizational separation of risk management and other regular business activities. The Bank has separate organizational unit that covers risk management – Risk Management Division (CRO division).

CRO Division consists 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 Technical structure and Internal Validation technical structure. All organizational units are directly subordinated to the member of Management Board, who is strictly in charge for risk management, which assures prevention of conflict of interests and separation of risk management and other regular operational activities of the Bank.

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 negative effects on financial result and capital of the Bank caused by the Borrower's default on its obligations to the Bank.

Credit process in the Bank is based on strict segregation of the competences and responsibilities in credit operations between risk taking activities, "business" function responsibilities on one side and credit risk management function on the other side. Business function is represented with divisions that are dealing with client acquisition and relationship management, while credit risk management function is represented by mentioned Departments in the CRO Division in charge of loan underwriting, monitoring, restructuring and collection. According to "four eye" principle, decision on credit application is proposed by business side (first vote) and final decision or recommendation for credit approval decision is given by risk management function (second vote). Exception can be made for standardized products in retail segment, when due to a large number of relatively small loan amounts and simplification of the procedure, approval process can be completely realized within business function, with mandatory applied "4 eyes principle", in accordance with predefined criteria and parameters, approved by risk management function.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

With the aim to ensure adequate and timely risk management in the area of crediting activity, the Bank 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 Bank'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 Bank 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 Bank 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 Bank also considers analysis of the money laundering and terrorist financing risk in making decisions on the credit risk assumption.

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.

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 Bank 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 Bank'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).

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

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 Bank at default (EaD);
- Probability of default (PD); and
- Loss given default (LGD).

The Bank 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 Bank 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.

Limits

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

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.

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:

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Reports (Continued)

- 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.

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.

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Credit Risk Reporting (Continued)

Reports (Continued)

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 Bank 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 Bank'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 32)		Off-balance sheet items	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Individually impaired												
Corporate clients, rating 10	-	-	-	-	-	-	253,827	705,260	8,879	11,299	-	4,957
Corporate clients, rating 9	-	-	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans*	-	-	-	-	-	-	9,540,658	7,523,849	3,149	4,340	141,810	275,752
Retail clients, > 90 days past due	-	-	-	-	-	-	3,755,615	2,132,029	56,656	20,974	3,461	578
Gross loans	-	-	-	-	-	-	13,550,100	10,361,138	68,684	36,613	145,271	281,287
Impairment allowance		-		-	-		7,831,960	5,833,413	62,163	31,176	82,855	101,972
Carrying value	-	-	-	-	-	-	5,718,140	4,527,725	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	42,245,498	27,765,931	177,934,522	166,893,964	220,307	138,775	210,324,982	171,630,261
Corporate clients, rating 7	-	-	-	-	-	-	7,457,090	9,691,827	160	795	5,430,044	4,574,415
Corporate clients, rating 8	-	-	-	-	-	-	1,636,522	9,918,677	313	853	87,361	1,754,874
Retail clients, < 90 days past due	-	-	-	-	-	-	119,103,413	91,450,079	21,831	1,666	4,636,389	1,599,862
Gross loans	67,572,925	57,151,931	109,210,970	100,749,619	42,245,498	27,765,931	306,131,547	277,954,547	242,611	142,089	220,478,776	179,559,412
Impairment allowance	2	84	79,515	268,440	4,014	36,099	4,186,986	3,823,077	329	862	183,244	237,591
Carrying value	67,572,923	57,151,847	109,131,455	100,481,179	42,241,484	27,729,832	301,944,561	274,131,470	242,282	141,227	220,295,532	179,321,821
Carrying value of rated assets	67,572,923	57,151,847	109,131,455	100,481,179	42,241,484	27,729,832	307,662,701	278,659,195	248,803	146,664	220,357,948	179,501,136
Carrying value of non-rated assets	-	-	2,791,886	2,073,599	-	-	-	-	1,080,545	1,070,885	-	-
Total carrying value	**67,572,923**	**57,151,847**	**111,923,341**	**102,554,778**	**42,241,484**	**27,729,832**	**307,662,701**	**278,659,195**	**1,329,348**	**1,217,549**	**220,357,948**	**179,501,136**

* 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 Bank'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 Bank uses the 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 Bank 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 Bank 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 Bank uses the following three stages of impairment:

4. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit Risk (Continued)

Methodology for Calculation of Expected Credit Losses (Continued)

- 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;
- 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 Bank calculates 12-month expected credit losses. For financial assets in Stage 2, the Bank 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 Bank specifically treats clients in the default status whose exposure is considered significant and such loans or clients are individually assessed by the Bank 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 Bank 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 Bank 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 Bank 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 Bank'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 Bank 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 Bank 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 Bank 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	124,709,125	114,562,909	2,817,398	19,615,808	10,146,216	3,970,469	5,914,165	(8,341,544)	(2,451,509)	(151,502)	(1,553,252)	(5,890,035)	(2,122,275)	(3,058,674)	1,916,372
2	of which: Households	55,043,125	52,163,450	214,710	6,597,470	2,879,675	118,192	910,286	(3,795,380)	(1,860,285)	(32,170)	(1,084,797)	(1,935,095)	(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	68,777,723	61,511,182	2,602,688	13,018,216	7,266,541	3,852,277	5,003,879	(4,544,627)	(589,687)	(119,332)	(468,453)	(3,954,940)	(2,024,307)	(2,486,067)	1,513,247
5	of which: Small and Medium-sized Enterprises	31,668,527	27,248,088	674,294	7,817,564	4,420,439	1,006,424	2,157,854	(3,000,860)	(481,140)	(72,449)	(399,169)	(2,519,720)	(589,314)	(1,050,902)	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

* 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 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 31.12.2021 (continued)

		Number of clients	Gross carrying amount		
				Of which: legislative moratoria	Of which: expired
1	Loans and advances for which moratorium was offered	145,849	281,764,511		
2	Loans and advances subject to moratorium (granted)	105,861	124,709,125	124,709,125	124,709,125
3	of which: Households		55,043,125	55,043,125	55,043,125
4	of which: Collateralized by residential immovable property		21,749,535	21,749,535	21,749,535
5	of which: Non-financial corporations		68,777,723	68,777,723	68,777,723
6	of which: Small and Medium-sized Enterprises		31,668,527	31,668,527	31,668,527
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	207,402,944	197,387,973	5,784,661	41,687,179	10,014,971	5,053,963	6,955,878	(381,930)	(345,319)	(13,957)	(69,489)	(36,611)	(25,576)	(21,456)	3,995,688
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

* 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 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)

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	138,081	288,315,685		
2	Loans and advances subject to moratorium (granted)	108,421	207,402,944	207,402,944	207,402,944
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 32)		Off-balance sheet items	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
December 31, 2021										
Corporate clients, rating 10	-	-	-	-	253,827	61,924	8,879	912	-	-
Corporate clients, rating 9	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans	-	-	-	-	9,540,658	4,427,138	3,149	537	141,810	61,230
Retail clients, > 90 days past due	-	-	-	-	3,755,615	1,229,078	56,656	5,072	3,461	1,186
Total	**-**	**-**	**-**	**-**	**13,550,100**	**5,718,140**	**68,684**	**6,521**	**145,271**	**62,416**
December 31, 2020										
Corporate clients, rating 10	-	-	-	-	705,260	159,094	11,299	891	4,957	1,128
Corporate clients, rating 9	-	-	-	-	-	-	-	-	-	-
Corporate clients, restructured loans	-	-	-	-	7,523,849	3,572,677	4,340	384	275,752	177,884
Retail clients, > 90 days past due	-	-	-	-	2,132,029	795,954	20,974	4,162	578	303
Total	**-**	**-**	**-**	**-**	**10,361,138**	**4,527,725**	**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	2,180,813	460,670	43,733	178,655	2,863,871
Impairment allowance	(201,480)	(147,506)	(17,516)	(63,849)	(430,351)
Net carrying value	**1,979,333**	**313,164**	**26,217**	**114,806**	**2,433,520**

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	27,754,792	18,262,859	(3,947,508)	(573)	(573)	-	-	-			(93,333)	251,762	42,227,999
Stage 2	11,139	959	-	425	425	-			-	-	(32)	5,008	17,499
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**27,765,931**	**18,263,818**	**(3,947,508)**	**(148)**	**(148)**	**-**	**-**	**-**	**-**	**-**	**(93,365)**	**256,770**	**42,245,498**

		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	2,893,202	26,212,329	(1,230,426)	4,722	-	4,722	-	-			(368,692)	243,657	27,754,792
Stage 2	16,917	14	(1,075)	(4,704)	-	(4,704)			-	-	(14)	1	11,139
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**2,910,119**	**26,212,343**	**(1,231,501)**	**18**	**-**	**18**	**-**	**-**	**-**	**-**	**(368,706)**	**243,658**	**27,765,931**

(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	216,379,827	3,261,464	(24,244,832)	(2,622,358)	(13,987,480)	14,801,410	(3,705,039)	268,751			(55,490,562)	113,993,836	251,277,375
Stage 2	61,574,717	1,299,870	(3,376,209)	(6,835,410)	12,464,244	(16,835,746)			(2,677,487)	213,579	(18,971,604)	21,162,806	54,854,170
Stage 3	10,361,141	68,848	(961,384)	5,096,513			3,293,965	(373,633)	2,433,430	(257,249)	(1,728,737)	713,721	13,550,102
Total	**288,315,685**	**4,630,182**	**(28,582,425)**	**(4,361,255)**	**(1,523,236)**	**(2,034,336)**	**(411,074)**	**(104,882)**	**(244,057)**	**(43,670)**	**(76,190,903)**	**135,870,363**	**319,681,647**

		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	224,505,094	3,545,865	(20,083,816)	(2,899,562)	(17,381,931)	15,057,259	(846,968)	272,078			(47,901,319)	59,213,565	216,379,827
Stage 2	38,225,801	139,099	(1,549,965)	800,593	19,089,453	(16,434,559)			(2,120,893)	266,592	(7,530,499)	31,489,688	61,574,717
Stage 3	9,500,671	26,775	(483,865)	2,221,134			742,842	(292,886)	2,058,413	(287,236)	(2,659,873)	1,756,299	10.361.141
Total	**272,231,566**	**3,711,739**	**(22,117,646)**	**122,165**	**1,707,522**	**(1,377,300)**	**(104,126)**	**(20,808)**	**(62,480)**	**(20,644)**	**(58,091,691)**	**92,459,552**	**288,315,685**

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	1,223,467	38,352	(41,917)	(49,004)	(42,551)	353	(6,806)	-			(42,937)	37,901	1,165,862
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	**1,249,587**	**38,554**	**(45,539)**	**55,402**	**54,718**	**(3,526)**	**4,210**	**-**	**-**	**-**	**(53,925)**	**147,761**	**1,391,840**

		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	1,067,994	188,165	(19,348)	(6,379)	(7,931)	1,577	(34)	8			(24,553)	17,588	1,223,467
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	**1,067,994**	**194,944**	**(27,006)**	**2,342**	**4,329**	**(1,738)**	**5**	**(16)**	**(632)**	**394**	**(58,754)**	**70,067**	**1,249,587**

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	(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	36,093	643	(33,917)	(4)	(4)	-	-	-			(89)	1,055	3,781
Stage 2	6	3	-	123	123	-			-	-	-	101	233
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**36,099**	**646**	**(33,917)**	**119**	**119**	**-**	**-**	**-**	**-**	**-**	**(89)**	**1,156**	**4,014**

		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	1,695	35,121	(743)	11	-	11	-	-			(319)	328	36,093
Stage 2	19	3	-	(16)	-	(16)			-	-	-	-	6
Stage 3	-	-	-	-			-	-	-	-	-	-	-
Total	**1,714**	**35,124**	**(743)**	**(5)**	**-**	**(5)**	**-**	**-**	**-**	**-**	**(319)**	**328**	**36,099**

(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	1,420,820	309,778	(306,335)	(67,424)	(152,316)	157,962	(81,768)	8,697			(266,666)	653,851	1,744,024
Stage 2	2,402,252	324,936	(177,662)	72,376	1,049,023	(668,395)			(383,043)	74,791	(491,367)	312,067	2,442,602
Stage 3	5,833,418	711,485	(652,712)	2,597,403			1,904,145	(210,121)	1,023,143	(119,764)	(1,164,650)	507,376	7,832,320
Total	**9,656,490**	**1,346,199**	**(1,136,709)**	**2,602,355**	**896,707**	**(510,433)**	**1,822,377**	**(201,424)**	**640,100**	**(44,973)**	**(1,922,683)**	**1,473,294**	**12,018,946**

		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	694,489	460,957	(129,501)	223,467	(53,935)	262,253	(6,363)	21,512			(106,610)	278,018	1,420,820
Stage 2	1,507,965	387,650	(167,725)	197,920	949,720	(605,110)			(211,628)	64,937	(157,514)	633,956	2,402,252
Stage 3	5,527,679	459,741	(227,513)	926,061			320,578	(139,881)	865,223	(119,859)	(1,735,468)	882,918	5,833,418
Total	**7,730,133**	**1,308,348**	**(524,739)**	**1,347,448**	**895,785**	**(342,857)**	**314,215**	**(118,369)**	**653,595**	**(54,922)**	**(1,999,592)**	**1,794,892**	**9,656,490**

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	19,768	-	(118)	(3,622)	(106)	-	(3,516)	-			(18,003)	32	(1,943)
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	**32,038**	**302**	**(1,248)**	**6,729**	**198**	**(22)**	**6,553**	**-**	**-**	**-**	**(25,502)**	**50,173**	**62,492**

		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	(46)	7	(17)	25	(1)	-			(32)	63	19,768
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**	**(1,457)**	**515**	**13**	**8**	**37**	**(24)**	**1,030**	**(549)**	**(11,017)**	**18,111**	**32,038**

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 Bank 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 Bank 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 Bank uses relevant policies and procedures for collateral management. The most significant collaterals accepted and used by the Bank 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 Bank'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 Bank'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 Bank'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 Bank'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 Bank 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 Bank'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 Bank'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 and 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 Bank is exposed to the effects of exchange rate fluctuations for major foreign currencies on its financial position and cash flows. The Bank'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 Bank 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 Bank executes derivative contracts and loan contracts with a foreign currency index clause.

The Bank'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	2.98	0.97
- maximum for the period – December	4.04	4.66
- minimum for the period – December	0.27	0.14

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 Bank'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	37,755,753	63,529	524,714	19,630	42,241,484
Loans and receivables due from customers	475,554	180,285,573	114,404	-	126,787,170	307,662,701
Receivables under derivatives designated as risk hedging instruments	-	9,493	-	-	-	9,493
Other assets	16,143	186,986	-	8	1,126,211	1,329,348
Total assets	**4,536,745**	**269,173,193**	**340,981**	**668,329**	**256,772,666**	**531,491,914**
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	92,998,313	3,108	827	26,839,034	119,929,606
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	3,747,838	10,724	35,470	10,999,070	14,946,085
Total liabilities	**10,023,994**	**252,022,024**	**3,788,887**	**980,017**	**183,124,276**	**449,939,198**
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**	**(2,015,836)**	**1,032**	**34,481**	**83,587,763**	**81,616,872**

*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 Bank'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	20,162,890	137,270	363,115	12,668	27,729,832
Loans and receivables due from customers	443,021	178,242,728	122,772	-	99,850,674	278,659,195
Other assets	16,551	122,554	-	1	1,078,443	1,217,549
Total assets	**9,242,627**	**248,500,122**	**882,887**	**511,678**	**221,254,263**	**480,391,577**
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	92,642,948	2,036	645	25,926,044	118,600,560
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	3,583,561	8,820	14,324	8,693,975	12,436,815
Total liabilities	**8,494,497**	**234,658,080**	**2,545,174**	**1,064,702**	**154,397,536**	**401,159,989**
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**	**1,134,974**	**3,123**	**191,476**	**77,680,558**	**79,077,165**

*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 Bank's financial performance and capital caused by the Bank's inability to settle its matured liabilities due to drawdown of the existing sources of financing, i.e., the Bank'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 Bank is to maintain adequate liquidity and financing position, which will enable the Bank to fulfil its payment obligations not only in regular business, but in stressful circumstances as well.

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

- Intraday liquidity risk – the liquidity risk during the day occurs when the Bank 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 Bank 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 Bank;
- The risk of unforeseen or stressful circumstances relates to future and unexpected obligations that could require the Bank to maintain higher liquidity than what is considered a sufficient amount for conducting regular business operations;
- Financing concentration risk occurs when the Bank 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.

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

Within the liquidity risk management, the Bank 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 Bank's committees or functions that are set at a lower hierarchy level in the Bank'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), and
- the net stable funding ratio (NSFR).

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

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

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 Bank'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 Bank 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 Bank 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 Bank 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.

Financial and Market Risk Unit prepares a report on daily liquidity for the National Bank of Serbia on a daily basis.

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

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

The Bank's liquidity ratio and the rigid/cash liquidity ratio (Continued)

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

	2021	2020
The Bank'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

	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 Bank'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 Bank is required to maintain the liquidity coverage ratio observing the total in all currencies at a level not lower than 100%.

The Bank'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	74,965,955	64,476,538
Liquid assets coverage ratio	161%	170%

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 Bank'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 Bank); and
- Combined scenario (combination of the above two scenarios).

4. FINANCIAL RISK MANAGEMENT (Continued)

(e) Liquidity Risk (Continued)

Liquidity Coverage Ratio (LCR) (Continued)

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

- Precisely defines procedures for early detection of the Bank'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 Bank 's liquidity

The Bank'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 Bank 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.. Early warning indicators EWI indicators, both for the Bank and the market, are set at an appropriate distance from the RAF or the level of regulatory constraint, leaving time for the Bank to respond in a timely manner during potential or actual crises. As there has been a stable liquidity position since the beginning of the crisis, the Bank returned to normal operations on October 6, 2020.

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 Bank'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	59,620	13,309	42,241,484
Loans and receivables due from customers	15,417,660	17,760,852	93,121,658	80,647,617	100,714,914	307,662,701
Receivables under derivatives designated as risk hedging instruments	-	-	9,493	-	-	9,493
Other assets	-	-	1,329,348	-	-	1,329,348
Total assets	**124,747,681**	**18,686,453**	**106,333,526**	**139,680,174**	**142,044,080**	**531,491,914**
Liabilities						
Liabilities under derivative financial instruments	-	-	723,925	-	-	723,925
Deposits and other liabilities due to banks, other financial institutions and the central bank	24,677,183	917,657	66,537,845	15,146,662	12,650,259	119,929,606
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	3,943,127	69,586	9,497,784	1,253,028	182,560	14,946,085
Total liabilities	**307,847,494**	**2,821,774**	**97,705,061**	**23,046,576**	**18,518,293**	**449,939,198**
Net liquidity gap as at December 31, 2021	**(183,099,813)**	**15,864,679**	**8,628,465**	**116,633,598**	**123,525,787**	**81,552,716**

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 Bank 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 Bank'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 Bank'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	27,048,692	146	676,997	3,997	-	27,729,832
Loans and receivables due from customers	5,803,603	7,360,232	30,314,052	114,298,063	120,883,245	278,659,195
Other assets	1,217,549	-	-	-	-	1,217,549
Total assets	**93,303,774**	**7,463,370**	**38,821,372**	**196,605,200**	**144,197,861**	**480,391,577**
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	13,487,341	20,481,818	16,528,954	45,739,474	22,362,973	118,600,560
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	7,350,962	1,428,222	285,797	12,436,815
Total liabilities	**243,926,090**	**35,873,862**	**40,692,845**	**55,978,206**	**24,688,986**	**401,159,989**
Net liquidity gap as at December 31, 2020	**(150,622,316)**	**(28,410,492)**	**(1,871,473)**	**140,626,994**	**119,508,875**	**79,231,588**

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 Bank's financial performance and capital due to the failure of the Bank 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 Bank has organized a special organizational unit whose competence covers compliance review.

The primary task of the Compliance Department is to identify and asses the Bank'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 Bank's compliance function supports other organizational units of the Bank 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 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 Bank'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 Bank's financial performance, capital or reputation due to the use of the Bank 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 Bank 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 Bank's internal bylaws governing this matter.

The Bank has in place adequate policies and procedures for identification, measurement, assessment and management of the risk of money laundering and terrorist financing. The Bank 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 the possibility of adverse effects on the bank's financial result or capital due to absence of adequate policies and strategies, or due to their inadequate implementation, and due to changes in the environment in which the bank operates or failure of the bank to adequately respond to these changes.
Strategic risk management is the responsibility of every employee of the Bank within the risk management system, along with the most important role of Supervisory Board of the Bank which is responsible for risk management system establishing, as well as the Management Board which is responsible for its implementation, as well as the identification, measurement and risk assessment. The Bank's corporate bodies carry out, among other things, the monitoring of strategic risk through establishing and monitoring of the annual budget, as well as the multi-annual strategic plan, which is monitored at least quarterly. In that way corporate bodies are in a situation to respond to all changes in the environment in which the Bank operates. The Bank's management reporting system, established in all business segments, provides an adequate and timely set of information needed for the Bank's decision-making process in order to respond to business changes.

Organizational structure of the Bank, established by relevant governance bodies, is defined to ensure adequate resources involved in preparation and implementation of risk policies and strategies, as well as methodologies, guidelines, working instructions and other documents. The Bank continually monitors, assesses and updates relevant internal regulations and improves processes in order to actively manage changes in the business environment and mitigate their influence on Bank's financial result and capital.
An important element in the management of strategic risk is the Bank's internal control system, described in the Rulebook on risk management, which provides continuous monitoring of the risks to which the Bank is exposed or which may be exposed in its business. This system ensures implementation of appropriate policies and strategies in practice and elimination of possible shortcomings, by which strategic risk to which the Bank is exposed is additionally monitored and managed.

4. FINANCIAL RISK MANAGEMENT (Continued)

(h) Strategic Risks (Continued)

(i) Business Risk

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

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 Bank, 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 Bank.

(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 Bank's financial performance and equity per items in the Bank's banking book due to changes in interest rates.

The Bank'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 Bank 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 Bank's Finance Unit is to establish procedures for the Bank 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 preferred risk profile. At the same time, the Finance Unit and the Markets Department are involved in the management of the Bank'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 Unit and the Markets Department undertake hedging transactions to hedge certain portfolios or transactions.

An analysis of the Bank'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	(246,246)	(247,927)
Average for the year	(30,331)	(921,490)
Maximum for the year	1,564,277	707,931
Minimum for the year	(1,172,994)	(3,124,315)
2020		
As at December 31	(215,.996)	(734,613)
Average for the year	(264,870)	(627,641)
Maximum for the year	621,051	3,208,352
Minimum for the year	(3,506,399)	(1,806,674)

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 Bank'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	42,241,484	37,251,986	102	515,868	-	-	4,472,753
Loans and receivables due from customers	307,662,701	2,569,916	59,767,232	227,529,585	3,882,695	11,616,629	2,296,644
Receivables under derivatives designated as risk hedging instruments	9,493	-	-	-	-	-	9,493
Other assets	1,329,348	-	-	-	-	-	1,329,348
Total assets	**531,491,914**	**65,464,570**	**59,787,997**	**238,511,106**	**64,085,409**	**52,838,640**	**50,804,192**
Liabilities under derivative financial instruments	723,925	-	-	-	-	-	723,925
Deposits and other liabilities due to banks, other financial institutions and the central bank	119,929,606	20,586,452	10,790,013	74,575,553	5,952,105	-	8,025,483
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	14,946,085	-	-	-	-	-	14,946,085
Total liabilities	**449,939,198**	**59,076,205**	**23,395,194**	**89,031,208**	**8,738,529**	**-**	**269,698,062**
Net interest rate risk exposure at December 31, 2021	**81,552,716**	**6,388,365**	**36,392,803**	**149,479,898**	**55,346,880**	**52,838,640**	**(218,903,363)**

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 Bank'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	27,729,832	19,489,432	146	680,995	-	-	7,559,259
Loans and receivables due from customers	278,659,195	62,891,399	49,845,798	155,942,733	2,588,970	4,297,363	3,092,932
Other assets	1,217,549	-	-	-	-	-	1,217,549
Total assets	**480,391,577**	**103,766,958**	**49,937,228**	**164,425,397**	**85,345,538**	**27,827,369**	**49,089,087**
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	118,600,560	5,072,682	49,693,016	44,965,704	12,071,020	-	6,798,138
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	12,436,815	-	-	-	-	-	12,436,815
Total liabilities	**401,159,989**	**26,601,656**	**66,677,952**	**71,426,910**	**16,677,012**	-	**219,776,459**
Net interest rate risk exposure at December 31, 2020	**79,231,588**	**77,165,302**	**(16,740,724)**	**92,998,487**	**68,668,526**	**27,827,369**	**(170,687,372)**

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	17,955	15,013
USD	67	(2)
GBP	-	-
CHF	(42)	(49)
Other currencies	-	-
Total effect*	**35,369**	**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 Bank'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 Bank's information system that adversely affect its functionality or safety and compromises the Bank's business continuity.

In order to control and mitigate this type of risks and improve its management, the Bank 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 Bank 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 Bank 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 Bank applies and regularly evaluates an appropriate set of internal bylaws.

(n) Capital Management

As the Bank'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 Bank monitors its capital adequacy ratio on a quarterly basis using the standardized approach.

4. FINANCIAL RISK MANAGEMENT (Continued)

(n) Capital Management (Continued)

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

1. the Common Equity Tier 1 capital ratio (CET 1 ratio) represents the Bank's 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 Bank's 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 Bank's capital relative to the risk-weighted assets, expressed as percentage. The minimum CAR defined by the Decision is 8%.

The Bank 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 Bank is required to maintain at all times its capital in the amount necessary for coverage of all risks the Bank 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 Bank to achieve and maintain capital adequacy ratios higher than the prescribed ones.

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

The Bank'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 Bank'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 Bank 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 Bank 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 Bank's liabilities measured at fair value, resulting from the changes in the Bank's credit quality;
- gains or losses arising from the credit risk for liabilities per derivatives measured at fair value, where the Bank 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 Bank's future profitability in line with the effective regulations;
- defined benefit pension fund assets on the Bank's balance sheet;
- the Bank's direct, indirect and synthetic holdings of its own common equity Tier 1 instruments, including those that the Bank is under an actual or contingent obligation to repurchase by virtue of a constructive obligation;
- the Bank's direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where those entities have reciprocal holdings in the Bank, designed to artificially inflate the bank's capital;
- the Bank's applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Bank holds no significant investments in accordance with Articles 19 and 20 of the Decision;
- the Bank's applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Bank holds significant investments in accordance with Sections 19 and 20 of the Decision;
- the amount for which the Bank's additional Tier 1 capital deductible items exceed the Bank's additional Tier 1 capital;
- the amount of exposures qualifying for application of a risk weight of 1.25%, where the Bank 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 Bank 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 Bank'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 Bank's applicable direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Bank holds significant investments, the Bank 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 Bank'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 Bank's direct, indirect and synthetic holdings of common equity Tier 1 instruments of FSI entities where the Bank holds significant investments 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.

As of December 31, 2021, the Bank 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 Bank's future profitability, arising from the temporary differences since their aggregate amount was below the defined limit.

The Bank'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 Bank had no additional Tier 1 capital.

The Bank'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 Bank 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 Bank'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
Revaluation reserves and other unrealized gains	317,947	2,946,840
(-) Unrealized losses	(114,248)	(40,617)
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)	(2,545,479)	(2,119,711)
(-) 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	**75,402,588**	**75,239,973**
Additional Tier 1 capital - AT1	-	-
Total core Tier 1 capital - T1 (CET1 + AT1)	**75,402,588**	**75,239,973**
Supplementary capital - T2	-	-
Total regulatory capital (T1 + T2)	**75,402,588**	**75,239,973**

In both 2021 and 2020 the Bank 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 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 ECL 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 Bank'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 Bank'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 Bank will regularly review, maintain and adjust its models within the context of its actually experienced credit losses when necessary.

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 Bank 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.

The Bank 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 Bank 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 Bank'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 Bank 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 Bank determines fair values using valuation techniques.

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)

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

The Bank uses generally accepted models for determining the fair values of regular and common financial instruments such as interest 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. 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), 29 i 30)

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 Bank'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), 30 and 31)

The Bank 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 38)

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 Bank'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.

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

5. USE OF ESTIMATES AND JUDGMENTS (Continued)

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

(vii) Provisions for Litigations (Notes 3 (w) and 37)

The Bank is involved in a number of lawsuits and labor disputes. Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of past events, it is probable that the Bank 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 Bank'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.

(viii) Provisions for Employee Benefits (Notes 3 (y) and 37)

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:

	Note	Level 1	Level 2	Level 3	Total
2021					
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	33	-	723,925	-	723,925
Liabilities per derivatives designated as risk hedging instruments	36	-	132,490	-	132,490
		-	**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.

	Note	Level 1	Level 2	Level 3	Total
2020					
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	33	-	1,632,761	-	1,632,761
Liabilities per derivatives designated as risk hedging instruments	36	-	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:

2021.	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
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	-	-	42,238,803	42,238,803	42,241,484
Loans and receivables due from customers	26	-	-	310,547,068	310,547,068	307,662,701
Other assets	32	-	-	1,329,348	1,329,348	1,329,348
		30,934,871	**72,777,665**	**354,149,015**	**457,861,551**	**454,979,807**
Deposits and other liabilities due to banks, other financial institutions and the central bank	34	-	-	120,934,198	120,934,198	119,929,606
Deposits and other liabilities due to customers	35	-	-	314,320,425	314,320,425	314,207,092
Other liabilities	39	-	-	14,946,085	14,946,085	14,946,085
		-	**-**	**450,200,708**	**450,200,708**	**449,082,783**

2020.	Note	Level 1	Level 2	Level 3	Total Fair Value	Carrying Value
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	-	-	27,729,019	27,729,019	27,729,832
Loans and receivables due from customers	26	-	-	281,974,021	281,974,021	278,659,195
Other assets	32	-	-	1,217,549	1,217,549	1,217,549
		4,385,522	**64,541,127**	**310,940,887**	**379,867,536**	**376,553,231**
Deposits and other liabilities due to banks, other financial institutions and the central bank	34	-	-	120,681,948	120,681,948	118,600,560
Deposits and other liabilities due to customers	35	-	-	268,838,994	268,838,994	268,373,476
Other liabilities	39	-	-	12,436,815	12,436,815	12,436,815
		-	**-**	**401,957,757**	**401,957,757**	**399,410,851**

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 Bank 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	41,539	52,655
Loans and receivables due from customers	10,994,143	11,043,139
Financial derivatives and assets held for risk hedging purposes	182,013	195,989
Total interest income	15,110,996	15,387,832
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	(1,155,537)	(1,219,967)
Deposits and other liabilities due to customers	(499,687)	(709,212)
Lease liabilities	(43,072)	(47,508)
Total interest expenses	(2,125,224)	(2,367,475)
Net interest income	**12,985,772**	**13,020,357**

In accordance with the Bank's accounting policy 3 (d), interest income from non-performing impaired loans amounted to RSD 265,877 thousand in 2021 (2020: RSD 287,155 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	1,610,172	1,268,638	1,974,001	1,537,683
Fees related loans	147,192	194,908	470,090	273,425	617,282	468,333
Fees arising from card operations	395,182	315,754	1,319,310	1,041,535	1,714,492	1,357,289
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	826,370	718,325	828,802	721,606
Fee on foreign exchange purchases/sales and foreign cash transactions	193,458	147,594	1,953,798	1.612.239	2,147,256	1,759,833
Other fees and commissions	136,755	134,642	208,822	138,462	345,577	273,104
Total fee and commission income	1,702,951	1,439,604	6,987,506	5.584.846	8,690,457	7,024,450
Fee and commission expenses						
Payment transfer activities	-	-	(297,321)	(191,340)	(297,321)	(191,340)
Fees arising from card operations	-	-	(1,419,009)	(1,154,887)	(1,419,009)	(1,154,887)
Fees arising on guarantees, sureties and letters of credit	-	-	(12,927)	(12,375)	(12,927)	(12,375)
Fee arising on on foreign exchange purchases/sales and foreign cash transactions	(6,211)	(6,108)	(504,621)	(502,361)	(510,832)	(508,469)
Other fees and commissions	-	-	(131,088)	(131,360)	(131,088)	(131,360)
Total fee and commission expenses	(6,211)	(6,108)	(2,364,966)	(1,992,323)	(2,371,177)	(1,998,431)
Net fee and commission income	**1,696,740**	**1,433,496**	**4,622,540**	**3,592,523**	**6,319,280**	**5,026,019**

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 Bank 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 Bank has also reclassified comparative data for 2020.

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**

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

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 36), while in 2020 the Bank 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	9,965,398	14,490,691
Foreign exchange losses and negative currency clause effects	(10,195,214)	(14,364,479)
Net foreign exchange (losses)/gains	**(229,816)**	**126,212**

During 2021, according to instructions received from NBS, the Bank 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 2,147,256 thousand (2020: RSD 1.759.833 thousand) and fee expenses in the amount of RSD 510,832 thousand (2020: RSD 508,469 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 Bank had net foreign exchange losses of RSD 229,816 thousand (2020: net foreign exchange gains RSD 126,212 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 Bank 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	(1,488,302)	(1,022,762)
Net increase in collectively assessed impairment	(1,740,288)	(2,487,556)
	(3,228,590)	(3,510,318)
Net decrease in impairment charge per securities measured at FVtOCI	112,493	46,199
Contingent liabilities		
Net (increase)/decrease in individual impairment allowance (Note 37.2)	21,383	(39,250)
Net (increase)/decrease in collectively assessed impairment (Note 37.2)	52,081	(105,322)
	73,464	(144,572)
Gains/(losses) on modification	61,006	(407,175)
Write-offs	(5,243)	(2,718)
Recovery of the receivables previously written off	339,375	231,510
Total net losses	**(2,647,495)**	**(3,787,074)**

In 2021 the Bank 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	60,101	53,244
Total other operating income	**60,101**	**53,244**

16. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

Salaries, salary compensations and other personal expenses include:

	2021	2020
Employee salaries, net	(2,099,555)	(2,019,047)
Payroll taxes and contributions	(807,464)	(770,345)
Net expenses per provisions for employee retirement benefits and unused annual leaves	(33,496)	(24,642)
Other personnel expenses	(442,365)	(390,547)
Total personnel expenses	**(3,382,880)**	**(3,204,581)**

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 29.2; 29.3)	(513,525)	(487,927)
Depreciation charge for property, plant and equipment (Notes 30.2; 30.3)	(258,548)	(278,348)
Depreciation charge for right-of-use assets (Note 30.5, 30.6)	(457,109)	(441,714)
Total depreciation/amortization charge	**(1,229,182)**	**(1,207,989)**

18. OTHER INCOME

Other income includes:

	2021	2020
Reversal of provisions for litigations (Note 37.2)	39,907	98,902
Gains on the valuation of investment property	-	1,060
Gains on the valuation of tangible assets	20,465	30,401
Other income	113,713	92,719
Total other income	**174,085**	**223,082**

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	(111,656)	(117,506)
Office and other supplies	(54,320)	(63,461)
Rental costs (Note 19.2)	(370,026)	(372,044)
Information system maintenance	(1,026,745)	(920,731)
Property and equipment maintenance	(80,758)	(61,118)
Marketing, advertising, entertainment, culture and donations	(137,180)	(58,951)
Lawyer fees, other consultant and research services and auditing fees	(411,036)	(461,234)
Telecommunications and postage services	(138,163)	(152,669)
Insurance premiums	(777,356)	(666,874)
Security services – for property and money transport and handling	(152,309)	(192,420)
Professional training costs	(25,519)	(19,757)
Servicing costs	(97,365)	(98,766)
Transportation services	(2,711)	(4,581)
Employee commuting allowances	(30,519)	(28,766)
Accommodation and meal allowances – business travel costs	(6,410)	(7,702)
Other taxes and contributions	(519,901)	(492,351)
Provisions for litigations (Note 37.2)	(2,348,950)	(1,083,480)
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	(569,915)	(606,012)
Total other expenses	**(6,869,170)**	**(5,445,995)**

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 370,026 thousand incurred in 2021 relate to the costs which, in line with IFRS 16 and the Bank'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	(137,885)	(137,935)
Variable lease payments	(742)	(607)
Total	**(370,026)**	**(372,044)**

20. INCOME TAXES

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

	2021	2020
Current income tax expense	(674,504)	(395,623)
Increase in deferred tax assets and decrease in deferred tax liabilities	242,168	99,135
Total	**(432,336)**	**(296,488)**

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

	2021	2020
Profit before taxes	6,308,225	5,631,476
Income tax at the legally prescribed tax rate of 15%	(946,234)	(844,721)
Tax effects of permanent differences:		
Tax effects of expenses not recognized for tax purposes	(274,041)	(125,116)
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	(98,169)	88,268
Tax effects of IAS19	2,836	1,885
Tax effects of losses which will be recognized in future periods	392,873	64,354
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	**(432,336)**	**(296,488)**
Effective tax rate	**6.85%**	**5.26%**

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 41.3)	4,774	(716)	4,058	5,734	(860)	4,874
Actuarial(losses)/gains	(5,418)	812	(4,606)	(26,929)	4,040	(22,889)
Losses on cash flow hedging instruments	(81,207)	12,181	(69,026)	-	-	-
Balance at December 31	**(3,179,438)**	**476,915**	**(2,702,523)**	**(1,412,842)**	**211,927**	**(1,200,915)**

20.4 The calculated current income tax payable for the year 2021 amounted to RSD 674,504 thousand (for 2020: RSD 395,623 thousand). Given that the calculated amount of the tax payable was above the sum of the monthly income tax advance payments the Bank paid during the year, as of December 31, 2021, the Bank reported current tax liabilities in the amount of RSD 61,747 thousand (for 2020: current tax assets of RSD 297,638 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. Bank is obliged to keep the average daily balance of allocated dinar reserves at the level of the calculated dinar reserve requirements. In 2021 NBS paid interest on the balance of the Bank'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 0.50% 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 RSD.

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 was 100%.

The Bank 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 Bank does not have pledged financial assets. As at 31 December 2020, in order to secure liabilities based on repo transactions with NBS, the Bank 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 Bank'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 Bank'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 Bank'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 Bank'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 Bank 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 Bank 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
Total	42,245,498	27,765,931
Impairment allowance	(4,014)	(36,099)
Balance at December 31	**42,241,484**	**27,729,832**

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	-	-	(36,099)	(1,714)
Impairment losses:				
(Charge for the year)/reversal	-	-	32,244	(36,366)
Foreign exchange effects	-	-	(172)	1,981
Write-off without debt acquittal	-	-	13	-
Total for the year	-	-	32,085	(34,385)
Balance at December 31	**-**	**-**	**(4,014)**	**(36,099)**

25.3. The Bank'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**

25. 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
Other RSD loans and receivables	-	109,973
Total	319,681,647	288,315,685
Impairment allowance	(12,018,946)	(9,656,490)
Balance at December 31	**307,662,701**	**278,659,195**

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	(4,051,629)	(3,857,283)	(5,604,861)	(3,872,850)
Impairment losses:				
Charge for the year	(1,579,435)	(1,110,071)	(1,723,069)	(2,386,757)
Foreign exchange effects	(234)	82	(1,435)	14
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	(1,201,268)	(194,346)	(1,161,188)	(1,732,011)
Balance at December 31	**(5,252,897)**	**(4,051,629)**	**(6,766,049)**	**(5,604,861)**

*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	11,006,289	(56,358)	10,949,931
Corporate customers	206,779,476	(6,880,143)	199,899,333
Retail customers	101,895,882	(5,082,445)	96,813,437
Balance at December 31	**319,681,647**	**(12,018,946)**	**307,662,701**

	2020		
	Gross Amount	Impairment Allowance	Carrying Amount
Public sector	1,977,315	(9,271)	1,968,044
Corporate customers	187,515,799	(5,468,815)	182,046,984
Retail customers	98,822,571	(4,178,404)	94,644,167
Balance at December 31	**288,315,685**	**(9,656,490)**	**278,659,195**

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 Bank's interest rate policy.

In its product mix, the Bank 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.

During 2021, the Bank 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 Bank 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	11,661,724	5,810,390
- Agriculture	7,680,333	7,161,061
- Construction industry	26,774,564	32,387,920
- Mining and industry	53,146,566	45,069,306
- Trade	41,021,481	41,247,197
- Services	28,296,640	28,774,726
- Transportation and logistics	31,416,336	18,035,565
- Other	6,781,832	9,029,634
	206,779,476	187,515,799
Public sector	11,006,289	1,977,315
Retail customers		
- Private individuals	95,655,605	93,586,402
- Entrepreneurs	6,240,277	5,236,169
	101,895,882	98,822,571
Total	**319,681,647**	**288,315,685**
Impairment allowance	(12,018,946)	(9,656,490)
Balance at December 31	**307,662,701**	**278,659,195**

The Bank 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 Bank 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. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries represent equity investments in the following entities, where the Bank holds 100% equity interests:

	2021	2020
UniCredit Leasing Srbija d.o.o.	-	-
UniCredit Partner d.o.o.	112,644	112,644
	112,644	112,644
Impairment allowance	-	-
Balance at December 31	**112,644**	**112,644**

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

29. INTANGIBLE ASSETS

29.1 Intangible assets, net:

	2021	2020
Software and licenses	1,506,471	1,418,517
Investments in progress	1,039,008	701,194
Balance at December 31	**2,545,479**	**2,119,711**

29.2 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	4,897,472	701,194	5,598,666
Additions	617,148	345,668	962,816
Impairment losses	-	(7,384)	(7,384)
Other	(16,506)	(470)	(16,976)
Balance at December 31, 2021	5,498,114	1,039,008	6,537,122
Accumulated amortization and impairment losses			
Balance at January 1, 2021	3,478,955	-	3,478,955
Amortization charge for the year	513,525	-	513,525
Other	(837)	-	(837)
Balance at December 31, 2021	3,991,643	-	3,991,643
Net book value at December 31, 2021	**1,506,471**	**1,039,008**	**2,545,479**
Net book value at January 1, 2021	**1,418,517**	**701,194**	**2,119,711**

29.3 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	4,359,010	539,584	4,898,594
Additions	610,521	161,610	772,131
Impairment losses	(12,844)	-	(12,844)
Other	(59,215)	-	(59,215)
Balance at December 31, 2020	4,897,472	701,194	5,598,666
Accumulated amortization and impairment losses			
Balance at January 1, 2020	2,997,211	-	2,997,211
Amortization charge for the year	487,927	-	487,927
Impairment losses	(3,377)	-	(3,377)
Other	(2,806)	-	(2,806)
Balance at December 31, 2020	3,478,955	-	3,478,955
Net book value at December 31, 2020	**1,418,517**	**701,194**	**2,119,711**
Net book value at January 1, 2020	**1,361,799**	**539,584**	**1,901,383**

30. PROPERTY, PLANT AND EQUIPMENT

30.1 Property, plant and equipment comprise:

	2021	2020
Buildings	556,145	543,338
Equipment and other assets	560,964	699,702
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	**3,306,813**	**3,571,169**

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

30. PROPERTY, PLANT AND EQUIPMENT (Continued)

30.2 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	2,119,558	564,815	30,316	2,974,101	6,393,259
Additions	-	-	-	251,383	70,666	322,049
Transfer from investments in progress	-	63,023	1,331	(64,354)	-	-
Disposal and retirement	-	(32,750)	(1,441)	-	(32,540)	(66,731)
Effect of the change in fair value	35,877	-	-	-	-	35,877
Modifications	-	-	-	-	120,171	120,171
Balance at December 31, 2021	740,346	2,149,831	564,705	217,345	3,132,398	6,804,625
Accumulated depreciation and impairment losses						
Balance at January 1, 2021	161,131	1,419,856	387,065	-	854,038	2,822,090
Depreciation charge for the year	14,242	201,142	43,164		457,109	715,657
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	1,588,867	428,788	-	1,295,956	3,497,812
Net book value at December 31, 2021	**556,145**	**560,964**	**135,917**	**217,345**	**1,836,442**	**3,306,813**
Net book value at January 1, 2021	**543,338**	**699,702**	**177,750**	**30,316**	**2,120,063**	**3,571,169**

Following the change in accounting policy as of December 31, 2019, property used for performance of the Bank's own business activity is valued using the revaluation method. As of December 31, 2021, Bank 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 Bank'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 Bank 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 Bank's business activity.

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

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

30. PROPERTY, PLANT AND EQUIPMENT (Continued)

30.3 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	1,906,298	539,096	143,719	2,735,561	6,010,362
Additions	-	-	-	150,236	177,762	327,998
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	2,119,558	564,815	30,316	2,974,101	6,393,259
Accumulated depreciation and impairment losses						
Balance at January 1, 2020	142,644	1,216,314	347,640	-	415,278	2,121,876
Depreciation charge for the year	13,507	221,405	43,436	-	441,714	720,062
Disposal and retirement	-	(17,863)	(4,011)	-	(2,954)	(24,828)
Effect of the change in fair value	4,980	-	-	-	-	4,980
Balance at December 31, 2020	161,131	1,419,856	387,065	-	854,038	2,822,090
Net book value at December 31, 2020	**543,338**	**699,702**	**177,750**	**30,316**	**2,120,063**	**3,571,169**
Net book value at January 1, 2020	**543,044**	**689,984**	**191,456**	**143,719**	**2,320,283**	**3,888,486**

30.4 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.

30. PROPERTY, PLANT AND EQUIPMENT (Continued)

30.5 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**

30.6 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.

31. 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 Bank 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.

32. OTHER ASSETS

32.1. Other assets relate to:

	2021	2020
Other assets in RSD:		
Fee and commission receivables calculated per other assets	104,206	99,073
Advances paid, deposits and retainers	13,644	10,639
Receivables per actual costs incurred	221,526	350,938
Receivables from the RS Health Insurance Fund	58,583	50,601
Other receivables from operations	702,630	500,337
Assets acquired in lieu of debt collection	4,927	4,927
Accrued other income receivables	32,021	19,042
Deferred other expenses	137,341	133,989
	1,274,878	1,169,546
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	1,391,840	1,249,587
Impairment allowance	(62,492)	(32,038)
Balance at December 31	**1,329,348**	**1,217,549**

32.2. 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)	(29,906)	(17,272)
Impairment losses:				
(Charge for the year)/reversals	(22,284)	366	(145,478)	(86,735)
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	(22,284)	366	(8,170)	(12,634)
Balance at December 31	**(24,416)**	**(2,132)**	**(38,076)**	**(29,906)**

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

33. 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	662,110	1,359,311
- interest rate options	39,255	69,694
- commodity swap	-	7,303
Balance at December 31	**723,925**	**1,632,761**

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

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

	2021	2020
Demand deposits:		
- in RSD	6,519,563	4,080,825
- in foreign currencies	1,320,007	1,959,194
Total demand deposits	7,839,570	6,040,019
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	11,270,490	5,576,774
- in foreign currencies	8,304,260	11,538,622
Total short-term deposits	19,574,750	17,115,396
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	32,243,988	36,916,720
Total long-term borrowings	40,942,024	40,559,295
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	**119,929,606**	**118,600,560**

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 Bank 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.

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

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

	2021	2020
European Bank for Reconstruction and Development (EBRD)	21,914,935	22,557,244
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
Balance at December 31	**40,942,024**	**40,559,295**

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

35. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

35.1. 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**

35.2. 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 35.3)	311,656	874,197
Balance at December 31	**314,207,092**	**268,373,476**

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.

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

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

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.

35.3. 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 Bank for periods from 6 to 13 years at nominal interest rates to 0.012% per annum.

36. 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 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).

During 2021, the Bank 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 Bank 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.

37. PROVISIONS

37.1 Provisions relate to:

	2021	2020
Individual provisions for off-balance sheet items	76,371	97,754
Collective provisions for off-balance sheet items	189,728	241,809
Provisions for other long-term employee benefits	159,864	135,539
Provisions for potential litigation losses	3,659,744	1,809,594
Balance at December 31	**4,085,707**	**2,284,696**

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

37. PROVISIONS

37.2 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 43.1)	Total
Balance at January 1	97,754	241,809	135,539	1,809,594	2,284,696
Charge for the year:					
- in the income statement	65.560	152.207	21.496	2.348.950	2.588.213
- in the statement of other comprehensive income	-	-	5,418	-	5.418
	65.560	152.207	26.914	2.348.950	2.593.631
Release of provisions	-	-	(2,589)	(458,893)	(461.482)
Reversal of provisions (Notes 13 and 18)	(86.943)	(204.288)	-	(39.907)	(331.138)
Balance at December 31	**76.371**	**189.728**	**159.864**	**3.659.744**	**4.085.707**

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

38. DEFERRED TAX ASSETS AND LIABILITIES

38.1 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	56,347	-	56,347	154,516	-	154,516
Deferred tax assets in respect of unrecognized current year expenses	584,199	-	584,199	188,490	-	188,490
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	7,980	-	7,980	7,168	-	7,168
Total	**674,369**	**(56,108)**	**618,261**	**419,208**	**(520,030)**	**(100,822)**

38.2 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	154,516	(98,169)	-	56,347
Deferred tax assets in respect of unrecognized current year expenses	188,490	395,709	-	584,199
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	7,168	-	812	7,980
Total	**(100,822)**	**242,168**	**476,915**	**618,261**

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

39. OTHER LIABILITIES

39.1. Other liabilities include:

	2021	2020
Advances received. deposits and retainers:		
- in RSD	24,161	20,313
- in foreign currencies	3,575	4,820
Trade payables:		
- in RSD	271,014	237,374
- in foreign currencies	152,747	245,920
Lease liabilities (Note 39.2):		
- in RSD	423,018	502,592
- in foreign currencies	1,458,629	1,646,566
Other liabilities:		
- in RSD	9,821,581	7,660,734
- 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	269,478	197,028
- in foreign currencies	60,769	63,495
Accrued other expenses:		
- in RSD	609,659	547,445
- in foreign currencies	95,742	41,936
Liabilities per managed funds	19,586	30,024
Taxes and contributions payable	73,843	90,492
Balance at December 31	**14,946,085**	**12,436,815**

39.2. 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**

39.3. 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.

39. OTHER LIABILITIES (Continued)

39.4. Breakdown of income and expenses per lease arrangements in 2021 is provided in the following table:

	2021	2020
Depreciation charge of the right-of-use assets (Note 30.5, 30.6)	(457,109)	(441,714)
Interest expenses per lease liabilities (Note 7)	(43,072)	(47,508)
Rental costs (Note 19.2)	(370,026)	(372,044)
Sublease income	9,473	7,657
Balance at December 31	**(860,734)**	**(853,609)**

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

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

Unreconciled receivables totaled to RSD 3,420,262 thousand (1,287 open items) which represents 1.41% of total amount of receivables for balance reconciliation (RSD 242,884,423 thousand), i.e. 1.52% of total number of receivable items (84,907 open items).

Unreconciled liabilities totaled to RSD 56,399,602 thousand (2,235 open items) which represents 16.68% of total amount of liabilities for balance reconciliation (RSD 338,083,721 thousand), i.e. 3.02% of total number of items of liabilities (73,951 open items).

41. EQUITY

41.1. Equity is comprised of:

	2021	2020
Issued capital – share capital	23,607,620	23,607,620
Share premium	562,156	562,156
Retained earnings	5,877,750	5,336,689
Reserves	53,944,460	53,444,294
Balance at December 31	**83,991,986**	**82,950,759**

As of December 31. 2021, the Bank'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 Bank 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)

41.2. Earnings per Share

The basic earnings per share amounted to RSD 2,489 in 2021 (2020: RSD 2,260).

Diluted earnings per share are equal to the basic earnings per share given that the Bank has no contingent shares, i.e., shares embedded in other financial instruments or contracts that may entitle their holders to the ordinary shares of the Bank.

41.3. Breakdown of other comprehensive income after taxes is provided in the table below:

	2021	2020
Actuarial losses per defined employee benefits	(4,605)	(22,889)
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	**(2,702,523)**	**(1,200,915)**

42. 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**

43. CONTINGENT LIABILITIES AND COMMITMENTS

43.1. Litigation

As of December 31, 2021, there were 37,679 legal suits filed against the Bank (including 10 labor lawsuits) with claims totaling RSD 8,363,785 thousand. In 488 of these proceedings plaintiffs are legal entities and in 37,191 proceedings private individuals appear as plaintiffs/claimants.

The Bank made provisions of RSD 3,659,744 thousand in respect of the legal suits filed against it (Note 37). The aforesaid amount of provisions includes those for the labor lawsuits filed.

In the majority of lawsuits filed against the Bank, 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 Bank, i.e., the estimate that the Bank 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.

43. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

43.2. 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	125,392,186	(162,167)
Other Off-Balance Sheet Items	95,231,861	(103,932)
Balance at December 31	**220,624,047**	**(266,099)**

	2020	
	Off-Balance Sheet Items exposed to credit risk	Provisions for Off - Balance Sheet Items
Guarantees and other irrevocable commitments	126,698,597	(203,823)
Other Off-Balance Sheet Items	77,380,242	(135,740)
Balance at December 31	**204,078,839**	**(339,563)**

43.3. The Bank'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 issued	5,408,777	2,704,345
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	**153,700,509**	**126,713,614**

In the ordinary course of business, the Bank 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.

43.4. Breakdown of the Bank'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**

43.5 The Bank'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.

44. RELATED PARTY DISCLOSURES

The Bank is under control of UniCredit S.p.A., Milan, domiciled and registered in Italy, which is the sole owner of the Bank's common stock shares (100%).

Related parties of the Bank are: parent bank, subsidiaries of the Bank, 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 Bank's board (ALCO and credit committees) have the authority and responsibility to plan, direct and control the activities of the Bank ("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.

44.1 Related party transactions

Exposures and liabilities as of December 31, 2021 arising from related party transactions are presented below:

	2021			
	Parent Bank	Subsidiaries	Key management	Other related parties *
Financial assets				
- Investment in subsidiaries	-	112,644	-	-
- Loans, receivables and other assets	31,731,984	566	79,090	3,003,771
Financial liabilities				
- Deposits and other liabilities	47,130,981	1,559,844	96,084	1,321,236
Off balance sheet items				
- Contingent liabilities for given guarantees and sureties	3,749,030	5,408,777	-	8,847,629
- Commitments for undrawn loans	-	-	-	632,970
- 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	Subsidiaries	Key management	Other related parties*
Financial assets				
- Investment in subsidiaries	-	112,644	-	-
- Loans, receivables and other assets	26,273,402	632	88,991	2,543,892
Financial liabilities				
- Deposits and other liabilities	46,024,166	2,285,843	201,966	1,069,941
Off balance sheet items				
- Contingent liabilities for given guarantees and sureties	3,867,595	2,704,345	-	7,144,094
- Commitments for undrawn loans	-	-	520	818,872
- 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

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

44. RELATED PARTY DISCLOSURES (Continued)

44.1 Related party transactions (Continued)

	2021				2020			
	Parent Bank	Subsidiaries	Key management	Other related parties*	Parent Bank	Subsidiaries	Key management	Other related parties*
Impairment allowance for balance and off balance exposures	2,074	6,939	89	10,098	35,779	2,198	14	6,123

Revenues and expenses generated in 2021 arising from transactions with related parties are presented in the following table:

	2021			
	Parent Bank	Subsidiaries	Key management	Other related parties*
Interest incomes	-	-	2,057	152,941
Interest expenses	(348,734)	(11,096)	(156)	(483,312)
Fee and commission incomes	90,399	12,418	199	364,684
Fee and commission expenses	(11,051)	-	-	(313,267)
Other incomes	10,018	47,566	-	23,212
Other expenses	(51,662)	-	-	(748,015)
Total	**(311,030)**	**48,888**	**2,100**	**(1,003,757)**

Revenues and expenses generated in 2020 arising from transactions with related parties are presented in the following table:

	2020			
	Parent Bank	Subsidiaries	Key management	Other related parties*
Interest incomes	8,524	-	1,777	104,350
Interest expenses	(418,888)	(14,022)	(520)	(469,556)
Fee and commission incomes	51,029	4,726	121	344,627
Fee and commission expenses	(8,880)	-	-	(269,780)
Other incomes	-	45,243	-	2,988
Other expenses	(203,050)	-	-	(701,494)
Total	**(571,265)**	**35,947**	**1,378**	**(988,865)**

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

44. RELATED PARTY DISCLOSURES (Continued)

44.1 Related party transactions (Continued)

Loan loss provison (ECL) for balance and off-balance exposures of relatied parties recognized in income statement are presented below:

	2021				2020			
	Parent Bank	Subsidiaries	Key management	Other related parties*	Parent Bank	Subsidiaries	Key management	Other related parties*
Net increase/(decrease) in impairment allowance	33,705	(4,741)	(75)	(3,975)	(34,987)	(1,473)	184	(1,747)

*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.

44.2 Key management payments

Key management payments during 2021 and 2020 are presented below:

	2021	2020
Short-term employee benefits	194,252	231,727
Other long-term benefits	1,724	14,582
Share-based payments	6,265	3,851
Balance at December 31	**202,241**	**250,160**

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 Bank.

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 5,453 thousand (in 2020: RSD 5,447 thousand) and they are included in the amount of short-term remuneration of key management.

45. 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 Bank 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 Bank (adjusting events).

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

"UniCredit Bank Srbija a.d." Beograd
"UniCredit Bank Serbia JSC" Belgrade
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Mirjana Kovačević
Head of the Accounting Department