HALKBANK a.d. Beograd
Financial Statements and
Independent Auditor's Report
Year Ended December 31, 2021

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This is an English translation of the Report originally issued in the Serbian language
(For management purposes only)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of HALKBANK a.d. Beograd

Opinion

We have audited the financial statements of HALKBANK a.d. Beograd (hereinafter: the "Bank"), which comprise the statement of financial position as at December 31, 2021, the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

Other Information

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

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

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

1. The information presented in the Bank's Annual Business Report for 2021 is consistent, in all material respects, with the accompanying financial statements for the year ended December 31, 2021.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of HALKBANK a.d. Beograd (Continued)

Other Information (Continued)

2. The accompanying Annual Business Report for 2021 is prepared in accordance with the Law on Accounting of the Republic of Serbia.

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with 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 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 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.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of HALKBANK a.d. Beograd (Continued)

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Belgrade, March 25, 2022

Deloitte d.o.o. BEOGRAD IV

Olivera Andrijašević
Certified Auditor
and on behalf of Deloitte d.o.o., Beograd

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

	Note	2021	2020
Interest income	3.1, 4a	3,105,259	2,714,093
Interest expenses	3.1, 4b	(615,413)	(521,547)
Net interest income		**2,489,846**	**2,192,546**
Fee and commission income	3.2, 5a	1,512,865	981,159
Fee and commission expenses	3.2, 5b	(339,157)	(207,104)
Net fee and commission income		**1,173,708**	**774,055**
Net (gains)/losses on changes in the fair value of financial instruments	6	5,258	(2,491)
Net gains on derecognition of the financial assets measured at fair value	7	120,362	80,392
Net foreign exchange gains and positive currency clause effects	3.3, 8	15,071	17,260
Net losses on impairment of financial assets not measured at fair value through profit or loss (FVtPL)	9a	(165,781)	(294,510)
Net gains on derecognition of financial instruments measured at amortized cost	10	-	252
Other operating income	11	13,899	11,184
TOTAL OPERATING INCOME, NET		**3,652,363**	**2,778,688**
Salaries, salary compensations and other personnel expenses	12	(1,125,268)	(958,415)
Depreciation and amortization charge	3.4, 3.5, 3.6, 20	(464,110)	(404,384)
Other income	13	24,980	36,913
Other expenses	13	(1,141,501)	(923,096)
PROFIT BEFORE TAXES		**946,464**	**529,706**
Current income tax expense	3.10, 14	58,589	-
Deferred tax gains/(losses)	3.10, 14	1,519	-
PROFIT FOR THE YEAR	26	**889,394**	**529,706**

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

These financial statements were approved by the Executive Board of HALKBANK a.d. Beograd on March 24th, 2022.

Aleksandar Mijailović	Dušica Erić	Kenan Bozkurt
Head of the Financial Management and Planning Division	Member of the Executive Board	Chairman of the Executive Board

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

	2021	2020
PROFIT FOR THE YEAR	**889,394**	**529,706**
Components of other comprehensive income that cannot be reclassified to the profit or loss:		
Decrease in revaluation reserves arising from intangible assets and property, plant and equipment (Note 20b)	(12,096)	(209,504)
Actuarial losses (Note 24b)	(6,060)	(2,882)
Components of other comprehensive income that can be reclassified to the profit or loss:		
Positive effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVtOCI) (Note 17)	11,673	18,127
Negative effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVtOCI) (Note 17)	(770,928)	(155,113)
Total (negative)/positive other comprehensive income for the year	**(777,411)**	**(349,372)**
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE YEAR	**111,983**	**180,334**

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Head of the Financial Management and Planning Division	Member of the Executive Board	Chairman of the Executive Board

AKCIONARSKO DRUŠTVO HALKBANK BEOGRAD

STATEMENT OF FINANCIAL POSITION
As of December 31, 2021
(Thousands of RSD)

	Note	December 31, 2021	December 31, 2020
ASSETS			
Cash and balances held with the central bank	3.8, 15	12,689,315	13,707,004
Pledged financial assets	17	-	1,200,000
Receivables under derivatives	16	901	-
Securities	3.7, 17	14,280,687	9,920,811
Loans and receivables due from banks and other financial institutions	3.9, 18	3,838,517	2,398,670
Loans and receivables due from customers	3.9, 19	66,140,381	55,520,331
Intangible assets	3.6, 20a	716,894	321,182
Property, plant and equipment	3.4, 20b, 20c, 20e	1,481,391	1,367,676
Investment property	3.5, 20d	126,688	133,306
Deferred tax assets	3.10, 14b	48,224	62,393
Other assets	21	458,576	384,524
TOTAL ASSETS		**99,781,574**	**85,015,897**
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities under derivatives	16	-	1,266
Deposits and other liabilities due to banks, other financial institutions and the central bank	3.7, 22	7,644,590	10,355,655
Deposits and other liabilities due to customers	3.7, 23	74,488,194	60,969,422
Provisions	2.6, 24	249,468	77,546
Current tax liabilities	14b	58,589	-
Other liabilities	25	1,213,216	1,123,462
TOTAL LIABILITIES		**83,654,057**	**72,527,351**
EQUITY			
Share capital	3.11, 26	12,499,049	8,972,603
Profit	26	889,936	1,212,036
Reserves	3.11, 26	2,738,532	2,303,907
TOTAL EQUITY	26	**16,127,517**	**12,488,546**
TOTAL LIABILITIES AND EQUITY		**99,781,574**	**85,015,897**

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

These financial statements were approved by the Executive Board of HALKBANK a.d. Beograd on March 24th, 2022.

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AKCIONARSKO DRUŠTVO HALKBANK BEOGRAD

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	Retained earnings	Total equity
Opening balance at January 1, 2020	**6,260,280**	**2,712,323**	**1,726,528**	**926,752**	**472,836**	**12,098,719**
Opening balance at January 1, 2020, restated	**6,260,280**	**2,712,323**	**1,726,528**	**926,752**	**472,836**	**12,098,719**
Actuarial losses, net	-	-	-	(2,882)	-	**(2,882)**
Transfer from reserves to retained earnings due to reversal of reserves	-	-	-	(209,494)	209,494	**-**
Profit for the year	-	-	-	-	529,706	**529,706**
Previous year's profit distribution	-	-	-	-	(414,098)	**-**
Other	-	-	(1)	(10)	-	**(11)**
Other comprehensive income						
Negative effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVTOCI)	-	-	-	(136,986)	-	**(136,986)**
Balance at December 31, 2020	**6,260,280**	**2,712,323**	**1,726,527**	**577,380**	**1,212,036**	**12,488,546**
Opening balance at January 1, 2021	**6,260,280**	**2,712,323**	**1,726,527**	**577,380**	**1,212,036**	**12,488,546**
Capital increase	1,679,260	-	-	-	-	**1,679,260**
Share issue premium increase	-	1,847,186	-	-	-	**1,847,186**
Actuarial losses, net	-	-	-	(6,060)	-	**(6,060)**
Gains on the changes in the fair value of property, plant and equipment	-	-	-	3,304	-	**3,304**
Profit for the year	-	-	-	-	889,394	**889,394**
Previous year's profit distribution			1,212,036	-	(1,212,036)	
Transfer from reserves to retained earnings due to reversal of reserves	-	-	-	(15,400)	542	**(14,858)**
Other comprehensive income						
Negative effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVTOCI)	-	-	-	(759,254)	-	**(759,254)**
Other	-	-	-	(1)	-	**(1)**
Balance at December 31, 2021	**7,939,540**	**4,559,509**	**2,938,563**	**(200,031)**	**889,936**	**16,127,517**

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

These financial statements were approved by the Executive Board of HALKBANK a.d. Beograd on March 24th, 2022.

Aleksandar Mijailović
Head of the Financial Management and Planning Division

Dušica Erić
Member of the Executive Board

Kenan Bozkurt
Chairman of the Executive Board

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

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

	2021	2020
Cash inflows from operating activities	**4,832,014**	**3,336,228**
Interest receipts	3,307,350	2,336,690
Fee and commission receipts	1,510,907	986,193
Receipts of other operating income	13,135	13,345
Dividend receipts and profit sharing	622	-
Cash outflows from operating activities	**(3,076,435)**	**(2,612,465)**
Interest payments	(587,498)	(461,902)
Fee and commission payments	(336,113)	(204,341)
Payments to, and on behalf of employees	(1,044,406)	(1,017,402)
Taxes, contributions and other duties paid	(215,398)	(205,930)
Payments for other operating expenses	(893,020)	(722,890)
Net cash generated by operating activities prior to increases/decreases in financial assets and financial liabilities	**1,755,579**	**723,763**
Decrease in financial assets and increase in financial liabilities	**10,517,294**	**14,422,256**
Decrease in receivables per securities and other financial assets not intended for investment	1,524	-
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	10,515,770	14,422,256
Increase in financial assets and decrease in financial liabilities	**(6,999,509)**	**(11,660,016)**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers	(6,999,509)	(11,660,016)
Net cash generated by operating activities before income tax	**5,273,364**	**3,486,003**
Income tax paid	7,682	-
Net cash generated by operating activities	**5,265,682**	**3,486,003**
Cash inflows from investing activities	**1,510,809**	**2,228,958**
Proceeds from sales of investment securities	1,426,020	2,145,491
Proceeds from sales of intangible assets, property, plant and equipment	82,555	83,467
Proceeds from the sale of investment property	2,234	-
Cash outflows from investing activities	**(6,013,810)**	**(3,258,361)**
Cash used for investing in investments securities	(5,343,070)	(2,812,474)
Cash used for the purchases of intangible assets, property, plant and equipment	(670,740)	(445,887)
Net cash used in investing activities	**(4,503,001)**	**(1,029,403)**
Cash inflows from financing activities	**4,787,670**	**1,361,815**
Inflows based on capital increase	3,526,446	-
Inflows from borrowings	1,261,224	1,361,815
Cash outflows from financing activities	**(2,717,923**	**(2,267,599**
Cash used in the repayment of borrowings	(2,530,977)	(2,022,973)
Other outflows from financing activities	(186,946)	(244,626)
Net cash generated by/(used in) financing activities	**2,069,747**	**(905,784)**
TOTAL CASH INFLOWS	**21,647,787**	**21,349,257**
TOTAL CASH OUTFLOWS	**(18,815,359)**	**(19,798,441)**
NET CASH INCREASE	**2,832,428**	**1,550,816**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**7,161,621**	**5,631,661**
FOREIGN EXCHANGE GAINS/(LOSSES), NET	**75,627**	**(20,856)**
CASH AND CASH EQUIVALENTS, END OF YEAR	**10,069,676**	**7,161,621**

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

These financial statements were approved by the Executive Board of HALKBANK a.d. Beograd on March 24th, 2022.

AKCIONARSKO DRUŠTVO HALKBANK BEOGRAD

Aleksandar Mijailović	Dušica Erić	Kenan Bozkurt
Head of the Financial Management and Planning Division	Member of the Executive Board	Chairman of the Executive Board

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

1. BANK'S ESTABLISHMENT AND ACTIVITY

1.1. Establishment

HALKBANK a.d. Beograd, formerly known as Čačanska banka, has been operating since July 1, 1956, and during its operations and development it has changed its legally registered name and organizational form several times.

In May 2015, Turkiye Halk Bankasi AS, Instanbul/Turkey became the majority owner of Čačanska banka. The change of ownership caused the change to the Bank's name and headquarters. The new name of the Bank is HALKBANK a.d. Beograd (hereinafter: the "Bank"). During 2018, Turkiye Halkbankasi AS, Istanbul/Turkey became it sole (100%) owner after purchase of the remaining shares held by the minority (non-controlling) shareholders.

The Bank was registered with the Serbian Business Registers Agency under number BD 54244 as of September 13, 2005.

1.2. Activities

The Bank is registered in the Republic of Serbia for payment, credit and deposit activities in the country and abroad and it operates in accordance with the effective Law on Banks.

The Bank's head office is in Belgrade, at the address of no. 9e, Milutina Milankovica Street, as registered with the Business Registers Agency under number BD 82129/2016 on October 19, 2016.

As of December 31, 2021, the Bank's network consisted of 28 branches (2020: 28 branches), as follows: Belgrade (9 branches), Čačak (3 branches), Jagodina, Gornji Milanovac, Kraljevo, Užice, Kragujevac, Kruševac, Aranđelovac, Valjevo, Šabac, Niš, Leskovac, Novi Sad, Pančevo, Novi Pazar, Subotica and Smederevo. The Bank also had 8 sub-branches (2020: 7 sub-branches) in Paraćin, Požega, Topola, Ivanjica, Vrnjačka Banja, Zrenjanin, Tutin and Pirot and 1 cash desk.

In 2021 the Bank opened a new sub-branch in Pirot.

As of December 31, 2021, the Bank had 589 employees (December 31, 2020: 540 employees). The Bank's tax identification number is 100895809.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION

2.1. Basis of Preparation and Presentation of the Financial Statements

The financial statements of the Bank (hereinafter "the financial statements") for 2021 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the regulations of the National Bank of Serbia governing the financial reporting of banks.

In accordance with the Law on Accounting ("Official Gazette of RS", nos. 73/2019 and 44/2021 – the other law), the Bank, as a large legal entity, is obligated to apply the International Financial Reporting Standards ("IFRS") . In addition, in accordance with the Amendments to the Law on Banks ("Official Gazette of RS", No. 14/2015), banks in the Republic of Serbia are obliged to apply International Financial Reporting Standards, as well as subsequent amendments to standards and related interpretations, from the date determined by the competent international body as the date of their application.

The accompanying financial statements are presented in the format prescribed by the Decision on Forms and Content of Items in the Financial Statement Forms to Be Completed by Banks (Official Gazette of RS no. 93/2020).

The accompanying financial statements are stand-alone financial statements of the Bank. The Bank is not a parent entity, i.e., it has no subsidiaries or associates so that it does not prepare consolidated financial statements. The Bank's sole shareholder is Turkiye Halkbankasi AS, Istanbul/Turkey.

The accompanying financial statements pertain to the reporting period ended December 31, 2021. These financial statements were approved by the Bank's Executive Board on March 24th, 2022.

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

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

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

- financial instruments measured at fair value through other comprehensive income (FVtOCI); and
- derivative financial instruments stated at fair value.

Historical cost is generally based on the fair value of consideration paid in exchange for goods and services. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Upon estimating the fair value of assets or liabilities, the Bank takes into account characteristics of assets or liabilities that other market participants would also consider upon determining the price of assets or liabilities at the measurement date. Fair value for measurement and/or disclosure purposes in the accompanying financial statements was determined in the aforesaid manner, except for 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.

In addition, 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 financial statements, the Bank adhered to the accounting policies described in Note 3.

Published standards and interpretations that have become effective in the current period are disclosed in Note 2.2, while new standards and amendments to existing standards that have been issued but are not yet in force are disclosed in Note 2.3.

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

2.2. Adoption of the New Standards, Amendments to the Existing Standards and Interpretations Effective for the Current Reporting Period

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 IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases" – *Interest Rate Benchmark Reform — Phase 2*;
- Amendments to IFRS4 IFRS 4 "Insurance Contracts" – *Extension of the Temporary Exemption from Applying IFRS 9*; and
- Amendments to IFRS 16 "Leases" – *Covid-19-Related Rent Concessions effective for annual periods beginning on or after June 1, 2020.*

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

2.3. New Standards and Amendments to the Existing Standards in Issue not Yet Adopted

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

- Amendments to IFRS 3 "Business Combinations", IAS 16 "Property, Plant and Equipment" and IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", and Annual Improvements to IFRS Standards 2018–2020 (effective for annual periods beginning on or after January 1, 2022);

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

2.3. New Standards and Amendments to the Existing Standards in Issue not Yet Adopted (Continued)

- IFRS 17 "Insurance Contracts" including amendments to IFRS 17 (effective for annual periods beginning on or after January 1, 2023);
- Amendments to IAS 1 "Presentation of Financial Statements" – *Classification of Liabilities as Current or Non-Current* (effective for annual periods beginning on or after January 1, 2023);
- Amendments to IAS 1 "Presentation of Financial Statements" – *Disclosure of Accounting Policies* (effective for annual periods beginning on or after January 1, 2023);
- Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" – *Definition of Accounting Estimates* (effective for annual periods beginning on or after January 1, 2023);
- Amendments to IAS12 "Income Taxes" – *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* (effective for annual periods beginning on or after January 1, 2023); and
- Amendments to IFRS 17 "Insurance Contracts" – *Initial Application of IFRS 17 and IFRS 9 – Comparative Information* (effective for annual periods beginning on or after January 1, 2023).

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.

2.4. Comparative Information

Comparative information in the accompanying financial statements comprise the data from the Bank's financial statements for 2020. The Bank's accounting policies and estimates relating to the recognition and measurement of assets and liabilities used upon preparation of the accompanying financial statements are consistent with the accounting policies and estimates used in the preparation of the Bank's financial statements for FY 2021.

In accordance with the instructions of the National Bank of Serbia, in 2021 the Bank reclassified income and expenses arising from purchases and sales of foreign currencies and foreign money from the line item of net foreign exchange gains/(losses) and currency clause effects to the line item of the net fees and commission income. The Bank did not reclassify the 2020 amounts due to the immaterial effect of such reclassification.

2.5. Statement of Compliance

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

2.6. Key Accounting Estimates and Judgments

Preparation and presentation of the financial statements requires the Bank's management to make the best estimates and reasonable assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as income and expenses for the reporting period. The actual values of the 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.

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

a) *Impairment of Financial Assets*

Policies applicable as from January 1, 2018

The Bank recognizes ECL provisions for financial assets measured at AC or for debt instruments measured at FVtOCI and for credit commitments and guarantees issued.

Assumptions and estimates used by the Bank as inputs to the model for ECL measurement and assessment of a significant increase in credit risk are disclosed in Note 29.1.

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

2.6. Key Accounting Estimates and Judgments (Continued)

a) Impairment of Financial Assets (Continued)

Policies applicable as from January 1, 2018

The evidence could include available data indicating adverse changes in respect of the customer's ability to settle its liabilities toward the Bank in a timely manner.

The Bank's management makes estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those of the portfolio, at the time of projecting its future cash flows. The methodology and assumptions used for estimating both the amount and timing of the future cash flows are reviewed on a regular basis in order to reduce any differences between the estimated and actual losses (Notes 9b, 18 and 19).

b) Useful Lives of Intangible Assets, Property, Plant and Equipment

The determination of the useful lives of intangible assets, property and equipment is based on historical experience with similar assets as well as on any anticipated technological development and changes influenced by wide range of economic or industry factors. Adequacy of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions (Note 20).

c) Impairment of Non-Financial Assets

As of the reporting date, the Bank's management reviews the carrying amounts of the Bank's intangible assets and property, plant and equipment presented in the financial statements. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount (Note 20).

d) Provisions, Contingent Liabilities and Contingent Assets

Provisions are 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. In order to be maintained, the best possible estimates are considered, determined and, if necessary, adjusted at each reporting date.

When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are reversed through profit and loss. Provisions are monitored per type and they can be used only for the expenses they were initially recognized for. Provisions are not recognized for future operating losses.

Contingent liabilities are not recognized in the financial statements. Contingent liabilities are disclosed in the notes to the financial statements, unless the probability of an outflow of resources containing economic benefits is very remote (Note 24).

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

e) Provisions for Litigations

The Bank is involved in a number of legal proceedings arising from daily operations that relate to commercial, contractual and labor disputes, which are resolved and considered in the course of regular business activities. The Bank regularly estimates the probability of negative outcomes of these matters, as well as the amounts of probable or reasonably estimated losses.

Reasonable estimates include judgments made by management, after considering information including notifications, settlements, estimates performed by the Legal Department, available facts, identification of other potentially responsible parties and their ability to contribute as well as prior experience.

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

2.6. Key Accounting Estimates and Judgments (Continued)

e) Provisions for Litigations (Continued)

A provision represents a liability with an uncertain maturity date or an uncertain amount. A provision is an amount of monetary funds the Bank sets aside in order to provide for the outflows for expected and possible yet at the moment of provisioning uncertain liabilities which may arise in the future as a result of pre-defined past events. Provisions are estimated on a quarterly basis. The required provision may change in the future due to occurrence of new events or obtaining additional information.

f) Deferred Tax Assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that expected future taxable profit will be available, against which the unused tax losses can be utilized. The Bank's management necessarily makes significant estimates in order to determine the amount of deferred tax assets that can be recognized, based on the period of occurrence and the amount of future taxable profit. Additional information in this respect is disclosed in Note 3.10.

g) Retirement and Other Post-Employment Benefits

The costs of defined employee benefits payable upon termination of employment, i.e., retirement in accordance with the fulfilled legal requirements, are determined based on the actuarial valuation. The actuarial valuation includes the average salary paid in the Republic of Serbia, an assessment of the discount rate, future movements in salaries, mortality rates and employee turnover. As these plans are long-term, significant uncertainties influence the outcome of the estimations. Additional information in this respect is disclosed in Note 3.12.

h) Fair Value of Financial Instruments

Fair value of the financial instruments traded in an active market is based on quoted market prices at the reporting date. Fair value of the financial instruments that are not quoted in an active market is determined using certain valuation techniques, which entail using judgement in fair value assessment. Valuation models reflect the current market conditions at the fair value measurement date and need not represent the market conditions prevailing before or after the measurement date. Therefore, valuation techniques are periodically reviewed so as to adequately reflect the market conditions.

Those entail the use of the present value method and other methods and models based on the observable and, to a less extent, unobservable inputs.

Valuation models are primarily used for measurement of derivatives in the stock exchange market and government bonds and debt securities not traded in active markets. These models take into account the credit risk impact if it is material. All valuation models are validated before they are used as the basis for financial reporting and they are subject to periodic review by qualified staff members, independent of those that created the model.

Wherever possible, the Bank compares the measurement resulting from the model applied to the quoted prices of the similar financial instruments and the actual prices achieved in actual transactions in order to validate calibrate its models. Various factors are incorporated into the Bank's models, including the actual and estimated market values and rates, as well as the time factor and changes in the market depth, liquidity and changes in the credit risk of financial liabilities.

The Bank applies models consistently from one period to another, thus ensuring comparability and continuity of valuation during time. However, fair value assessment inevitably entails significant extent of judgement. Therefore, the management sets up valuation adjustments to cover the differences relating to the estimates of unobservable parameters and assumptions within the models.

Although in some instances substantial judgement is required for fair value assessment, the management believes that the fair values presented in the statement of financial position and changes in the fair values reported in the income statement are prudent and reflect the actual economic conditions, based on the executed controls and protection procedures.

Valuation methods, assumptions and techniques used in fair value assessment are explained in greater detail in Note 29.

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

2.6. Key Accounting Estimates and Judgments (Continued)

i) The Bank's Related Parties

In accordance with the Law on Banks and in accordance with the internal Exposure Risk Management Procedure, the persons related to the Bank are:

1) members of the banking group in which the Bank is, HALKBANK;
2) members of the Management and Executive Board of the Bank, members of the Board of the Bank determined by the Law on Banks, members of the management and governing body of a member of the banking group in which the Bank is, as well as family members of these persons;
3) persons with participation in the bank and in persons who are members of the banking group in which the Bank is, as well as family members of these persons;
4) legal entities in which the persons referred to in item 2) and 3) of this paragraph have a controlling interest.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest Income and Expenses

The Bank presents within the income statement income (revenues) and expenses grouped according to their nature and discloses the amounts of the major types of income and expenses.

Presentation in the income statement and disclosures in the notes to the financial statements cover all the income and expense items in accordance with the prescribed content and forms for preparation of the financial statements.

For all interest-bearing financial instruments, interest income and expenses are recognized within the income statement using the effective interest rate method.

The Bank ceases to recognize income from accrued regular interest in the following cases:
- when a decision has been made on instigation of a bankruptcy procedure over the borrower;
- when a decision on instigation of court proceedings for collection of receivables from the borrower has been made;
- when decision on derecognition of income from accrued interest has been made by the Bank's competent board or when other circumstances, which aggravate the collection of receivables, have been identified;
- when the borrower, a legal entity or an entrepreneur, is over 150 days past due in liability settlement.

When the Bank ceases to recognize income from accrued regular interest, a suspended interest calculation is performed in order to reconcile receivables and liabilities with the debtor and the accrued interest is recorded by the Bank within the other off-balance sheet assets. After identifying objective evidence of impairment and recognizing an impairment loss, interest income on Level 3 placements is calculated and recognized in the income statement using the effective interest rate on a net basis (Unwinding).

Loan origination fees per loans with pre-defined repayment schedules are recognized within the interest income in the profit or loss statement and are amortized using the effective interest method. Loan origination fees per loans without pre-defined repayment schedules (framework loans, current account overdrafts, credit cards and the like), guarantees and other types of sureties are amortized on a straight-line basis and presented within the fee and commission income.

3.2. Fee and Commission Income and Expenses

All fees and commissions that are not an integral part of the effective interest rate of the financial instrument are accounted for in accordance with IFRS 15.

Revenue is recognized over time when or until the Bank fulfils its obligations, i.e., when it transfers the promised services to its customers.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.2. Fee and Commission Income and Expenses (Continued)

The Bank recognizes as contract liabilities consideration received for unfulfilled performance obligations and presents them as other liabilities in the statement for financial position. Similarly, if the Bank fulfils a performance obligation before it receives the consideration it recognizes in the statement of financial position either a contract asset or receivable depending on whether or not something other than a certain time to obtain the consideration is required.

Fees and commissions consist mainly of fees for payment operations, fees for guarantees, fees from FX changes, fees per payment cards and these revenues are related to both the corporate and retail segment of customers, as disclosed in Note 5.

In all cases the total transaction price for a certain contract is allocated between the various performance obligations based on the relatively separate sales prices of the separate products and services. The consideration that the Bank receives is determined in the various Bank's tariffs and does not include a variable component. The transaction price under the contract excludes all amounts collected on behalf and at the expense of third parties. Fee and commission income is recognized over time. Significant part of the fee and commissions income is recognized after the service is provided and the consideration is collected from the customer.

Commissions arising from foreign currency transactions are reported in the statement of profit or loss and other comprehensive income upon their receipt. Loan origination and processing fees and commissions when considered to be part of the effective income are amortized during the loan term and are recognized as current finance income during the period by applying the effective interest method.

3.3 Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at the official middle exchange rate of the National Bank of Serbia effective as at the transaction date.

Assets and liabilities denominated in foreign currencies at the reporting date are translated into dinars at the official middle exchange rate of the National Bank of Serbia effective as at the reporting date.

Net foreign exchange effects arising upon performance of transactions in foreign currencies and upon translation of the assets and liabilities denominated in foreign currencies are recognized as foreign exchange gains or losses, in accordance with IAS 21 – "The Effects of Changes in Foreign Exchange Rates". Gains and losses arising in instances of annuities (installments) linked to an RSD/ foreign currency exchange rate are calculated at the reporting date and presented as positive or negative currency clause effects.

Commitments and contingent liabilities denominated in foreign currencies are translated into dinars at the official middle exchange rate of the National Bank of Serbia effective as at the reporting date.

3.4. Property, Plant and Equipment

Building properties are initially measured at cost or at purchase price. Cost includes expenditure that is directly attributable to the acquisition of assets.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are recognized as expenses in the income statement of the financial period in which they are incurred.

Valuation of buildings after the initial recognition is performed using the revaluation model stipulated by IAS 16 – "Property, Plant and Equipment", buildings are stated at revalued amounts less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Assessment of revalued amounts and useful life of buildings is carried out at least once every three years by an independent certified appraiser (expert valuer in civil engineering).

Assessment of the Bank's building property market value/impairment was performed by an independent certified appraiser as of November 30, 2021.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Property, Plant and Equipment (Continued)

Plant and equipment are initially measured at cost, less accumulated depreciation and subsequently at cost less accumulated depreciation and impairment losses, if any.

Depreciation is calculated on a straight-line basis to the cost or revalued amount of each part of an item of property, plant and equipment and investment property in order to fully write off the cost of assets over their estimated useful lives in accordance with the Bank's Rulebook on Amortization of Intangible Assets and Depreciation of Property, Equipment and Investment Property.

At each year-end, the Bank internally reviews the carrying amounts of its buildings in order to determine if there are indications that there have been any impairment losses. If there are such indications, the Bank assesses the recoverable amounts of such assets in order to determine impairment loss amounts, if any.

The following depreciation rates were used in 2021 and were not changed compared to the rates used in 2020:

Buildings	2.50%
Investment property	2.50%
Leasehold improvements	16.67% - 20.00%
Computer equipment	20.00%
Furniture and other equipment	16.67% - 20.00%

3.5. Investment Property

Investment property is property held by the Bank for the purpose of lease and it is accounted for in accordance with IAS 40 – "Investment Property". Investment property is initially measured at cost or purchase price.

After initial recognition, the Bank measures its investment property at cost less the accumulated depreciation.

Depreciation of investment property is calculated using the straight-line method over an estimated life of investment property, in accordance with the Bank's internal bylaws. Depreciation of investment property is carried out over the period of 40 years, using a depreciation rate of 2.5%

At each year-end, the Bank internally reviews the carrying amounts of its investment properties in order to determine if there are indications that there have been any impairment losses. If there are such indications, the Bank assesses the recoverable amounts of such assets in order to determine impairment loss amounts, if any.

3.6. Intangible Assets

Intangible assets are measured at cost or purchase price, while after initial recognition, intangible assets are carried at cost less accumulated amortization and subsequent accumulated impairment losses. Intangible assets comprise licenses, patents and software.

Amortization is calculated using the straight-line method to the cost of intangible assets over the agreed period of use of such assets or their estimated useful lives unless a period of use is agreed. Most commonly, those are periods from 3 to 5 years.

3.7. Financial Instruments

A financial instrument is each contract based on which a financial asset of one entity and a financial liability or an equity instrument of another entity arise. The Bank recognizes its financial assets and financial liabilities in the statement of financial position in accordance with IFRS 7 "Financial Instruments: Disclosures" and IFRS 9 "Financial Instruments". The Bank recognizes a financial asset or a financial liability from the moment it becomes a party to the contractual terms of an instrument.

Financial instruments are classified into:

a) Financial assets
  - Equity instruments
  - Debt instruments
  - Derivatives

b) Financial liabilities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial Instruments (Continued)

3.7.1 Financial Assets

3.7.1.1 Equity Instruments

Financial equity instruments refer to the equity investments (interests) represent long-term financial investments in equity of other entities (banks, insurance companies, shareholding and limited liability companies) that have not been acquired for sale in the near term, as well as securities, i.e., shares of other entities acquired for sale in the near term.

The accounting treatment of the equity investments depends on the influence the investor has over the investee. The following three cases are possible:

- The investor has control over the investee (investments in subsidiaries) and the parent-subsidiary relationship is formed if the equity investment exceeds 50% or other criteria are met as defined by IAS 27;
- The investor exercises a significant influence over the investee (investments in associates) and the parent-associate relationship is formed if the equity investment exceeds 20% or other criteria are met as defined by IAS 28; and
- The investor exercises no significant influence over the investee (other investments) if the equity investment is below 20%.

The Bank is not a parent entity, i.e., it has neither subsidiaries nor associates and does not prepare consolidated financial statements. Equity investments the Bank holds in other entities and shares are stated at fair value and the changes in fair value thereof are recorded in the profit or loss statement (FVtPL) under IFRS 9.

3.7.1.2 Debt Instruments

The Bank classifies debt instruments as financial assets subsequently measured at amortized cost (AC), at fair value through other comprehensive income (FVtOCI) and fair value through profit or loss (FVtPL) based on:

- the business model for management of the financial assets, and
- characteristics of the contractual cash flows of the financial assets.

Debt instruments are classified upon initial recognition, i.e., when the Bank becomes a party to the contractual terms of the instrument.

Debt instruments are initially measured at fair value increased by transaction costs directly attributable to the acquisition or issuance of the financial asset, except for the financial assets at FVtPL.

The transaction cost or fair value of the consideration given or received in exchange for a financial instrument is usually the best evidence of the fair value of the financial instrument upon initial recognition.

Debt instruments measured at amortized cost (AC)

Debt instruments are measured at AC if the following two criteria are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows (HTC model); and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The Bank's business model for classification and measurement of the Bank's loans and receivables and letters of credit and guarantees except for debt securities is AC measurement model (the hold-to-collect model and cash flows that are solely payments of principal and interest – HTC and SPPI). Only if the SPPI test reveals that contractual terms exist due to which the assets have failed the SPPI test and cannot therefore be measured at AC, does the Bank use the fair value through profit or loss measurement model (FVtPL). Debt securities may be measured and held within the amortized cost model, FVtOCI model and FVtPL model, depending on each individual case and intention of the management.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial Instruments (Continued)

3.7.1 Financial Assets (Continued)

3.7.1.2 Debt Instruments (Continued)

Debt instruments measured at amortized cost (AC) (Continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Amortized cost is the amount at which a financial asset is measured upon initial recognitions increased or decreased by accumulated amortization using the effective interest method on all the differences between the initial amount and amount upon maturity, less any payments and adjustments for expected credit losses. All loans and receivables originated by the Bank are recognized in the statement of financial position in the amount of gross amortized cost less the individual allowances for impairment. Gross amortized costs represent total receivables from the Bank's customers (including principal outstanding, nominal interest, penalty interest, receivables for fees and other receivables) adjusted by the amount of unamortized fees.

The initial effective interest rate for IFRS 9 purposes represents the rate that precisely discounts the estimated future cash inflows or outflows during the expected life of a financial asset or a liability to the gross carrying value thereof. For IFRS 9 purposes, the effective interest rate is calculated so that it can he used in the process of determining the amortized cost and interest income during the life of a financial instrument. In using the effective interest method, the Bank identifies fees that are part of the effective interest rate of the financial asset in accordance with its Impairment Allowance Methodology under IFRS 9

The Bank calculates and recognizes impairment allowance in accordance with its Impairment Allowance Methodology under IFRS 9 for all financial instruments measured at AC and at FVtOCI.

IFRS 9 introduces a concept of expected credit losses (ECL), entailing probability-weighted estimates of the lifetime ECL if the credit risk of the financial instruments has significantly increased since initial recognition or there is objective evidence of its impairment identified (Stage 2 and Stage 3 assets) or of the 12-month ECL the Bank is to identify and recognize for all financial for all financial instruments where the credit risk has not s significantly increased since initial recognition (Stage 1 assets).

The Bank calculates and recognizes impairment allowance in accordance with its Impairment Allowance Methodology under IFRS 9 for all financial instruments measured at AC and at FVtOCI.

IFRS 9 introduces a concept of expected credit losses (ECL), entailing probability-weighted estimates of the lifetime ECL if the credit risk of the financial instruments has significantly increased since initial recognition or there is objective evidence of its impairment identified (Stage 2 and Stage 3 assets) or of the 12-month ECL the Bank is to identify and recognize for all financial for all financial instruments where the credit risk has not s significantly increased since initial recognition (Stage 1 assets).

In its internal bylaws the Bank has defined parameters the identification of which is indicative of the significant increase in credit risk of Stage 2 customers and the default status for Stage 3 customers.

Debt instruments measured at fair value through other comprehensive income (FVtOCI)

Financial assets are measured at FVtOCI if the following two criteria are met:
- the objective of the business model within which the Bank holds the assets is achieved by collection of the contractual cash flows and by sale of the assets; and
- the contractual terms of the assets give rise to the cash flows at specific future dates that represent solely payments of the principal and interest on the principal amount outstanding.

Debt instruments measured at FVtOCI are assets that the Bank intends to hold for an indefinite period yet they may be sold for liquidity maintenance purposes or due to changes in the interest rates, foreign exchange rates or market prices.

Upon initial recognition of such assets, the Bank measures them at fair value increased by transaction costs.

Following their initial recognition, these financial assets are measured at fair value with gains or losses on the changes in their fair value and impairment losses (impairment allowances) recognized under revaluation reserves within equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial Instruments (Continued)

3.7.1 Financial Assets (Continued)

3.7.1.2 Debt Instruments (Continued)

Debt instruments measured at fair value through other comprehensive income (FVtOCI) (Continued)

Impairment allowance of the financial assets measured at FVtOCI is calculated in the same manner as the imapirment allowance of financial assets measured at AC, However, the accumulated impairment allowance in the financial statements is not deducted from the fair value of assets but from the cumulative change in the fair value recorded within the other comprehensive income. Foreign exchange gains or losses, i.e., gains or losses on the changes in the value of the financial asset arising from the movements in the foreign exchange rates (if the asset is denominated in a foreign currency or linked to a currency clause) are not recognized within equity.

Pledged financial assets are measured under the same principle. These are financial assets that are allocated separately for accounting purposes because they are pledged with the NBS for REPO transactions with the National Bank of Serbia (they are stated separately at nominal value).

At the sale date, the carrying amount of the asset and revaluation reserves from the asset will be derecognized and the excess or shortage of the sale proceeds will be recognized as the gain or loss on the sale of the asset

Debt instruments measured at fair value through profit or loss (FVtPL)

The Bank measures debt instruments at FVtPL if they are not measured at AC or at FVtOCI.

A financial asset at FVtPL is an asset acquired primarily for sale or repurchase in the near future, with the aim to earn a profit from short-term price fluctuations and/or dealer's margin, or such an asset is a derivative instrument.

A derivative is a financial instrument or another contract whose value is changing (as a result of changes in the defined/agreed interest rate or the price of the financial instrument or its stock exchange price or foreign exchange rate or price growth index or another variable), which requires no initial net investment or an initial net investment which is lower than that for other agreement types that are expected to show similar responses to the changes in market conditions, and which will be settled at a future date.

The initial positive or negative difference in the fair value of a derivative is recorded on-balance sheet as an asset or a liability. Effects of the changes in the fair value of a derivative are subsequently recorded within the income statement. The positive fair value of the derivative is recognized as an asset and the negative fair value of the derivative as a liability. The derivative is derecognized at the moment when the contractual rights and obligations (exchange of cash flows) arising from the derivative expire, i.e., at the termination date.

As of the termination date the carrying amount of an asset is derecognized and all the gains or losses (within the income or expenses) on the changes in the fair value of the asset are cancelled, with the ultimate effects of gain or loss from the derivative recorded within realized exchange gains or losses. In the event that there is an active market for derivatives in the country of the Bank's domicile, the ultimate effect of the sale of a derivative instrument is recorded in the profit or loss statement as a gain or loss on the sale of derivatives. The only derivative transactions the Bank performs are currency swaps.

Fair value option

Even if a financial asset meets the criteria for classification and measurement at AC or FVtOCI, it may be measured at FVtPL if doing so would eliminate or significantly reduce a measurement or recognition inconsistency ('accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Bank did not use the FVtPL option.

Financial assets – derecognition and reclassification

The Bank derecognizes a financial asset when the Bank has transferred the asset to another party and determined that it has transferred all the risks and rewards associated with the asset. If so, the asset will be derecognized from the Bank's books. If the Bank has retained substantially all the risks and rewards of ownership over the asset, the asset cannot be derecognized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Financial Instruments (Continued)

3.7.1 Financial Assets (Continued)

3.7.1.2 Debt Instruments (Continued)

Financial liabilities – measurement and derecognition

A financial liability is any contractual obligation of the Bank to give cash or another financial asset to the counterparty. Upon initial recognition, a financial liability is measured at cost, representing the fair value of the consideration received.

Financial liabilities held for trading are measured at FVtPL, while all other financial liabilities are measured at AC unless the fair value option is elected. The Bank does not use the fair value measurement option.

A financial liability is derecognized when the contractual obligation underlying the liability is discharged or cancelled or has expired.

A gain or loss on cancellation/derecognition of the financial liability is recognized within the profit or loss statement.

Financial Assets – derecognition and reclassification

If the Bank has not substantially retained or transferred all the risks and rewards of the asset, then the bank must assess whether it has relinquished control of the asset or not. If the bank does not control the asset, then it may cease recognition of that asset, otherwise, if the Bank not transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset.

Borrowings

Liabilities arising from borrowings are initially recognized at fair value less directly attributable transaction costs. Subsequent to initial recognition, borrowings are measured at amortized cost. Borrowings are classified as current liabilities unless the Bank has an unconditional right to settle the liability within no less than 12 months after the reporting date.

3.8. Cash and Balances Held with the Central Bank

Cash and balances held with the central bank are comprised of cash in RSD and in foreign currencies, i.e., cash held on the Bank's gyro and current accounts, cash on hand and other cash in RSD and foreign currencies, gold and other precious metals and liquid surpluses deposited with the National Bank of Serbia.

For purposes of the cash flow statement, cash includes cash on hand in local and foreign currencies, balances on accounts held with other banks, as well as available funds held with the National Bank of Serbia.

3.9. Managed Funds

The funds that the Bank manages on behalf of and for the account of third parties for fees are disclosed within off-balance sheet items.

3.10. Taxes and Contributions

Current Income Taxes

Income tax is recognized and calculated in accordance with IAS 12 – "Income Taxes" and the effective Law on Corporate Income Tax. Income tax represents the amount calculated by applying the statutory income tax rate of 15% to the profit before taxes, after deducting the effects of permanent differences that adjust the prescribed tax rate to the effective tax rate.

The final amount of income tax liability is calculated by applying the prescribed tax rate to the taxable income determined in the tax statement and reported in the annual tax return.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10. Taxes and Contributions (Continued)

Current Income Taxes (Continued)

The Law on Corporate Income Tax of the Republic of Serbia does not allow any tax losses of the current period to be used to recover taxes paid in previous periods. However, any current year losses disclosed in the tax statements up to 2009 may be used to reduce the taxable profits for future periods, but only for a period of up to ten years. The losses in the tax statements for 2010 and thereafter may be used for reduction of the taxable profits for the ensuing periods, yet no longer than five years. In addition, the Bank may recognize the loss incurred on the negative opening balance adjustment as of January 1, 2018 due to IFRS 9 first-time adoption as expenses within the tax statement in equal amounts over 5 tax periods form the period in which the adjustment was made. Such tax losses, up to the amount of anticipated future taxable profit against which the tax losses can be offset, are recognized in the statement of the financial position as deferred tax assets.

Deferred Taxes

Deferred taxes are provided for using the balance sheet liability method on all temporary differences at the reporting date between the taxation-purpose amounts of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rate enacted at the reporting date is used to determine the deferred tax amount.

Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, unused portions tax credit and tax loss carryforwards to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the unused tax credits and tax losses carried forward can be utilized, except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit, nor taxable profit or loss; and in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, when deferred tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and that sufficient taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or portion of the deferred tax assets to be utilized. Deferred tax assets and liabilities are calculated at tax rates that are expected to be effective in the year when the asset is realized or the liability is settled, based on tax rates and tax regulations enacted or substantively enacted at the reporting date.

Indirect Taxes and Contributions

Indirect taxes and contributions include property tax, value added tax, payroll taxes and contributions charged to the employer, as well as other taxes and contributions payable in accordance with the tax regulations of the Republic of Serbia and local municipal tax regulations. These taxes and contributions are presented within other operating expenses.

Transfer Prices

The Bank's tax statement for 2021 was not submitted to the Tax Administration until the preparation date of the Bank's Separate financial statements given that the tax return is submitted to the tax authorities within 180 days after expiry date of the financial year, i.e., until June 29 of the following year. The Bank has calculated tax effects based on the Corporate Income Tax Law of the Republic of Serbia but has not yet prepared the final report (study) of the transfer prices. However, the Bank's management believes that there will be no material effects on its financial statements for 2021 in this respect since so far there had been no adjustments in respect of the related party transactions and in 2021 the Bank had no significant changes in types of services exchanged with its related parties in comparison with the previous year.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Equity and Reserves

Equity represents the Bank's assets in excess of all its liabilities. Equity is not assessed and measured separately. Equity consists of the Bank's issued (share) capital, reserves and retained earnings. The Bank is required to maintain at all times its regulatory capital in the amount sufficient to cover all the risks that may arise in the course of the Bank's business (capital requirements), as explained in greater detail in Note 29.2.

3.12. Employee Benefits

The Bank does not have its own pension funds or share-based payment options and consequently had no liabilities recognized in this respect as of December 31, 2021.

As of December 31, 2021, the Bank made provisions for retirement benefits and unused annual leaves based on the assessment carried out by a certified actuary.

Provisions were made based of the following assumptions:

Average salary for September 2021 paid in Republic of Serbia	RSD 89,980.00
Discount rate	1.25%
Salary growth rate	7.00%
Employee turnover rate	6.00%

Short-Term Employee Benefits – Taxes and Contributions for Social Security

Pursuant to the regulations effective in the Republic of Serbia, the Bank has an obligation to pay personal income tax contributions to various state social security funds. This obligation involves the payment of the tax and contributions on behalf of the employee, by the employer, in amounts calculated by applying the specific, legally prescribed rates. The Bank is also legally obligated to withhold the tax amount and contributions from gross salaries to employees, and to transfer the withheld portions on their behalf directly to the appropriate government funds. These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

Short-Term Compensated Absences

Accumulating compensated absences (annual vacation leaves) may be carried forward and used in future periods if the current period's entitlement is not used in full. Expenses for compensated absences are recognized at the amount the Bank expects to pay as a result of the unused entitlement that has accumulated at the reporting date. In the case of non-accumulating compensated absences, an obligation or expense is recognized when the absences occur.

3.13. Going Concern

During 2021, the Bank realized a profit in the amount of RSD 889,394 thousand (2020: profit in the amount of RSD 529,706 thousand). The Bank achieved significant business results in the previous period, so the Bank's management expects stable revenues in the forthcoming period, as well as that the increase in costs will be less than the increase in revenues. In accordance with all the foregoing, the Bank's financial statements have been prepared on a going concern basis, assuming that the Bank will continue to operate in the foreseeable future.

3.13.1 Business of the Bank and COVID-19 Impact

During 2020, the National Bank of Serbia (NBS) made the following decisions related to the moratorium and reliefs which affected the structure and characteristics of the Bank's portfolio, which of course was transferred to 2021 as an effect:

- Decision on Measures to Preserve the Stability of the Financial System, which entered into force on March 18 2020; (hereinafter: "Moratorium I"). Moratorium I was in effect until June 30, 2020.

- Decision on Temporary Measures for Banks to Mitigate the Consequences of the COVID-19 Pandemic in order to Preserve the Stability of the Financial System, which entered into force on July 27 2020; (hereinafter: "Moratorium II"). Moratorium II lasted from August 1, 2020 to September 30, 2020.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Going Concern (Continued)

3.13.1 Business of the Bank and COVID-19 Impact (Continued)

- Decision on Temporary Measures for Banks in order to Adequately Manage Credit Risk in the Context of the COVID-19 Pandemic, which entered into force on December 14, 2020; (hereinafter: the "Relief"). The Relief provided by the Decision relates to the rescheduling and refinancing of loans, with the approval of a grace period of six months and a corresponding extension of the repayment period, so that the debtor's monthly liabilities do not exceed those from the repayment schedule before Relief approval.

In accordance with the last above listed Decision, banks are obligated to approve relief in the repayment of liabilities to the debtor (individual, farmer, entrepreneur and company) which debtor, due to the circumstances caused by the COVID-19 pandemic, is unable to discharge their liabilities to the bank, or may have difficulty in settling of these liabilities.

In accordance with the Decision and the NBS guidelines, the Bank offered its clients the opportunity to use the Relief in repaying their liabilities by publishing the offer on its website and delivering individual notices to its debtors that were no more than 30 days in arrears as of November 30, 2020. The amendment to the Decision from February 2021 stipulates the obligation for banks to deliver individual notices to debtors not more than 30 days in arrears in liability settlement as of February 28, 2021.

The Relief in repayment of obligations was provided to all debtors, individuals, farmers, entrepreneurs and companies, which:

- were unable to meet their obligations to the Bank, or may have difficulty in settling their liabilities due to the COVID-19 pandemic, and
- as of February 28, 2021, as well as during the preceding period of 12 months, were not in default toward the Bank, i.e., none of whose liabilities (the Bank's receivables outstanding) was classified as a non-performing loan ("NPL").

In accordance with the provisions of the Decision, up to December 31, 2020 and up to March 31, 2021, the Bank sent individual notifications to all debtors meeting the criteria defined by the Decision.

As of June 30,, 2021, the Bank has implemented all accepted notifications, i.e., approved requests for the debtor relief.

The total number of debtors that were approved the relief in the repayment of liabilities as of June 30, 2021 is shown in the table below:

(RSD '000)

Type of debtors	Realized notifications / requests	
	Number of debtors	Amount
Individuals	1,066	1,007,269
Farmers	65	97,593
Legal entities (corporate clients)	147	2,154,675
Entrepreneurs	104	249,725
TOTAL	**1,382**	**3,509,262**

The total number of debtors that were approved the relief in the repayment of liabilities as of December 31, 2021 is shown in the table below:

(RSD '000)

Type of debtors	Realized notifications / requests	
	Number of debtors	Amount
Individuals	1,021	977,580
Farmers	65	98,436
Legal entities (corporate clients)	138	1,718,769
Entrepreneurs	100	185,387
TOTAL	**1,324**	**2,980,172**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Going Concern (Continued)

3.13.1 Business of the Bank and COVID-19 Impact (Continued)

Credit risk management under the influence of COVID - 19 crisis

During 2021, the Bank continued to treat the following sectors / activities as the activities most affected by COVID-19:

1) Transport and storage - Railway transport of passengers, long-distance and regional, urban and suburban land transport of passengers, maritime and coastal transport of passengers, transport of passengers by inland waterways, air transport of passengers;
2) Accommodation and catering services - Hotels and similar accommodation, resorts and similar facilities for short stays, camping, caravan and camping activities, other accommodation, restaurants and mobile food service activities, catering, other food service activities, beverage preparation and serving services;
3) Administrative and support service activities - Travel agency activities, tour operator activities, other reservation service and related activities, organization of meetings and fairs.

By reclassifying receivables from entities engaged in these activities, as well as receivables from individuals employed in in companies involved in these business activities, from Stage 1 to Stage 2, as at December 31, 2021, the Bank had a negative effect on the income statement in the amount of RSD 10 million.

Liquidity risk management under the influence of COVID - 19 crisis

During 2021, the Bank adequately managed its liquidity position. Liquid assets are properly structured, and all conducted liquidity stress tests suggest that a significant liquidity buffer has been provided, so the Bank continued to successfully neutralize the effects of the pandemic. In addition to liquidity-related activities, the Bank has been continuously active over the last few years in developing swaps, money market transactions, which created mechanisms for managing cash flows without affecting the Bank's liquidity position. All of the foregoing provided stability of the liquidity position and security, as well as the possibility to additionally relax the Bank's position in stressful circumstances through the use of these instruments in transactions on the interbank market as well as with the National Bank of Serbia. During 2021, there was a significant increase in the deposit base, an increase of 26%, which is one of the best results in business so far.

Impact of COVID - 19 crisis on the Bank's earning capacity

In terms of the net fee income, in 2021 there was an increase of 52% compared to the previous year, or an absolute increase of EUR 3.4 million, which is an outstanding result.
The most important contribution to growth was made in the following segments:

- Commissions from payment operations - an increase of 51% year-on-year, and
- Commissions from payment card transactions (cards, POS, ATM) - growth of 143% year-on-year.

Net interest income increased by 14% compared to the previous year, i.e., an absolute increase of EUR 2.53 million.

In line with revenue trends, the Bank also monitored trends in operating expenses. During 2021, there was an increase in operating expenses by 19%, or EUR 3.78 million.

The only group of operating costs with a significant increase is the cost of litigation and provisions for litigations, as well as the cost of lawyer fees, due to the increased number of disputes, i.e., lawsuits filed against the Bank by clients for loan processing fees. This negative trend seems to have stopped for an increasing number of clients are expected to drop lawsuits as well as more judgments in favor of banks due to the official position of the Supreme Court.

All of the foregoing brings us to a gross result of EUR 8.06 million, which is an increase of 79% compared to the previous year. The gross profit as per the budget adopted for 2021 was EUR 6.05 million.

Impact of COVID - 19 crisis on the expected collection of loans and receivables

Regular collection of loans and receivables was realized without any negative trends.
In the previous year, the collection of NPLs was realized, in accordance with the plan, in the amount of approximately EUR 3,044,587.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Going Concern (Continued)

3.13.1 Business of the Bank and COVID-19 impact (Continued)

Modification of interest calculated during the moratorium

During the period of both moratoria, interest in the amount of RSD 492,222 thousand was calculated (as of December 31, 2020). This amount was equally distributed over the repayment period of each loan after the end of the moratoria. In other words, in accordance with the regulations, it was not allowed to attribute the accrued interest to the principal (calculation of interest on interest). Total interest receivables accrued during the moratoria were discounted to the present value, applying the EIR applicable to each loan before the modification of the financial assets and accordingly, for the amount of interest accrued during the moratoria and its present value, the Bank recorded financial asset modification effect (loss) in the amount of RSD 56,338 thousand as of December 31, 2020. During 2021, the effect of the modification, i.e., the calculated loss, was reversed, so that income of RSD 21,799 thousand was recorded in this respect.

3.14. Leases

As from January 1, 2019, the Bank applies International Financial Reporting Standard 16 (IFRS 16) for the coverage of leasing contracts.

A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

For each lease contract, the Bank assesses whether the contract contains elements of a lease. The Bank assesses whether the contract identifies the asset and whether the Bank has the right to control the use of identifiable assets for a specified period of time.

Incremental borrowing rate is the rate of interest that Bank (a lessee) would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The Bank does not apply the requirements of IFRS 16:
- to the lease contracts with terms shorter than 12 months and those not containing the purchase option, and/or
- lease contracts with low-value assets (RSD equivalent of USD 5,000 or less).

3.15. Acquired Assets

Under assets acquired through collection of receivables, the Bank presents tangible assets received in lieu of debt collection (collection of receivables) until the moment of their sale or use for the Bank's own needs.

Real estate property acquired through the collection of receivables is recognized after the acquisition at the lower of their estimated market value and the price paid for their takeover. Until the moment of sale or change of purpose of the acquired real estate, the Bank provides once a year a revaluation of each individual real estate acquired through collection of receivables and if the revalued amount is lower than the net book value, it performs impairment in accordance with IAS 2.

3.16. Financial Guarantees

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.16. Financial Guarantees (Continued)

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

Financial guarantees are presented under contingent liabilities, within the Bank's off-balance sheet items (Note 27).

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

4. INTEREST INCOME AND EXPENSES

a) INTEREST INCOME

Interest income includes	Year Ended December 31, 2021	2020
RSD loans measured at AC, due from:		
Banks	205	237
Public companies	2,161	5,500
Corporate customers	991,513	931,562
Entrepreneurs	170,468	174,242
Public sector	36,743	25,891
Individuals	1,016,502	918,545
Other customers	138,504	119,516
	2,356,096	2,175,493
Foreign currency loans measured at AC, due from:		
Corporate customers	16,635	17,535
Entrepreneurs	-	1
Public sector	1	1
Individuals	56	60
Other customers	254,203	108,219
	270,895	125,816
RSD deposits measured at AC, due from:		
Banks	7,464	17,134
	7,464	17,134
Foreign currency deposits measured at AC, due from:		
Banks	15	1,850
Individuals	20	-
Other customers	23	416
	58	2,266
Securities measured at FVtOCI:		
In RSD	470,002	392,452
In foreign currencies	-	743
	470,002	393,195
Other receivables measured at AC:		
In RSD	1	54
In foreign currencies	743	135
	744	189
TOTAL:	**3,105,259**	**2,714,093**

Overall interest income recognized on impaired loans for the year ended December 31, 2021 totaled RSD 46,827 thousand (2020: RSD 58,540 thousand).

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

4. INTEREST INCOME AND EXPENSES (Continued)

b) INTEREST EXPENSES

	Year Ended December 31, 2021	2020
RSD borrowings measured at AC, due to:		
Banks	77	137
Corporate customers	15	-
Other customers	-	48
	92	185
Foreign currency borrowings measured at AC, due to:		
Public sector	15,227	24,292
Banks	14,494	27,993
Other customers	21,555	30,786
	51,276	83,071
RSD deposits measured at AC, due to:		
Banks	57,204	70,512
Public companies	8,034	4,263
Corporate customers	128,032	81,803
Entrepreneurs	783	873
Public sector	20,756	3,345
Individuals	70,598	39,854
Other customers	46,314	55,955
	331,721	256,605
Foreign currency deposits measured AC, due to:		
Banks	41,272	19,696
Corporate customers	55,482	40,283
Entrepreneurs	-	-
Individuals	110,389	97,620
Other customers	9,399	11,747
	216,542	169,346
Interest expense on other liabilities measured at amortized cost (IFRS 16):		
In RSD	2,753	3,912
In foreign currency	13,029	8,428
	15,782	12,340
TOTAL:	**615,413**	**521,547**

Interest expenses that refer to the lease of business premises for the year ended December 31, 2021 amounted to RSD 13,306 thousand (2020: RSD 9,618 thousand), while interest expenses on vehicle leasing for the year ended December 31, 2021 amounted to RSD 1,251 thousand (2020: RSD 652 thousand).

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

5. FEE AND COMMISSION INCOME AND EXPENSES

a) FEE AND COMMISSION INCOME

	Year Ended December 31, 2021	2020
Fee and commission income in RSD:		
Banks and other financial institutions	54,975	42,723
Public companies	3,538	2,619
Corporate customers	939,221	576,264
Entrepreneurs	153,381	103,710
Public sector	1,556	165
Individuals	272,516	196,576
Non-residents	3,827	2,594
Other customers	22,452	17,087
TOTAL	1,451,466	941,738
Fee and commission income in foreign currencies:		
Banks and other financial institutions	40,084	26,248
Western Union	350	726
MasterCard / VISA	15,212	7,634
Individuals	4,600	3,457
Corporate customers	67	1
Entrepreneurs	1,355	1,355
Non-residents	1,086	-
	61,399	39,421
TOTAL:	**1,512,865**	**981,159**

b) FEE AND COMMISSION EXPENSES

	Year Ended December 31, 2021	2020
Fee and commission expenses in RSD		
Banks and other financial institutions	60,411	44,165
Corporate customers	65,820	61,094
Entrepreneurs	22	34
Public sector	512	527
Other customers	16,449	14,674
	143,214	120,494
Fee and commission expenses in foreign currencies:		
Banks and other financial institutions	16,343	10,521
Corporate customers	8	-
Public sector	17	-
Entrepreneurs	5	-
Non-residents	179,570	76,089
	195,943	86,610
TOTAL:	**339,157**	**207,104**

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

6 NET GAINS/(LOSSES) ON CHANGES IN THE FAIR VALUE OF FINANCIAL INSTRUMENTS

	Year Ended December 31, 2021	2020
Gains/(Losses) on the changes in the fair value of financial assets measured at FVtPL	941	(1,936)
Gains/(Losses) on the changes in the fair value of financial liabilities measured at FVtPL	2,150	(852)
Gains/(Losses) on the changes in the fair value of other derivatives	2,167	(297)
TOTAL:	**5,258**	**(2,491)**

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

	Year Ended December 31, 2021	2020
Gains on derecognition of financial assets measured at FVtOCI	120,415	80,392
Losses on derecognition of financial assets measured at fair value through profit or loss	(53)	-
TOTAL:	**120,362**	**80,392**

Gains on derecognition of financial instruments measured at fair value through other comprehensive income in the amount of RSD 120,415 thousand relate to gains on the sale of bonds of the Government of the Republic of Serbia, which were sold on the secondary market in March and April 2021. Losses on derecognition of financial instruments measured at fair value through profit or loss in the amount of RSD 53 thousand relate to losses on the sale of shares of GALENIKA-FITOFARMACIJA AD in June 2021.

8. NET FOREIGN EXCHANGE GAINS AND POSITIVE CURRENCY CLAUSE EFFECTS

	Year Ended December 31, 2021	2020
Foreign exchange gains	973,174	1,277,331
Positive currency clause effects	50,382	319,868
TOTAL:	1,023,556	1,597,199
Foreign exchange losses	(959,810)	(1,139,453)
Negative currency clause effects	(48,675)	(449,726)
TOTAL:	(1,008,485)	(1,589,179)
Net foreign exchange gains:	**15,071**	**8,020**

The share of foreign currency items in the total Bank's balance sheet assets was 46.23% (2020: 48.11%), while the share of foreign currency items in the total balance sheet liabilities was 46.12% (2020: 47.64%).

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

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

a) Credited/(Charged) to the Profit or Loss

	Year Ended December 31, 2021	2020
Impairment allowance of financial assets measured at AC	(462,903)	(515,692)
Reversal of impairment allowance of financial assets measured at AC	238,766	248,309
Net losses	(224,137)	(267,383)
Provisions for off-balance sheet items (Note 24a)	(40,841)	(17,425)
Reversal of provisions for off-balance sheet items (Note 24a)	16,399	3,731
Net losses	(24,442)	(13,694)
Impairment allowance of financial assets measured at FVtOCI	(11,673)	(5,956)
Reversal of impairment allowance of financial assets measured at FVtOCI	11,305	4,014
Net losses	(368)	(1,942)
Write-off of irrecoverable receivables	(2,157)	(2,487)
Recovery of receivables previously written off	63,524	47,334
Net gains	61,367	44,847
Gains on the modification of financial instruments	21,799	-
Losses on the modification of financial instruments	-	(56,338)
Net gains/(losses)	21,799	(56,338)
TOTAL:	**(165,781)**	**(294,510)**

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

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

b) Movements on impairment allowance accounts

	Cash and balances with the central bank (Note 15)	Loans and receivables due from banks (Note 18)	Loans and receivables due from customers (Note 19)	Securities (Note 17)	Other assets (Note 21)	Total
Balance at January 1, 2021	**1,858**	**1,889**	**1,107,285**	**-**	**26,024**	**1,137,056**
Impairment losses on balance sheet items	2,617	4,330	395,772	-	13,357	**416,076**
Reversal of impairment of balance sheet items (Note 11a)	(3,635)	(3,789)	(228,357)	-	(2,985)	**(238,766)**
Foreign exchange effects	-	(2)	3	-	-	**1**
Impairment allowance translation due to currency clause	-	-	(1,270)	-	-	**(1,270)**
Accounting write-off, aligned with NBS	-	-	(97,665)	-	(4,820)	**(102,485)**
Definite write-off	-	-	(147,285)	-	(786)	**(148,071)**
Other	-	-	1,352	-	(66)	**1,286**
Balance at December 31, 2021	**840**	**2,430**	**1,029,832**	**-**	**30,727**	**1,063,829**

	Cash and balances with the central bank (Note 15)	Loans and receivables due from banks (Note 18)	Loans and receivables due from customers (Note 19)	Securities (Note 17)	Other assets (Note 21)	Total
Balance at January 1, 2020	**1,161**	**662**	**1,085,009**	**-**	**19,830**	**1,106,662**
Impairment losses on balance sheet items	701	1,792	443,962	-	10,694	**457,149**
Reversal of impairment of balance sheet items (Note 11a)	(4)	(874)	(242,824)	-	(4,607)	**(248,309)**
Foreign exchange effects	-	(2)	3	-	-	**1**
Impairment allowance translation due to currency clause	-	-	(10,051)	-	-	**(10,051)**
Accounting write-off, aligned with NBS	-	-	(103,462)	-	(137)	**(103,599)**
Definite write-off	-	-	(64,677)	-	(120)	**(64,797)**
Other	-	-	(675)	-	364	**-**
Balance at December 31, 2020	**1,858**	**1,889**	**1,107,285**	**-**	**26,024**	**1,137,056**

Total impairment allowance of other assets presented in Note 21 totaling RSD 55,542 thousand (2020: RSD 51,654 thousand) includes impairment allowance of other both financial and non-financial assets, while Note 9b) presents only impairment allowance of other financial assets in the amount RSD 30,727 thousand (2020: RSD 26,024 thousand).

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

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

Total impairment allowance of other assets presented in Note 21 totaling RSD 55,542 thousand (2020: RSD 51,654 thousand) includes impairment allowance of other both financial and non-financial assets, while Note 9b) presents only impairment allowance of other assets in the amount RSD 30,727 thousand (2020: RSD 26,024 thousand).

For the year ended December 31, 2021, the Bank recognized interest income on impaired loans using the effective interest rate on the amortized cost of loans, i.e., their net values along with adjustment of the income recorded in the income statement and with the calculated impairment allowance of receivables in this respect, and recorded losses on impairment of financial assets measured at amortized cost within the line item of the net gains/losses from impairment of financial assets not measured at fair value through profit or loss.

The impairment allowance made in this respect was recorded in the amount of RSD 46,827 thousand (2020: RSD 58,543 thousand).

Due to the foregoing, losses on impairment assets recorded in the income statement (Note 9a) exceeded by the same amount losses on impairment presented in the table of movements on impairment allowance accounts (Note 9b).

10. NET GAINS ON DERECOGNITION OF FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

	Year Ended December 31, 2021	2020
Net gains/losses on recognition of financial instruments measured at amortized cost	-	252
TOTAL:	**-**	**252**

11. OTHER OPERATING INCOME

	Year Ended December 31, 2021	2020
Other income from operations	13,277	11,184
Dividend income and profit sharing	622	-
TOTAL:	**13,899**	**11,184**

12. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONNEL EXPENSES

	Year Ended December 31, 2021	2020
Salaries and salary compensations	737,972	680,579
Taxes on salaries and salary compensations	90,345	83,636
Contributions on salaries and salary compensation	192,190	173,115
Other personal expenses	20,573	16,753
Provisions for retirement and other employee benefits (Note 24b)	82,294	3,897
Reversal of provisions for retirement and other employee benefits (Note 24b)	-	-
Considerations payable to temporary and seasonal staff members	1,894	435
TOTAL:	**1,125,268**	**958,415**

Within the line item of salaries and salary compensations, the amount of RSD 36,673 thousand (2020: RSD 37,876 thousand) refers to the remunerations to the Executive Board members remunerations, while the Supervisory Board members' remunerations are presented within the line item of other personal expenses in the amount RSD 11,666 thousand (2020: RSD 11,808 thousand).

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

13. OTHER INCOME AND EXPENSES

	Year Ended December 31, 2021	2020
Gains on the sale of property, plant, equipment and intangible assets	1,147	20,325
Income from reduction of liabilities (lease)	-	3,136
Surpluses	293	1,040
Other income	22,950	12,233
Income from the reversal of unused provisions for liabilities	590	179
TOTAL:	**24,980**	**36,913**
Operating expenses		
Cost of materials	79,023	73,587
Costs of production services	235,157	211,834
Non-material expenses	561,859	451,185
Taxes payable	9,102	21,749
Contributions payable	163,957	147,974
Other expenses	1,801	873
Provisions for liabilities (Note 24c)	81,690	11,197
Other expenses		
Losses on the retirement and disposal of property, equipment and intangible assets	1,041	379
Other expenses	4,346	1,679
Losses from the sale of fixed assets and intangible assets	3,331	2,639
Deficiencies and damages	194	-
TOTAL:	**1,141,501**	**923,096**

Within the line item non-material expenses, the most significant amount refers to paid insurance premiums of RSD 198,390 thousand (2020: RSD 160,973 thousand), of which the largest portion is the insurance premium paid for retail deposits in the amount of RSD 160,237 thousand (2020: RSD 129,423 thousand) and insurance premium paid for cash loans for pensioners in the amount of RSD 38,153 thousand (2020: RSD 31,550 thousand).

Also, non-material expenses refer to the costs of securing facilities and transporting money in the amount of RSD 51,386 thousand, costs of renting software in the amount of RSD 69,445 thousand and costs of telecommunication services in the amount of RSD 45,018 thousand.

Within the line item of costs of production services, the largest amount relates to rental costs of RSD 77,175 thousand (2020: RSD 72,127 thousand).

The expenses of real estate lease covered by IFRS 16 amount to RSD 59,650 thousand, of which the largest part is value added tax for all real estate leased from legal entities, personal income tax for individuals, as well as service costs of the Central Bank lease.

Vehicle rental costs covered by IFRS 16 relate to value added tax borne by the lessee (bank) and amount to RSD 7,660 thousand.

The costs of property leases, which due to their low value are not covered by the IFRS 16 standard, amounted to RSD 9,866 thousand in 2021 (real estate RSD 748 thousand and ATMs RSD 9,118 thousand). ATM lease agreements do not meet the requirements for posting under IFRS 16, due to the low value of the contract and the indefinite validity period.

14. INCOME TAXES

a) Components of income tax are as follows:

	Year Ended December 31, 2021	2020
Current tax expense for the period	(58,589)	-
Increase in deferred tax assets and decrease in deferred tax liabilities	1,519	-
TOTAL	**(57,070)**	**-**

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

14. INCOME TAXES (Continued)

b) Income tax reconciliation with prescribed tax rates

	Year Ended December 31, 2021	2020
Profit before taxes	946,464	529,706
Income tax at the statutory rate of 15%	141,970	79,456
Tax effects of expenses not recognized for tax purposes and other expense adjustments	13,265	3,099
Tax effects of income from debt securities and other income adjustments	(78,853)	(67,116)
Other	(1,026)	10,908
Utilization of tax loss carryforwards	(16,767)	(26,346)
Income tax stated in the tax statement	58,589	-
Effective tax rate	**6.19%**	**0%**

c) Components of deferred tax assets and liabilities

The Bank recognized deferred tax assets in accordance with its projected results as per the adopted five-year business strategy. Given that as of December 31, 2021, there were changes in the amount of deferred tax assets compared to the 2020 year-end, The Bank recorded an increase in deferred tax assets compared to the previous year, in the amount of RSD 1,519 thousand and creation of deferred tax liabilities in the amount of RSD 15,689 thousand.

Deferred tax assets and liabilities relate to:

	2021			2020		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Deferred tax assets per temporary differences on property, plant and equipment	36,850	-	36,850	12,924	-	12,924
Deferred tax assets per tax losses carried forward	4,268	-	4,268	41,244	-	41,244
Deferred tax assets per securities	7,967	-	7,967	8,225	-	8,225
Deferred tax assets per litigation provisions	12,137	-	12,137	-	-	-
Deferred tax assets per provisions for employee retirement benefits	2,691		2,691	-	-	-
Deferred tax liabilities per changes in the value of property, plant and equipment	-	(14,858)	(14,858)	-	-	-
Deferred tax liabilities arising from actuarial losses	-	(831)	(831)	-	-	-
TOTAL	**63,913**	**(15,689)**	**48,224**	**62,393**	**-**	**62,393**

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

14. INCOME TAXES (Continued)

c) Components of deferred tax assets and liabilities (Continued)

Movements of temporary differences during 2021 are shown in the following table:

	Balance as of January 1	Reported in the income statement	Reported in other comprehensive income	Balance as of December 31
Deferred tax assets per temporary differences on property, plant and equipment	10,748	26,102	-	36,850
Deferred tax assets per tax losses carried forward	29,746	(25,478)	-	4,268
Deferred tax assets per tax credits	14,524	(14,524)		
Deferred tax assets per securities	7,376	591	-	7,967
Deferred tax assets per litigation provisions	-	12,137	-	12,137
Deferred tax assets per provisions for employee retirement benefits	-	2,691		2,691
Deferred tax liabilities per changes in the value of property, plant and equipment	-	-	14,858	(14,858)
Deferred tax liabilities arising from actuarial losses	-	-	831	(831)
TOTAL	**62,393**	**1,519**	**15,689**	**48,224**

d) Breakdown of tax credits:

	Remaining tax credit amount	Non-recognized deferred tax assets	Recognized deferred tax assets	Year of expiry
Effects of the first - time adoption of IFRS 9	4,267	-	4,267	2022
	4,267	-	4,267	

15. CASH AND BALANCES HELD WITH THE CENTRAL BANK

	December 31, 2021	December 31, 2020
Gyro account balance	6,051,515	4,201,071
Cash in hand in RSD	853,767	698,657
Liquidity surpluses	-	4,100,000
Receivables for accrued interest, fees and commissions related to cash and balances held with the central bank	-	132
Cash in hand in foreign currencies	856,805	792,194
Mandatory foreign currency reserve held with NBS	4,927,357	3,916,238
Other funds	711	570
Less: Imapirment allowance of the cash and balances held with the central bank	(840)	(1,858)
TOTAL:	**12,689,315**	**13,707,004**

Mandatory RSD reserve represents the minimum average balance of RSD funds that the Bank has to allocate to its gyro account in accordance with the National Bank of Serbia's Decision on Banks' Required Reserves with the National Bank of Serbia (Official Gazette of the Republic of Serbia nos. 76/2018).

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15. CASH AND BALANCES HELD WITH THE CENTRAL BANK

In accordance with Article 6 of this Decision, the Bank is obliged to calculate and allocate the RSD mandatory reserve at the rate of 5% on the average daily balance of RSD deposits, borrowings and other liabilities with a maturity of up to two years, during one calendar month, while for deposits, borrowings and other liabilities with a maturity of over two years, the allocation rate is 0%. Mandatory reserve is calculated once a month. In 2021, the NBS calculated and paid interest at the interest rate of 0.10% per annum on the amount of the realized average daily balance of RSD mandatory required reserve for the accounting period not exceeding the amount of the calculated RSD mandatory reserve. Exceptionally, in order to mitigate the economic consequences of the COVID-19 pandemic, the NBS pays a portion of these funds, if the prescribed conditions are met, and calculates interest at an interest rate of 0.60% per annum (0.10% + 50 percentage points).

As of December 31, 2021, the mandatory RSD reserve was calculated in the amount of RSD 4,062,215 thousand (2020: RSD 3,387,965 thousand). The stated amount is included within the gyro account balance line item.

The portion of the calculated foreign currency mandatory reserve allocated in dinars amounts to 38% and refers to deposits, borrowings and other liabilities with contractual maturity of up to two years and 30% refers to deposits, borrowings and other liabilities with contractual maturity of over two years, so that the total RSD mandatory reserve consists of the sum of the calculated RSD reserve in dinars and the stated part of the calculated foreign currency reserve.

The mandatory foreign currency reserve represents the minimum average balance of foreign currency assets which the Bank is obligated to allocate to its account held with NBS, in accordance with the Decision on Banks' Required Reserves with the National Bank of Serbia (Official Gazette of the Republic of Serbia nos. 76/2018). The Bank is obliged to calculate and allocate the foreign currency reserve to the amount of the average daily balance of foreign currency deposits, borrowings and other liabilities during one calendar month at a rate of 20% for those with contractual maturity of up to two years, 13% for those with contractual maturity of over two years and 100% for the average balance of the foreign currency clause-indexed RSD liabilities. NBS does not pay any interest on the mandatory foreign currency reserve funds on the Bank's account held with NBS.

The line item "reserve requirement with the NBS in foreign currency" represents the current balance on the foreign currency account with the NBS where the required reserve is allocated. The obligation of the Bank is that the average monthly balance of allocated funds be at the level of calculated required reserves in foreign currency. As this account is used for other purposes, individual days have a different balance. The table shows the balance on that account as of December 31, 2021.

As at December 31, 2021, the Bank's mandatory foreign currency reserve amounted to RSD 4,276,647 thousand (2020: RSD 3,644,653 thousand).

The Bank's mandatory foreign currency reserve was comprised of 62% of the foreign currency reserve calculated per the Bank's liabilities with maturities of up to two years and 70% of the foreign currency reserve calculated per the Bank's liabilities with maturities of over two years.

For the purposes of preparation of the cash flow statement, the Bank includes in the cash and cash equivalents cash funds held on the gyro account, cash in hand in both RSD and foreign currencies, and cash funds on the accounts held with foreign banks. The item of cash and balances held with the central bank was reconciled with the items of the statement of cash flows at the end of the reporting period as follows:

	December 31, 2021	December 31, 2020
Cash and balances held with the central bank	12,689,315	13,707,004
Mandatory foreign currency reserve held with NBS	(4,927,357)	(3,916,238)
Foreign currency accounts held with foreign banks	2,306,878	1,469,129
Liquidity surpluses	-	(4,100,000)
Receivables for accrued interest, fees and commissions related to the cash and balances held with the central bank	-	(132)
Less: Imapirment allowance of the cash and balances held with the central bank	840	1,858
TOTAL:	**10,069,676**	**7,161,621**

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

16. RECEIVABLES UNDER DERIVATIVE FINANCIAL INSTRUMENTS

	December 31, 2021	December 31, 2020
Receivables/(liabilities) from financial derivatives	901	(1,266)
TOTAL:	**901**	**(1,266)**

The reported receivables in the amount of RSD 901 thousand relate to the positive effects of adjusting the value of a currency swap (USD swap) to its fair value (USD 8,669.50 at the middle exchange rate effective on the date of fair value calculation). The maturity dates of all these swaps are in January 2022.

17. SECURITIES

	December 31, 2021	December 31, 2020
a) Pledged financial assets		
Bonds issued by the Republic of Serbia in RSD	-	1,200,000
	-	**1,200,000**
b) Securities measured at FVtPL		
Banks shares	-	590
Corporate shares	18,636	18,630
	18,636	**19,220**
c) Securities measured at FVtOCI		
Municipal bonds:		
City of Šabac	-	7,620
Bonds issued by the Republic of Serbia in RSD	14,262,051	9,893,971
	14,262,051	**9,901,591**
TOTAL:	**14,280,687**	**11,120,811**

In 2021, a net negative effect in the amount of RSD 759,254 thousand was realized based on changes in the value of securities that are measured at fair value through other comprehensive income (the statement of other comprehensive income shows the negative effect of changes in the value of debt instruments in the amount of RSD 770,928 thousand, while the positive effect amounted to RSD 11,673 thousand). The statement of changes in equity also presents the negative effects of changes in the value of debt instruments that are measured at fair value through other results within revaluation reserves in the amount of RSD 759,254 thousand.

In 2020, a net negative effect in the amount of RSD 136,986 thousand was incurred based on changes in the value of securities that are measured at fair value through other comprehensive income (the statement of other comprehensive income shows a negative effect of changes in the value of debt instruments in the amount of RSD 155,113 thousand, while the positive effect amounted to RSD 18,127 thousand). The statement of changes in equity also presents the negative effects of changes in the value of debt instruments that are measured at fair value through other results within revaluation reserves in the amount of RSD 136,986 thousand.

As of December 31, 2021, the securities and investments traded by the Bank in the Belgrade Stock Exchange comprised corporate shares.

The rates of return on the government securities in RSD purchased during 2021 ranged from 2.50% to 3.54% annually, while the rates of return on the Bank's overall portfolio of securities ranged from 2.50% to 5.98% for RSD securities, annually.

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

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

	December 31, 2021	December 31, 2020
Receivables for accrued interest on loans, deposits and other investments:		
- In RSD	48	6
- In foreign currencies	-	-
Foreign currency accounts	2,306,878	1,469,129
Loans in RSD	16,165	1,875
Other investments:		
- In RSD	587,990	587,910
- In foreign currencies	840,142	258,689
Deposits:		
- In RSD	-	-
- In foreign currencies	89,731	82,948
Accrued receivables for interest on loans, deposits and other investments:		
- In RSD	-	4
- In foreign currencies	-	-
Deferred income from receivables carried at amortized cost using the effective interest rate	(7)	(2)
Gross loans and receivables due from banks and other financial institutions	**3,840,947**	**2,400,559**
Less: Imapirment allowance (Note 11b)	(2,430)	(1,889)
TOTAL:	**3,838,517**	**2,398,670**

As of December 2021, the Bank had no liquidity loans per repo transactions.

Foreign currency assets with the Central Securities Depository and foreign currency assets on transaction accounts held with domestic and foreign banks as of December 31, 2021 amounted to RSD 2,306,878 thousand (2020: RSD 1,469,129 thousand) and are presented within the line item of foreign currency accounts.

The item of other investments in foreign currencies mostly relates to receivables for contracted purchase and sale of foreign currency monetary assets:

- from domestic banks – National Bank of Serbia in the amount of RSD 588,002 thousand, UniCredit Bank in the amount of RSD 470,328 thousand, Erste Bank A.D Novi Sad in the amount of RSD 235,164 thousand, OTP banka Srbija in the amount of RSD 117,570 thousand, NLB banka Beograd in the amount of RSD 12 thousand (2020: National Bank of Serbia in the amount of RSD 352,770 thousand, Vojvođanska banka in the amount of RSD 235,140 thousand and UniCredit Bank in the amount of RSD 235,1460 thousand); and
- from foreign banks – Commerzbank AG, Frankfurt in the amount of RSD 17,056 thousand (2020: Commerzbank AG, Frankfurt in the amount of RSD 23,516 thousand).

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

19. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

	December 31, 2021	December 31, 2020
Receivables for accrued interest on loans, deposits and other investments in RSD	134,327	129,966
Receivables for accrued fees on loans, deposits and other investments in RSD	427	297
Receivables for accrued interest on loans, deposits and other investments in foreign currencies	92	142
Loans in RSD and loans indexed to EUR	60,200,848	52,208,724
Other investments in RSD	6,500	72,794
Loans and receivables in foreign currencies	6,665,652	3,906,950
Deposits placed in foreign currencies	-	-
Accrued receivables for interest on loans, deposits and other investments in RSD	271,317	428,438
Accrued receivables for interest on loans, deposits and other investments in foreign currencies	50,615	36,513
Deferred income for receivables carried at amortized cost using the effective interest rate	(139,750)	(136,129)
Deferred income for receivables carried at amortized cost using the effective interest rate in foreign currencies	(19,815)	(20,079)
Gross loans and receivables due from customers	**67,170,213**	**56,627,616**
Less: Imapirment allowance (Note 11b)	(1,029,832)	(1,107,285)
TOTAL:	**66,140,381**	**55,520,331**

Short-term loans were placed to corporate customers, entrepreneurs and agri business clients for the improvement of production, trade of goods, provision of services, import, export, maintenance of current liquidity and other purposes. Short-term loans were approved with repayment periods of up to 12 months, in RSD, f/x loans and in foreign currencies.

In 2021 RSD short-term loans were granted from the Bank's resources at annual interest rates equal to 6-month BELIBOR + 0.75% p.a. to 9.0% p.a. with variable interest rate and from 3.35% to 15.9% with fixed interest rate, while short-term f/x loans and foreign currency loans were granted at annual interest rates equal to 6-month EURIBOR + 2.15% to 9.00% p.a. with variable interest rate.

Long-term loans were placed for investment purposes, capital expenditures, permanent working capital and as long-term working capital source of financing. Loans were granted in RSD with and without foreign currency clause and in foreign currencies at fixed and variable interest rates.

The largest part of long-term loans placed during 2021 referred to:

- loans extended in the amount EUR 246.2 million in Corporate, SME and agri business segments through Guarantee Scheme for Supporting the Economy, cross-border loans, standard loan products, as well as certain programs and actions. The focus was on the Guarantee Scheme for Supporting the Economy, RCF investment loans in cooperation with the National Bank of Serbia, new credit line in cooperation with SEF foundation, Support Program for SMEs, as well as lending to agri business clients.

- continued participation of the Bank in the Guarantee Scheme for Supporting the Economy I and II, within which it placed EUR 37.2 million and EUR 3.1 million, respectively. These are the measures of the Government of the Republic of Serbia to support the economy in the conditions of the Covid-19 crisis through loans for maintaining liquidity and working capital loans through commercial banks operating in the Republic of Serbia. Participation in the implementation of these programs should contribute to maintaining and expanding the portfolio of quality credit clients, with the placement of funds with first-class collateral and support to clients in maintaining liquidity with funds with a favorable interest rate.

The Bank has continued with undertaking of all necessary activities in order to comply with the requirements of the NBS regarding the COVID-19 pandemic. The Bank implemented NBS prescription in which all banks have an obligation to approve the Relief in repayment to debtors.

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

19. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

According to the Decision, Halkbank a.d. Beograd maintained the same approach in cooperation with clients and continued to constantly contact clients from the Bank's portfolio, in order to assess the effects and consequences of the pandemic on clients' operations, for joint activities that will prevent negative consequences. Clients were informed about all measures of the State, as well as the announced financial incentives that will be realized through the banking sector. Branches are monitored intensified on a daily basis with clear instructions on measures to be taken on the basis of new regulations and state regulations.

As of December 31, 2021, the Bank's gross amount of loans and receivables due from corporate customers (excluding interest, fees and commissions and accrued fees and commissions) totaled RSD 48,153,335 thousand (2020: RSD 40,331,861 thousand) and are broken down as follows:

Loan type	December 31, 2021	December 31, 2020	% Variance
Loans from Bank's resources	43,151,097	34,491,469	25.11%
Loans from credit lines obtained from the International Financial Institutions	5,002,238	5,840,392	-14.35%
Total	**48,153,335**	**40,331,861**	**19.39%**

Gross loans and receivables due from customers – Retail

As of December 31, 2021, the Bank's gross amount of loans and receivables due from retail customers without interest and fees yet including NPLs totaled 18,734,388 thousand (2020: RSD 15,856,607 thousand) and are broken down as follows:

Loan Type	December 31, 2021	December 31, 2020	% Variance
Cash loans	9,465,804	8,626,404	9.73%
Housing loans	8,189,349	6,221,866	31.62%
Consumer loans – other purposes	269,986	273,784	-1.39%
Consumer loans – energy efficiency	223,240	264,090	-15.47%
Matured loan receivables	198,786	174,220	14.10%
Consumer loans – purchase of vehicle	149,647	142,047	5.35%
Authorized current account overdrafts	138,936	127,962	8.58%
Unauthorized current account overdrafts	18,437	21,541	-14.41%
Receivables per credit cards	80,203	4,693	1,608.99%
Total	**18,734,388**	**15,856,607**	**18.15%**

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

19. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

Movements on the impairment allowance accounts in 2021

					2021
	Cash and balances held with the central bank (Note 15)	Loans and receivables due from banks (Note 16)	Loans and receivables due from customers (Note 19)	Other financial assets (Note 21)	Total
Balance, beginning of year	**1,858**	**1,889**	**1,107,285**	**26,024**	**1,137,056**
Stage 1	1,858	1,889	85,146	4,074	92,967
Stage 2	-	-	106,824	39	106,863
Stage 3	-	-	915,315	21,911	937,226
Imapirment allowance (Note 9)	**2,617**	**4,330**	**397,124**	**13,291**	**417,362**
Stage 1	2,617	4,330	73,580	140	80,667
Stage 2	-	-	109,317	13	109,330
Stage 3	-	-	214,227	13,138	227,365
Reversal of imapirment allowances (Note 9)	**(3,635)**	**(3,789)**	**(228,357)**	**(2,985)**	**(238,766)**
Stage 1	(3,635)	(3,789)	(78,223)	(16)	(85,663)
Stage 2	-	-	(120,643)	(30)	(120,673)
Stage 3		-	(29,491)	(2,939)	(32,430)
Foreign exchange effects	-	-	**(1,270)**	**3**	**(1,267)**
Stage 1	-	-	(1,270)	3	(1,267)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Write-offs	-	-	**(244,950)**	**(5,606)**	**(250,556)**
Stage 1	-	-	-	-	-
Stage 2	-	-	-	-	-
Stage 3	-	-	(244,950)	(5,606)	(250,556)
Balance, end of year	**840**	**2,430**	**1,029,832**	**30,727**	**1,063,829**
Stage 1	840	2,430	79,233	4,201	86,704
Stage 2	-	-	95,498	22	95,520
Stage 3	-	-	855,101	26,504	881,605

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19. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

Movements on the impairment allowance accounts in 2020

	Cash and balances held with the central bank (Note 15)	Loans and receivables due from banks (Note 16)	Loans and receivables due from customers (Note 19)	Other financial assets (Note 21)	2020 Total
Balance, beginning of year	**1,161**	**662**	**1,085,009**	**19,830**	**1,106,662**
Stage 1	1,161	662	92,839	407	95,069
Stage 2	-	-	37,510	23	37,533
Stage 3	-	-	954,660	19,400	974,060
Imapirment allowance (Note 9)	**701**	**2,103**	**443,287**	**11,058**	**457,149**
Stage 1	701	2,103	14,015	6,395	23,214
Stage 2	-	-	78,081	28	78,109
Stage 3	-	-	351,191	4,635	355,826
Reversal of imapirment allowances (Note 9)	**(4)**	**(874)**	**(242,824)**	**(4,607)**	**(248,309)**
Stage 1	(4)	(874)	(20,777)	(2,728)	(24,383)
Stage 2	-	-	(8,395)	(12)	(8,407)
Stage 3		-	(213,652)	(1,867)	(215,519)
Foreign exchange effects	**-**	**(2)**	**(10,048)**	**-**	**(10,050)**
Stage 1	-	(2)	(931)	-	(933)
Stage 2	-	-	(372)	-	(372)
Stage 3	-	-	(8,745)	-	(8,745)
Write-offs	**-**	**-**	**(168,139)**	**(257)**	**(168,396)**
Stage 1	-	-	-	-	-
Stage 2	-	-	-	-	-
Stage 3	-	-	(168,139)	(257)	(168,396)
Balance, end of year	**1,858**	**1,889**	**1,107,285**	**26,024**	**1,137,056**
Stage 1	1,858	1,889	85,146	4,074	92,967
Stage 2	-	-	106,824	39	106,863
Stage 3	-	-	915,315	21,911	937,226

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

20. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY

a) INTANGIBLE ASSETS

	December 31, 2021	December 31, 2020
Cost		
Balance as of January 1	623,706	510,264
Additions	472,856	113,442
Retirement	(34,245)	
Balance as of December 31	1,062,317	623,706
Accumulated amortization		
Balance as of January 1	302,524	239,538
Charge for the year	77,144	62,986
Retirement	(34,245)	
Balance as of December 31	345,423	302,524
Net book value as of December 31	**716,894**	**321,182**

The Bank is in the process of introducing a new CORE system. The selection of vendor process was completed in 2020. During 2021, the Project preparation and Analysis phases were completed. The phases that started in 2021. and are still ongoing are the Technical Preparation and Development of the Environment, Migration and Testing. The full implementation of the new CORE system is expected in the first half of 2023.

The largest amount of increase in intangible assets in 2021 refers to the beginning of capitalization of intangible investments in the new Bank's core system in the amount of RSD 98,082 thousand, as well as payment to vendors in accordance with the Agreement on Implementation and Licensing of the New Bank's Core system in the amount of RSD 234,406 thousand. The Bank invested in licenses for a new foreign currency application in the amount of RSD 15,315 thousand, in internet banking in the amount of RSD 5,220 thousand, as well as in other application software required to operate in the Bank's system in the amount of RSD 9,831 thousand.

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

20. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

b) PROPERTY - BUILDINGS

	December 31, 2020	December 31, 2019
Cost		
Balance as of January 1	352,324	670,301
Additions	1,989	562
Revaluation	5,756	-
Retirement	1,294	-
Sale / disposal	(1,854)	(318,539)
Balance as of December 31	356,921	352,324
Accumulated depreciation		
Balance as of January 1	139,945	255,671
Charge for the year	9,353	16,262
Revaluation	2,451	-
Retirement	(606)	-
Sale / disposal	-	(131,988)
Balance as of December 31	151,151	139,945
Net book value as of December 31	**205,770**	**212,379**

The Bank has satisfactory evidence of ownership of all assets in its possession, except for three buildings with the total carrying value of RSD 668 thousand as at December 31, 2021 (2020: RSD 1,203 thousand).

In accordance with the Bank's Accounting Policy, the Bank used external appraisals by certified appraisers to review the market value of the buildings in its ownership and the effects of revaluation were recognized through equity.

Valuation of buildings after initial recognition is performed by applying the revaluation model provided for in IAS 16 "Property, Plant and Equipment" – at the revalued amount less subsequent accumulated depreciation and subsequent accumulated impairment losses.

If the Bank applied the cost model less depreciation when calculating the value of buildings owned by the Bank, the carrying amount of buildings as at December 31, 2021 would be RSD 196,733 thousand (2020: RSD 354,195 thousand).

In accordance with the Bank's accounting policies, revaluation of building properties is performed every three years. The Bank engaged a certified appraiser to carry out the revaluation of all buildings owned by the Bank as of November 30, 2021. Upon valuation the comparative market method and income approach were used. In the appraisal report submitted to the Bank, the appraiser stated that the carrying amounts of buildings owned by the Bank did not depart significantly from their market values so that the total increase in their vale amounted to RSD 3,305 thousand. The effects of the revaluation performed were recognized in the amount of the certified appraiser's assessment within equity.

During 2021, the Bank sold four real estates in its ownership in Čačak, Ivanjica, Kraljevo and Veternik.

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

20. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

b) PROPERTY – BUILDINGS (Continued)

The following table presents valuation techniques as well as significant non-determinable parameters used in estimating the fair value of buildings:

Valuation technique	Significant unobservable inputs	Relationship between the key unobservable inputs and the fair value
Market Approach - is based on the method of comparable transactions, that is, on the comparison of assets that are valued with other comparable assets that are subject to buying / selling in the market.	Real estate prices in the local market are observed. Comparable real estate was found for the bank's buildings. Comparable market prices in Belgrade as of December 31, 2021 ranged from 1,800 to 3,700 EUR / m2, and in Čačak, Gornji Milanovac and Jagodina from 750 to 1,600 EUR / m2, in Kraljevo from 460 to 800 EUR / m2, in Krusevac from 1,000 to 1400 EUR / m2.	The assessed fair value would increase/(decrease) if the prices of comparable properties in the local real estate market increased/(decreased).

The property revaluation process

The property revaluation is performed once every three years based on the appraisal reports prepared by qualified independent appraisers hired by the Bank, while the Bank internally reviews and reassess the market values of the building properties on an annual basis. The most recent appraisal performed by independent appraisers was made in November 30, 2021.

The appraisal reports are prepared based on:

- the information obtained from the Bank on the current rent amounts, lease of similar properties, utility service prices, amounts of capital expenditures made by the Bank, etc.; such information is taken from the Bank's systems for finance management, property and collateral management and is subject to the general controls within the control environment;
- the assumptions and models used by the appraisers for revaluation of the Bank's property are usually market-bases, such as comparable prices, and depend on the professional estimates and judgments made by the appraisers, as well as on their observation of the market;

Information and data the Bank provides to the independent appraisers as well as the assumptions and models applied by the appraisers are subject to review of the Collateral Management Department and the Director of the Finance Management and Planning Division. Such a review entails analyses of changes in the fair values of the property items over the year. If the Director of the Finance Management and Planning Division finds the appraisal report adequate, the report is submitted to the Bank's Executive Board. The Executive Board considers and discusses the appraisal report as part of its regular activities.

c) EQUIPMENT

	December 31, 2021	December 31, 2020
Cost		
Balance as of January 1	1,371,664	1,087,827
Additions	225,125	334,674
Sales	(81,000)	(32,556)
Disposals and write-offs	(39,826)	(18,281)
Balance as of December 31	1,475,963	1,371,664
Accumulated depreciation		
Balance as of January 1	790,367	705,736
Charge for the year	168,235	133,347
Sales	(77,247)	(30,814)
Disposals and write-offs	(39,493)	(17,902)
Balance as of December 31	841,862	790,367
Net book value as of December 31	**634,101**	**581,297**

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

20. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

c) EQUIPMENT (Continued)

The largest amount of investments in 2021 refers to the purchase of POS terminals in the amount of RSD 57,299 thousand, branch adaptation and refurbishment in the amount RSD 35,990 thousand, purchase of computer equipment and supporting IT equipment in the amount of RSD 14,516 thousand, and purchase of furniture for furnishing business premises in the amount of RSD 11,954 thousand.

The Bank mostly sold ATMs in the amount of RSD 44,000 thousand, while it retired furniture in the amount of RSD 18,474 thousand and gave it away as donations.

d) INVESTMENT PROPERTY

	December 31, 2021	December 31, 2020
Cost		
Balance as of January 1	170,785	170,785
Decreases	(2,572)	-
Balance as of December 31	168,213	170,785
Accumulated depreciation		
Balance as of January 1	37,479	32,940
Charge for the year	4,508	4,539
Sale / disposal	(462)	-
Balance as of December 31	41,525	37,479
Net book value as of December 31	**126,688**	**133,306**

Revenues from the lease of facilities/premises in 2021 amounted to RSD 4,656 thousand (2020: RSD 4,374 thousand). Receivables based on re-invoiced lease costs in 20211amounted to RSD 1,327 thousand (2020: RSD 1,475 thousand).

After initial recognition, the Bank's investment property is stated at cost less accumulated depreciation.

The estimated value of investment property, according to the certified appraiser's report amounted to RSD 128,829 thousand. The fair value of investment property exceeded its carrying amount.

Valuation technique	Significant unobservable inputs	Relationship between the key unobservable inputs and the fair value
Market Approach - is based on the method of comparable transactions, that is, on the comparison of assets that are valued with other comparable assets that are subject to buying / selling in the market.	Real estate prices in the local market are observed. Comparable real estate was found for the bank's buildings. Comparable market prices in Belgrade on December 31, 2021 ranged from 1,800 to 3,200 EUR / m2, and in Čačak and Užice from 200 to 1500 EUR / m2	The assessed fair value would increase/(decrease) if the prices of comparable properties in the local real estate market increased/(decreased).

The Bank has satisfactory evidence of ownership of all assets in its possession, except for two real estates on investment property with a total present value as at December 31, 2021 in the amount of RSD 71,031 thousand (2020: RSD 73,452 thousand).

e) LEASES

In accordance with IFRS 16 – "Leases" effective as from January 1, 2019, after the reporting date, the Bank amended its accounting policies to regulate the accounting treatment of leases.

A lease is an agreement whereby the lessor (the legal owner of an asset) conveys to the lessee (the user of the asset) the right to use an asset for an agreed period of time in return for a payment or series of payments.

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

20. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

e) LEASES (Continued)

For each lease contract, the Bank assesses whether the contract contains elements of a lease. The Bank assesses whether the contract identifies the asset and whether the Bank has the right to control the use of identifiable assets for a specified period of time.

Within this standard, the Bank includes:
- business premises and
- vehicles.

The rate at which the Bank calculates the right of use is the incremental borrowing rate. Incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

For calculation of the incremental borrowing rate for business premises the Bank uses the average cost of funding sources (term deposits and credit lines).

In order to ensure inclusion of the market factors, the projected price takes into account the rates of return on the secondary market of securities of the Republic of Serbia. In this way, the calculation covers both the country-specific risk and Bank-specific risk.

The Bank leases vehicles under leases with maturities of up to four years. Accordingly, and taking into account that these are permanent working capital, the total amount of the right-of-use assets for all vehicles, which is significantly less than the right-of-use assets for business premises, these assets would not be financed from credit lines.

Additionally, since these are extremely easily marketable assets, the Bank evaluates these contracts by calculating the average cost price on total demand deposits and term deposits plus the insurance premium, i.e., the Bank uses the average rate on deposits (term deposits and demand deposits), which is adjusted (increased) for the cost of deposit insurance.

As of December 31, 2021 the standard was applied to the lease of:
- 30 business premises and;
- 72 vehicles.

Right-of-use assets - Business premises	**December 31, 2021**	**December 31,2020**
Balance as of January 1	483,757	488,870
Increase during the year	237,257	152,580
Charge of the year	(168,553)	(157,693)
Balance as of December 31	**552,461**	**483,757**

Right of-use assets - Vehicles	**December 31, 2021**	**December 31, 2020**
Balance as of January 1	90,243	32,101
Increase during the year	35,132	87,699
Charge of the year	(36,316)	(29,557)
Balance as of December 31	**89,059**	**90,243**

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

21. OTHER ASSETS

	December 31, 2021	December 31, 2020
Receivables for calculated fees and commissions related to other assets	24,520	17,178
Trade receivables	1,738	1,431
Other receivables from regular operating activities	26,233	26,036
Receivables for accrued interest related to other assets	10	10
Other receivables in RSD	205,910	118,814
Other receivables in foreign currencies	128,065	183,118
Other investments	3,349	3,349
Other deferred expenses	6,974	5,778
Accrued receivables	-	-
Deferred interest expenses in foreign currencies	16,921	14,882
Other prepayments in foreign currencies	940	821
Inventories of materials, tools, spare parts and other inventories	21,085	23,703
Tangible assets acquired through collection of receivables (Note 29.3)	78,373	41,058
	514,118	436,178
Impairment of other assets	(55,542)	(50,840)
Impairment of tangible assets acquired through collection of receivables (Note 29.3)	-	(814)
Less: Impairment allowance of other assets (Note 11b)	(55,542)	(51,654)
TOTAL:	**458,576**	**384,524**

The line item of other receivables in RSD refers mostly to receivables in the calculation based on cards (Visa, Dina, MasterCard) in the amount of RSD 109,522 thousand (2020: Visa, Dina, MasterCard in the amount of RSD 51,094 thousand) and advance payments to suppliers in the amount of RSD 21,503 thousand.

The line item of other receivables in foreign currencies mostly refers to receivables in card settlement (Visa, Dina, Mastercard)) in the amount of RSD 19,550 thousand, advances given to landlords as collateral on the basis of contracts in the amount of RSD 34,843 thousand and receivables from the City of Čacak for third installments under the Agreement on purchase and sale of a building in Pivarska in the amount of RSD 68,427 thousand.

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

	December 31, 2021	December 31, 2020
DEPOSITS DUE TO BANKS		
Transaction deposits	74,296	123,155
Earmarked deposits	11,761	4
Other deposits	4,018,128	6,188,451
Other financial liabilities due to banks	1,435,339	852,415
Interest and fee liabilities due to banks	834	763
Accrued liabilities for accrued interest on deposits and other financial liabilities due to banks	21,073	22,805
Total deposits and other liabilities due to banks and other financial institutions	**5,561,431**	**7,187,593**
BORROWINGS DUE TO BANKS		
Borrowings due to banks	2,082,419	3,163,501
Liabilities for accrued interest on borrowings due to banks	5,260	12,051
Deferred expenses for liabilities measured at amortized cost using the effective interest rate	(4,520)	(7,490)
Total borrowings due to banks	**2,083,159**	**3,168,062**
Total: deposits, borrowings and other liabilities due to banks, other financial institutions and the central bank	**7,644,590**	**10,355,655**

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

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

The line item of other deposits refers to short-term RSD deposits of insurance companies and other financial institutions in the amount of RSD 1,670,933 thousand (2020: RSD 2,528,296 thousand) and to foreign currency deposits of insurance companies and other financial institutions in the amount of RSD 477,640 thousand (2020: RSD 497,248 thousand), deposits of domestic banks in foreign currency in amount of RSD 223,406 thousand (2020: RSD 223,402 thousand) as well as foreign banks - Turkiye Halk Bankasi A.S. Head Office in the amount of RSD 1,646,149 thousand (2020: RSD 2,939,505 thousand).

Short-term RSD deposits of banks and other financial organizations were placed in 2021 at rates ranging from 0.14% to 0.20% p.a. for maturities of up to 7 days, while deposits with a maturity of up to 1 year were time-matched in 2021 at rates ranging from 1.80% to 2.55% p.a.

Long-term deposits of banks and other financial organizations were time-matched in 2021 at rates ranging from 2.30% to 2.80% p.a. Deposits of domestic banks and other financial organizations in foreign currency were term deposits in 2021 at rates ranging from 0.02% per annum to 0.05% p.a. for maturities of up to 7 days, while deposits with maturities of up to 1 year were term deposits in 2021 at rates ranging from 0.90% to 1.30% p.a., while long-term deposits of banks and other financial organizations in foreign currency were time-matched during 2021 at a rate of 1.60% p.a. Parent bank deposits are mostly term deposits of up to 7 days, with an annual interest rate of 0.25% p.a., parent bank deposits with maturity up to 1 month with an annual interest rate of 1.75% p.a., parent bank deposits with maturity up to 3 month with an annual interest rate ranging from 1.50% p.a. up to 2.00% p.a.

The line item of other financial liabilities due to banks mostly relates to:
- RSD financial liabilities due to domestic banks: UniCredit Bank Srbija AD for contracted purchase and sale of foreign currency cash in the amount of RSD 470,376 thousand, Erste Bank A.D Novi Sad in the amount of RSD 235,199 thousand, National Bank of Serbia in the amount RSD 117,580 thousand;
- Foreign currency financial liabilities relate to liabilities for contracted purchase and sale of foreign currency cash to National Bank of Serbia in the amount of RSD 470,328 thousand, OTP Bank in the amount of RSD 117,582 thousand, Commerzbank AG, Frankfurt in the amount of RSD 17,046 thousand.

The item of borrowings due to banks in the amount of RSD 1,582,419 thousand in 2021 (2020: RSD 3,163,501 thousand) refers to the following credit lines: Demir-Halk Bank (Netherlands) NV, European Fund for Southeast Europe (EFSE) and Green for Growth Fund (GGF) credit line. The borrowings were obtained at interest rates ranging from 2.10% plus 6-month EURIBOR to 2.70% plus 6-month EURIBOR. Also, a loan for daily liquidity in the amount of RSD 500,000 thousand was borrowed from AIK Bank.

Maturities of borrowings due to banks:

	EUR '000	RSD '000	EUR '000	RSD '000	
Creditors	**Balance at December 31, 2021**	**Balance at December 31, 2021**	**Maturing in 2022**	**Maturing after 2022**	**Final maturity date**
Demir-Halk Bank (Netherlands)	8,500	999,448	1,500	7,000	
Credit line tranche 1	1,500	176,373	1,500	-	23/03/2022
Credit line tranche 2	7,000	823,075	-	7,000	19/01/2024
Green for Growth Fund (GGF)	3,529	414,996	588	2,941	15/09/2027
European Fund for Southeast Europe (EFSE)	1,429	167,975	1,429	-	15/06/2022
Liabilities for daily liquidity loans	4,252	500,000	4,252	-	04/01/2022
TOTAL	**17,710**	**2,082,419**	**7,769**	**9,941**	

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

23. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

	December 31, 2021	December 31, 2020
DEPOSITS DUE TO CUSTOMERS		
Transaction deposits	32,501,479	24,653,761
Savings deposits	18,500,691	14,029,693
Deposits securitizing loans	3,257,003	2,619,080
Earmarked deposits	548,018	139,479
Other deposits	13,110,183	12,512,661
Deposits and loans maturing within one day	996,699	560,542
Other financial liabilities due to customers	75,892	127,740
Interest and fee liabilities due to customers	4,175	2,447
Accrued liabilities for interest payable on deposits and other financial liabilities to customers	186,466	152,144
Total deposits and other liabilities due to customers	**69,180,606**	**54,797,547**
BORROWINGS DUE TO CUSTOMERS		
Borrowings due to customers	5,307,185	6,171,878
Liabilities for accrued interest on borrowings	406	-
Deferred expenses for liabilities measured at amortized cost using the effective interest rate	(3)	(3)
Total borrowings due to customers	**5,307,588**	**6,171,875**
Total deposits, borrowings and other liabilities due to customers	**74,488,194**	**60,969,422**

RSD and foreign currency demand deposits and current accounts of retail customers are non-interest bearing, i.e., they were deposited at the annual interest rate of 0.00%. Short-term retail deposits were deposited at annual interest rates ranging from 2.00% to 2.85% for RSD funds, and from 0.10% to 1.40% foreign currency funds. Long-term retail deposits in foreign currencies were deposited at annual interest rates ranging from 0.70% do 1.60%.

By ongoing monitoring of market trends, individual and proactive approach to the customers, the Bank increased the amount of corporate customer deposits by 18%. With its offer of several types of deposit products, the Bank provided its clients with adequate funds management, resulting in an increase of deposits of individuals by 40% with the Bank's market share of total customer deposits reached 2.40%.

Deposits of corporate clients denominated in RSD were placed at interest rates ranging from 0.25% p.a. to 2.85% p.a., while deposits denominated in foreign currency were placed at interest rates ranging from 0.10% to 1.60% p.a.

Borrowings refer to long-term loans approved to the Bank by the European Investment Bank with the mediation of NBS in the amount of EUR 37,7 million, and the European Agency for Reconstruction in the amount of EUR 7,275 million. In addition, the Bank obtained borrowings from the Government of the Republic of Italy in the amount of EUR 130 thousand.

In accordance with the loan agreements concluded with the International Financial Institutions, European Fund for Southeast Europe (EFSE) and the Green for Growth Fund (GGF), the Bank is required maintain certain financial indicators at the defined levels until the final repayment of the borrowings.

As at December 31, 2021, the Bank was in full compliance with the defined covenants:

In accordance with the loan agreements concluded with the said International Financial Institutions, the Bank reports on a regular basis on the performance of its operating indicators and provides detailed explanations for each covenant breached.

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

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

Maturities of borrowings due to customers in accordance with contracts

Creditors	EUR '000 Balance at December 31, 2021	RSD '000 Balance at December 31, 2021	Matures in 2022	Matures in 2023	Matures in 2024	EUR '000 Matures after 2024
EIB	37,731	4,436,439	5,618	3,916	4,094	24,103
FRK	7,275	855,461	2,883	2,214	1,381	797
Government of the Republic of Italy	130	15,285	130	-	-	-
TOTAL	**45,136**	**5,307,185**	**8,631**	**6,130**	**5,475**	**24,900**

Borrowings due to customers were approved to the Bank at the following annual interest rates:

- 1.00% - fixed annual interest rates;
- 0.75% plus 3-month LIBOR for EUR loans;
- from 0.32% to 0.80% p.a. + 3-month EURIBOR; and
- from 0.36% to 0.72% p.a. + 6-month EURIBOR.

24. PROVISIONS

	December 31, 2020	December 31, 2019
a) Movements on provisions for potential losses on off-balance sheet items		
Balance as of January 1	18,411	4,733
Charge for the year (Note 9a)	40,841	17,425
Reversal of provisions (Note 9a)	(16,399)	(3,731)
Other	(8)	(16)
Balance as of December 31	**42,845**	**18,411**
b) Movements on provisions for retirement benefits		
Balance as of January 1	38,312	94,241
Charge for the year (Note 12)	82,294	3,897
Reversal of provisions (Note 12)	-	-
Release of provisions	(128)	(62,708)
Actuarial losses	5,229	2,882
Balance as of December 31	**125,707**	**38,312**
c) Movements on the provisions for litigations		
Balance as of January 1	20,823	18,616
Charge for the year (Note 13)	81,690	11,197
Release of provisions	(21,597)	(8,990)
Balance as of December 31	**80,916**	**20,823**
TOTAL	**249,468**	**77,546**

Provisions for potential losses in the amount of RSD 42,845 thousand (2020: RSD 18,411 thousand) were created per guarantees and other off-balance sheet items.

In respect of the lawsuits filed against Bank and the relating claims, according to the status of the cases as of December 31, 2021, the Bank made a provision of RSD 80,916 thousand (2020: RSD 20,823 thousand).

As at December 31, 2021, there were 3,250 lawsuits pending against the Bank (2020: 1,745 lawsuits) with claims in the total amount of RSD 102,896 thousand (2020: RSD 65,161 thousand). The Bank has adopted the Methodology for the Calculation of Litigation Loss Provisions, so in accordance with this Methodology, it calculates the amounts of provisions required on a quarterly basis.

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

25. OTHER LIABILITIES

	December 31, 2021	December 31, 2020
Trade payables	14,334	27,086
Advances received	222,262	198,874
Lease liabilities	608,981	528,007
Liabilities from consignment operations	167	167
Other operating liabilities	105,363	140,648
Liabilities in settlement	121,614	62,440
Temporary and suspense accounts	6,985	13,548
VAT liabilities	4,097	3,561
Liabilities for other taxes and contributions payable	2,156	2,676
Accrued liabilities	34,463	33,311
Deferred other income	58,622	53,108
Other accruals – subsidized interest	33,059	51,588
Other liabilities	1,113	792
TOTAL	**1,213,216**	**1,115,806**

Increase in the line item of liabilities in settlement refer to card-based liabilities (liabilities to retailers based on card acceptance, liabilities for received funds based on VISA and MasterCard card campaigns).

Lease Liabilities

The liability maturity period – contract maturity	**December 31, 2021**	**December 31, 2020**
0-1 year	12,881	10,892
1-3 years	284,703	173,994
3-5 years	167,341	182,552
5-10 years	144,056	160,569
Total	**608,981**	**528,007**

Liabilities for lease of business premises

The liability maturity period – contract maturity	**December 31, 2021**	**December 31, 2020**
0-1 year	11,457	9,316
1-3 years	226,953	165,924
3-5 years	137,432	102,171
5-10 years	144,056	160,569
Total	**519,898**	**437,980**

Liabilities for lease of vehicles

The liability maturity period – contract maturity	**December 31, 2021**	**December 31, 2020**
0-1 year	1,424	1,576
1-3 years	57,750	8,070
3-5 years	29,909	80,381
Total	**89,083**	**90,027**

An overview of the incremental borrowing rates used for vehicle leases

Type of leased vehicle	**Leasing liabilities due – contract maturity (per years)**	**Incremental borrowing rate**	**RSD'000**
Automobile	0-1 year	1.37%	1,424
Automobile	1-3 years	1.30%	57,750
Automobile	3-5 years	1.23 - 1.26%	29,909
Total			**89,083**

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

25. OTHER LIABILITIES (Continued)

Lease Liabilities (Continued)

An overview of the incremental borrowing rates used for leases of business premises

Lease liabilities - business premises by maturity (per years	Incremental borrowing rate	RSD '000
0-1 year	1.37 - 1.92%	11,457
1-3 years	1.33 - 3.25%	226,953
3-5 years	1.74 - 3.67%	137,432
5-10 years	2.71 - 5.03%	144,056
Total		**519,898**

Total outflows from leasing in 2021 amounted to RSD 186,946 thousand.

The Bank duly settles its liabilities under the effective lease agreements.

Trade payables in the amount of RSD 14,334 thousand relate to the Bank's regular business activities, which were paid in January 2022.

Liabilities arising from received advances refers to customer payments of loan repayment liabilities not matured in the amount of RSD 222,262 thousand.

The lease liability line item refers to the liabilities the Bank has to its lessors based on the discounted lease payments for business premises and vehicles.

The line item of other operating liabilities mostly consists of liabilities to individuals based on foreign exchange inflows in the amount of RSD 18,596 thousand, as well as license liabilities in the amount of RSD 80,721 thousand.

The item of accrued liabilities refers to costs incurred in the current reporting period for which the Bank did not receive documentation for posting by the reporting date, so it made an appropriate provision (accrual).

26. EQUITY

Equity and the Bank's Share Capital

In accordance with the Articles of Association and the Statute, the Bank's equity consists of:
- share capital
- share premium
- profit and
- reserves.

The Bank is managed by its founders commensurately to their holdings of the Bank's ordinary shares, in accordance with the Bank's Articles of Association and the Statute.

Breakdown of the Bank's equity as at December 31, 2021 and 2020 is provided in the following table:

	December 31, 2021.	December 31, 2020.
Share capital – ordinary shares	7,338,200	5,658,940
Share capital – preference shares	601,340	601,340
Share premium	4,559,509	2,712,323
Revaluation reserves	(200,031)	577,380
Reserves from profit	2,938,563	1,726,527
Prior years' retained earnings	542	682,330
Current year's profit	889,394	529,706
TOTAL	**16,127,517**	**12,488,546**

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

26. EQUITY (Continued)

Equity and the Bank's Share Capital (Continued)

The Bank's share capital consists of 733,820 ordinary (common stock) shares and 60,134 preference shares with the par value of RSD 10,000 per share. The total equity of the Bank consists of share capital in the amount of RSD 7,939,540 thousand (2020: RSD 6,260,280 thousand), share premium in the amount of RSD 4,559,509 thousand (2020: RSD 2,712,323 thousand), reserves from profit in the amount of RSD 2,938,563 thousand (2020: RSD 1,726,527 thousand), and negative revaluation reserves in the amount of RSD 200,031 thousand (2020: RSD 577,380 thousand). In 2021 the Bank realized and reported profit of RSD 889,394 thousand (2020: RSD 529,706 thousand).

The Bank is required to maintain the minimum capital adequacy ratio of 8% as prescribed by the National Bank of Serbia. The Bank's capital adequacy ratio as at December 31, 2021 was 23.64% (2020: 21.18%), which is well above the minimum prescribed by the National Bank of Serbia.

Breakdown of Reserves

	December 31, 2021	December 31, 2020
Revaluation reserves		
Reserves from changes in the value of fixed assets	84,196	96,292
Reserves from changes in the value of RSD debt instruments	(277,856)	481,399
Actuarial (losses)	(6,371)	(311)
Total revaluation reserves	(200,031)	577,380
Reserves from profit	2,938,563	1,726,527
TOTAL	**2,738,532**	**2,303,907**

Reserves arising from revaluation of property, plant and equipment relate to effects of appraisal of the Bank's buildings from previous years and 2021. Reserves from changes in the value of securities (debt instruments) relate to the effects of fair value adjustments of securities measured at fair value through the other comprehensive income (FVtOCI) as of December 31, 2021. The actuarial losses relate to the effects of changes in the value of employee retirement benefits determined by the actuarial assessment. Reserves from profit relate to cumulative effects of profit distribution.

The Bank's Shareholders as of December 31, 2021

		RSD '000				Interest share (%)			
No.	Shareholder	Ordinary Shares	Cumulative preference shares	Other preference shares	TOTAL	Ordinary Shares	Cumulative preference shares	Other preference shares	TOTAL
1.	TURKIYE HALK BANKASI A.S.	7,338,200	1,340	600,000	7,939,540	100.00	100.00	100.00	100.00
	TOTAL	**7,338,200**	**1,340**	**600,000**	**7,939,540**	**100.00**	**100.00**	**100.00**	**100.00**

The Bank's Shareholders as of December 31, 2020

		RSD '000				Interest share (%)			
No.	Shareholder	Ordinary Shares	Cumulative preference shares	Other preference shares	TOTAL	Ordinary Shares	Cumulative preference shares	Other preference shares	TOTAL
1.	TURKIYE HALK BANKASI A.S.	5,658,940	1,340	600,000	6,260,280	100.00	100.00	100.00	100.00
	TOTAL	**5,658,940**	**1,340**	**600,000**	**6,260,280**	**100.00**	**100.00**	**100.00**	**100.00**

As of December 31, 2021, Turkiye Halk Bankasi AS was the sole (100%) of the Bank's shares.

December 31, 2021	Total	Turkiye Halkbankasi	% Turkiye Halkbankasi	December 31, 2020	Total	Turkiye Halkbankasi	% Turkiye Halkbankasi
Ordinary shares	733,820	733,820	100.00%	Ordinary shares	565,894	565,894	100.00%
Preference shares	60,134	60,134	100.00%	Preference shares	60,134	60,134	100.00%
Total:	**793,954**	**793,954**	**100.00%**	**Total:**	**626,028**	**626,028**	**100.00%**

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

26. EQUITY (Continued)

Equity and the Bank's Share Capital (Continued)

On May 12, 2021, the Bank increased its capital by issuing new shares (the 23rd issue) in the amount of 167,926 ordinary shares with a par value of RSD 10,000 per share. The share capital was thereby increased from RSD 5,658,940 thousand to RSD 7,338,200 thousand. Pursuant to the Decision of the Shareholders' Assembly, the Bank issued shares at a price of RSD 21,000 per share. As a result, the difference between the issue price and the par value in the amount of RSD 1,847,186 thousand was recorded as a share premium.

27. OFF-BALANCE SHEET ITEMS

	December 31, 2021	December 31, 2020
a) Managed funds	**245,181**	**257,727**
b) Guarantees, sureties and irrevocable commitments		
Guarantees in RSD	16,939,661	13,509,390
Guarantees in foreign currencies	1,669,864	1,931,275
Total guarantees	18,609,525	15,440,665
Irrevocable commitments for undrawn loans in RSD	1,834,620	1,318,099
Irrevocable commitments for undrawn loans in foreign currencies	-	587,901
Total irrevocable commitments for undrawn loans	1,834,620	1,906,000
Total guarantees and irrevocable commitments	**20,444,145**	**17,346,665**
c) Financial assets pledged as collateral	**-**	**1,200,000**
d) Derivatives held for trading at the agreed value	**471,365**	**470,321**
e) Other off-balance sheet items		
Calculated suspended interest	5,280,990	5,076,234
Commitments for framework loans and facilities	11,306,284	10,813,711
Other off-balance sheet items and written-off financial assets	123,825,015	62,702,671
Total other off-balance sheet items	**140,412,289**	**78,592,616**
TOTAL	**161,572,980**	**97,867,329**

The line item of other off-balance sheet items includes all tangible and intangible assets the Bank obtained as collateral securitizing repayment of loans totaling RSD 117,846,789 thousand at December 31, 2021 (2020: RSD 57,519,403 thousand).

As of December 31, 2021, within other off-balance sheet items the amount of RSD 3,734,224 thousand (2020: RSD 3,539,346 thousand) refers to the direct write-offs of receivables made under the relevant decisions of the Supervisory Board and the accounting write-off in accordance with Decision on the Accounting Write-Off of Bank Balance Sheet Assets of the National Bank of Serbia, effective as from September 30, 2017. Within the meaning of this Decision, the accounting write-off is a write-off of a non-performing loan when the amount of the impairment of that loan calculated by the bank and credited to allowance for impairment equals 100% of its gross carrying amount. The Bank does not give up recovery of its receivables subject to the accounting write-off but simply transfers such receivables to the off-balance sheet items.

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

28. RELATED PARTY DISCLOSURES

The Bank enters into transactions with its related parties. All balances of receivables and payables at the reporting date, as well as income and expenses realized/ incurred during the year, are the result of common regular business activities. The Bank charges and pays interest on its receivables and liabilities arising from the related party transactions, calculated by applying the usual interest rates.

The following table presents the total exposure to related parties that may have an impact on the Bank's performance:

	December 31, 2021	December 31, 2020
a) Loans, deposits and other receivables		
The parent and entities under the joint control of the parent		
Turkiye Halk Bankasi AS	1,210,370	1,092,561
Other related parties		
Company TGK d.o.o. Čačak	36,181	31,867
RVM d.o.o.	18,277	27,424
Halkbank a.d. Skopje	15,524	11,186
Agrohemija d.o.o. Čačak	13,510	-
Inceptus d.o.o. Čačak	5,410	5,652
Animals d.o.o. Aranđelovac	1,330	447
Profesional 2000 d.o.o. Gornji Milanovac	1,336	2,002
Inter-Wood d.o.o Niš	-	1,999
Other entities	10,656	9,393
Individuals	424,830	419,402
TOTAL:	**1,737,424**	**1,601,933**
b) Borrowings, deposits and other liabilities		
The parent and entities under the joint control of the parent		
Turkiye Halk Bankasi AS	1,176,262	2,939,505
Other related parties		
Demir Halkbank Netherlands	1,001,386	1,007,673
Company Interprogres Čačak	36,458	
RVM d.o.o	25,041	-
Company TGK d.o.o. Čačak	-	5
Animalis doo Aranđelovac	547	-
"Radulović" STR	462	-
Amicum d.o.o. Ivanjica	-	11
Other entities	14,950	1
Individuals	409,902	236
TOTAL:	**2,665,008**	**3,947,431**
c) Off-balance sheet items		
The parent and entities under the joint control of the parent		
Turkiye Halk Bankasi AS	22,563	113,153
Halkbank a.d. Skopje	117,582	117,580
Other related parties		
RVM d.o.o.	106,914	116,411
Ninex d.o.o. Čačak - in bankruptcy	65,873	66,357
Agrohemija d.o.o. Čačak	7,500	5,997
Company TGK d.o.o. Čačak	5,027	5,028
Animalis d.o.o. Aranđelovac	3,000	3,000
Company Interprogres Čačak	2,000	-
Company Silver d.o.o. Čačak	350	350
DOO Duomos Novi Pazar	-	3,000
Other entities	2,502	602
Individuals	24,668	23,611
TOTAL:	**357,979**	**455,089**

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December 31, 2021
All amounts expressed in thousands of RSD, unless otherwise stated.

28. RELATED PARTY DISCLOSURES (Continued)

Loans and deposits approved and received from the parent entity and entities under the joint control and/or significant influence of the Bank's parent were extended to and placed with the Bank at the prevailing market interest rates disclosed in Notes 18, 19, 22 and 23 to the accompanying financial statements.

	December 31, 2021	December 31, 2020
d) Interest, fee and commission income		
The parent and entities under the joint control of the parent		
Turkiye Halk Bankasi AS	787	2,426
Other related parties		
RVM d.o.o.	1,342	1,585
Company TGK d.o.o. Čačak	1,086	853
Animals d.o.o. Aranđelovac	274	313
"Radulović" STR	114	-
Inceptus d.o.o. Čačak	321	174
Agrohemija d.o.o. Čačak	352	114
Jelena Mijailović PR	215	77
Ena Ugljanin PR	160	116
Ivex Drink d.o.o. Ivanjica	72	137
DOO Duomos Novi Pazar	44	130
Profesional 2000 d.o.o. Gornji Milanovac	86	67
Company Interprogres Čačak	78	56
TIBO Company doo Beograd Mladenovac	29	30
Company Silver doo Čačak	29	30
ST-KR Dekoratex	-	14
Prevoznik Grujičić Milovan PR	-	5
"TIVA-TEX" PR Gornji Milanovac	76	-
Nitravel Doo Niš	81	-
Bdnn-Glišić doo export-import Brđani	69	90
Inter-Wood d.o.o. Niš	-	34
Vaga szr Marinović	8	26
Other entities	219	97
Individuals	19,462	21,683
TOTAL:	**24,904**	**28,057**
e) Interest, fee and commission expenses		
The parent and entities under the joint control of the parent		
Turkiye Halk Bankasi AS	30,136	9,190
Entities under the significant influence of the parent		
Demir Halkbank Netherlands	14,494	27,993
Other related parties	440	66
Individuals	1,031	1,326
TOTAL	**46,101**	**38,575**

Gross remunerations to the Chairmen and members of the Bank's Supervisory Board and Executive Board in 2021 amounted to RSD 61,527 thousand (2020: RSD 62,183 thousand). Net remunerations to the Chairmen and members of the Supervisory Board and Executive Board in 2021 amounted to RSD 48,338 thousand (2020: RSD 49,684 thousand).

29. RISK MANAGEMENT

Introduction

In accordance with the effective Law on Banks (Official Gazette of RS nos. 107/2005, 91/2010 and 14/2015), NBS Decision on Risk Management by Banks (Official Gazette of RS nos. 45/2011, 94/2011, 119/2012, 123/2012, 23/2013 – the other decision, 43/2013, 92/2013, 33/2015, 61/2015, 61/2016, 103/2016, 119/2017, 76/2018,57/2019, 88/2019, 27/2020 I 67/2020 – other decisions), NBS Decision on Bank Liquidity Risk Management (Official Gazette of RS nos. 103/2016), and the Bank's internally adopted policies, methodologies and procedures, Halkbank a.d. Beograd (the " Bank") has identified the following risks it is exposed to in its operations:

- Liquidity risk;
- Credit risk, which includes the residual risk, downgrade risk, settlement/free delivery risk, counterparty risk, credit-interest rate risk, credit-foreign exchange risk, risk of the portfolio currency structure, and concentration risk;
- Risk of incurring losses due to the external factors;
- Interest rate risk;
- Market risks, which include foreign exchange risk, price risks and commodity risk;
- Risk of outsourcing;
- Risk of money laundering and terrorism financing;
- Risk relating to the introduction of new products/services;
- Investments risks relating to investments in other entities and own fixed assets;
- Country risk relating to the country of origin of the counterparty;
- Operational risk, including legal risk;
- Reputation risk;
- Strategic risk;
- Regulatory compliance risk, which includes the risk of sanctions by the regulator, risk of financial loss and reputation risk; and
- Environmental risk.

The Bank's objectives in risk management, defined within the risk management system, are minimization of the adverse effects of the Bank's exposure to the above listed risks on the Bank's performance and capital with simultaneous adherence to the defined limits of the acceptable risk levels and maintenance of the required capital adequacy ratio. During 2021 the Bank did not amend the objectives of risk management as specified above, but it significantly improved the risk management framework and adequate articulation of the overall risk management objectives by introducing new strategies, policies, procedures, methodologies and instructions.

In 2021, the Bank improved the risk management processes by alignment of and improvement to the existing strategies, policies, procedures, methodologies and instructions relating to the risk identification, measurement, assessment, mitigation and management and capital management.

The Bank's risk management system in place consists of:

- Risk management strategies and policies as well as the procedures and instructions for risk identification, measurement, assessment and management;
- Risk aptitude – the Bank's intention to assume risks in order to implement its strategies and policies (the risk structure) and definition of the acceptable levels of the assumed risks (risk tolerance);
- Risk profile – the Bank's estimate of the structure and levels of all the risks it is or may be exposed to in the course of its operations;
- Risk appetite framework (RAF) – the overall approach, including strategies, policies, procedures, processes, controls and systems for establishing, communicating and reviewing the roles and responsibilities of the Bank's organizational units in charge of supervising RAF implementation and monitoring. RAF considers risks material to the Bank, as well as to the high esteem and reputation of the Bank among its customers, depositors, creditors and in the market in general. RAF is aligned with the Bank's business strategy;
- Risk appetite statement (RAS) – represents an aggregate risk level the Bank is ready and willing to accept, or avoid, in order to achieve its business goals; it includes qualitative descriptions, and quantitative measures expressed as relative to the income, capital, risk measurement, liquidity and other relevant indicators. In addition, RAS enables quantification of the risk levels that are difficult to measure, such as the reputation risk, compliance risk and risks of money laundering and terrorism financing;
- Internal organization, i.e., organizational structure that ensures functional and organizational separation of the risk management activities from the risk assumption activities, with clearly defined segregation of duties for employees, which prevents conflicts of interests;
- Effective and efficient risk management process entailing mitigation, monitoring and control of the risks the Bank is or may be exposed to;

29. RISK MANAGEMENT (Continued)

Introduction (Continued)

- Internal control system as a set of processes and procedures in place intended to ensure adequate risk control, operational effectiveness and efficiency monitoring, financial and other data reliability and compliance with the effective legislation and the Bank's internal bylaws with a view to achieve safe and stable banking operations;
- Adequate information system.

The Bank's Supervisory Board is responsible for establishment of a uniform risk management system throughout the Bank and for supervision of that system. The Supervisory Board must ensure that the Bank's Executive Board will identify the risks the Bank is exposed to and control such risks in accordance with the bank's adopted policies and procedures.

The Bank's Executive Board implements the risk management strategies and polices adopted by the Supervisory Board, defines procedures, instructions and guidelines for risk identification, measurement, assessment and management, analyzes their efficiency and reports back to the Supervisory Board on these activities.

The Audit Committee is in charge of an ongoing oversight of implementation of the risk management policies and procedures and performance of the internal control system.

The Asset and Liability Management Committee ("ALCO") is in charge of monitoring the Bank's exposure to the risks arising from the structure of the Bank's receivables and liabilities and off-balance sheet items and proposes measures for risk management. The Audit Committee assists the Supervisory Board o in overseeing the work of the Executive Board and the Bank's employees.

The Competent Credit Committee decides on loan approval and origination of other receivables as well as on the amendments to the contracted terms of such loans and receivables. It decides in the loan recovery matters, including rescheduling and restructuring of loans and on all other issues related to the potentially non-performing, non-performing loans and receivable and bad and doubtful exposures.

29.1 Credit Risk

29.1.1. Credit Risk Management

Credit risk is a risk of possible adverse effects on the Bank's financial performance and capital arising from the customers failing to meet their obligations toward the Bank. The effects of this risk are measured by the amount of the Bank's expenses incurred due to the customer default.

The following organizational units of the Bank are responsible for credit risk management:
- The Supervisory Board , which defines the risk management strategy and credit risk management policy;
- The Executive Board, which implements the adopted strategy and policy and defines procedures and instructions for risk management;
- ALCO, which monitors the Bank's exposure to the credit risk and proposes adequate measures for credit risk management;
- The Bank's Credit Committees, which approve loans and make decision on all the matters of collection of potential NPLs, NPLs and doubtful receivables;
- Credit Monitoring Department, which assess the customer credit risk; and
- Risk Management Department, which monitors the loan portfolio quality.

Assessment of the credit risk exposure is carried out within the Crediting Division and Risk Management Department.

Within the Credit Division credit risk exposure is assessed upon analysis of the customer loan requests. Within the Credit Division credit risk is identified, controlled and monitored at the individual borrower level, through the assessment of the borrower creditworthiness and collateral quality.

Credit risk identification, control and monitoring on portfolio basis are performed by the Risk Management Department through preparation and analysis of the Bank's portfolio, control over classification of the balance sheet assets and off-balance sheet items, calculation of impairment allowances and provisions and control of the quality of the balance sheet assets and off-balance sheet items.

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

29.1.2 Analysis of the Financial Assets, Financial Liabilities and Off-Balance Sheet Items

The following tables provide the breakdowns of the Bank's financial assets and financial liabilities as of December 31, 2021 and December 31, 2020 as per:

- Credit risk exposure, in the net amounts,
- Credit risk exposure, in the gross amounts,
- Impairment, in the gross and net amounts,
- Internal categories in accordance with IFRS 9, in the gross and net amounts,
- Fair value of collaterals, in the gross amounts,
- LTV ratio for financial assets securitized with mortgages,
- Past-due intervals, in the gross and net amounts,
- Industry, in the gross and net amounts,
- Geographic region, in the net amounts,
- Fair value,
- Assets acquired in lieu of debt collection,
- Write-off of receivables, and
- Breakdown of restructured financial assets.

Structure of the Net Financial Assets, Financial Liabilities and Off-Balance Sheet Items

The Bank's financial assets, financial liabilities and off-balance sheet items are presented in the following tables in the net amounts. Loans and receivables due from banks and other financial institutions as well as loans and receivables due from customers are presented net of the collected but not credited to income loan processing fees, which are included in the effective interest rate calculation upon loan approval, and subsequently recognized within interest income using the effective interest rate and net of impairment allowances. As for off-balance sheet items, the Bank has no deferred fees for processing costs (the effective interest method) but defers the fees on a straight-line basis. Therefore, the off-balance sheet items are also presented in the net amounts, i.e., their gross amounts are decreased by the provisions for losses.

As of December 31, 2021, the Bank's cash, cash equivalents and balances held with the central bank increased by RSD 1,107,689 thousand compared to December 31, 2020 and comprised 13,05% of the Bank's total financial assets. Pledged financial assets have decreased by RSD 1,200,000 thousand, and the line item of securities recorded an increase by RSD 4,359,876 thousand. Loans and receivables due from customers increased by RSD 10,620,050 thousand, comprising 68.01% of the Bank's total financial assets.

As of December 31, 2021, deposits and other liabilities due to customers increased by RSD 13,518,772 thousand compared to December 31, 2020, with a share of 89.86% in the Bank's total financial liabilities.

As of December 31, 2021, off-balance sheet items increased by RSD 3,569,149 thousand compared to December 31, 2020. Guarantees and letters of credit increased by RSD 3,162,422 thousand comprising 58.66% of the total off-balance sheet items. Commitments per undrawn loans increased by 406,727 thousand with a share of 41.34% in the Bank's total net off-balance sheet items

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

29.1.2 Analysis of the Financial Assets, Financial Liabilities and Off-Balance Sheet Items (Continued)

Structure of the Net Financial Assets, Financial Liabilities and Off-Balance Sheet Items (Continued)

The following table presents the Bank's financial assets classified in accordance with IFRS 9:

	December 31, 2021	December 31, 2020
Financial assets	**97,246,555**	**83,033,286**
Cash and balances held with the central bank	12,689,315	13,707,004
Pledged financial assets	-	1,200,000
Receivables under financial derivatives	901	-
Securities	14,280,687	9,920,811
Loans and receivables due from banks and other financial institutions	3,838,517	2,398,670
Loans and receivables due from customers	66,140,381	55,520,331
Other assets	296,754	286,470
Financial liabilities	**143,102,206**	**71,908,250**
Liabilities under derivatives	-	1,266
Deposits and other liabilities due to banks, other financial institutions and the central bank	7,644,590	10,355,655
Deposits and other liabilities due to customers	60,969,422	60,969,422
Other liabilities	74,488,194	581,907

Off-balance credit risk exposure, net

	December 31, 2021	December 31, 2020
Off-balance sheet items, net	**31,711,113**	**28,141,964**
Guarantees and letters of credit	**18,601,365**	**15,438,943**
Public sector	176,022	144,934
Large corporate customers	5,420,142	2,087,677
SMEs, micro-sized entities and entrepreneurs	12,005,554	12,071,948
Retail customers	-	7,055
Other customers	1,007,808	1,127,329
Commitments per undrawn loans	**13,109,748**	**12,703,021**
Public sector	149,873	5,997
Large corporate customers	2,972,806	1,217,009
SMEs, micro-sized entities and entrepreneurs	9,589,444	11,189,457
Retail customers	396,971	289,804
Other customers	654	754

Gross Credit Risk Exposure

Gross credit risk exposure per loans and receivables due from customers as of December 31, 2021, increased by RSD 10,542,597 thousand compared to December 31, 2020. Exposure to SMEs, micro business and entrepreneurs increased by RSD 7,031,338 thousand, exposure to retail clients increased by RSD 2,833,190 thousand, exposure to large corporate customers increased by RSD 674,810 thousand and exposures to public sector by RSD 41,321 thousand. Exposure to other customers decreased by RSD 38,062 thousand

In the structure of gross loans and receivables from clients, the percentage increase in exposure to SMEs, micro business and entrepreneurs is 18.43%, exposure to the retail is 17.70%, exposure to large corporate customers is 29.63% and exposure to the public sector is 41.71%. Exposure to the other clients decreased by 3.68%.

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

29.1.2 Analysis of the Financial Assets, Financial Liabilities and Off-Balance Sheet Items (Continued)

Credit risk – gross exposure

	December 31, 2021	December 31, 2020
Financial assets	**98,310,384**	**84,170,342**
Cash and balances held with the central bank	12,690,155	13,708,862
Pledged financial assets	-	1,200,000
Receivables under derivative financial instruments	901	-
Securities	14,280,687	9,920,811
Loans and receivables from banks and other financial institutions	3,840,947	2,400,559
Loans and receivables due from customers	67,170,213	56,627,616
Of which:		
Public sector	140,383	99,062
Large corporate customers	2,952,010	2,277,200
SMEs, micro-sized entities and entrepreneurs	45,188,301	38,156,963
Retail customers - individuals	18,840,437	16,007,247
Other customers	49,082	87,144
Other assets	327,481	312,494

Gross credit risk exposure per off-balance sheet items increased by RSD 3,593,583 thousand or by 12.76% as of December 31, 2021 compared to December 31, 2020. Gross exposure under guarantees and letters of credit to large legal entities increased by RSD 3,332,452 thousand, to public sector by RSD 31,087 thousand, while exposure to medium, small and micro companies and entrepreneurs decreased by RSD 67,188 thousand, to retail by RSD 7,055 thousand and to other clients it decreased by RSD 120,435 thousand.

Commitments per undrawn loans increased by RSD 424,722 thousand, or 3,34% as of December 31, 2021 compared to December 31, 2020. Gross exposure under commitments per undrawn loans to large legal entities increased by RSD 1,755,869 thousand, to public sector increased by RSD 143,875 thousand, to retail increased by RSD 107,296 thousand, while it decreased to medium, small and micro companies and entrepreneurs by RSD 1,582,218 thousand.

Gross credit risk exposure per off-balance sheet items

	December 31, 2021	December 31, 2020
Off-balance sheet items	**31,753,958**	**28,160,376**
Guarantees and letter of credit	**18,609,526**	**15,440,665**
Public sector	176,022	144,935
Large corporate customers	5,420,142	2,087,690
SMEs, micro-sized entities and entrepreneurs	12,005,554	12,072,742
Retail customers	-	7,055
Other customers	1,007,808	1,128,243
Commitments per undrawn loans	**13,144,432**	**12,719,711**
Public sector	149,875	6,000
Large corporate customers	2,972,923	1,217,055
SMEs, micro-sized entities and entrepreneurs	9,623,827	11,206,045
Retail customers - individuals	397,152	289,856
Other customers	655	755

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Financial Assets – Impairment

In accordance with the requirements of IFRS 9, the Bank adopted the methodology for assessing the impairment allowance of the financial assets (Methodology for Calculation of Impairment Allowance under IFRS9). This methodology is applied to all financial instruments measured at amortized cost (AC) and at fair value through other comprehensive income (FVtOCI), except for:

- Investments in subsidiaries, associates and joint ventures accounted for in accordance with IFRS 10 "Consolidated Financial Statements", IAS 27 "Separate Financial Statements" or IAS 28 "Investments in Associates and Joint Ventures" (save for the instances when IFRS 10, IAS 10, IAS 27 or IAS 28 allow the reporting entity to account for investments in subsidiaries, associates or joint ventures in accordance with some or all of the requirements of IFRS 9);
- Employer rights and obligations per employee benefit plans, within the scope of IAS 19 "Employee Benefits";
- Rights and obligations within the scope of IFRS 15 "Revenue from Contracts with Customers" that are financial instruments other than those to be accounted for under this standard.

A financial instrument is defined by IAS 32 as a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Therefore, financial assets for the purposes of imapirment requirements are:

- Cash and
- Contractual rights entailing receipts of cash or another financial asset from another entity or exchange of financial assets or financial liabilities with another entity under potentially favorable conditions.

Recognition and Modification of Financial Assets

The Bank recognizes a financial asset in its financial statements when it has become a party to the contractual terms of the instrument. Upon initial recognition, the Bank measures a financial asset at fair value increased or decreased by transaction costs that can be directly attributable to the acquisition or issuance of the financial asset.

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

In such instances, the Bank performs both qualitative and quantitative assessments to determine whether there is a significant difference between the cash flows of the original financial asset and the cash flows of the modified asset. If there is a significant difference, the contractual rights to the original financial assets will be deemed expired and the new asset, issued under new terms is to be recognized. A significant difference between the cash flows of the two assets means a change in the present value of the cash flows of above 10% (the so-called quantitative test).

A financial asset may be modified or replaced as part of a transaction with the same counterparty. For example, when the Bank's customer (borrower) is experiencing financial difficulties, restructuring of some or all of the borrower's liabilities may be negotiated in order to enable adequate debt repayment capacity, in part or in full. Such circumstances are commonly referred to as "forbearance" in the banking practice.

Modifications resulting in derecognition of the existing assets and initial recognition of the new assets, driven by deteriorated credit rating and repayment capacity of the borrowers and if at the same time the following two conditions are met:

1. that it is a significant modification (the difference in cash flows is greater than 10%) and
2. exposure exceeds EUR 200,000,

all leading to initial recognition of the financial assets defined by IFRS 9 as purchased or originated credit-impaired assets ("POCI assets"), i.e., assets impaired at the time of initial recognition.

In instances of significant modification of a financial instrument, IFRS 9 prescribes derecognition of the original financial asset and recognition of the new asset at fair value as of the recognition date. Derecognition of the gives rise to a permanent gain or loss, which must be recognized within profit or loss, in the amount equal to the difference between the amortized cost of the original financial assets and the fair value of the new financial assets net of the expected credit losses recognized as the impairment allowance of the financial assets.

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL)

IFRS 9 introduces a concept of expected credit losses (ECL) the Bank is to identify and recognize for all financial assets within the scope of the standard. The Bank calculates and recognizes impairment allowance in accordance with its methodology for financial instruments recognized at AC and all the financial assets measured at FVtOCI.

Impairment allowance for financial assets at FVtOCI and at AC is included in expenses within the income statement. However, the accumulated impairment allowance in the financial statements is not deducted from the fair value of assets but from the cumulative change in the fair value recorded within the other comprehensive income.

The calculated expected credit losses represent probability-weighted estimates of credit losses (the present value of all the differences between the contractual cash flows and the cash flows he Bank expects to receive) during the expected life of a financial instrument. Therefore, for financial assets, the credit loss is the present value of the difference between:

- the contractual cash flows belonging to the Bank under the relevant contract and
- the cash flows the Bank expects to receive,

while for commitments per undrawn loans, credit loss is the present value of the difference between:

- the contractual cash flows belonging to the Bank if the user draws down the loan funds and
- the cash flows the Bank expects to receive if the loan is drawn down.

For exposures on documentary business such as guarantees or letters of credit loss is the present value of the difference between:

- the contractual cash flows if the beneficiary demands the payment by the Bank and
- the cash flows the Bank expects to receive from its client.

The Bank classifies all financial assets measured at AC into the following three stages depending on the risk level, i.e., the expected credit loss, as follows:

- Stage 1 includes all new financial assets upon initial recognition except for purchased or originated credit-impaired (POCI) assets, and instruments without a significant increase in credit risk since initial recognition and low-risk financial assets;
- Stage 2 includes financial assets with a significant increase in credit risk since initial recognition, but without objective evidence of impairment based on the credit losses;
- Stage 3 includes financial assets with objective evidence of impairment at the reporting date and
- POCI assets that include all purchased or originated credit impaired assets (POCI) as impaired upon initial recognition.

Modifications that cause derecognition of a financial asset and initial recognition of a new asset, motivated by a decline in creditworthiness and repayment capacity, lead to the initial recognition of financial assets that the standard defines as "POCI", i.e., assets that were impaired at the time of initial recognition.

For the purposes of the analysis, the Bank identified a series of criteria used in the assessment for comparison to the status at initial recognition of financial instruments under IFRS 9. Identification of one or more of the listed triggers may indicate that three has been a significant increase in the credit risk, which will cause allocation of the asset to Stage 2, as follows:

- Corporate customer segment
    1) Over 30 days past due in continuity at the date of assessment;
    2) Account blockade of over 30 consecutive days;
    3) FBE PE status;
    4) Gearing ratio: total debt (long-term liabilities + short-term liabilities)/equity >1 and at the same time changes in the sales, i.e., decrease in revenue of over 30%;
    5) Gearing ratio: total debt (long-term liabilities + short-term liabilities)/equity >1 and at the same maturity mismatch (current assets – current liabilities) < 1 and inadequate cash flows (cash flows from operating activities – short-term financial liabilities) <1;

Criteria 4 and 5 are not considered for newly founded entities.

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

- Retail customer segment
    1) 30 days past due in continuity at the date of assessment;
    2) FBE PE status.
    3) Deceased clients

FBE PE status is related to forborne performing loans/receivables where contractual terms of the loans have been changed but not due to the deterioration of the borrower's financial situation.

For allocation to Stage 3, the Bank identified a list of triggers which need to be monitored for identification of the default status, based on the general (regulatory) default indicators (days past due, bank account blockade, bankruptcy, FBE NPE status) as well as on the quantitative indicator within the borrower's financial statements, determined based on the history of the Bank's portfolio movements, as follows:

- Corporate customer segment
    1) Over 90 days past due in continuity at the date of assessment;
    2) Account blockade of over 90 consecutive days;
    3) FBE NPE status;
    4) Instigated bankruptcy or liquidation procedures or lawsuits filed against the client and suspension of interest;
    5) Loss exceeding equity, ad the same time, inadequate cash flows (cash flows from operating activities – short-term financial liabilities) <1 and at the same time decrease in revenue of over 50% according to the official financial statements for the past two years;
    6) POCI

Criterion 5 is not considered for newly founded entities.

- Retail customer segment
    1) Over 90 days past due in continuity at the date of assessment;
    2) Claimed in lawsuit;
    3) Instruments for which suspension of interest were made
    4) FBE NPE;
    5) POCI.

FBE NPE status is related to forborne non-performing loans/receivables where contractual terms of the loans have been changed due to the deterioration of the borrower's financial situation.

Days past due criterion includes material arrears defined as arrears per at least 1% of an individual receivable but not below RSD 1,000 thousand for retail and not below RSD 10,000 for corporate customers.

Accordingly, at each reporting date, the Bank calculates impairment allowance in the amount of lifetime expected credit losses if the credit risk of an instrument has increased significantly since initial recognition or there is identified objective evidence of impairment (assets in Stage 2 and Stage 3), or in the amount equal to 12-month expected credit losses for all financial instruments without a significant increase in credit risk since initial recognition (assets in Stage 1). Lifetime ECL calculated in this manner represent losses recognized by the Bank for the purposes of impairment allowance of assets in Stage 2, while the12-month ECL portion calculated in this way represents expected credit losses recognized for financial assets in Stage 1.

Lifetime expected credit losses calculated in this manner represent losses the Bank recognizes for the purposes of Stage 2 and Stage 3 impairment allowances whereas 12-month ECL as the portion of the lifetime ECL is recognized for Stage 1 financial instruments.

The Bank calculates lifetime expected credit losses using the following formula:

$$ECL = \sum_{t=1}^{T} (EAD_t * MPD_t * LGD_t * DF_t)$$

ECL - Expected credit loss
EAD - Exposure at default
MPD - Marginal probability of default
LGD - Loss given default
DF – EIR-based discount factor

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

EAD parameter
EAD, exposure at default is an estimate of the carrying amount of the Bank's receivables under IFRS 9 at the time of default, taking into account the profile of the contractual cash flows and possible additional drawdowns from the approved lines of credit before the time of default. For the financial instruments with no contractually defined cash flows or maturities, the Bank determines those based on the historical experience.

Accordingly, the Bank calculates credit conversion factors (CCF) separately for:

- Payment and performance guarantees and letters of credit;
- Undrawn amounts (up to defined limits) of the approved credit lines (separately for revocable and irrevocable commitments per credit lines);
- Credit cards;
- Approved current overdrafts per segment.

PD parameter
Probability of default (PD), i.e., the probability that a borrower will default on the loan repayment liabilities to the Bank some time during the lifetime of the financial instrument, represents one of the basic parameters used in calculation of the impairment allowance under IFRS 9. As such, this parameter has undergone significant changes compared to the PD calculation previously used for impairment allowance calculation under IAS 39.

Migration matrices, as the basis for PD calculation, are calculated by the Bank separately for each sub-segment by observing the annual movements of monthly migrations form internal rating categories 1, 2, 3 and 4 to internal category 5 (default category) for a minimum period of 5 years.

Within the context of multiannual – through the cycle (TTC) PDs, it is very important that several types of PDS are appropriately distinguished. Therefore, the Bank consistently applies the terminology defined within the Methodology. All of the below described PD types are available at both the individual financial instrument level and the internal rating level within each of the sub-segments:

- Marginal PD refers to the (unconditional) PD that will occur exactly at the moment (point in time) t.
- Forward PD (as conditional PD) refers to PD that will occur during the period t assuming that no default has happened between the moment $t0$ and the beginning of the period t.
- Cumulative PD refers to PD that will occur at the end of the period t. The probability of default before or at the maturity T corresponds to the lifetime PD, i.e., PD over the entire lifetime of the financial instrument.
- Forward lifetime PD refers to the conditional probability that default will occur within the interval $(t,)$ assuming that no default has happened between the moment $t0$ and the beginning of the period t.

In the process of developing PD parameters used for impairment allowance calculation in accordance with the Methodology, for alignment with the requirements of IFRS 9, the Bank applied the following adjustments:

- the point-in-time (PiT) adjustment;
- consideration of the forward-looking information on the macroeconomic conditions, whereby the Bank investigate the relations between the actually realized default rates and the following macroeconomic factors identified as material: movement of GDP, movement of industrial production index, movement of consumer price index, monetary aggregate M3, exchange rate movement RSD/EUR, average net salary in the Republic of Serbia indexed in EUR and index of income movements of legal entities.

Forward-Looking Information (FLI)
Impact of the macroeconomic variables, their movements and trends, on the default rate movements is examined by separately for the retail and corporate segments(yet summarily for all the sub-segments within the two) in order to determine regularities and patterns and the relation that existed between the realized quarterly default rate and the independent variables during the observed period.

Here the Bank examines the relations (correlations) between the default rates (as the dependent variable) and the movements in macroeconomic factors identified as having material effects on the default rates (as independent variables). The Bank uses linear regression model to assess the relation between the observed parameters at the beginning of the calendar year and, on an annual basis, updates the model components and reassesses the linear regression itself so that the parameters used apply to the following reporting period observed. To this end, and for reliability validation, care is taken that the linear regression meets the statistical significance criteria.

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

LGD parameter
Loss given default represents an estimate of a loss on and individual financial instruments assuming that default has occurred/will have occurred. LGD is one of the key components in calculation of the risk parameters for expected credit loss (ECL) calculation.

In its estimation of the losses measured in accordance with its Methodology under IFRS 9, the Bank wishes to reflect the possibilities of collection of receivables from both the borrower's regular operating cash flows and from the collateral foreclosure cash flows, directly relating to the financial instruments. Therefore, the Bank applies the concept of LGD split to LGDsecured and LGDunsecured components, depending on the securitization of each individual exposure.

For calculation of LGDsecured, i.e., expected loss rate after collateral foreclosure, the Bank takes into account all internally available collaterals with assessment of collectability. In the process, the Bank relies on the historical experience in collateral realization.

For calculation of LGDunsecured, the Bank monitors collection of defaulting loans and identifies the sources of collection. For this purpose, the Bank considers each migration to the default status separately and chronologically identifies all collections of payments in respect thereof.

Approach to the segment of exposures to the governments and financial institutions
In the absence of relevant historical data on this segment, the Bank uses LGD in accordance with Basel regulations for calculation of the impairment allowance in line with its Methodology.

Stage 3 and Expected Credit Losses

Introduction
In accordance with the Bank's Methodology, impairment allowance assessment is made for all Stage 3 exposures that:

- have identified default status; and
- meet the criteria of POCI definition in accordance with IFRS 9.

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

In the event of POCI assets, as the original or initial effective interest rate, the credit-adjusted effective interest rate is calculated. Such an effective interest rate is the internal rate of return that discounts the present value of the expected cash flows of a POCI asset to the fair value of the POCI asset at the time of its initial recognition. It is believed that the effective interest rate arrived at in this manner already included the expected credit losses.

Individual Impairment Assessment
Since, under IFRS 9, expected credit losses (ECL) represent probability-weighted estimates of credit losses, the Bank considers several possible scenarios of collection in estimating the future cash flows. The scenarios considered are:

- collateral foreclosure,
- loan rescheduling or restructuring (forbearance),
- instigation of bankruptcy proceedings over the borrower,
- sale of the receivable,
- settlement, and
- other scenarios deemed as relevant.

The Bank assesses sources of collection from the borrower's expected future operating cash flows (the borrower continues operating as a going concern), or expects to collect its receivables from activation of collaterals (the borrower ceases to operate as a going concern and becomes gone concern) based on the following criteria:

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Individual Impairment Assessment (Continued)

1) Corporate customers – at the moment of being assigned FBE NPE status, all borrowers are automatically considered gone-concern borrowers and the assessment of impairment is made based on the expected collection from collateral foreclosure, while the defined period of monitoring and probation covers 6 months or 3 consecutive payments (of either both the principal and interest or interest), with no days past due identified of over 90 days. Following the defined monitoring and probation period, the borrower may return to the going-concern status and the impairment may be assessed based on the estimated collection from the borrower's future operating cash flows.
2) Retail customers – at the moment of being assigned FBE NPE status, all borrowers with proven credit repayment capacity (a. from regular salary paid by the employer and/or b. other regular income that can be documented, such as rental income, fees received under service contracts, closed-end employment contract, income from farming business, services rendered or temporary and seasonal work), may be treated as going-concern borrowers and impairment allowance may be made based on the expected future operating cash flows. Otherwise, they are treated as gone-concern borrowers, up to the fulfillment of the aforesaid condition of credit repayment capacity, and the impairment allowance will be made based on the assessed collection form the collateral foreclosure.

Upon determining the probabilities of certain scenarios (expressed as percentages), the Bank relies on the historical collection of NPLs but considers the specificities of individual financial instruments as well, and assigns the scenarios appropriate weights accordingly, which must add up to 100% in the sum of all the scenarios considered. If the borrower meets the going-concern criteria, the Bank may define at least one scenario of collection form the expected operating future cash flows. Otherwise, the scenarios are defined under the gone-concern assumption, with collection expected from collateral activation and foreclosure. In this manner, the ultimately calculated credit losses meet the definition form IFRS 9 – they represent probability-weighted estimates of credit losses.

The Bank applies collateral haircuts and realization periods as prescribed by the Collateral Management, Valuation and Insurance Procedure. In the above-described manner, the Bank estimates ECL for all financial instruments in Stage 3 that exceed the respective materiality levels of RSD 1.2 million at the retail loan facility level and RSD 3 million at the corporate borrower level. Upon defining the materiality levels, the Bank observed the materiality levels existing within its internal loan approval procedures, and the materiality level to the overall portfolio ratio, taking into account the operating capability to calculate an adequate number of facilities based on the case-by-case assessments.

Collective Impairment Assessment

The Bank applies the group (portfolio) or collective approach to all other exposures, which entails grouping of the financial instruments remaining within Stage 3 into the sub-segments, as follows:

- retail customers,
- corporate customers (including banks and other financial institutions without an external credit rating), and
- exposures to the governments and other government institutions (state authorities, local governance units, other government agencies, banks and financial institutions).

The retail customer segment is further classified into groups per product:

- housing loans,
- cash and consumer loans,
- loans to farmers/entrepreneurs,
- credit cards and current account overdrafts, and
- receivables for fees arising from payment operations for farmers/entrepreneurs/legal entities.

Within each of the sub segments, borrowers are further distributed into groups per days past due into the following internal categories:

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Collective Impairment Assessment

The Bank applies the group (portfolio) or collective approach to all other exposures, which entails grouping of the financial instruments remaining within Stage 3 into the sub-segments, as follows:

- retail customers,
- corporate customers (including banks and other financial institutions without an external credit rating), and
- exposures to the governments and other government institutions (state authorities, local governance units, other government agencies, banks and financial institutions).

The retail customer segment is further classified into groups per product:

- housing loans,
- cash and consumer loans,
- loans to farmers/entrepreneurs,
- credit cards and current account overdrafts, and
- receivables for fees arising from payment operations for farmers/entrepreneurs/legal entities.

The segment of corporate customers is treated as a single group and includes the guarantees on behalf of private individuals as well.

Within each of the subsegements, borrowers are further distributed into groups per days past due into the following internal categories:

Internal category	Days past due
1	0
2	1 to 30
3	31 to 60
4	61 to 90
5	Over 90

Borrowers in group 5 are default status borrowers.

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

The table below shows movements of the impairment allowance during the period from January 1, 2021 to December 31, 2021:

	Stage 1			Stage 2			Stage 3		
	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes
Cash and balances held with the central bank	(1,018)	-	-	-	-	-	-	-	-
Securities	-	-	-	-	-	-	-	-	-
Loans and receivables due from banks and other financial institutions	541	-	-	-	-	-	-	-	-
Loans and receivables due from customers	(5,913)	-	-	(11,327)	-	1	(60,218)	-	4
Other assets	127	-	-	(16)	-	-	4,593		-
Total	**(6,263)**	**-**	**-**	**(11,344)**	**-**	**1**	**(55,625)**	**-**	**4**

The table below shows movements of the impairment allowance during the period from January 1, 2020 to December 31,2020:

	Stage 1			Stage 2			Stage 3		
	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes
Cash and balances held with the central bank	697	-	-	-	-	-	-	-	-
Securities	-	-	-	-	-	-	-	-	-
Loans and receivables due from banks and other financial institutions	1,227	-	-	-	-	-	-	-	-
Loans and receivables due from customers	(7,688)	-	(5)	69,316	-	(2)	(39,298)	-	(47)
Other assets	3,667	-	-	16	-	-	2,512	-	(1)
Total	**(2,097)**	**-**	**(5)**	**69,332**	**-**	**(2)**	**(36,786)**	**-**	**(48)**

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29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Collective Impairment Assessment (Continued)

The table below presents movements of the gross credit risk exposures per Stage over the period from January 1, 2021 to December 31, 2021.

	Movements in the credit risk exposure from January 01, 2021 to December 31, 2021			
	Opening balance at January 1, 2021	**Stage 1**	**Stage 2**	**Stage 3**
Cash and balances held with the central bank	Opening balance at January 1, 2021.	13,708,862	-	-
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	-	-	-
	Decreases through repayment, write-off and transfer to off-balance sheet items	(1,018,707)	-	-
	Closing balance at December 31, 2021	12,690,155	-	-
Receivables under derivative financial instruments	Opening balance at January 1, 2021.	-	-	-
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	901	-	-
	Decreases through repayment, write-off and transfer to off-balance sheet items	-	-	-
	Closing balance at December 31, 2021	901	-	-
Securities	Opening balance at January 1, 2021.	11,120,791	-	20
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	(1,164)	1,224	(60)
	Transfer to Stage 3	-	-	-
	Increases through origination	4,634,720	-	40
	Decreases through repayment, write-off and transfer to off-balance sheet items	(1,474,884)	-	-
	Closing balance at December 31, 2021	14,279,463	1,224	-
Loans and receivables due from banks and other financial institutions	Opening balance at January 1, 2021.	2,400,559	-	-
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	1,440,743	-	-
	Decreases through repayment, write-off and transfer to off-balance sheet items	(355)	-	-
	Closing balance at December 31, 2020	3,840,947	-	-
Loans and receivables due from customers	Opening balance at January 1, 2020.	45,745,266	9,106,455	1,775,895
	Transfer to Stage 1	2,998,337	(2,993,094)	(5,243)
	Transfer to Stage 2	(2,530,820)	2,557,333	(26,513)
	Transfer to Stage 3	(350,438)	(173,681)	524,119
	Increases through origination	25,195,992	5,465,541	77,632
	Decreases through repayment, write-off and transfer to off-balance sheet items	(17,188,821)	(2,519,400)	(488,347)
	Closing balance at December 31, 2021	53,869,516	11,443,154	1,857,543
Other assets	Opening balance at January 1, 2021.	252,291	862	59,341
	Transfer to Stage 1	1,221	(227)	(994)
	Transfer to Stage 2	(835)	840	(5)
	Transfer to Stage 3	(2,026)	(1,413)	3,439
	Increases through origination	70,558	2,440	6,383
	Decreases through repayment, write-off and transfer to off-balance sheet items	(58,542)	(317)	(5,535)
	Closing balance at December 31, 2021	262,667	2,185	62,629
Total	**Closing balance at December 31, 2021**	**84,943,649**	**11,446,563**	**1,920,172**

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29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Collective Impairment Assessment (Continued)

The table below presents movements of the gross credit risk exposures per Stage over the period from January 1, 2020 to December 31, 2020:

	Movements in the credit risk exposure from January 01, 2020 to December 31, 2020			
	Opening balance at January 1, 2020	**Stage 1**	**Stage 2**	**Stage 3**
	Opening balance at January 1, 2020	10,014,725	-	-
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	3,694,137	-	-
Cash and balances held	Decreases through repayment, write-off and transfer to off-balance sheet items	-	-	-
with the central bank	Closing balance at December 31, 2020	13,708,862	-	-
	Opening balance at January 1, 2020	-	-	-
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	-	-	-
Receivables under derivative financial	Decreases through repayment, write-off and transfer to off-balance sheet items	-	-	-
instruments	Closing balance at December 31, 2020	-	-	-
	Opening balance at January 1, 2020	10,607,327	-	23
	Transfer to Stage 1	-		-
	Transfer to Stage 2	-	-	
	Transfer to Stage 3	-	-	-
	Increases through origination	2,812,089	-	-
	Decreases through repayment, write-off and transfer to off-balance sheet items	(2,298,625)	-	(3)
Securities	Closing balance at December 31, 2020	11,120,791	-	20
	Opening balance at January 1, 2020	1,453,796	-	-
	Transfer to Stage 1	-	-	
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	1,539,672	-	-
Loans and receivables due from banks and other	Decreases through repayment, write-off and transfer to off-balance sheet items	(592,909)	-	
financial institutions	Closing balance at December 31, 2020	2,400,559	-	-
	Opening balance at January 1, 2020	40,288,103	4,316,986	2,284,316
	Transfer to Stage 1	959,453	(954,563	(4,890
	Transfer to Stage 2	(3,097,342)	3,113,252	(15,910)
	Transfer to Stage 3	(72,678)	(116,129	188,807
	Increases through origination	21,062,739	4,595,914	28,545
Loans and receivables due	Decreases through repayment, write-off and transfer to off-balance sheet items	(13,395,009)	(1,849,005)	(704,973)
from customers	Closing balance at December 31, 2020	45,745,266	9,106,455	1,775,895
	Opening balance at January 1, 2020	191,720	365	54,502
	Transfer to Stage 1	3,464	(97	(3,367
	Transfer to Stage 2	(271)	433	(162)
	Transfer to Stage 3	(1,326)	(1,093)	2,419
	Increases through origination	211,641	1,419	8,276
	Decreases through repayment, write-off and transfer to off-balance sheet items	(152,937)	(165)	(2,327)
Other assets	Closing balance at December 31, 2020	252,291	862	59,341
Total	**Closing balance at December 31, 2020**	**73,227,769**	**9,107,317**	**1,835,256**

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29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Collective Impairment Assessment (Continued)

The table below presents movements of the impairment allowance per Stage over the period from January 1, 2021 to December 31, 2021:

	Movements of impairment allowances from January 31, 2021 to December 31, 2021			
	Opening balance at January 1, 2021	**Stage 1**	**Stage 2**	**Stage 3**
Cash and balances held with the central bank	Opening balance at January 1, 2021	1,858	-	-
	Transfer to stage 1	-	-	-
	Transfer to stage 2	-	-	-
	Transfer to stage 3	-	-	-
	Increases through origination	-	-	-
	Decreases through repayment, write-off and transfer to off-balance sheet items	(1,018)	-	-
	Closing balance at December 31, 2021	840	-	-
Securities	Opening balance at January 1, 2021	-	-	-
	Transfer to stage 1	-	-	-
	Transfer to stage 2	-	-	-
	Transfer to stage 3	-	-	-
	Decreases through repayment, write-off and transfer to off-balance sheet items	-	-	-
	Closing balance at December 31, 2021	-	-	-
Loans and receivables due from banks and other financial institutions	Opening balance at January 1, 2021	1,889	-	-
	Transfer to stage 1	1,889	-	-
	Transfer to stage 2	-	-	-
	Transfer to stage 3	-	-	-
	Increases through origination	542	-	-
	Decreases through repayment, write-off and transfer to off-balance sheet items	(1)	-	-
	Closing balance at December 31, 2021	2,430	-	-
Loans and receivables due from customers	Opening balance at January 1,2021	85,146	106,824	915,315
	Transfer to stage 1	3,052	(3,037)	(15)
	Transfer to stage 2	(21,961)	22,425	(464)
	Transfer to stage 3	(76,492)	(47,454)	123,946
	Increases through origination	131,999	82,304	76,322
	Decreases through repayment, write-off and transfer to off-balance sheet items	(42,511)	(65,564)	(260,003)
	Closing balance at December 31, 2021	79,233	95,498	855,101
Other assets	Opening balance at January 1, 2021	4,074	39	21,911
	Transfer to stage 1	44	-	(44)
	Transfer to stage 2	(6)	7	(1)
	Transfer to stage 3	(1,483)	(870)	2,353
	Increases through origination	1,587	873	4,974
	Decreases through repayment, write-off and transfer to off-balance sheet items	(15)	(27)	(2,689)
	Closing balance at December 31, 2021	4,201	22	26,504
Total	Closing balance at December 31, 2021	**86,704**	**95,520**	**881,605**

Expected credit losses are also calculated for securities that are measured at fair value through other comprehensive income. However, the expected credit losses in this case are not accounted for as the balance sheet asset impairment allowance but on the accounts of group 82 - Revaluation reserves and unrealized gains / losses. Therefore, the expected credit loss on securities is not shown in the table above, where impairment allowances of other financial assets are presented. The expected credit losses on securities that are measured at fair value through other comprehensive income amounted to RSD 27,369 thousand as at December 31, 2021 (December 31, 2020: RSD 27,000 thousand).

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29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Collective Impairment Assessment (Continued)

The table below presents movements of the impairment allowance per Stage over the period from January 1, 2020 to December 31, 2020:

	Movements in the impairment allowance from IFRS 9 FTA to December 31, 2020			
	Opening balance at January 1, 2020	**Stage 1**	**Stage 2**	**Stage 3**
	Opening balance at January 1, 2020	1,161	-	-
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	697	-	-
Cash and balances held	Decreases through repayment, write-off and transfer to off-balance sheet items	-	-	-
with the central bank	Closing balance at December 31, 2020	1,858	-	-
	Opening balance at January 1, 2020.	-	-	-
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Decreases through repayment, write-off and transfer to off-balance sheet items	-	-	-
	Closing balance at December 31, 2020	-	-	-
Securities	Opening balance at January 1, 2020	662	-	-
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	1,282	-	-
Loans and receivables due	Decreases through repayment, write-off and transfer to off-balance sheet items	(55)	-	-
from banks and other	Closing balance at December 31, 2020	1,889	-	-
financial institutions	Opening balance at January 1, 2020	92,839	37,510	954,660
	Transfer to Stage 1	1,504	(1,481)	(23)
	Transfer to Stage 2	(49,545)	50,235	(690)
	Transfer to Stage 3	(35,543)	(28,917)	64,460
	Increases through origination	127,255	63,460	64,319
	Decreases through repayment, write-off and transfer to off-balance sheet items	(51,364)	(13,983)	(167,411)
Loans and receivables due	Closing balance at December 31, 2020	85146	106,824	915,315
from customers	Opening balance at January 1, 2020	407	23	19,400
	Transfer to Stage 1	4,271	(1)	(4,270)
	Transfer to Stage 2	(18)	19	(1)
	Transfer to Stage 3	(744)	(627)	1,416
	Increases through origination	442	684	6,284
	Decreases through repayment, write-off and transfer to off-balance sheet items	(284)	(14)	(918)
Other assets	Closing balance at December 31, 2020	4,074	39	21,911
Total	**Closing balance at December 31, 2020**	**92,967**	**106,863**	**937,226**

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Collective Impairment Assessment (Continued)

Expected credit losses are also calculated for securities that are measured at fair value through other comprehensive income. However, the expected credit losses in this case are not accounted for as the balance sheet asset impairment allowance but on the accounts of group 82 - Revaluation reserves and unrealized gains / losses. Therefore, the expected credit loss on securities is not shown in the table above, where impairment allowances of other financial assets are presented. The expected credit losses on securities that are measured at fair value through other comprehensive income amounted to RSD 27,000 thousand as at December 31, 2020 (December 31, 2019: RSD 20,059 thousand).

Breakdown of Financial Assets per Impairment Stages

The Bank's total impairment for financial assets amounts to RSD 1,063,829 thousand as of December 31, 2021 (December 31, 2020: RSD 1,137,056 thousand) and it has decreased by RSD 73,227 thousand or 6,44% compared to December 31, 2020. The biggest impact on the movement of impairment had improvement the quality of the bank's portfolio due to the collection of problematic receivables and write-downs of receivables that are 100% covered by the impairment

The table below presents the breakdown of the Bank's financial assets per impairment Stage in accordance with IFRS 9.

	December 31,2021	December 31,2020
Cash and balances held with the central bank	**12,690,155**	**13,708,862**
Stage 1	12,690,155	13,708,862
Receivables under derivative financial instruments	**901**	**-**
Stage 1	901	-
Securities	**14,280,687**	**11,120,811**
Stage 1	14,279,463	11,120,791
Stage 2	1,224	-
Stage 3	-	20
Loans and receivables due from banks and financial institutions	**3,840,947**	**2,400,559**
Stage 1	3,840,947	2,400,559
Loans and receivables due from customers	**67,170,213**	**56,627,616**
Stage 1	53,869,516	45,745,266
Stage 2	11,443,154	9,106,455
Stage 3	1,857,543	1,775,895
Other assets	**327,481**	**312,495**
Stage 1	262,667	252,292
Stage 2	2,185	862
Stage 3	62,629	59,341
Total gross carrying value	**98,310,384**	**84,170,343**
Stage 1 total impairment allowance (Note 18)	86,704	92,967
Stage 2 total impairment allowance (Note 18)	95,520	106,863
Stage 3 total impairment allowance (Note 18)	881,605	937,226
Total impairment allowance	**1,063,829**	**1,137,056**
Total net carrying value	**97,246,555**	**83,033,286**

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Financial Assets per Stage and Internal Rating Category

The following breakdown shows the Bank's financial asset per Stage used for impairment allowance calculation as follows:

- Assets not classified into Stages under IFRS 9;
- Assets classified into Stage 1 under IFRS 9;
- Assets classified into Stage 2 under IFRS 9;
- Assets classified into Stage 3 under IFRS 9.

Breakdown of the Bank's financial assets per Stage and internal rating category in accordance with the Impairment Allowance Methodology under IFRS 9:

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Financial Assets per Stage and Internal Rating Category

Category	December 31, 2021 Gross exposure	December 31, 2021 Net exposure	December 31, 2020 Gross exposure	December 31, 2020 Net exposure
Cash and balances held with the central bank	**12,690,155**	**12,689,315**	**13,708,862**	**13,707,004**
Stage 1, of which:	**12,690,155**	**12,689,315**	**13,708,862**	**13,707,004**
Internal rating category 1	7,762,798	7,762,798	5,692,492	5,692,492
Government, state and other institutions with external ratings	4,927,357	4,926,517	8,016,370	8,014,512
Receivables under derivative financial instruments	**901**	**901**	-	-
Stage 1, of which:	**901**	**901**	-	-
Internal rating category 1	-	-	-	-
Government, state and other institutions with external ratings	901	901	-	-
Securities	**14,280,687**	**14,280,687**	**11,120,811**	**11,120,811**
Stage 1, of which:	**14,279,463**	**14,279,463**	**11,120,791**	**11,120,791**
Internal rating category 1	17,412	17,412	26,820	26,820
Government, state and other institutions with external ratings	14,262,051	14,262,051	11,093,971	11,093,971
Stage 2, of which:	**1,224**	**1,224**	-	-
Internal rating category 1	1,224	1,224	-	-
Stage 3, of which:	-	-	**20**	**20**
Internal rating category 1	-	-	20	20
Loans and receivables due from banks and other financial institutions	**3,840,947**	**3,838,517**	**2,400,559**	**2,398,670**
Stage 1, of which:	**3,840,947**	**3,838,517**	**2,400,559**	**2,398,670**
Internal rating category 1	981,695	980,746	584,743	584,454
Government, state and other institutions with external ratings	2,859,252	2,857,771	1,815,816	1,814,216
Loans and receivables due from customers	**67,170,213**	**66,140,381**	**56,627,616**	**55,520,331**
Stage 1, of which:	**53,869,516**	**53,790,283**	**45,745,266**	**45,660,120**
Internal rating category 1	50,465,306	50,409,558	41,726,690	41,674,058
Internal rating category 2	3,404,210	3,380,725	4,016,974	3,984,461
Internal rating category 3	-	-	1,599	1,598
Internal rating category 5	-	-	3	3
Stage 2, of which:	**11,443,154**	**11,347,656**	**9,106,455**	**8,999,631**
Internal rating category 1	10,394,093	10,350,288	8,010,345	7,960,635
Internal rating category 2	733,728	725,077	688,472	679,494
Internal rating category 3	134,688	122,272	335,394	300,994
Internal rating category 4	180,645	150,019	72,244	58,508
Internal rating category 5	-	-	-	-
Stage 3, of which:	**1,857,543**	**1,002,442**	**1,775,895**	**860,580**
Internal rating category 1	203,502	190,121	24,760	13,802
Internal rating category 2	83,006	72,542	83,540	76,264
Internal rating category 3	16,748	13,479	36,352	32,676
Internal rating category 4	-	-	4,907	2,105
Internal rating category 5	1,554,287	726,300	1,626,336	735,733
Other assets	**327,481**	**296,754**	**312,494**	**286,470**
Stage 1, of which:	**262,667**	**258,466**	**252,291**	**248,217**
Internal rating category 1	260,327	256,131	251,793	247,921
Internal rating category 2	1,522	1,518	287	286
Internal rating category 5	-	-	10	10
Government, state and other institutions with external ratings	818	817	201	-
Stage 2, of which:	**2,185**	**2,163**	**862**	**823**
Internal rating category 1	1,749	1,733	574	548
Internal rating category 2	143	142	11	10
Internal rating category 3	83	81	173	171
Internal rating category 4	210	207	102	93
Internal rating category 5	-	-	2	1
Stage 3, of which:	**62,629**	**36,125**	**59,341**	**37,430**
Internal rating category 1	28,872	24,877	2,787	2,057
Internal rating category 2	20	6	25	1
Internal rating category 3	4	1	5	-
Internal rating category 4	9	3	25	8
Internal rating category 5	33,724	11,238	56,499	35,364

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Financial Assets per Stage and Internal Rating Category (Continued)

The division of financial assets according to internal categories was carried out in accordance with the Methodology for calculating value correction in accordance with IFRS 9. The Bank divided all debtors into 5 internal categories, by per days past due:

Internal category	Days past due
1	0
2	1 to 30
3	31 to 60
4	61 to 90
5	Over 90

Borrowers in group 5 are default status borrowers.

Fair Value of Collaterals

The Bank's collateral management system entails a set of activities and prescribed measured and rules implemented for ongoing recording, allocation and valuation of collaterals

In order to mitigate its credit risk exposure, the Bank obtains collaterals from the borrowers to securitize loan repayment. Security instruments (collaterals) the Bank accepts may be in the form of:

- Financial assets (guarantee deposits);
- Guarantees issued by other banks on behalf of the borrowers;
- Mortgage liens instituted over immovable assets, i.e., property (residential and commercial real estate);
- Pledge liens instituted over movable assets (machinery, equipment and vehicles); and
- Other collaterals

The Bank does not approve loans to customers based on the collateral value but on the positive assessment of the customer's financial situation and repayment capacity. The collaterals are therefore used exclusively to reduce or mitigate the credit risk exposure.

Collateral types and fair values at the time of issue of the financial instruments securitized are aligned with the loan type, maturity and borrower type. Collaterals are recorded within the relevant registers that are publicly available to all the concerned parties.

The Bank may activate and/or foreclose collaterals only after the default status has been declared and the after the contract with the borrower is terminated. The manner of collection from the collateral depends on the collateral type. The aggregate fair value (collected value) of the collaterals the Bank activated in 2021 amounts to RSD 163,914 thousand (2020: RSD 69,165 thousand).

For the purposes of assessing the additional credit risk arising from possible difficulties or problems in collateral activation and the time lapse between the borrower's default and the Bank's ability to foreclose the collateral, the market value of the collateral underlying the security instrument (lien) in favor of the Bank is reduced (using haircuts) to arrive at the value that the Bank would achieve in case of possible sale of the of the asset for collection of the receivables securitized by the asset.

The fair values of collaterals are presented in the following breakdown per appraised market value but only to the amount of the respective receivables securitized with mortgage and pledge lines, deposits and guarantees received from borrowers.

Coverage of the total financial assets by collaterals valued as described above equaled 37.24% as of December 31, 2021. The total collateral coverage ratio for Stage 1 equaled 32.35%, while the mortgage collateral coverage ratio was 19.90%. The total collateral coverage ratio for Stage 2 equaled 67.97%, while the mortgage collateral coverage ratio was 43.17%. The total collateral coverage ratio for Stage 3 equaled 70.80%, while the mortgage collateral coverage ratio was 65.09%.

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Fair Value of Collaterals (Continued)

Assessment of the collateral fair value per financial asset as of December 31, 2021

	Gross assets	Deposits	Guarantee of the Ministry of Finance-Guarantee Scheme	Mortgages	Pledges	Other
Financial assets	**98,310,384**	**2,613,174**	**2,625,942**	**23,098,539**	**3,602,105**	**4,675,884**
Stage 1	84,943,649	1,579,798	2,259,086	16,907,292	3,121,106	3,608,685
Stage 2	11,446,563	1,005,621	347,486	4,941,410	457,465	1,028,300
Stage 3	1,920,172	27,755	19,370	1,249,837	23,534	38,899

Assessment of the collateral fair value per financial asset as of December 31, 2020

	Gross assets	Deposits	Guarantee of the Ministry of Finance-Guarantee Scheme	Mortgages	Pledges	Other
Financial assets	**84,170,342**	**1,739,757**	**1,918,517**	**17,864,111**	**2,662,298**	**4,222,737**
Stage 1	73,227,769	1,366,653	1,684,925	12,562,444	2,153,996	3,565,132
Stage 2	9,107,317	372,557	229,948	3,934,217	495,849	656,050
Stage 3	1.835,256	547	3,644	1,367,450	12,453	1,555

LTV ratio

The LTV ratio is calculated as the ratio between the gross value of the financial asset and the estimated market value of the property over which the mortgage lien is established in favor of the Bank.

As of December 31, 2021, assets secured with mortgages with LTV ratio below 50% had the largest share of 46.41%, assets secured with mortgages with LTV ratio from 50% to 70% had a share of 25.73%, assets secured with mortgages with LTV ranging from 70% to 90% had a share of 17.30%, assets with LTV ratio over 100% had a share of 7.49%, and financial assets secured with mortgages with LTV ratio in the range from 90% to 100% had a share of 3.07%.

LTV ratio balances as of December 31, 2021

	Below 50%	50%-70%	70%-90%	90%-100%	Above 100%
Financial assets secured with mortgages	**10,718,965**	**5,942,574**	**3,997,003**	**709,801**	**1,730,196**
Stage 1	8,084,967	3,660,000	3,392,944	273,219	1,496,162
Stage 2	2,056,674	2,166,634	599,147	37,278	81,677
Stage 3	577,324	115,940	4,912	399,304	152,357

LTV ratio balances as of December 31, 2020

	Below 50%	50%-70%	70%-90%	90%-100%	Above 100%
Financial assets secured with mortgages	**7,574,281**	**4,895,666**	**3,086,667**	**754,601**	**1,552,896**
Stage 1	4,570,776	3,923,907	2,392,327	411,161	1,264,273
Stage 2	2,773,481	775,105	253,916	82,963	48,752
Stage 3	230,024	196,654	440,424	260,477	239,871

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Financial Assets per Days Past Due

As of December 31, 2021, the financial assets without days past due had a share of 95.18% in the total gross financial assets, those from 1 to 30 days past due had a share of 3.15%, assets from 31 to 90 days past due had a share of 0.31%, assets from 91 to 180 and from 181 to 365 days past due had respective shares of 0.21% and 0.09%, while the share of assets with a number of days past due of over 365 days was 1.06%.

Breakdown of financial assets per past-due interval

	December 31,2021		December 31,2020	
	Gross exposure	Net exposure	Gross exposure	Net exposure
Without delays, no days past due	93,574,824	93,377,457	79,199,067	79,039,256
From 1 to 30 days past due	3,091,935	3,048,465	2,988,011	2,954,312
From 31 to 90 days past due	302,697	263,149	399,723	343,382
From 91 to 180 days past due	204,965	140,614	53,600	23,257
From 181 to 365 days past due	90,428	50,443	71,614	27,585
Over 365 days past due	1,045,535	366,427	1,458,327	645,494
Total	**98,310,384**	**97,246,555**	**84,170,342**	**83,033,286**

Financial Assets per Industry

Financial assets are presented per industry in the gross and net amounts in the following tables.

As of December 31, 2021, the largest share in the total gross financial assets was that of the retail customers – of 19.29% (2020: 19.17%) .

Concentration of the financial assets per industry

	December 31,2021		December 31,2020	
	Gross exposure	Net exposure	Gross exposure	Net exposure
Agriculture, forestry and fisheries	3,289,376	3,271,985	2,174,221	2,158,896
Mining and quarrying	120,718	119,813	113,697	113,479
Manufacturing and processing industry	15,081,601	14,752,546	13,524,162	13,037,264
Electricity, gas, steam and air conditioning supply	571,292	558,034	461,812	460,126
Construction industry	7,993,774	7,678,737	6,913,013	6,624,146
Wholesale and retail trade and repair of motor vehicles and motorcycles	9,876,424	9,795,785	9,178,780	9,108,139
Transport and storage, hotel and restaurant services, information and communications	5,783,157	5,719,242	5,401,882	5,346,567
Real estate, professional, scientific and technical activities	2,046,277	2,032,804	1,682,313	1,672,044
Arts, entertainment and leisure	-	-	-	-
Banks, financial institutions and insurance companies	15,597,000	15,586,642	15,502,482	15,494,333
Private individuals	18,961,341	18,749,051	16,131,703	15,939,596
Other	18,989,424	18,981,916	13,086,277	13,078,696
Total	**98,310,384**	**97,246,555**	**84,170,342**	**83,033,286**

Exposures to the customers within the other (business activities):

- Non-residents, including foreign banks without defined and registered business activity in line with the Regulation on the Classification of Business Activities of the Government of the Republic of Serbia;
- Government agencies, state authorities;
- Administrative, ancillary services;
- Travel agencies, education;
- Health care and welfare; and
- Art, entertainment and leisure industry.

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Financial Assets per Industry (Continued)

Concentration of the off-balance sheet items per industry

	December 31,2021		December 31,2020	
	Gross exposure	Net exposure	Gross exposure	Net exposure
Agriculture, forestry and fisheries	254,032	253,997	43,114	43,101
Mining and quarrying	889,705	889,695	60,707	60,706
Manufacturing and processing industry	7,736,678	7,735,013	7,239,462	7,238,701
Electricity, gas, steam and air conditioning supply	246,577	246,484	78,034	78,007
Construction industry	11,008,420	11,008,106	10,884,026	10,870,900
Wholesale and retail trade and repair of motor vehicles and motorcycles	4,383,251	4,379,589	2,967,808	2,967,171
Transport and storage, hotel and restaurant services, information and communications	2,872,128	2,839,004	2,977,848	2,975,833
Real estate, professional, scientific and technical activities	1,761,876	1,761,490	1,637,960	1,637,197
Arts, entertainment and leisure activities	-	-	-	-
Banks, financial institutions and insurance companies	6,481	6,464	6,522	6,522
Private individuals	397,152	396,972	296,911	296,859
Other	2,197,658	2,194,299	1,967,984	1,966,967
Total	**31,753,958**	**31,711,113**	**28,160,376**	**28,141,964**

Concentration of the financial assets per industry is within the internal limits.

Financial Assets per Geographic Region

The table below shows financial assets per exposure to certain geographic regions. As of December 31, 2021, the predominant share was the share of exposure to customers in Serbia (90.65%). The share of the exposure to the European Union borrowers was 2.23%, USA and Canada's share was 0.09%, and the share of borrowers from other regions equaled 7.03%.

Concentration of the financial assets per region, net exposures

	December 31, 2021	December 31, 2020
Serbia	88,154,245	77,602,034
European Union	2,168,466	1,875,108
USA and Canada	84,895	78,075
Other	6,838,949	3,478,069
Total	**97,246,555**	**83,033,286**

Financial Assets per Serbian Region

The table below shows financial assets per exposure to certain geographic regions in Serbia. As of December 31, 2021, the predominant share was the share of exposure to customers in Belgrade (54.08%), followed by the share of exposure to borrowers in Western Serbia (26.14%). while Vojvodina, Southern Serbia and Eastern Serbia had shares of 10.11%, 6.08% and 3.58%, respectively.

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Financial Assets per Serbian Region (Continued)

Concentration of the financial assets per Serbian region, net exposures

	December 31, 2021	December 31, 2020
Belgrade	47,675,853	41,871,242
Vojvodina	8,914,804	7,287,943
Southern Serbia	5,361,806	5,004,206
Eastern Serbia	3,154,481	3,014,178
Western Serbia	23,047,301	20,424,465
Total	**88,154,245**	**77,602,034**

Write-Off of Receivables

The Bank will adequately conduct and manage activities for collection of NPLs as long as it assesses that collection activities are economically justified, i.e., as long as there are possibilities of collection. The Bank holds that it is no longer economically justified to attempt collection in the following instances:

- Severe difficulties in collection including death of the borrower or pledge debtor;
- Lack of assets for execution/enforcement procedure;
- Prolonged periods without collection and no prospects of further collection; and
- Debt amount is low and does not justify the use of the Bank's effort and resources for collection.

If the Bank assesses that a loan will not (cannot) be collected, the Bank performs the so-called debt relief. If the Bank permanently waives collection of receivables due from the borrowers, based on the settlement executed with the borrower/co-guarantors, final court ruling, final document of execution writ (adjudication or decision), relevant decision of the Bank's competent body or assignment of receivables giving rise to cessation of entitlement to further collection, the Bank may conduct such debt relief. In such a case, all the Bank's receivables are derecognized from the Bank's on-balance and off-balance sheet items. The relief of a loan and/or receivable may but need not be preceded by the direct write-off of the loan and/or receivable. On the other end, the Bank performs the so-called accounting write-off of on-balance sheet assets with low recoverability. The accounting write-off entails transfer of the on-balance sheet assets to the off-balance sheet items of the Bank. The on-balance sheet assets here relate to NPLs and other bad receivables. The accounting write-off does not mean the Bank's waiver of its legal and contractual rights, or of the collection. It simply entails an accounting write-off, with such loans and receivables further carried within the off-balance sheet items and the Bank continues the commenced collection activities.

The Bank performs the accounting write-off of its on-balance sheet assets with low recoverability in the event that the calculated impairment allowance of such receivables recorded on the impairment allowance account amounts to 100% (full) of the gross carrying value of the receivables, i.e., if the receivables are fully impaired. The accounting write-off is performed at least quarterly. In 2021, the Bank performed the accounting write-off of NPLs in the aggregate amount of RSD 242,097 thousand (2020: RSD 40,365 thousand).

Receivables collected within the bankruptcy procedures

The Bank registers claims against the bankruptcy estates in the bankruptcy proceedings by submitting the claim registration in writing to the competent court. The Bank is required to register the claims in the currency of the original receivables claimed in accordance with the Bankruptcy Law. At the date of the bankruptcy procedure instigation, the creditors' claims from the bankruptcy debtor not yet matured are considered matured and past due. Foreign currency claims are calculated in RSD equivalent at the official middle exchange rate of NBS at the bankruptcy instigation date and are further recorded in RSD in the books of account. Functional currency (RSD) receivables and receivables per currency clause-indexed loans are carried in RSD after bankruptcy instigation. After the Bankruptcy Administrator has determined the ultimate list of the claims recognized, the amount of the receivable claimed is adjusted in the Bank's books to the amount stated in the list of the claims recognized and any difference is transferred to the Bank's off-balance sheet items.

In respect of the Guidelines for Disclosure of Bank Data and Information Related to the Quality of Assets (the "Guidelines"), the required qualitative and quantitative information will be disclosed within data prepared and presented in accordance with the Decision on Disclosure of Data and Information by Banks (Official Gazette of RS nos. 125/2014. 4/2015 and 103/2016).

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Write-Off of Receivables (Continued)

Loan Rescheduling and Restructuring

In 2021, the Bank rescheduled, i.e., extended, loan repayment periods in accordance with NBS Decision on Classification of Balance Sheet Assets and Off-Balance Sheet Items (Official Gazette of RS nos. 94/2011, 57/2012, 123/2012, 43/2013, 113/2013, 135/2014, 25/2015, 38/2015, 61/2016, 69/2016, 91/2016, 101/2017 114/2017,103/2018, and 8/2019).

In accordance with the amended NBS Decision on Classification of Balance Sheet Assets and Off-Balance Sheet Items dated June 29, 2016, days past due in collection of receivables are calculated from the last contractual defined maturity date for materially significant amount of receivables.

Restructuring entails approval of concessions on repayment of individual loans and receivables due to borrower's financial difficulties, which would not otherwise be allowed, regardless of the maturity, impairment or default status of the receivables in accordance with the decision governing capital adequacy of banks, in at least one of the following ways:

- modification of the original terms of the loan and/or receivable, particularly if the subsequently agreed terms of repayment are more favorable than the original terms (reduction of the interest rate, write-off of a portion pf the principal outstanding, entailing derecognition of that portion in the balance sheet assets, write-off of a portion of the accrued interest, release of a portion of the amount due, extension of the maturity of the principal and/or interest, etc.) or than the terms that would be approved to another borrower with the same or similar risk level at the time of the modification of terms;
- refinancing of the loan where a new receivable is originated from a loan approved to settle a portion of or the entire amount of the borrower's liability to the Bank or another entity to which the receivable due from the borrower has been assigned.

Restructured receivables due from corporate customers are:

- receivables restructured at the Bank level, where the Bank defines the restructuring terms;
- receivables restructured in collaboration with other creditors, either under interbank agreement on equal terms of restructuring or under the Law on Consensual Financial Restructuring of Companies with participation of an institutional mediator;
- receivables due from debtors where, in the pre-bankruptcy procedure, a pre-packed reorganization plan has been proposed and adopted; and
- receivables due from debtors where, in the bankruptcy procedure, a bankruptcy debtor reorganization plan has been proposed and adopted.

Restructured receivables from retail customers are receivables due from borrowers that the Bank assessed, based on the credit repayment capacity, as able to settle the loan repayment liabilities to the Bank in a timely manner in the forthcoming period if certain repayment concessions are granted by the Bank.

Upon undertaking restructuring measures, the Bank is required to estimate whether the loan restructuring approved to a debtor is sustainable and economically justified for both the Bank and the debtor and to determine the restructuring schedule and regularly monitor its implementation and effects.

On a regular basis, at least semi-annually, the Bank monitors implementation of the loan restructuring schedule and reports thereon in the Report on the Rescheduled Receivables at the Client Level.

The Bank may cease to treat a loan and/or receivable as restructured if at the end of the trial period the following criteria are met:

- the restructured loan/receivable is not classified as NPL;
- the borrower has repaid through regular payments of principal and/or interest amounts materially significant portion of the debt during at least half of the trial period; and
- the borrower is not over 30 days past due in any liability settlement toward the Bank.

The probation period of at least 2 years starts from the moment the restructured receivable is classified as performing.

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Write-Off of Receivables (Continued)

Loan Rescheduling and Restructuring (Continued)

A material portion of the total amount of debt is the amount of at least 6% of the principal of the receivables with changed terms of repayment on the home loan or receivables refinancing the bank's receivable under that loan, or 8% of the principal of the receivables in the case of other receivables.

The table below presents balance of restructured loans as of December 31, 2020, :

Balance as of December 31, 2021	Number of borrowers	Number of restructured loans
356,317	27	36

The table below presents balance of restructured loans as of December 31, 2019:

Balance as of December 31, 2020	Number of borrowers	Number of restructured loans
95,773	28	34

Breakdown of the total restructured and impaired loans as of December 31, 2021

Category	December 31, 2021			
	Gross exposure	Net exposure	Number of borrowers	Number of loan facilities
Stage 1	-	-	-	-
Stage 2	191,136	189,567	21	27
Stage 3	251,608	201,888	40	50
Total	**442,744**	**391,455**	**61**	**77**

Breakdown of the total restructured and impaired loans as of December 31, 2020

Category	December 31, 2020			
	Gross exposure	Net exposure	Number of borrowers	Number of loan facilities
Stage 1	-	-	-	-
Stage 2	59,644	59,078	25	29
Stage 3	1,270,636	629,365	63	77
Total	**1,330,280**	**688,443**	**88**	**106**

Fair Value of Assets and Liabilities

The fair value stated in the financial statements is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an independent transaction.

Fair value is calculated using the market information available as of the reporting date.

Whenever possible, the Bank measures the fair vale using the market prices available in an active market for a specific instrument. A market is deemed active if the quoted prices are easily and regularly available and reflect actual common market transactions performed at arms' length.

The fair value of a current liquid instrument presented at its nominal value approximates its carrying value. This applies to cash as well as receivables and liabilities without determined maturity or without a fixed interest rate. For the other receivables and liabilities, the expected future cash flows are discounted to their net present values using the market prevailing effective rates.

Quoted market prices are used to determine the fair values of trading securities. The fair value is calculated as the net present value of the expected future cash flows using the interest rates applied to similar securities.

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Fair Value of Assets and Liabilities (Continued)

In determining the fair value of municipal bonds issued by the local governance units in the Republic of Serbia, the applicable discount rate is increased by the issuer risk/premium at the time of the municipal bond issue or at a more recent date if such an input is available. The Bank applies an approach based on the initially assessed value of the risk premium to the calculated credit spread, which is determined as the cost of risk.

Given that there is no sufficiently developed secondary market for loans where the fair value of these financial instruments could be determined, it is necessary to use inputs of the level lower than Levels 1 and 2, i.e., Level 3 inputs. The unit for fair value assessment is a single loan, i.e., loan facility, and the approach used is the income approach and discounted cash flow method.

Disbursement of new loans to the retail and corporate customers in 2021 was in line with the market conditions (departures per months in certain product categories, taking into account maturity, currency and loan type were within the range of +/-1 p.p.). Given the foregoing, the fair values determined for loans disbursed in 2021 are equal to their carrying values.

Loans disbursed before 2021 were subject to discounting using the interest rates available at the website of the National Bank of Serbia. These interest rates are taken from the Report on interest rates of banks applied to the loans approved to retail and non-FSI customers per type, maturity and purpose – newly approved loans. The Bank used inputs for December 2021.

Fair values of deposits and other liabilities due to customers were calculated by discounting the value of non-interest-bearing earmarked deposits at the market interest rate of 0.74%, i.e., at the interest rate obtained as the average weighted interest rate on EUR term deposits of the corporate and retail customers, which were in the Bank's deposit portfolio as at December 31, 2021.

Valuation of Financial Instruments

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 asset or a liability accessible to the market participants as of the fair value measurement date;
- Level 2: Valuation techniques based on observable inputs other than Level 1 quoted prices, either directly (i.e., as prices) or indirectly (i.e., derived from prices, interest rates, correlations, etc.). This category includes instruments valued 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.

Financial assets measured at fair value

December 31, 2021	Level 1	Level 2	Level 3	Total
Securities				14,280,687
• Financial assets measured at fair value through profit or loss (FVtPL)	18,636	-	-	18,636
• Securities at fair value through other comprehensive income (FVtOCI)	-	14,262,051	-	14,262,051

December 31, 2020	Level 1	Level 2	Level 3	Total
Securities				11,120,811
• Financial assets measured at fair value through profit or loss (FVtPL)	19,220	-	-	19,220
• Securities at fair value through other comprehensive income (FVtOCI)	-	11,101,591	-	11,101,591

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Fair Value of Assets and Liabilities (Continued)

Financial assets and liabilities measured at other than fair value

December 31, 2021	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and balances held with the central bank	-	12,689,315	-	12,689,315
Receivables under derivative financial instruments	-	-	901	901
Loans and receivables due from banks and other financial institutions	-	-	3,838,517	3,838,517
Loans and receivables due from customers	-	-	66,510,086	66,510,086
Other assets	-	-	296,754	296,754
Financial liabilities				
Deposits and other liabilities due to banks, other financial institutions and the central bank,	-	-	7,644,590	7,644,590
Deposits and other liabilities due to customers	-	-	74,471,299	74,471,299
Other liabilities	-	-	668,716	668,716

December 31, 2020	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and balances held with the central bank	-	13,707,004	-	13,707,004
Receivables under derivative financial instruments	-	-	-	-
Loans and receivables due from banks and other financial institutions	-	-	2,398,670	2,398,670
Loans and receivables due from customers	-	-	55,714,179	55,714,179
Other assets	-	-	286,470	286,470
Financial liabilities				
Deposits and other liabilities due to banks, other financial institutions and the central bank,	-	-	10,355,655	10,355,655
Deposits and other liabilities due to customers	-	-	60,954,698	60,954,698
Other liabilities	-	-	581,907	581,907

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Fair Value of Assets and Liabilities (Continued)

Breakdown of financial assets and liabilities at fair value – comparison of their carrying and fair values calculated for the purpose of disclosure in the Notes to the Financial Statements:

December 31, 2021	FVtPL	FVtOCI	Other – AC	Total carrying value	Total fair value
Financial assets					
Cash and balances held with the central bank	-	-	12,689,315	12,689,315	12,689,315
Receivables under derivative financial instruments	-	-	901	901	901
Securities	18,636	14,262,051	-	14,280,687	14,280,687
Loans and receivables due from banks and other financial institutions	-	-	3,838,517	3,838,517	3,838,517
Loans and receivables due from customers	-	-	66,140,381	66,140,381	66,510,086
Other assets	-	-	296,754	296,754	296,754
Financial liabilities					
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	7,644,590	7,644,590	7,644,590
Deposits and other liabilities due to customers	-	-	74,488,194	74,488,194	74,471,299
Other liabilities	-	-	668,716	668,716	668,716

December 31, 2020	FVtPL	FVtOCI	Other – AC	Total carrying value	Total fair value
Financial assets					
Cash and balances held with the central bank	-	-	13,707,004	13,707,004	13,707,004
Receivables under derivative financial instruments	-	-	-	-	-
Securities	19,220	11,101,591	-	11,120,811	11,120,811
Loans and receivables due from banks and other financial institutions	-	-	2,398,670	2,398,670	2,398,670
Loans and receivables due from customers	-	-	55,520,331	55,520,331	55,714,179
Other assets	-	-	286,470	286,470	286,470
Financial liabilities					
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	10,355,655	10,355,655	10,355,655
Deposits and other liabilities due to customers	-	-	60,969,422	60,969,422	60,954,698
Other liabilities	-	-	581,907	581,907	581,907

29. RISK MANAGEMENT (Continued)

29.2 Capital and Capital Adequacy

The Bank manages capital and capital adequacy ratios in order to maintain the required level of capital to support the development of the Bank and its business activities.

The capital adequacy ratio represents the Bank's capital relative to its risk-weighted assets. The Bank's risk weighted assets equal the sum of its credit-risk weighted assets and the capital requirements for the foreign exchange and operational risks multiplied by the reciprocal value of the capital adequacy ratio.

The Bank's capital is comprised of the core capital and supplementary capital less the sum of deductible items. The Bank is thereby required to maintain the minimum amount of capital of no less that EUR 10,000,000 in RSD equivalent at all times.

The Bank calculates the capital requirement for credit risk using the standardized approach, by multiplying the total credit risk-weighted assets by 8%. The Bank's credit risk-weighted assets comprise the sum of the gross carrying values of the Bank's balance sheet assets less impairment allowances and the gross carrying values of the Bank's off-balance sheet items less provisions, multiplied by the credit conversion factors.

The Bank calculates the capital requirement for foreign exchange risk by multiplying the sum of the total net open foreign currency position and absolute value of the net open position in gold by 8%. The total net open foreign currency position represents the absolute value of the higher of the total long and total short foreign currency positions.

The Bank calculates the capital requirement for operational risk by applying the basic indicator approach equal to the three-year average exposure indicator multiplied by the capital requirement rate of 15%.

Since the Bank has not reached the prescribed limits, it is not required to calculate, in addition to the above said capital requirements for credit, foreign exchange and operational risks, and ensure coverage for capital requirements for other market risks arising from the items in the Bank's trading book.

As of December 31, 2021, the Bank's capital and capital adequacy were calculated under the relevant decisions of NBS, which are aligned with Basel III Standard.

As of December 31, 2021, the Bank achieved the following capital adequacy ratios:

- the Bank's total capital adequacy ratio (CAR) was 23.64%
- the Bank's core capital adequacy ratio (T1 ratio) was 23.64%, and
- Bank's common equity Tier 1 capital ratio (CET 1 ratio) was 21.66%,

which were well above the minimum values for those ratios defined by the Decision on Capital Adequacy of Banks:

- the total capital adequacy ratio (CAR) minimum of 8%;
- the core capital adequacy ratio (T1 ratio) minimum of 6%; and
- the common equity Tier 1 capital ratio (CET 1 ratio) minimum of 4.5%.

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

29. RISK MANAGEMENT (Continued)

29.2 Capital and Capital Adequacy (Continued)

Item no.	Item	December 31, 2021	December 31, 2020
1	**CAPITAL**	**14,362,328**	**10,801,186**
1.1	**CORE CAPITAL**	**14,360,988**	**10,799,846**
1.1.1	**Common equity Tier 1 capital**	**13,160,988**	**9,599,846**
1.1.1.1	**Common equity Tier 1 instruments and relevant share premium**	**11,297,709**	**7,771,263**
1.1.1.1.1	Paid in common equity Tier 1 instruments	7,338,200	5,658,940
1.1.1.1.2	Relevant share premium with the common equity Tier 1 instruments	3,959,509	2,112,323
1.1.1.2	(-) Loss	-	-
1.1.1.3	Revaluation reserves and other unrealized gains/losses	**(227,400)**	**550,380**
1.1.1.4	Reserves from profit, other reserves and reserves for general banking risks	**2,938,563**	**1,726,527**
1.1.1.5	(+/-) Regulatory adjustment of the common equity Tier 1 capital	**(14,487)**	**(11,332)**
1.1.1.6	(-) Goodwill decreased by the related deferred tax liabilities	-	-
1.1.1.7	(-) Other intangible assets decreased by related deferred tax assets	**(716,894)**	**(321,182)**
1.1.1.8	(-) Deferred tax assets dependable on the Bank's future profitability, except for those arising from the temporary differences less related deferred tax liabilities	**(63,913)**	**(62,393)**
1.1.1.9	(-) Amount of the required reserve for estimated losses on the Bank's balance sheet assets and off-balance sheet items	-	-
1.1.1.10	(-) Gross amount of receivables from a debtor - private individual whose level of credit indebtedness is higher than the percentage determined in accordance with the decision of the NBS	**(52,590)**	**(53,417)**
1.1.1.11	(-) Gross amount of receivables from the debtor – private individual that, based on the contractual maturity criteria, qualifies for applying the deductible item from the share capital	-	-
1.1.2	**Additional Tier 1 capital**	**1,200,000**	**1,200,000**
1.1.2.1	**Common additional Tier 1 capital instruments and relevant share premium**	1,200,000	1,200,000
1.1.2.1.1	Paid in additional Tier 1 capital instruments	600,000	600,000
1.1.2.1.2	Relevant share premium with the additional Tier 1 capital instruments	600,000	600,000
1.2	**SUPPLEMENTARY CAPITAL**	**1,340**	**1,340**
1.2.1	Supplementary capital instruments, subordinated liabilities and he relevant share premium	1,340	1,340
1.2.1.1	Paid in supplementary capital instruments	1,340	1,340
1.2.1.2	Relevant share premium with the supplementary capital instruments	-	-
2.	**TOTAL RISK-WEIGHTED ASSETS:**	**60,759,233**	**51,007,768**
2.1	Risk-weighted credit risk exposures	55,406,720	46,198,780
2.2	Risk-weighted foreign exchange risk exposures	-	-
2.3	Risk-weighted operational risk exposures	5,352,513	4,808,988
3.	**CAPITAL ADEQUACY RATIOS**		
3.1	Total capital adequacy ratio	**23.64%**	**21.18%**
3.2	Tier 1 capital ratio (T1 ratio)	**23.64%**	**21.17%**
3.3	Common Equity Tier 1 capital ratio (CET 1 ratio)	**21.66%**	**18.82%**

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

29. RISK MANAGEMENT (Continued)

29.3 Assets Acquired in Lieu of Debt Collection

The Bank is actively involved in sales of assets acquired in lieu of debt collection and may retain the foreclosed assets for a certain time only in the event that prompt sale would result in the Bank's significant losses.

Assets acquired in lieu of debt collection as of December 31, 2021 and 2020:

No.	Acquired asset	Area (m^2)	Acquisition date	Execution debtor	Net book value December 31, 2021	Net book value December 31, 2020
1.	Business premises, counter room, cadastral lot no. 3120/1 CM Šume	48	26/12/2014	Mercury internacional a.d. Ivanjica	-	1,415
2.	Apartment at no. 29, Tomislava Andrića-Džigija St., Kraljevo	140	16/06/2017	A private individual	-	10,477
3.	Weekend housebr.1, Kamenjar 117, K.O. Veternik	77	19/02/2018	A private individual	-	1,854
4.	Business premises, CM Ćuprija	82	20/12 2018	Interchem-him	4,619	4,619
5.	Business premises, CM Ćuprija	89	20/12/2018	Interchem-him	4,485	4,485
6.	Residential building 1,Ko1 Voljavce-Jagodina	256.8	31/08/2020	Interchem-him	6,810	6,810
7.	Two-bedroom apartment-Kragujevac	121	29/09/2020	Interhcem-him	10,584	10,584
8.	Business premises 1-basement, KO Jagodina	222	21/05/2021	Interhcem-him	12,052	-
9.	Business premises 2-ground level, KO Jagodina	222	21/05/2021	Interhcem-him	20,102	-
10.	Business premises 1-attic, KO Jagodina	222	21/05/2021	Interhcem-him	16,053	-
11.	Residential building, KO Štulac Vrnjačka Banja with land	133.96+809	02/09/2021	Marix doo	3,668	-
	Total				**78,373**	**40,244**

29.4 Liquidity Risk

Liquidity risk is a risk of adverse effects on the Bank's financial performance and capital due to its inability to discharge its liabilities when these fall due. Hence, the aim of liquidity risk management is to maintain the Bank's liquid assets at the level that ensures the Bank's timely settlement of its liabilities.

The Bank manages its assets and liabilities in the manner that enables settlement of its liabilities matured at any time (liquidity) and permanent settlement of all its liabilities (solvency).

Liquidity risk is a risk of adverse effects on the Bank's financial performance and capital due to its inability to discharge its liabilities when these fall due. Hence, the aim of liquidity risk management is to maintain the Bank's liquid assets at the level that ensures the Bank's timely settlement of its liabilities.

The Bank manages its assets and liabilities in the manner that enables settlement of its liabilities matured at any time (liquidity) and permanent settlement of all its liabilities (solvency).

The following organizational units of the Bank are responsible for liquidity risk management:

- The Supervisory Board, which defines the liquidity risk management policy and the contingency business plan (liquidity crisis plan);
- The Executive Board, which implements the adopted policy and defines procedures and instructions for liquidity risk management;
- ALCO, which monitors the Bank's exposure to the liquidity risk and proposes adequate measures for liquidity risk management; and
- Risk Management Department and Treasury, which monitor and maintain liquidity on a daily basis.

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

29. RISK MANAGEMENT (Continued)

29.4 Liquidity Risk (Continued)

Liquidity risk is measured by the Risk Management Department by means of calculation of the liquidity ratio, quick ratio and liquidity coverage ratio as well as additional internal liquidity ratios, deposit concentration ratio, GAP analyses and stress testing.

The Bank's exposure to the liquidity risk is measured by monitoring the liquidity ratio, rigid or quick ratio and liquidity coverage ratio as prescribed by NBS Decision on Liquidity Risk Management by Banks and the Bank's Liquidity Risk Management Procedure.

The liquidity ratio is the sum of the level 1 and level 2 liquid receivables relative to the sum of liabilities payable on demand or without contractually defined maturity and liabilities falling due within a month from the ratio calculation date. The rigid or quick liquidity ratio is the sum of level 1 liquid receivables relative to the sum of liabilities payable on demand or without contractually defined maturity and liabilities falling due within a month from the ratio calculation date. The liquidity coverage ratio represents the Bank's liquidity buffer relative to the net liquid asset outflows over an assumed 30-day stress period.

Liquidity ratios and quick ratios achieved by the Bank

	Liquidity ratio	
	2021	**2020**
At December 31	1.93	1.89
Average	1.98	1.92
Maximum	2.36	2.56
Minimum	1.63	1.56

	Quick ratio	
	2021	**2020**
At December 31	1.66	1.68
Average	1.77	1.71
Maximum	2.20	2.13
Minimum	1.41	1.42

The Bank's liquidity was also monitored via its liquid asset ratio, which represents liquid assets relative to the total assets.

Liquid asset ratios achieved by the Bank

	2021	**2020**
At December 31	30.05%	29.55%
Average	29.65%	28.23%
Maximum	31.63%	30.38%
Minimum	26.75%	25.15%

During 2021, the Bank monitored its liquidity levels based on the movements of its additional liquidity ratios, defined by its internal Liquidity Risk Management Procedure, as well as based on the covenants stipulated by the loan/line of credit agreements that the bank executed with the international financial institutions. Values of the ratios and covenants were within limits prescribed by the said Procedure and the relevant agreements with the international financial institutions.

The critical element of liquidity risk monitoring and management is monitoring of asset and liability maturity matching. Maturity match and controlled mismatch of the asset and liability maturities are critical to the Bank's management. It is uncommon for banks to achieve complete maturity matching of their assets and liabilities since transactions are often performed for indefinite periods and are different in nature and type. Mismatched position may increase profitability but at the same time it increases a risk of a financial loss.

The negative liquidity presented in the following table in the bucket of up to a month does not require the Bank to take any extraordinary measures as it is a result of deposits without contractually defined maturities being included in this bucket. Such deposits are not expected to be fully withdrawn within a month, as is presented in the following table. Instead, only partial withdrawals are expected (ranging from 10% to 20%, based on the historical data).

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29. RISK MANAGEMENT (Continued)

29.4 Liquidity Risk (Continued)

The table below presents the Bank's assets and liabilities grouped in maturity buckets as per their remaining maturities – from the reporting date to their respective contractually defined maturity dates.

December 31, 2021	Up to 30 days	30 to 90 days	90 to 365 days	1 to 5 years	Over 5 years	Total
Cash and balances held with the central bank	12,689,315	-	-	-	-	**12,689,315**
Pledged financial assets	-	-	-	-	-	**-**
Securities	1,398,287	-	-	5,266,000	7,616,400	**14,280,687**
Receivables under derivative financial instruments	901					**901**
Loans and receivables due from banks and other financial institutions	3,838,517	-	-	-	-	**3,838,517**
Loans and receivables due from customers	2,360,599	3,740,196	16,965,482	29,735,403	13,338,701	**66,140,381**
Other assets	294,718	-	-	-	2,036	**296,754**
Total financial assets	**20,582,337**	**3,740,196**	**16,965,482**	**35,001,403**	**20,957,137**	**97,246,555**
Liabilities under derivative financial instruments	-	-	-	-	-	-
Deposits and other liabilities due to banks, other financial institutions and the central bank,	2,728,117	2,054,359	715,797	2,079,248	67,069	**7,644,590**
Deposits and other liabilities due to customers	42,524,020	5,579,472	16,326,634	8,226,949	1,831,117	**74,488,194**
Other liabilities	59,735	-	-	-	608,981	**668,716**
Total financial liabilities	**45,311,872**	**7,633,831**	**17,042,431**	**10,306,198**	**2,507,168**	**82,801,500**
Maturity match/mismatch (gap)	**(24,729,535)**	**(3,893,635)**	**(76,950)**	**24,695,206**	**18,449,970**	**14,445,055**

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

29. RISK MANAGEMENT (Continued)

29.4 Liquidity Risk (Continued)

December 31, 2020	Up to 30 days	30 to 90 days	90 to 365 days	1 to 5 years	Over 5 years	Total
Cash and balances held with the central bank	13,707,004	-	-	-	-	**13,707,004**
Pledged financial assets	-	-	-	-	1,200,000	**1,200,000**
Securities	1,254,811	100,000	-	2,216,000	6,350,000	**9,920,811**
Loans and receivables due from banks and other financial institutions	2,398,670	-	-	-	-	**2,398,670**
Loans and receivables due from customers	1,463,810	3,407,160	13,484,391	24,707,091	12,457,879	**55,520,331**
Other assets	284,737	-	-	-	1,733	**286,470**
Total financial assets	**19,109,032**	**3,507,160**	**13,484,391**	**26,923,091**	**20,009,612**	**83,033,286**
Liabilities under derivative financial instruments	1,266	-	-	-	-	**1,266**
Deposits and other liabilities due to banks, other financial institutions and the central bank,	4,526,637	2,624,904	1,951,426	1,187,254	65,434	**10,355,655**
Deposits and other liabilities due to customers	31,972,663	4,391,179	13,422,785	9,343,739	1,839,056	**60,969,422**
Other liabilities	53,900	-	-	-	528,007	**581,907**
Total financial liabilities	**36,554,466**	**7,016,083**	**15,374,211**	**10,530,993**	**2,432,497**	**71,908,250**
Maturity match/mismatch (gap)	**(17,445,434)**	**(3,508,923)**	**(1,889,820)**	**16,392,098**	**17,577,115**	**11,125,036**

29. RISK MANAGEMENT (Continued)

29.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk)

29.5.1 Interest Rate Risk

Interest rate risk is a risk of a possible adverse effects on the Bank's financial performance and capital due to changes in interest rates. The Bank is exposed to the interest rate risk per items recorded in its banking book.

The objective of the Bank's interest rate risk management is to minimize the adverse effects that may arise from the changes in the market interest rates.

The following organizational units of the Bank are responsible for interest rate risk management:

- The Supervisory Board, which defines the interest rate risk management policy;
- The Executive Board, which implements the adopted policy and defines procedures and instructions for interest rate risk management;
- ALCO, which monitors the Bank's exposure to the interest rate risk and proposes adequate measures for interest rate risk management;
- Risk Management Department, which implements the risk management policy and procedure and reports to the Bank's management on this risk exposure and Marketing Division, which monitors market interest rates on a daily basis and proposes interest rates for the Bank's products.

Interest rate risk is measured by the Risk Management Department by means of repricing risk measurement, basis risk, yield curve risk and optionality risk measurements.

The following tables provide breakdowns of the interest-bearing assets and liabilities grouped into maturity buckets for items at fixed interest rates and repricing periods for instruments at variable interest rates.

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29. RISK MANAGEMENT (Continued)

29.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

29.5.1 Interest Rate Risk (Continued)

December 31, 2021	Up to 30 days	30 to 90 days	90 to 365 days	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances held with the central bank	8,338,861	-	-	-	-	4,350,454	12,689,315
Pledged financial assets	-	-	-	-	-	-	-
Securities	400,000	-	-	5,266,000	7,616,400	998,287	14,280,687
Receivables under derivative financial instruments	-					901	901
Loans and receivables due from banks and other financial institutions	1,428,120	-	-	-	-	2,410,397	3,838,517
Loans and receivables due from customers	9,693,245	4,774,154	24,035,419	20,368,136	5,722,205	1,547,222	66,140,381
Other assets	-	-	-	-	-	296,754	296,754
Total financial assets	**19,860,227**	**4,774,154**	**24,035,419**	**25,634,136**	**13,338,605**	**9,604,014**	**97,246,555**
Liabilities under derivative financial instruments	-	-	-	-	-	-	-
Deposits and other liabilities due to banks, other financial institutions and the central bank,	2,728,117	3,053,807	885,254	910,343	-	67,069	7,644,590
Deposits and other liabilities due to customers	4,916,159	6,281,323	18,591,730	5,832,766	-	38,866,216	74,488,194
Other liabilities	-	-	-	-		668,716	668,716
Total financial liabilities	**7,644,276**	**9,335,130**	**19,476,984**	**6,743,109**	**-**	**39,602,001**	**82,801,500**

December 31, 2020	Up to 30 days	30 to 90 days	90 to 365 days	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances held with the central bank	7,487,015	-	-	-	-	6,219,989	13,707,004
Pledged financial assets	-	-	-	-	-	1,200,000	1,200,000
Securities	-	100,000	-	2,216,000	6,350,000	1,254,811	9,920,811
Loans and receivables due from banks and other financial institutions	846,586	-	-	-	-	1,552,084	2,398,670
Loans and receivables due from customers	1,064,424	7,347,765	30,014,931	11,783,512	1,556,164	3,753,535	55,520,331
Other assets	-	-	-	-	-	286,470	286,470
Total financial assets	**9,398,025**	**7,447,765**	**30,014,931**	**13,999,512**	**7,906,164**	**14,266,889**	**83,033,286**
Liabilities under derivative financial instruments	-	-	-	-	-	1,266	1,266
Deposits and other liabilities due to banks, other financial institutions and the central bank,	4,361,908	3,662,375	1,673,285	497,088	-	160,999	10,355,655
Deposits and other liabilities due to customers	4,534,424	5,065,116	15,629,823	6,812,560	-	28,927,499	60,969,422
Other liabilities						581,907	581,907
Total financial liabilities	**8,896,332**	**8,727,491**	**17,303,108**	**7,309,648**	**-**	**29,671,671**	**71,908,250**

**Within the line item of loans and receivables due from customers, the amount of NPLs is presented as non-interest bearing (net)*

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

29. RISK MANAGEMENT (Continued)

29.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

29.5.1 Interest Rate Risk (Continued)

The following table presents the Bank's sensitivity to changes in interest rates. The sensitivity is measured against the impact of the parallel shift of the yield curve by 200 basis points on the Bank's capital and income.

	2021		2020	
	Impact on capital	Impact on income	Impact on capital	Impact on income
At December 31	(659,210)	63,846	(526,314)	74,902
Average	(559,919)	69,213	(272,504)	76,181
Maximum	(507,921)	74,563	(172,767)	84,586
Minimum	(659,210)	63,846	(526,314)	72,786

29.5.2 Foreign Exchange Risk

Foreign exchange risk is a risk of adverse effects on the Bank's financial performance and capital due to fluctuations in the foreign exchange rates. The Bank is exposed to the foreign exchange risk per items maintained in both the banking book and the trading book.

The Bank manages foreign exchange risk to minimize losses arising from changes in foreign exchange rates.

The following organizational units of the Bank are responsible for foreign exchange risk management:
- The Supervisory Board, which defines the market risk management policy;
- The Executive Board, which implements the adopted policy and defines procedures and instructions for foreign exchange risk management;
- ALCO, which monitors the Bank's exposure to the foreign exchange risk and proposes adequate measures for foreign exchange risk management;
- Risk Management Department and Treasury, which monitor and manage the currency structure of sources of assets on a daily basis.

The foreign exchange risk is measured by the Risk Management Department based on the foreign exchange ratio as the net open foreign currency position and the Bank's capital, in accordance with NBS Decision on Capital Adequacy of Banks and Decision on Reporting Requirements for Banks and the Bank's Procedure for Foreign Exchange Risk Management.

Foreign exchange risk ratios achieved by the Bank

	2021	2020
At December 31	0.73%	0.83%
Average	1.57%	1.24%
Maximum	5.50%	4.62%
Minimum	0.19%	0.07%

In the course of 2021, the Bank's foreign exchange risk, measured by the foreign exchange risk ratio, was in the low-risk range. The average value of the ratio for the year equaled 1.57%.

The following tables present the breakdown of the open net foreign currency positions per currency as of December 31, 2021 and 2020.

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29. RISK MANAGEMENT (Continued)

29.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

29.5.2 Foreign Exchange Risk (Continued)

Breakdown of assets and liabilities per currency

December 31, 2021	EUR	USD	CHF	Other currencies	Total FX	RSD	Total
Cash and balances held with the central bank	5,534,011	46,037	155,931	47,343	5,783,322	6,905,993	**12,689,315**
Pledged financial assets	-	-	-	-	-	-	**-**
Securities	-	-	-	-	-	14,280,687	**14,280,687**
Receivables under derivative financial instruments	-	901			901	-	**901**
Loans and receivables due from banks and other financial institutions	2,147,791	369,344	634,736	238,696	3,390,567	447,950	**3,838,517**
Loans and receivables due from customers	34,843,895	-	-	-	34,843,895	31,296,486	**66,140,381**
Other assets	89,617	34	4	51	89,705	207,049	**296,754**
Total financial assets	**42,615,313**	**416,316**	**790,671**	**286,090**	**44,108,389**	**53,138,165**	**97,246,555**
Liabilities under derivative financial instruments	-	-	-	-	-	-	**-**
Deposits and other liabilities due to banks, other financial institutions and the central bank,	3,978,892	455,572	40,729	101,905	4,577,098	3,067,492	**7,644,590**
Deposits and other liabilities due to customers	36,897,003	828,698	669,525	101,857	38,497,083	35,991,111	**74,488,194**
Other liabilities	576,573	-	-	-	576,573	92,143	**668,716**
Total financial liabilities	**41,452,468**	**1,284,270**	**710,254**	**203,762**	**43,650,754**	**39,150,746**	**82,801,500**
Net foreign currency position	**1,162,845**	**(867,954)**	**80,417**	**82,328**	**457,635**	**13,987,419**	**14,445,055**

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29. RISK MANAGEMENT (Continued)

29.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

29.5.2 Foreign Exchange Risk (Continued)

Breakdown of assets and liabilities per currency

December 31, 2020	EUR	USD	CHF	Other currencies	Total FX	RSD	Total
Cash and balances held with the central bank	4,387,975	50,503	219,938	49,108	4,707,524	8,999,480	**13,707,004**
Pledged financial assets	-	-	-	-	-	1,200,000	**1,200,000**
Securities	7,620	-	-	-	7,620	9,913,191	**9,920,811**
Loans and receivables due from banks and other financial institutions	1,429,947	108,489	162,103	108,521	1,809,060	589,610	**2,398,670**
Loans and receivables due from customers	34,196,651	-	-	-	34,196,651	21,323,680	**55,520,331**
Other assets	181,988	533	8	241	182,770	103,700	**286,470**
Total financial assets	**40,204,181**	**159,525**	**382,049**	**157,870**	**40,903,625**	**42,129,661**	**83,033,286**
Liabilities under derivative financial instruments	-	1,266	-	-	1,266	-	**1,266**
Deposits and other liabilities due to banks, other financial institutions and the central bank,	6,274,983	794	-	23,549	6,299,326	4,056,329	**10,355,655**
Deposits and other liabilities due to customers	32,569,244	626,635	387,994	124,613	33,708,486	27,260,936	**60,969,422**
Other liabilities	492,108	-	-	-	492,108	89,799	**581,907**
Total financial liabilities	**39,336,335**	**628,695**	**387,994**	**148,162**	**40,501,186**	**31,407,064**	**71,908,250**
Net foreign currency position	**867,846**	**(469,170)**	**(5,945)**	**9,708**	**402,439**	**10,722,597**	**11,125,036**

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

29. RISK MANAGEMENT (Continued)

29.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

29.5.2 Foreign Exchange Risk (Continued)

The tables below present the impact of the change in the RSD to foreign currency exchange rates by 15% on the Bank's net foreign currency position as of December 31, 2021 and 2020. RSD items with currency clause index are presented within the FX items (EUR and USD) of the currency to which they are indexed.

RSD '000

December 31, 2021	EUR	EUR 15%	EUR -15%	USD	USD 15%	USD -15%	CHF	CHF 15%	CHF -15%
Financial assets	42,615,313	49,007,610	36,223,016	416,316	478,763	353,868	790,671	909,271	672,070
Financial liabilities	41,452,468	47,670,338	35,234,598	1,284,270	1,476,911	1,091,630	710,254	816,792	603,715
Net currency position	**1,162,845**	**1,337,272**	**988,418**	**(867,954)**	**(998,147)**	**(737,762)**	**80,417**	**92,479**	**68,354**

RSD '000

December 31, 2020	EUR	EUR 15%	EUR -15%	USD	USD 15%	USD -15%	CHF	CHF 15%	CHF -15%
Financial assets	40,204,181	46,234,808	34,173,554	159,525	183,454	135,596	382,049	439,356	324,742
Financial liabilities	39,336,335	45,236,785	33,435,885	628,695	722,999	534,391	387,994	446,193	329,795
Net currency position	**867,846**	**998,023**	**737,669**	**(469,170)**	**(539,545)**	**(398,795)**	**(5,945)**	**(6,837)**	**(5,053)**

29.5.3 Equity (Security) Price Risk

Security price risk is a risk of adverse effects on the Bank's financial performance and capital due to changes in prices of securities within the Bank's portfolio.

The Bank manages the risk of changes in prices of securities to minimize the adverse effects of changes in prices of securities in the Bank's portfolio.

The following organizational units of the Bank are responsible for security price risk management:
- The Supervisory Board, which defines the security portfolio management policy and market risk management policy;
- The Executive Board, which implements the adopted policies;
- ALCO, which monitors the Bank's exposure to the security price risk and proposes adequate measures for this risk management;
- Treasury, which manages the portfolio of securities on a daily basis and the Risk Management Department, which monitor the values of the trading book items and reports to the Bank's management.

Based on the relevant sources of market information, the Risk Management Department actively monitors the values of securities in the Bank's possession and controls their compliance with the internally prescribed limits.

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

29. RISK MANAGEMENT (Continued)

29.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

29.5.3 Security Price Risk (Continued)

Value of the Bank's portfolio

	Market value at December 31,	
	2021	**2020**
Securities at fair value through profit or loss (FVtPL)	**18,636**	**19,220**
Bank shares	-	590
Corporate shares	18,636	18,630
	14,262,051	**11,101,591**
Securities at fair value through other comprehensive income (FVtOCI)		
Financial assets available for sale		
Municipal bonds:		
City of Šabac	-	7,620
Bonds issued by the Republic of Serbia in RSD	14,262,051	11,093,971

29.6 Operational Risk

Operational risk is the risk of the adverse effects on the Bank's financial result and capital due to failures in the employees performance, inadequate internal procedures and processes, inadequate management of the information and other systems in the Bank or due to unforeseen external events. Operational risk includes legal risk, but not the reputation and strategic risks.

The following organizational units of the Bank are responsible for operational risk management:
- The Supervisory Board, which defines the operational risk management policy;
- The Executive Board, which implements the adopted policy and defines the operational risk management procedure;
- ALCO, which monitors the Bank's exposure to the operational risk and proposes adequate measures for this risk management;
- Risk Management Department, which on a daily basis monitors the risk, collects information on the operational risk events, and reports to the management on the Bank's exposure to the operational risk.
- Operational risk exposure is measured by the Risk Management Department through identification of the operational risks, creation, maintenance and analysis of the database on the operational risk events in accordance with the Bank's relevant procedure.

The Bank's exposure to the operational risk is in fact measured by monitoring the number of events of the same type during the calendar year and the financial effect of each such event:

	2021	**2020**
Number of events	118	162
Gross loss (EUR)	1,652,783	5,345,835
Net loss (EUR)	12,331	1,935

In 2021, 118 operational risk events were recorded, 44 less than in previous year. The largest number of events relate to the cashier shortages or surpluses and those were successfully resolved (46 events of cashier shortages and 29 events of cashier surpluses). The remaining 43 events pertained to instances of disruptions in operations and system failures, technical problems, power failure, failure to comply fully with Bank Procedures for approval of placements, incorrect bank account numbers upon payment, accounting errors, operational errors, external fraud etc.

The Bank assesses the risk of activity outsourcing. Outsourcing is performed under the relevant contracts where rights and obligations of the contracting parties are clearly defined.

The Bank also identifies and assesses operational risks upon each introduction of new products, processes and systems or new business activities.

29. RISK MANAGEMENT (Continued)

29.7 Risk of Inadequate Information System Management

The goal of risk management of inappropriate information system management is to minimize the negative effects that may occur due to the Bank's information system exposure to public networks, malicious internal attacks, hardware failures, sabotage and maintaining these exposures within the prescribed limits.

In accordance with the Decision of the National Bank of Serbia on Minimum Standards for Managing the Information System of a Financial Institution (Official Gazette of RS, No. 23/2013, 113/2013, 2/2017 and 88/2019), the Bank undertook a number of activities with the aim of full compliance with the said Decision. In this regard, the Information System Development Strategy, the Business Continuity Strategy, the Exit Strategy for Activities Entrusted to Third Parties, the Information System Security Policy and the Information System Management Policy were adopted.

A number of new procedures and instructions of the quality system have also been adopted, mainly in the areas of information technology management and information security management, all in accordance with the NBS Decision on minimum standards for financial institution information system management.

The Bank has completed the PCI DSS recertification process, which has confirmed adequate level of data protection for the needs of card business. The process of harmonization with the requirements of the PCI DSS standard means not only procedural improvements, but also improvements in the protection of the information system, which consequently provide a higher level of protection, both card business and business processes of the Bank in a broader sense.

The Bank's information system has functionalities to support business processes and provides timely, accurate and complete information relevant to business decision-making and risk management.

The Bank is continuously working on improving its information system. In this regard, it regularly updates the existing Information System Development Strategy and Information System Management Policy.

In order to ensure quality management of the information system, the Bank regularly holds meetings of the Commission for Management of the Information System, which has the following roles and responsibilities:

- Analyzes and monitors application and adequate implementation of adopted Information System Development Strategy, Information System Management Policy and Information System Security Policy, as well as implementation of related systems of internal controls;
- From the point of view of compliance with the realization of the Bank's business goals, analyzes and approves important projects / project initiatives related to the information system based on the justification of the investment;
- Monitors the progress of major IS-related projects;
- Defines the priorities of the IS-related project portfolio;
- Analyzes and approves priorities of important IS-related activities;
- Monitors functionalities and the information system security as a whole;
- Coordinates, controls and proposes for adoption data classification of information system;
- Considers and proposes for adoption reports on information system risks;
- Considers handling high level risks which are consequence of incidents or changes in information system;
- At least quarterly reports to the Bank's Executive Board on the state of the information system, identified irregularities and suggest ways how to eliminate irregularities, respectively improve policies and procedures for information system management and implementation of internal control systems;

Risk identification, measurement and risk assessment are performed continuously by the risk owner (owner of the affected business or technical process), information system risk coordinator and the Information System Risk Management Forum, according to the Bank's information system risk management procedure.

The information system management framework consists of the adopted Information System Development Strategy and Information System Management Policy as well as information system incident management processes, information system change management, portfolio management, information system development projects and programs defined by appropriate procedures and other internal acts of the Bank.

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

29. RISK MANAGEMENT (Continued)

29.7 Risk of Inadequate Information System Management (Continued)

The following are responsible for managing the risk of inadequate management of the information system in the Bank:

- Management Board, which adopted the Information System Development Strategy, Information System Security Policy and Business Continuity Strategy;
- The Executive Board, which implements adopted strategies and policies and establishes procedures and guidelines;
- The Information System Management Commission that monitors the operation and development of the information system and makes appropriate decisions and proposes appropriate measures to the Executive Board of the Bank;
- IT Risk Management Forum that makes decisions on the management of further actions to mitigate the risks in question, monitors the implementation and effectiveness of measures and considers the risk quantification proposed by the Information Security Department. The Forum reports to the Information System Management Commission, which further reports to the Executive Board on a quarterly basis on its work;
- Information Technology Sector, which plans, proposes and executes all activities related to the Bank's information system and reports to the Information Technology Commission;
- The Director of the Information Security Department conducts an assessment of the security risk of the information system in the Bank and submits a report to the IS Risk Management Forum.

29.8 Exposure Risk

The Bank manages the exposure risk in order to minimize the negative effects that may arise from the concentration of the Bank's exposure to a single entity or a group of related entities and entities/persons related to the Bank and to maintain such exposures within prescribed limits.

The following organizational units of the Bank are responsible for exposure risk management:

- The Supervisory Board, which decides on the Bank's exposures to a single entity or a group of related entities in excess of 10% of the Bank's capital and on exposures to the entities related to the Bank;
- The Executive Board, which defines the Exposure risk management procedure, decides on the Bank's exposures to a single entity or a group of related entities up to 10% of the Bank's capital and on exposures to the entities related to the Bank in accordance with the Supervisory Board Decision on Authorizing the Bank's Executive Board to Execute Legal Transactions with a Related Party;
- ALCO, which monitors the Bank's exposures to a single entity, a group of related entities and entities/persons related to the Bank and proposes adequate measures for exposure risk management;
- Risk Management Department, which reports to the management on the Bank's exposures to a single entity, a group of related entities and entities/persons related to the Bank.

Exposure risks are measured by the Risk Management Department through preparation of the reports prescribed by the relevant NBS decision and the Bank's procedures.

Net exposures to the Bank's related parties and large exposures

(RSD '000)

	2021		2020	
	Exposure amount	**Share in capital**	**Exposure amount**	**Share in capital**
Bank's related parties	1,938,024	13.49%	1,918,761	17.76%
Large exposures	4,830,235	33.64%	5,500,153	50.92%

In 2021 the Bank's exposures to a single entity/a group of related entities and entities/persons related to the Bank were within the prescribed limits. For all exposures within the medium exposure risk level range, above 10% from Bank capital, prior approval of the Supervisory Board was obtained.

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

29. RISK MANAGEMENT (Continued)

29.8 Exposure Risk (Continued)

The Bank monitors its concentration ratio for 20 largest gross exposures. The concentration ratio for 20 gross largest exposures represents the Bank's balance sheet assets and off-balance sheet items subject to classification for 20 largest business groups other than banks, relative to the total classifying assets less assets representing exposures to the other banks. The Bank's goal is to maintain this ratio at the levels below 300%.

As of December 31, 2021, the Bank's balance sheet assets and off-balance sheet items subject to classification for 20 largest business groups other than banks amounted to RSD 19,962,855 thousand (December 31, 2020: RSD 17,340,250 thousand). As of December 31, 2021, the Bank's concentration ratio for 20 largest gross exposures equaled 133.07% (December 31, 2020: 154.54%). The Bank's concentration ratio for 20 largest gross exposures has decreased by 21.47 p.p. as a result of capital increase.

29.9 Investment Risks – Investments in Non- FSI Entities and Own Fixed Assets

Investments in other entities are investments whereby the Bank acquires equity interests or share in entities that do not belong to the financial services industry. Such investments are not associated with acquisition of shares for further sales within six months from their acquisition date.

The following organizational units of the Bank are responsible for investment risk management:
- The Supervisory Board, which decides on the individual investments to be made in the Bank's own fixed assets in excess of EUR 250 thousand in RSD equivalent;
- The Executive Board, which defines the investment risk procedure and decides on the investments to be made in the Bank's own fixed assets up to EUR 250 thousand in RSD equivalent;
- ALCO, which monitors the bank's investments risks and proposes adequate measures for the investment risk management;
- IT Division, General and technical Affairs Unit and Information Security Unit, which are in charge of acquisition of fixed assets.

The Bank's investment risks are measured by the Risk Management Department and Financial Management and budgeting Department.

Investments in non- FSI entities and own fixed assets and investment property relative to the Bank's capital

	December 31, 2021	December 31, 2020
Investments in non-FSI entities	0.00%	0.00%
Total investments in non-FSI entities and Bank's own fixed and investment property	11.20%	13.90%

During 2021, the Bank's investments were within the low risk level range.

29.10 Country Risk

Country risk is the risk relating to the country of origin of the entities/persons the Bank is exposed to, i.e., a risk of negative effects on the Bank's financial performance and capital due to the Bank's inability to collect receivables due from non-residents for reasons resulting from political, economic and social circumstances prevailing in the country of origin of such entities/persons.

The following organizational units of the Bank are responsible for country risk management:
- The Supervisory Board, which defines the country risk management policy;
- The Executive Board, which implements the adopted policy and defines the country risk management procedure;
- ALCO, which monitors the Bank's exposure to the country risk and proposes adequate measures for this risk management;
- Payment Operations Department, which is involved in account opening and closing and money transfers with correspondent banks.

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

29. RISK MANAGEMENT (Continued)

29.10 Country Risk (Continued)

Country risk is measured by the Risk Management Department, where the monthly identification of the country risk is made upon preparation of the monthly report on the Bank's risk exposure.

The Bank has a system in place for classification of countries per country risk level based on the risk categories assigned to countries by the largest international credit rating agencies (Moody's, Standard&Poor's and Fitch).

In 2021 the Bank had exposure toward clients operating in the countries, which, according to the rating of the international credit rating agencies and in line with the Bank's relevant procedure, were classified as low-risk and medium-risk countries.

The Bank's exposure to the low-risk countries is not limited. As of December 31, 2021, such countries were Germany, Austria, United States of America and Czech Republic. As of December 31, 2021, the medium-risk countries were Macedonia, Turkey, Romania, Bosnia, Croatia and Montenegro. The Bank's exposure to these medium-risk countries was significantly lower that the internally prescribed limits during December 2021.

List of countries to which the Bank was exposed as of December 31, 2021

Country	Risk level	Limit	Share in the Bank's capital*
Germany	Low	No limit	5.68%
Austria	Low	No limit	2.02%
United States of America	Low	No limit	0.59%
Czech Republic	Low	No limit	0.10%
Macedonia	Medium	100% of regulatory capital	30.67%
Turkey	Medium	100% of regulatory capital	21.54%
Romania	Medium	20% of regulatory capital	7.40%
Bosnia	Medium	40% of regulatory capital	2.46%
Croatia	Medium	10% of regulatory capital	0.02%
Montenegro	Medium	40% of regulatory capital	0.01%
Albania	Medium	25% of regulatory capital	0.00%
Italy	Medium	10% of regulatory capital	0.00%

29.11 Environmental (ESG) Risks

The Bank manages the environmental risks in order to identify, assess and control risks that may cause jeopardy to the natural and social environment in accordance with the Environmental Risk Management Policy and Procedure.

The following organizational units of the Bank are responsible for environmental risk management:
- The Supervisory Board, which defines and at least annually reviews the environmental risk policy and assesses the need to amend this policy;
- The Executive Board, which implements the adopted policy and defines procedures for environmental risk management;
- Credit Committees, which decide on the loan approval in accordance with the available information and opinion of the Credit Division on the risk of impact on the natural and social environment;
- The Bank's Crediting Department, which assesses the impact of the borrower's business activities and financed assets/purposes during the assessment of the borrower credit quality; and
- Risk Management Department, which monitors the loans at the portfolio level per categories of environmental risk through preparation and analysis of the risk reports.

Upon processing an individual client's loan request, the first step is to classify the environmental risk per the client's core business activity and the activity that is to be financed.

Environmental risk categories are:
- High – exclusion list;
- High – category A;
- High;
- Medium; and
- Low.

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

29. RISK MANAGEMENT (Continued)

29.11 Environmental (ESG) Risks (Continued)

If the activity subject to financing is included in the exclusion list, the client's loan request is denied. If it is classified into high-risk category A, the client is required to provide the Assessment of the Impact on the Environment and the impact on the environment is further considered before a decision is made on loan approval by the competent Credit Committee.

Upon checkup of the loan request analysis with the proposed decision to the competent Credit Committee, the Crediting Department checks the classification of the activity that is to be financed according to the environmental risk level, checks the information on the impact of the client and the client's activity subject to financing on the natural and social environment.

The Bank's loan and other contracts contain provisions and clauses regarding the protection of the natural and social environment to be observed by both the clients and the Bank.

The Bank's Credit Risk Management Department monitors the balances of loans and receivables per client industry, business activity and environmental risk category through preparation and analysis of the relevant risk reports.

Breakdown of corporate loans per environmental risk category

	Number of customers		Loan and receivable amounts (on and off balance)		
Risk category	December 31, 2021	December 31, 2020	December 31, 2021	December 31, 2020	Increase / decrease
High – exclusion list	-	-	-	-	-
High – category A	17	14	1,350,312	513,623	836,689
High	408	382	17,006,335	15,730,447	1,275,888
Medium	2,809	2,534	29,216,303	25,194,166	4,022,137
Low	2,452	2,364	31,589,808	26,733,615	4,856,193
Total	**5,686**	**5,294**	**79,162,158**	**68,171,851**	**10,990,907**

In the structure of exposures (balance sheet and off-balance sheet exposures) to corporate clients, legal entities and entrepreneurs, as of December 31, 2021, the largest share was that of the clients involved in business activities with low environmental and social impact, 39.90%, the second largest share, of 36.91%, was that of exposures to clients performing activities classified as the medium impact category, those classified in the high-impact category had a share of 21.48% and activities with high risk category A had a share of 1.71%.

30. COMPLIANCE WITH NBS REGULATIONS

Performance/adequacy ratio	Values prescribed by NBS	Values achieved at December 31, 2021	Values achieved at December 31, 2020
Amount of the Bank's capital	Min 10,000,000 €	122,147,239€	91,862,284€
Total capital adequacy ratio	min 8%	23.64%	21.18%
Tier 1 capital ratio (T1 ratio)	Minimum 6%	23.64%	21.17%
Common equity tier 1 capital ratio (CET 1 ratio)	Minimum 4.5%	21.66%	18.82%
Foreign exchange risk ratio	max 20%	0.73%	0.83%
Liquidity ratio	Min 1	1.93%	1.89%
Rigid (cash) liquidity ratio	Min 0.7	1.66%	1.68%
Concentration ratio per the Bank's exposure to certain types of products*	Max 30%	7.31%	12.80%
Total exposure to the entities related to the Bank	-	13.49%	17.76%
Exposure to a single entity/a group of related entities	max 25%	12.34%	14.86%
Sum of all large Bank's exposures	max 400%	33.64%	50.92%
Investments in non-FSI entities	max 10%	0.00%	0.00%
Total investments in non-FSI entities and the Bank's fixed assets	max 60%	11.20%	13.90%

31. RECONCILIATION OF OUTSTANDING BALANCES RECEIVABLE AND PAYABLE WITH COUNTERPARTIES

In accordance with Article 22 of the Law on Accounting (Official Gazette of RS no. 79/2019 and 44/2021 – the other law), the Bank reconciled its balances of receivables and payables with its legal entity customers and creditors as of December 31, 2021. The aggregate balance of receivables and payables for which balance confirmations were requested amounted to RSD 81,707,911 thousand. The amount of reconciled receivables represents 90% of the total amount of receivables for which the balance confirmation requests were responded to by the clients. The total unreconciled receivables amounted to RSD 3,106,267 thousand. All of the Bank's liabilities were reconciled with counterparties.

32. EVENTS AFTER THE REPORTING PERIOD

The impact of the Russia-Ukraine conflict on HALKBANK a.d. Beograd

From the onset of the war conflicts, i.e., from the beginning of the military operations on February 24, 2022, the entire European and world economy and society globally, have undoubtedly been under the influence of these new circumstances. In order to maintain stability, Halkbank is closely monitoring and assessing possible impacts in all its business segments. Our estimate is that the conflict will not territorially go beyond the countries in which it is currently taking place, that it will be of a short-term nature, and that a significant impact on business will be avoided.

The Bank is closely monitoring the situation regarding sanctions and restrictions imposed by the EU countries, the United States and the United Kingdom, particularly restrictions on Russian banks, their branches and related parties, in order to minimize the possible risk, all in cooperation and with enhanced communication with the Association of Serbian Banks and the NBS.

Regarding the direct impact on the Bank's liquidity and liquidity indicators, no negative effects have been recorded and we do not expect them in the future. There has been a certain higher demand for foreign money associated with the beginning of the war, as well as a higher demand for foreign currencies in general, but the Bank has successfully responded to all customer requests. Liquidity ratios are far above average, which indicates a highly liquid position of the Bank without expectations that significant changes may occur.

As the diversification of the Bank's portfolio is good and as clients whose structure of liabilities and receivables is highly dependent on the Ukraine and/or Russia have not been identified, the Bank estimates that no material negative effects arising from credit risk are expected. Regarding the impact of negative trends in certain activities and prices of goods, it is possible to expect negative impacts on clients engaged in trading in energy fuels, international transport and exports of agricultural products. The Bank is closely monitoring the operations of individual clients from the aforesaid groups, as well as the measures and decisions made by the Government of the Republic of Serbia, the Ministry of Economy, the Chamber of Commerce and the NBS, in order to preserve system stability and business operations.

Wit regard to Serbia, the planned GDP growth rate is between 4% and 5%, but taking into account the new situation regarding the Russia-Ukraine conflict, i.e., its possible continuation, the projections may very well change, i.e., the expected GDP growth rates may be lower. Continuing inflationary pressures are also possible, especially on energy prices, whose prices are rising in all markets, but the situation in the Serbian market is still stable, and the Government of the Republic of Serbia is already implementing a policy limiting the growth of energy prices.

Inflationary pressures are a challenge not only for the countries of the Western Balkans, but for the other European countries as well, so in the future the policy of cheap money may take a turn towards a restrictive monetary policy and higher interest rates. The central banks of the Western Balkan countries will certainly follow the course of the European monetary policy and coordinate a possible increase in interest rates with the European Central Bank.

Finally, although the uncertainty in the environment is great and the big economies are announcing a recession, our expectations are that Serbia and Halkbank's business will not be significantly affected. The reason for this attitude lies in the fact that the current favorable macroeconomic developments and economic policy measures, as well as the very successful response to the COVID 19 pandemic, create a strong basis for continued positive developments in all market segments in the forthcoming period.

Regarding operational risks and especially the impact on the Bank's IT Division and Information Security Department, there is a possibility that cyber attacks disrupt the digital infrastructure. Most of the recorded cyber attacks in the previous decade came from Russia and Ukraine and were financially motivated. However, if the motives for these attacks become political, they could be more destructive in nature.

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

32. EVENTS AFTER THE REPORTING PERIOD (Continued)

The impact of the Russia-Ukraine conflict on HALKBANK a.d. Beograd (Continued)

In the scenario of an increased number of cyber attacks, most possible targets of attacks would be Internet-related services. Since the beginning of the conflict a great number of cyber attacks have been recorded around the world.

Halkbank implements all necessary procedures and maintains high levels of caution, for the following possible types of attacks (advanced permanent threats (APT), malware, network attacks, etc.).

Regarding the impact in general, with increased monitoring and risk assessment as well as with the reliable intervention of the Government of the Republic of Serbia in the segments of prices, markets, exchange rate stability and foreign trade, as well as with the support of the NBS to the financial sector, we believe we will not feel greater adverse effects. Due to the short duration of the new circumstances so far, concrete effects are difficult to quantify and predict, but the Bank will monitor the situation and movements in the following period and take timely action to maintain optimal liquidity, loan portfolio quality, budgeted values and Bank's profitability.

Impact of the COVID-19 pandemic effects

Regarding the COVID 19 pandemic, which began in 2020 and continued in 2021 and 2022, the ultimate conclusion is that during 2021 and 2022, the effects of the pandemic had a significantly less intensive impact than in 2020. Recovery of the economic activity is especially important while maintaining the continuing adoption of special measures by the Government of the Republic of Serbia, so with much more certainty than before, we can say that there can be no significant impact of the pandemic on the Bank's business in any segment.

The Bank's management believes that in 2021 the Bank had a far more favorable situation in terms of work organization, i.e., the employee attendance at the Bank. It is reasonable to expect that in the forthcoming period, both due to the experience gained with the pandemic situation, and immunization, which has been carried out to a significant extent, there will be a period of definitive weakening of the pandemic and lack of its impact.

All of the foregoing does not require additional adjustments to and disclosures in the Bank's financial statements for the period ended December 31, 2021.

33. EXCHANGE RATES

The official middle exchange rates for certain major currencies determined in the Interbank Foreign Exchange Market, and used for translation of the statement of financial position components denominated in foreign currencies into RSD were as follows:

	December 31, 2021	RSD December 31, 2020
USD	103,9262	95,6637
EUR	117.5821	117,5802
CHF	113,6388	108,4388

Belgrade
March 24th, 2022

Aleksandar Mijailović	Dušica Erić	Kenan Bozkurt
Head of the Financial Management and Planning Division	Member of the Executive Board	Chairman of the Executive Board

AKCIONARSKO DRUŠTVO HALKBANK BEOGRAD

ANNUAL OPERATING REPORT

2021

PEOPLE

BEYOND ALL

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HalkBank is obliged, starting from this year, to compile a non-financial report, in accordance with the Law on Accounting, which is incorporated into the Operating Report.
This means that the Annual Operating Report includes a non-financial report which contaings information necessary to understand the development, business results and position of the legal entity, as well as the results of its activities related to minimum environmental protection, social and personnel issues, respect for human rights, corruption and bribery issues, including:
1) brief description of the business model of the legal entity;
2) a description of the legal entity's policies regarding these issues, including the basic analysis procedures being conducted;
3) results of these measures;
4) the underlying risks associated with those matters relating to the business of the legal entity, including, where relevant and necessary, its business relationships, products or services that may cause negative results in those areas, and the way in which the legal entity manages the business risks;
5) non-financial key performance indicators important for a particular business.

I DEVELOPMENT, ORGANISATIONAL STRUCTURE AND BUSINESS ACTIVITIES

1. ESTABLISHMENT

HALKBANK was founded in Türkiye in 1933 and has been building a growing network of branches since then. HALKBANK aims to efficiently provide all banking services, create added value for its customers, shareholders and employees, as well as to contribute to the development of the banking sector and capital markets, but also gain a respectable place in the banking industry. Today, HALKBANK operates successfully in Türkiye, Macedonia, Serbia and the Netherlands.

Halkbank a.d. Beograd has been operating in the Republic of Serbia since 2015 when Türkiye Halk Bankasi A.S. became the major owner of Čačanska banka (operating since 1956).

The Bank was registered with the Serbian Business Registers Agency under Decision no. BD 54244 dated 13th September 2005.

The Bank has been operating under the name of Halkbank a.d. Beograd since 22nd October 2015 when the change of its legal name was registered in the Serbian Business Registers Agency under Decision no. BD 89155/2015.

2. ORGANISATION OF OPERATIONS

Halkbank a.d. Beograd is the universal bank, which offers all types of banking products and services to corporate clients, entrepreneurs and retail clients. The Bank encourages and finances growth and development of the domestic economy, but is also a safe place for savings deposits of all clients. The Bank's primary goal is to create products that will completely satisfy all customers' expectations.

The Bank is registered in the Republic of Serbia for performance of payment operations and credit and deposit operations in the country and abroad and it operates in compliance with the Law on Banks.

Halkbank a.d. Beograd has successfully expanded its business network and client base. Today the Bank offers services and products through a network of 28 branches, 8 sub-branches and 1 cash desk. As at 31st December 2021, the Bank was comprised of 9 branches in Belgrade, 3 branches in Čačak and branches located in the towns of Smederevo, Jagodina, Gornji Milanovac, Kraljevo, Užice, Kragujevac, Kruševac, Aranđelovac, Valjevo, Šabac, Niš, Leskovac, Novi Sad, Pančevo, Novi Pazar and Subotica and 8 sub-branches in Paraćin, Požega, Topola, Ivanjica, Vrnjačka Banja, Zrenjanin, Tutin and Pirot. The Bank opened a new sub-branch in Pirot during 2021.

Our goal is to be a bank that encourages and finances the growth and development of the domestic economy, while at the same time representing a safe place for the savings deposits of our clients.

Halkbank's sub-branch in Pancevo

3. BASIC PERFORMANCE RATIOS

(in RSD thousand)

Income Statement**	31.12.2020.	31.12.2021.	Plan 2021	Plan realization
Net interest income	2,192,546	2,489,846	2,580,734	96%
Net fee and commission income	774,055	1,173,708	1,011,130	116%
Net income/(losses) on impairment of financial assets	-294,510	-165,781	-235,147	71%
Operating expenses	2,285,895	2,730,879	2,704,226	101%
Net profit before tax	529,706	946,464	711,278	133%
Profit tax	0	(58,589)	0	-
Profit from deferred taxes	0	1,519	0	-
Net profit after tax	529,706	889,394	711,278	125%

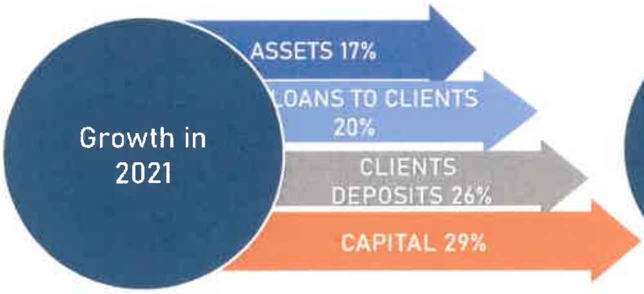
Balance Sheet	31.12.2020	31.12.2021.	Plan 2021	Plan realization
Loans to clients*	55,099,508	65,872,844	68,691,463	79%
Deposits from clients*	54,515,216	68,914,073	63,847,080	154%
Capital	12,488,546	16,127,517	16,727,582	86%
Total assets	85,015,897	99,781,574	98,768,964	107%

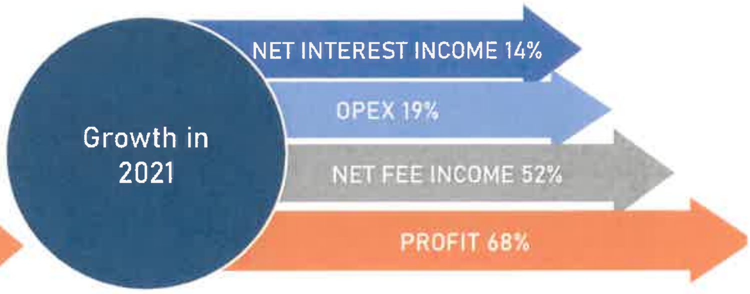
Key Performance Indicators (KPI)	31.12.2020	31.12.2021.	Plan 2021
Costs to Income Ratio (CIR)**	75.46%	73.76%	74.55%
Net Interest Income to OPEX	96.39%	91.17%	95.43%
Non-interest income to Operating costs Ratio	36.14%	44.40%	37.39%
Capital Adequacy Ratio (CAR)	21.18%	23.64%	21.00%
ROA	0.70%	0.97%	0.77%
ROE	4.30%	5.87%	4.87%
NIM	3.66%	3.39%	3.53%

All financial projections for 2021 are prepared in EUR and realization of goals is followed in EUR. Planned amounts in this report are presented in EUR by using middle exchange rate RSD/EUR valid on 31.12.2021 for balance sheet positions and average exchange rate RSD/EUR for 2021 for income statement positions.

*The difference of positions „Loans to clients“ and „Deposits from other clients“ from the positions in the official Balance sheet form are explained in the items 3.1 and 3.2

**In order to calculate the cost-to-income ratio, Income from the 'Other income' position, have been included within revenues along with net interest and fee income.





II FINANCIAL POSITION AND OPERATING RESULTS

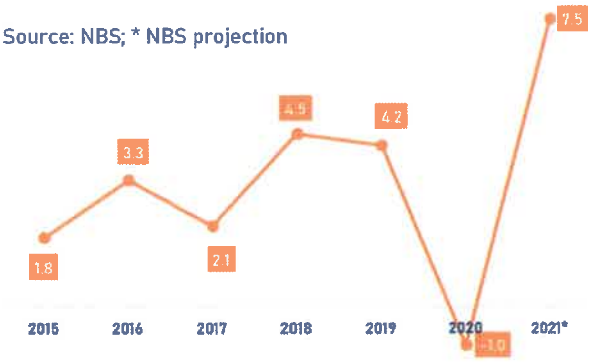
1. MACROECONOMIC ENVIRONMENT AND BANKING SECTOR

Economic activity

Thanks to the preserved macroeconomic and financial stability and the timely and comprehensive package of measures adopted by the NBS and the Government of the Republic of Serbia, Serbia recorded a cumulative growth of real GDP of about 6.5% in two pandemic years. The package of economic measures implemented during 2021 has directly contributed to increasing the liquidity of legal entities and facilitating business operations, especially in those sectors that are still under the stronger influence of the pandemic, such as tourism and passenger transport, while this financial help given to private individuals stimulates demand and indirectly affects economic activity. In parallel with economic measures, the alleviation of restrictive health measures has resulted in a more dynamic recovery of certain activities of the service sector that are most affected by the pandemic. In addition to these temporary factors that have positively contributed to economic activity, there have been structural improvements. They are primarily reflected in the activation of new and expansion of existing export-competitive production capacities, as well as in the further development of road and railway infrastructure, which permanently increases the potential of the domestic economy. Structural improvements in the economy supported by economic policy measures were materialized in a strong increase in GDP, whose expected growth in 2021, according to the Republic Bureau of Statistics, is 7.5%. According to the RBS, GDP growth in the first quarter amounted to 1.8% year on year, which means that the domestic economy already exceeded the level of economic activity from the pre-pandemic period in the first quarter. GDP growth in this period was driven by construction and industrial production, as well as net exports, which was the main generator of economic growth. Good economic trends continued in the second quarter of 2021 with a year-on-year increase in GDP of 13.7%, in the third with a growth rate of 7%, and in the fourth with an estimated year-on-year growth of 6%.

Real GDP growth rate (%)

Source: NBS; * NBS projection



Inflation

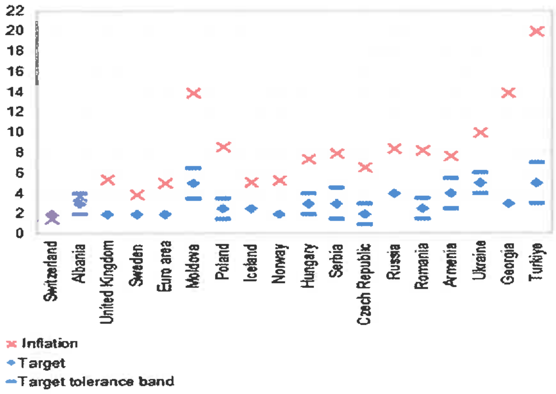
From the middle of 2021, inflation was at a slightly higher level compared to the previous period. This trend in inflation was influenced by temporary factors, primarily the rise in world prices of oil and primary agricultural products, delays in global supply chains, but also its low base value. In addition to the increase in the prices of oil and vegetable derivatives, the increase in the prices of meat, electricity, tobacco, oil, utilities, alcoholic beverages and restaurant and hotel services also had a significant impact on the growth of inflation in this period. The temporality of this increase in inflation is indicated by the inflation expectations of the financial sector and the economy, which are around the central level of the target, but also the movement of core inflation, which was significantly lower and amounted to 2.6%.

Average inflation in 2021 was 4%, while year-on-year inflation in December was 7.9%. The highest monthly growth of 1.1% was recorded in April. (August, October and November 0.9%). Base inflation in December 2021 was significantly lower than total inflation and it was amounted to 3.5%, indicating temporary inflationary pressures.

According to the NBS projection, inflation will remain above the upper limit of the target for some time, and with the weakening of temporary factors, inflation is expected to gradually decrease in the second quarter of 2022, enter the target during the third quarter and stabilize around the central target at the end of 2022.

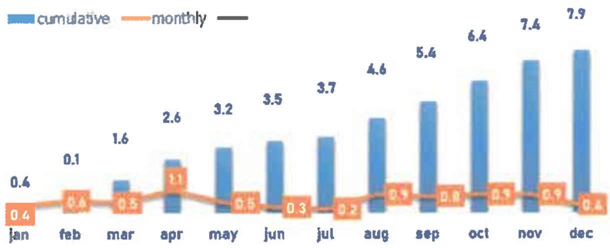
Inflation expectations for the next two to three years range from 3% to 4%.

Inflation and target by country in December 2021. (p.a., in %)



Source: NBS

Consumer prices trends in Serbia during 2021



Source: Statistical Office of the Republic of Serbia

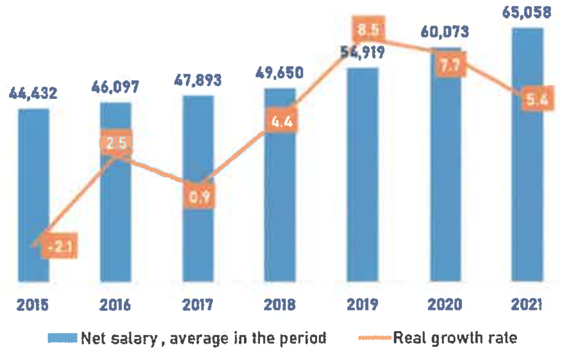
Labor market

As a result of returning to the path of strong economic growth and general economic stability, and supported by the process of population vaccination and economic stability, 2021 is characterized by better-than-expected developments in the labor market, especially in wages. The success of the economic package of measures was verified by the absence of significant negative effects of the pandemic on the labor market, jobs and wages were significantly preserved, and the scenario of a significant increase in unemployment was avoided.

According to the Labor Force Survey, after the unemployment rate of 12.8% in the first quarter, during the second quarter of 2021, the unemployment rate decreased to 11.1%. However, compared to the same period last year, it was higher by 3.2 percentage points. This increase in the unemployment rate was, above all, a consequence of the circumstances present in 2020. Namely, due to the measures against the pandemic, a good part of the population was prevented from working or they gave up looking for work. Thus, that part of the population is classified in the contingent of the population outside the labor force, so they were not considered unemployed. As a consequence, the out-of-labor force rate in the second quarter of 2020 was at a very high level of 49.8%, while the unemployment rate was a low 7.9%. In the second quarter of 2021, the rate of the population outside the labor force decreased to 45.7%, which is an indicator of recovery in the labor market. A markedly positive trend was recorded among the young population, where the employment rate increased by 7.8 percentage points to 25.9%.

The unemployment rate in the third quarter of 2021 was 10.5%, or 0.6 pp. lower than in the previous quarter. The employment rate in Q3 2021 reached the level of 50%, which is the highest level since 2010.
The average net salary continued to grow and in 2021 (January-Nov) it amounted to RSD 65,058 (553 euros), achieving a real increase of 5.4% compared to the previous year. More than half of the total wage growth in the first half of the year was determined by wage growth in the manufacturing industry, trade and healthcare. Faster wage growth was achieved in the private sector compared to the public sector.

Movement of average monthly net salary and real growth rates

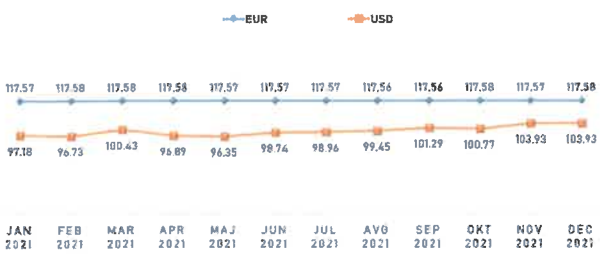


Source: Ministry of Finance

Exchange rate

Due to good macroeconomic trends and economic growth above expectations, 2021 will be characterized by stable trends in the foreign exchange market. As a result of maintaining stability in the foreign exchange market, the confidence of international investors has been restored and their interest in investing in dinar government bonds has increased, especially after their inclusion in the J.P. Morgan index. Despite the appreciation pressures caused by the inflow of capital, thanks to the interventions of the NBS on the foreign exchange market, the stability of the dinar against the euro was maintained during 2021 as well. Hence, its value was almost unchanged over the year. On the other hand, the dinar weakened against the dollar in 2021 by 8.64%.

FX trend during 2021



Source: NBS

Interest rates

During 2021, the NBS Executive Board did not change the value of the reference interest rate. The value of the reference interest rate was kept at the level of 1.00%.

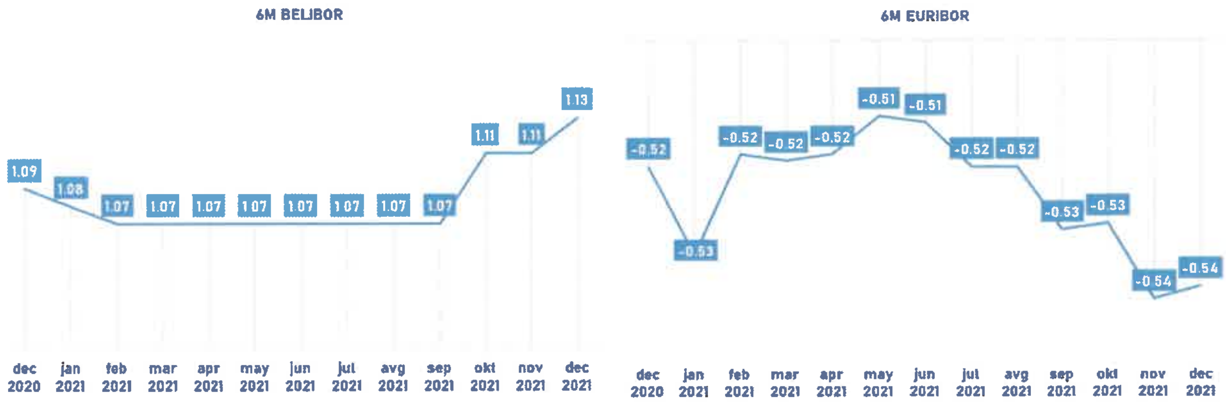
The monetary expansion of the NBS, as well as other central banks, meant that interest rates in Serbia were low and stable. From October 2021, the NBS reduces the expansion of monetary policy without changing the basic interest rates, having in mind the increased cost pressures in the international and domestic environment and the necessity of influencing inflation expectations.

Interest rates on government securities are around their minimums (3.24% for the securities with the maturity of 12 years).

Interest rates on new dinar loans have dropped significantly since the beginning of the cycle of reducing the reference interest rate, and in November 2021 they amounted to 3% on corporate loans and 8.3% on retail loans.

Interest rates on euro-indexed loans fell due to a sharp fall in the risk premium, the country's credit rating improved and the ECB's monetary policy eased.

Fluctuation of the interest rates on the financial markets



Credit rating

Standard and Poor's – In June 2021, the rating agency Standard and Poor's reaffirmed Serbia's credit rating at BB+ with a stable outlook for its further increase. In December 2021, the mentioned agency increased Serbia's prospects for obtaining an investment rating from stable to positive. This decision was influenced by the strong economic growth of Serbia and the high degree of resilience of the economy to the shock caused by the pandemic. In its report, the agency pointed out that thanks to the adequate economic policy pursued in Serbia, economic growth will amount to 7%. The agency points out favorable growth prospects in the medium term, high inflow of foreign direct investments, record level of foreign exchange reserves and expected reduction of fiscal deficit. It is estimated that the credit rating is supported by a credible monetary policy and a moderate level of public debt. The stability of the banking sector is also emphasized, which is reflected in the high capital adequacy and low level of problematic loans.

Fitch Ratings – In September 2021, Fitch Ratings reaffirmed Serbia's credit rating at BB+ with a stable outlook for further improvement. Good economic results of Serbia achieved in the period before and maintained during the pandemic, as well as successfully implemented fiscal consolidation measures, have resulted in achieving stable and sustainable public finances creating conditions for economic recovery and long-term sustainable macroeconomic development.

Moody's – In March 2021, Moody's upgraded Serbia's credit rating from Ba3 to Ba2 with a stable outlook for further improvement. Factors that contributed to the improvement of the credit rating are the resistance of the Serbian economy to the consequences caused by the coronavirus pandemic, stable level of medium-term growth, as well as expectations that indicators of fiscal sustainability in Serbia will continue to be above the average of Ba credit rating countries.

Credit rating of the Republic of Serbia, Türkiye, neighboring countries and Eurozone countries according to the rating agency Moody's

Country/Year	2017	2018	2019	2020	2021	Current Outlook
Germany	Aaa	Aaa	Aaa	Aaa	Aaa	Stable
France	Aa2	Aa2	Aa2	Aa2	Aa2	Stable
Bulgaria	Baa2	Baa2	Baa2	Baa1	Baa1	Stable
Romania	Baa3	Baa3	Baa3	Baa3	Baa3	Stable
Croatia	Ba2	Ba2	Ba2	Ba1	Ba1	Stable
Serbia	Ba3	Ba3	Ba3	Ba3	Ba2	Stable
Montenegro	B1	B1	B1	B1	B1	Stable
Turkiye	Ba1	Ba3	B1	B2	B2	Negative
Bosnia and Herzegovina	B3	B3	B3	B3	B3	Stable

Source:https://tradingeconomics.com/

Banking sector

At the end of the third quarter of 2021, 24 banks with an organizational network of 1,548 business units operated on the Serbian banking market. The total number of employees in the banking sector is 22,503.

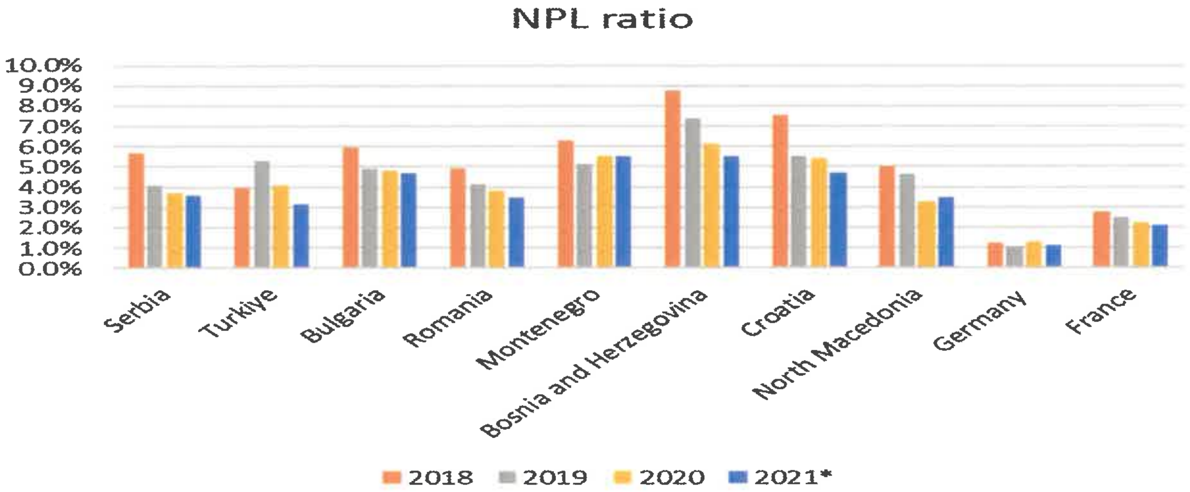
The total balance amount of the Serbian banking sector amounted to RSD 4,854 billion, which is an increase of 5.49% for the first nine months of 2021. In the same period, the capital of banks increased by 0.58% and amounted to 721 billion RSD.

The first 10 banks had a share of 83.1% in the total balance sheet, 83.3% in deposits and 81.9% in loans. As in the previous period, Banca Intesa is the leading bank in terms of total balance sheet and deposits with a share in the total balance sheet of the banking sector of 15.69% and a share in total deposits of 15.55%. Unicredit Bank also has a market share in total assets of over 10%, as well as OTP Bank, which recorded a significant increase in total assets and market share in total assets (13.19%) due to the merger with Vojvodjanska Bank. Halkbank a.d. Belgrade in the first nine months of 2021, recorded an increase in market share in all key balance sheet positions. The participation of Halkbank a.d. Belgrade in the total balance sheet assets of the banking sector is 2.01% and the Bank is in the 14th place by the size of balance sheet assets. According to the amount of the deposit, the Bank is on the 13th place in the banking sector with a share of 2.08%, while in terms of the loans balance it is in the 14th place with a share of 2.26%.

As of the third quarter of 2021, the banking sector achieved a pre-tax result of RSD 40.7 billion, which is -6.3% less than in the same period last year. 20 banks operated with a positive result with a total profit of RSD 41.4 billion, while 4 banks operated with a loss in the total amount of RSD 711 billion. Lower profits compared to the same period last year were caused by the fall in reference interest rates and lower other operating income of some banks. According to the realized profit during the first three quarters of 2021 of RSD 740,172 thousand, Halkbank a.d. Belgrade took 12th place.

The reduced profitability of the banking sector during the first nine months of 2021 was accompanied by a decrease in profitability indicators compared to the same period last year. At the end of the period, return on equity (ROE) was 7.54% while return on assets (ROA) was 1.14%.

Non-performing loans (NPL ratio) amounted to 3.4% at the end of November 2021, while the coverage of these placements by the loan loss provisions was 57.9%. At the end of 2021 year, HalkBank a.d. Belgrade had a share of NPLs in total loans of 2.25% and a ratio of coverage of problematic loans by the provisions related to problematic loans of 53.93%. Despite the corona virus pandemic, almost all countries in the region in 2021 recorded a decline in the share of problem loans in total loans.total loans.



*Last known data
Source: https://www.managementsolutions.com/, NBS, https://www.ceicdata.com/, https://ec.europa.eu/, https://www.statista.com/

The banking sector of Serbia was adequately capitalized with an average capital adequacy ratio of 22.2% at the end of the third quarter, which is significantly above the prescribed minimum of 8%.

2. ACHIEVEMENT OF BASIC OPERATING TARGETS

The Bank asseses its goals through the realization of the goals set in the Business Policy for 2021. The goals were realized through the activities listed below.

1. In the Operating Policy for 2021, the Bank has planned expansion of branch network by opening 2 new branches/sub-branches. In May 2021, the Bank opened a new sub-branch in Pirot, whilse the opening of the branch in Presevo was postponed for the first quarter of 2022.

2. Faster growth of key balance sheet items than expected for the banking sector is planned in order to increase market share in the sector. According to the data for the end of September 2021, the Bank increased its market share in the total assets of the banking sector compared to the end of 2020 from 1.92% to 2.08%, while the share in total loans increased from 2.11% to 2.26%.

3. In 2021, the Bank achieved positive financial result after tax in the amount of 889,394 thousand RSD which represents a growth of 67.90% compared to the same period last year. Realized values regarding this goal are shown in the following table:

(in RSD thousand)

Indicators	31.12.2021	Plan 2021	Plan realization
Net interest income	2,489,846	2,580,734	96.48%
Net fee income	1,173,708	1,011,130	116.08%
Operating costs	2,730,879	2,704,226	100.99%
Profit	889,394	711,278	125.04%

4. In May of 2021 the Bank had recapitalization in amount of EUR 30 million, required for financing planned investments in new Headquarters

building, as well as implementation of new core banking system.

5. In February 2021, the Bank started a project to implement a new "Core Banking" system called Halk Fusion. It is estimated that the new software solution for the "Core Banking" system will be applied in the Bank's operations in March 2023, while the completion of the project is planned for May of the same year, so the realization of significant project phases is planned for 2022. The process of negotiation and selection of suppliers has been completed. The project planning phases have been completed, as well as the GAP analysis. The next step is to prepare data for migration, development activities as well as preparation for testing. In addition, regardless of the project, a new modern application for foreign exchange operations was launched in July this year.

3. BALANCE SHEET

3.1 Assets

As of December 31st 2021, the Bank's total assets amounted to 99,781,574 thousand RSD and accounted increase of 17.37% compared to the end of 2020, or by 14,765,677 thousand RSD.

The main drivers of this growth were new placements to clients, as well as additional investments in securities. The growth of total loans in the observed period amounted to RSD 10,773,336 thousand (19.55%), while the growth of financial assets amounted to RSD 3,160,777 thousand (28.42%).

(in RSD thousand)

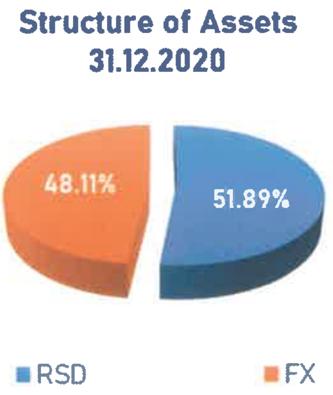
ASSETS	31.12.2020	31.12.2021.	Plan 2021	% of change
Cash, cash equivalents and assets held with the central bank	13,707,004	12,689,315	10,065,028	-7.42%
Financial assets*	11,120,811	14,281,588	12,934,031	28.42%
Loans to banks and other financial organizations**	2,398,662	3,822,319	1,763,732	59.35%
Loans to clients**	55,099,508	65,872,844	68,691,463	19.55%
Intangible assets, property, plant and equipment and investment property	1,822,164	2,324,973	4,726,800	27.59%
Other assets***	867,748	790,535	587,911	-8.90%
Total assets	85,015,897	**99,781,574**	**98,768,964**	**17.37%**

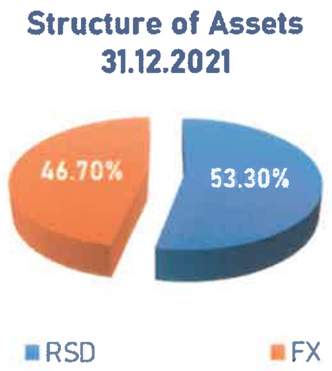
* The position "Financial assets" consists of pledged financial assets, receivables from derivatives and securities from official Balance sheet.

** The positions of „Loans to clients" and „Loans to banks and other financial organizations" differ from the positions „Loans and receivables from clients" and „Loans and receivables from banks and other financial organizations" presented in the official Balance sheet form for the amount of claims for accrued interest, fees and accrued interest receivable and accrued income for EIR compensation, shown in the „Other assets" position. Position „Other assets" includes position „Deferred tax assets" from official Balance sheet form.

*** The position „Other assets" includes position „Deferred tax assets" from official Balance sheet form.

The following graphs present the currency structure of assets as at 31.12.2020 and 31.12.2021.





3.1.1 Loans to clients

In accordance with the strategy of Halkbank a.d. Beograd, the main focus is on achieving maximum customer satisfaction, development of innovative products and services, improvement and digitalization of processes with a constant emphasis on raising business efficiency.

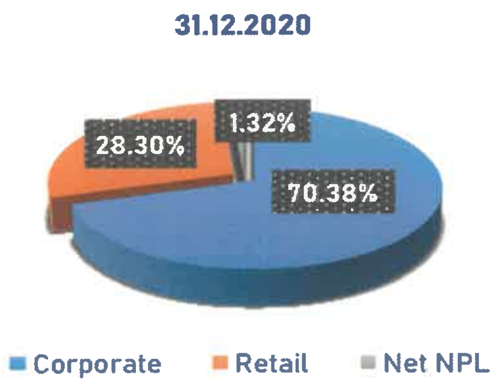
The structure of position Loans to clients as of December 31st 2020 and December 31st 2021 is given in the following table:

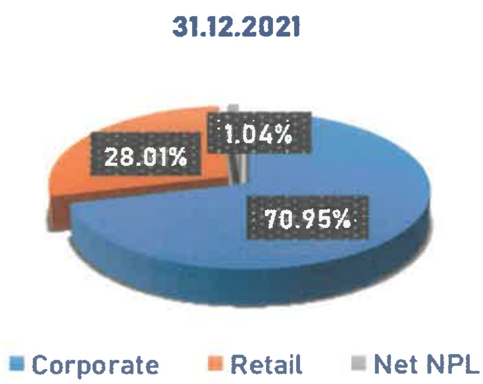
(in RSD thousand)

	31.12.2020	31.12.2021.	Plan 2021	% of change
Loans to clients - net	55,099,508	65,872,844	68,691,463	19.55%
Corporate clients without NPL	38,781,185	46,736,357	47,620,751	20.51%
Retail clients without NPL	15,591,032	18,449,572	19,988,957	18.33%
NPL (net)*	727,291	686,915	1,081,755	-5.55%

** NPL position refers to net receivables from problematic customers, without receivables for interest and fee*

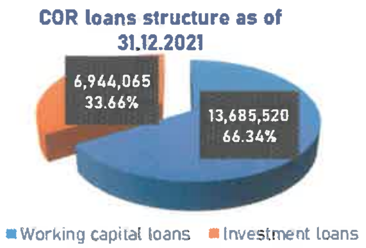
During 2021, the Bank's net loan portfolio increased by 19.55%, ie RSD 10,773,336 thousand. In addition to the growth of the loan portfolio, compared to the end of 2020, the net amount of non-performing loans decreased by 5.55%.

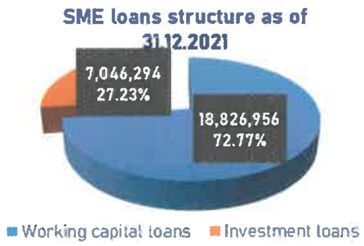




Gross loans – Corporate

Gross corporate loans, including gross NPL, as of December 31st 2021 amounted to 48,153,335 thousand RSD, with growth of 19.39% comparing to the end of 2020. In the following graphs, structure of these loans as of 31.12.2021 is presented:





In 2021, despite the COVID-19 virus pandemic, the Bank managed to achieve good results and create new sales channels in extremely fierce competition on the domestic banking market.

The most important activities of Corporate and SME Marketing Division in 2021 were as follows:

- Bank realized EUR 246.2 million in Corporate, SME and Agro segments through Guarantee scheme for supporting of the economy, cross-border loans, standard loan products, as well as certain programs and actions. The focus was on the Guarantee scheme for supporting of the economy, FRK investment loans campaign in cooperation with the National Bank of Serbia, new credit line in cooperation with SEF foundation, Support program for SMEs, as well as lending to Agro clients.

- Bank has continued with undertaking of all necessary activities in order to comply with the requirements of the NBS regarding the COVID-19 pandemic. The Bank implemented NBS prescribtion in which all banks have an obligation to approve relief in repayment to debtors. According to the decision HalkBank a.d Beograd maintained the same approach in cooperation with clients and continued to constantly contact clients from the Bank's portfolio, in order to assess the effects and consequences of the pandemic on clients' operations, for joint activities that will prevent negative consequences. Clients were informed about all measures of the State, as well as the announced financial incentives that will be realized through the banking sector. Branches are monitored intensively. on a daily basis with clear instructions on measures to be taken on the basis of new regulations and state regulations.

- In 2021, Bank participated in the Guarantee scheme for supporting of the economy. Bank realized total of EUR 37.2 million through 468 loans. The Government of the Republic of Serbia has adopted a package of economic measures aimed at reducing the negative effects caused by the Covid-19 pandemic. One of the measures is the Guarantee scheme for supporting the economy in the conditions of Covid-19 crisis for loans for maintaining liquidity and working capital through commercial banks operating in the Republic of Serbia. The total value of the funds provided for this measure is EUR 2.5 billion. We believe that participating in the implementation of the said program would contribute to the preservation and expansion of the portfolio of credit clients, it would enable the placement of funds with first class collateral, as well as provide support to clients in maintaining liquidity with funds with favorable interest rate.

The basic conditions of Guarantee Scheme are as follows:

- Guarantee from Republic of Serbia covers up to 80% of the principal of each individual loan, while the maximum amount of the guarantee at the portfolio level is 24%

- Eligible clients: Micro, Small and Medium Enterprises

- Purpose of loans: for liquidity and working capital, excluding refinancing and early repayment in other banks.

- Maximum amount of loan is up to 25% of client's revenue, not more than EUR 3 million per individual client, at the banking sector level

- Maximum maturity of loan is up to 36 months, including 9-12 months grace period, with maximum yearly interest rate for EUR loans of 3M EURIBOR + 3.0% and for RSD loans 1M BELIBOR + 2.5%.

• In May 2021, the Bank concluded the Agreement on the guarantee of the Republic of Serbia for lending to the economy due to the prolonged negative impact of the COVID-19 pandemic caused by the SARS-CoV-2 virus, with the aim of increasing the liquidity of legal entities. The total value of the funds foreseen for this measure is EUR 500 million and Bank has realized total of EUR 3.1 million through 28 loans. Participation in the implementation of Guarantee scheme II should contribute to the preservation and expansion of the portfolio of credit clients, enable the placement of funds with first-class collateral, as well as provide support to clients in maintaining liquidity with funds with a favorable interest rate.

The basic conditions of the Guarantee scheme II are the following:

- Guarantee from Republic of Serbia covers up to 80% of the principal of each individual loan, while the maximum amount of the guarantee at the portfolio level is 25,6%

- Eligible clients: Micro, Small and Medium Enterprises

- Purpose of loans: for liquidity and working capital, refinancing of existing loans for liquidity and working capital, as well as refinancing of investment loans. Loans cannot be used to refinance loans with other banks;

- Maximum amount of loan is up to 30% of client's revenue in 2019, not more than EUR 3 million per individual client;

- Maximum maturity of loan is up to 60 months, including 18-24 months grace period, with maximum yearly interest rate for EUR loans of 3M EURIBOR + 4.0% and for RSD loans 1M BELIBOR + 2.75%.

• In the second quarter of 2021 the Bank signed contract with Ministry of agriculture for subsidized loans for working capital and agro equipment. This is the fourth consecutive year of the Bank's participation in the program through which significant results have been achieved through lending to Agro clients.

• Cooperation with existing clients has been intensified with the continuous development of long-term relationships. In 2021, the bank managed to increase the total number of business clients by 8%.

Gross loans - Retail

Gross retail loans, including gross NPL, as of December 31st 2021 amounted to 18,734,388 thousand RSD with the following structure:

(in RSD thousand)

Loan type	31.12.2020	31.12.2021.	% of change
Cash loans	8,626,404	9,465,804	9.73%
Housing loans	6,221,866	8,189,349	31.62%
Consumer loans	679,921	642,873	-5.45%
Allowed overdraft	174,220	198,786	14.10%
Other	154,196	237,576	54.07%
Total	**15,856,607**	**18,734,388**	**18.15%**

Retail Marketing and ADC Division realized following activities during 2021 with an aim to launch new products and services, to increase portfolio and profitability:

- Interest-bearing assets increased by 18%, from EUR 133 million to EUR 157 million. The most noticeable growth was achieved for the second year in a row thanks to the growth of the housing loan portfolio, where growth was 31.62% and EUR 16.7 million, respectively, with continued growth of the portfolio and cash loans, which increased by EUR 7 million and 9.73%. In parallel with the further growth of the portfolio, there was an increase in interest income, so that during 2021 there was an increase of 11%.

- The "2 in 1" campaign was completed, in which cash credit and credit card were offered as related products in order to increase the number of issued credit cards as a relatively new product in the Bank's service. We have continued with bundle offers - the goal is to increase the number of products per client, further linking clients to the Bank and increase profitability. The focus remains on clients employed by good employers - budget institutions and public companies and pensioners. We insist on further synergy between the Bank's segments, so that we continue to actively offer products and services to the population of our SME and CORPORATE clients.

- During 2021, we had 2 pre-approved credit card campaigns for the best customers. One at the beginning of the year and the other at the end of the year, which was additionally supported in the following way - together with Mastercard, the Bank has created a "Mastercard / HALKBANK acquisition campaign" in which the Bank supports the sale of debit and credit cards from the Mastercard system. The cards covered by the campaign are - Mastercard Debit Gold (within the Gold current account package), Mastercard HALKTag and Mastercard Credit World. The goals are the acquisition of new clients and also up-selling and cross-selling for existing clients. Retail CRM achieved a result of 108% while cashiers achieved 81% fulfillment of the set campaign goal. At the end of 2021, the Bank had over 4,100 credit cards issued and over 3,200 Mastercard HALKTag debit cards issued.

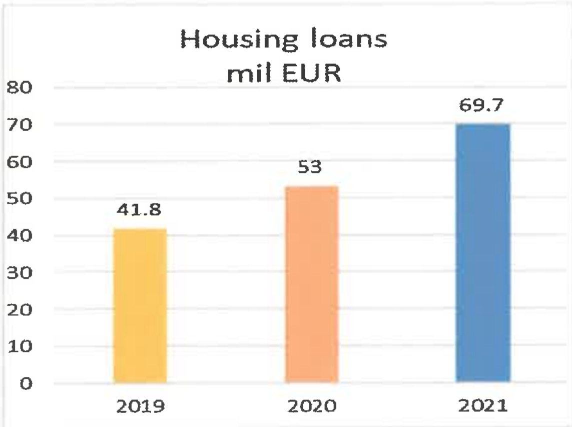
- Application of the change of the Tariff of fees for the provision of services to individuals from 12/07/2021. The change includes paper and electronic orders, domestic and foreign payment transactions, with the favoring of electronic orders, which is in line with the plans for further digitalization of the Bank. This enabled the Bank to further increase non-interest income from retail clients.

- In addition, in order to further digitalize the Bank, in order to promote special products and services, Incentive campaigns were created - it is possible to open an Account through digital channels - free of charge for monthly maintenance for 4 months for Silver current account package and Mastercard HALKTag debit card - no monthly maintenance fee for a period of 4 months with the Silver current account package or 6 months with the Gold current account package.

- Also, a special offer has continued in 2021 year that aims to support clients during the holiday season - a comprehensive offer is focused on the needs of clients and their holidays. An offer of tourist loans has been created. With special emphasis if the destination is Türkiye, a special cooperation has been established with Turkish Airlines and with possibility to withdraw funds with debit cards free of charge at ATMs in Türkiye for individuals.

- The action of closing inactive (dormant) accounts (accounts that have no activity for more than 12 months) was realized, with the aim of settling the client base, as well as in order to reduce costs that the bank has on inactive client accounts (sending notifications in accordance with legal regulations, etc.).

- During 2021, Halkbank a.d. Belgrade continued with the further expansion of the ATM network, so that on 31.12.2021 there were a total of 91 ATMs. Also, continuous cooperation with the bank's clients in order to expand the network of POS terminals resulted in a total of 3,325 devices at the end of the fourth quarter. The bank's orientation towards further digitalization of business processes, improvement and expansion of services it offers to its clients can be seen through the total number of debit cards of 113,165, credit 4,100, Ebanking users: 28,359 individuals.



3.2 Equity and Liabilities

Total liabilities as of December 31st 2021 amounted to 99,781,574 thousand RSD with the following structure:

(in RSD thousand)

LIABILITIES	31.12.2020	31.12.2021.	Plan 2021	% of change
Deposits from banks and other financial organizations**	7,487,610	4,604,184	8,465,911	-38.51%
Deposits from other clients**	54,515,216	68,914,073	63,847,080	26.41%
Funds borrowed***	8,159,379	6,889,604	8,230,747	-15.56%
Other liabilities****	2,365,146	3,246,196	1,497,643	37.25%
Total liabilities	**72,527,351**	83,654,057	82,041,382	15.34%
Share capital	8,972,603	12,499,049	12,500,271	39.30%
Reserves	529,706*	889,394	711,372	67.90%
Current period profit	682,330*	542	0	-99.92%
Undistributed profit from previous years	2,303,907	2,738,532	3,515,940	18.86%
Total capital	**12,488,546**	16,127,517	16,727,582	29.14%
Total liabilities	**85,015,897**	99,781,574	98,768,964	17.37%

* By the decision of the Bank's Assembly of April 27, 2021. The Bank's profit realized in 2020, as well as the amount of retained earnings from previous years, were allocated to the position of profit reserves.
** The positions "Deposits from the clients" and "Deposits from banks and other financial organizations" differ from the positions "Deposits and other financial liabilities to other customers" and "Deposits and other liabilities to banks, other financial organizations and the central bank" presented in the official form of Balance sheet for the amount of liabilities based on interest and fees, accrued liabilities for accrued interest and other financial liabilities to customers, which are presented in the position "Other liabilities".
*** The item "Funds borrowed" presented in the overview is shown without accrued interest liabilities and accrued expenses for liabilities stated at amortized cost using the effective interest rate which is part of the total amount of loans received from customers and banks presented in the Bank's financial statements. , which are presented in the overview under the item "Other liabilities".
**** The item "Other liabilities" additionally contains the item "Provisions" from the official form of the Balance Sheet.

The following graphs present the currency structure of liabilities as at 31.12.2020 and 31.12.2021:

3.2.1 Deposits from banks, other financial organizations and central bank

The structure of deposits from banks, other financial organizations and central bank and comparative analysis as of December 31st 2020 and December 31st 2021 is presented in the following table:

(in RSD thousand)

Deposits from banks and other financial organizations	31.12.2020	31.12.2021	% of change
Transaction deposits	123,155	74,295	-39.67%
Other deposits	7,364,455	4,529,889	-38.49%
Total	**7,487,610**	**4,604,184**	**-38.51%**

Within the position, other deposits are deposits of insurance companies and "money market" deposits of domestic and foreign banks.

3.2.2 Deposits from clients

The structure of deposits from clients and comparative analysis by segments as of December 31st 2020 and December 31st 2021 is presented in the following tables and graphs:

(in RSD thousand)

Deposits from clients	31.12.2020	31.12.2021	Plan 2021	% of change
Transaction deposits	24,653,761	32,501,479	28,219,704	31.83%
Other deposits	29,861,455	36,412,594	35,627,376	21.94%
Total	**54,515,216**	**68,914,073**	**63,847,080**	**26.41%**

Total increase of deposits from clients in 2021 amounted to 26.41%.

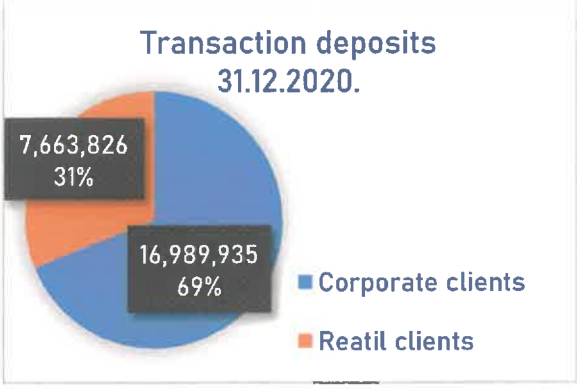
(in RSD thousand)

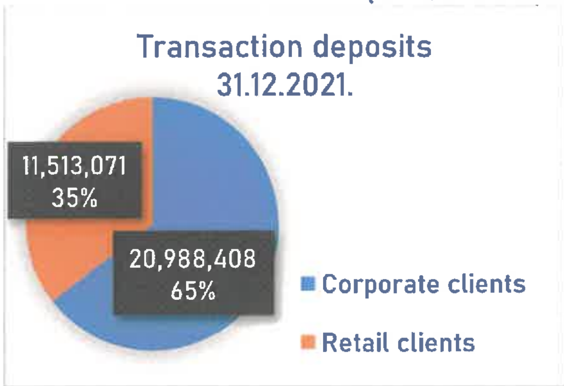
Deposits from clients	31.12.2020	31.12.2021	Plan 2021	% of change
Corporate clients	31,406,924	37,226,531	36,215,287	18.53%
Retail clients	23,108,292	31,687,542	27,631,794	37.13%
Total	**54,515,216**	**68,914,073**	**63,847,080**	**26.41%**

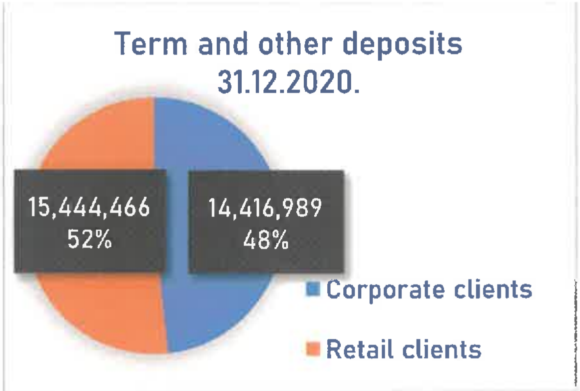
By constant monitoring of market trends, individual and proactive approach to clients, the Bank increased the level of deposits from corporate clients by 18.53%, and the level of deposits from retail clients by 37.13%.

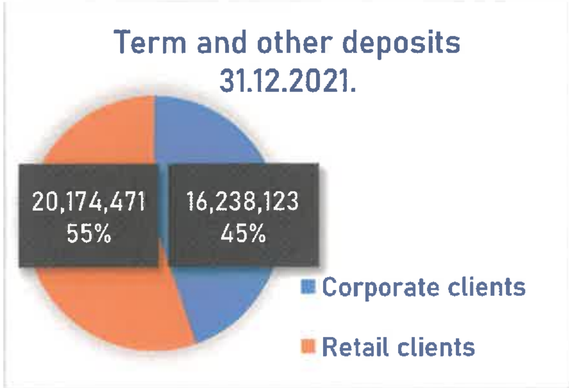
The structure deposits from clients is presented in the following graphs:

(in RSD thousand)









Funds borrowed

(in RSD thousand)

Borrowed loans in foreign currency	31.12.2020	31.12.2021.	% of change
- EIB	5,303,581	4,436,438	-16.35%
- Demir-Halk Bank (Nederland) N.V.	999,432	999,448	0.00%
- EAR long-term revolving line	837,726	855,461	2.12%
- European Fund for Southeast Europe	503,915	167,975	-66.67%
- GGF	484,154	414,996	-14.28%
- Government of Republic of Italy	30,571	15,286	-50.00%
Total	8,159,379	6,889,604	-15.56%

During the 2021, the Bank paid the principle of long-term loans to IFIs on a regular basis in the amount of EUR 21,527 thousand. In the same period, the Bank withdrew EUR 10,727 thousand of IFI's funds.

3.2.3 Equity

The capital of the Bank as of December 31st 2021 amounted to RSD 16,127,517 thousand and comprised of the following:

(in RSD thousand)

Equity	31.12.2020	31.12.2021.	% of change
Share capital – ordinary shares	5,658,940	7,338,200	29.67%
Share capital – preference cumulative shares	1,340	1,340	0.00%
Share capital – preference non-cumulative shares	600,000	600,000	0.00%
Share premium	2,712,323	4,559,509	68.10%
Revaluation reserves**	577,380	-200,031	-134.64%
Reserves from profit	1,726,527	2,938,563	70.20%
Undistributed profit from previous years	682,330*	542	-99.92%
Profit of the current year	529,706*	889,394	67.90%
Total	12,488,546	**16,127,517**	**29.14%**

**By the decision of the Bank's Shareholders Assembly dated 27.04.2021, the Bank's profit from 2020, as well as remaining undistributed profit from previous years, was allocated to position reserves from profit.*
*** The decrease in revaluation reserves is a consequence of the increase in interest rates on the debt securities market, issued by the Republic of Serbia, which led to a decrease in the fair value of the mentioned securities in the Bank's books.*

The information about the number of shareholders and the basic information of shares is presented in the following table:

Information on shares	31.12.2020	31.12.2021.
Number of shareholders	1	1
Number of shares	626,028	793,954
Nominal value per share in RSD	10,000	10,000
Net book value per share in RSD	19,948.86	20,312.91

4. OFF-BALANCE SHEET ITEMS

One of the significant segments of business with clients, in which the Bank achieves continuous growth and which are a stable source of income for the Bank, are certainly performance and payable guarantees and letters of credit. On this position during the 2021, there is a growth rate of 17.86% compared to the end of 2020. The structure of off-balance sheet items as of December 31st 2020 and December 31st 2021 is presented in the following table:

(in RSD thousand)

Off-balance sheet items	31.12.2020	31.12.2021.	% of change
Contingent liabilities (guarantees, avals, acceptances and irrevocable liabilities)	17,346,665	20,444,146	17.86%
Operations for and on behalf of third parties	257,727	245,181	-4.87%
Derivatives (SWAP)	470,321	471,365	0.22%
Other off-balance sheet items	79,792,616	140,412,289	75.97%
Total	97,867,329	**161,572,981**	**65.09%**

The following table compares the structure of the item guarantees, avals, acceptances and irrevocable liabilities as of December 31st 2020 and December 31st 2021:

(in RSD thousand)

Contingent liabilities (guarantees, avals, acceptances and irrevocable liabilities)	31.12.2020	30.09.2021	% of change
Performance guarantees	11,579,939	13,417,697	15.87%
Payment guarantees	3,153,131	4,471,642	41.82%
Unused limits which cannot be revoked	1,906,000	1,834,620	-3.75%
Issued foreign currency letters of credit with Banks' confirmation	676,086	676,097	0.00%
Issued uncovered letters of credit	31,509	44,090	39.93%
Total	17,346,665	**20,444,146**	**17.86%**

In the following table, position "Other off-balance sheet items" is presented.

(in RSD thousand)

Other off-balance sheet items	**31.12.2020**	31.12.2021	% of change
Received fixed assets (buildings, cars, land etc.) as collateral in favor of the Bank	42,306,867	96,262,584	127.53%
Commitments for framework loans and facilities	10,813,711	11,309,811	4.59%
Calculated suspended interest	5,076,233	5,280,990	4.03%
Financial assets pledged as collateral	1,200,000	0	-100.00%
Other off-balance sheet items	20,395,805	27,558,904	35.12%
Total	**79,792,616**	**140,412,289**	**75.97%**

5. STATEMENT OF PROFIT AND LOSS FOR THE PERIOD

The Income Statement for the period from January 1st to December 31st 2021 is presented in compliance with the Law on Accounting, IFRS and NBS regulations.

The Bank realized a profit of RSD 889,394 thousand at the end og the 2021.

(in RSD thousand)

Income Statement	31.12.2020	31.12.2021	Abs change	% of change	Plan 2021
Interest income	2,714,093	3,105,259	391,166	14.41%	3,256,780
Interest expense	521,547	615,413	93,866	18.00%	676,046
Net interest income	**2,192,546**	**2,489,846**	**297,300**	**13.56%**	**2,580,734**
Fee and commission income	981,159	1,512,865	531,706	54.19%	1,258,034
Fee and commission expense	207,104	339,157	132,053	63.76%	246,904
Net fee and commission income	**774,055**	**1,173,708**	**399,653**	**51.63%**	**1,011,130**
Net trading income	95,413	140,691	45,278	47.45%	23,515
Other operating income	48,097	38,879	-9,218	-19.17%	35,272
Net income/(losses) on impairment of financial assets	-294,510	-165,781	128,729	-43.71%	-235,147
Total net operating income	**2,815,601**	**3,677,343**	**861,742**	**30.61%**	**3,415,504**
Salaries, salary compensation and other personal expenses	958,415	1,125,268	166,853	17.41%	1,083,438
Depreciation costs	404,384	464,110	59,726	14.77%	482,051
Other expenses	923,096	1,141,501	218,405	23.66%	1,138,738
Total operating expenses	**2,285,895**	**2,730,879**	**444,984**	**19.47%**	**2,704,226**
NET PROFIT BEFORE TAX	**529,706**	**946,459**	**416,758**	**78.68%**	**711,278**
PROFIT TAX	0	(58,589)	(58,589)	-	0
PROFIT FROM DEFERRED TAXES	0	1,519	1,519	-	0
NET PROFIT BEFORE TAX	**529,706**	**889,394**	**359,688**	**67.90%**	**711,278**

*The item "Other operating income" consists of the items "Other operating income" and "Other income" from the official income statement form.

Despite the reduction of BELIBOR and EURIBOR rates during the 2021, the Bank increased its net interest income by 13.56%, or by RSD 297,300 thousand, comparing to the same period last year, primarily due to the growth of the loan portfolio . Net income from fees and commission increased by 51.63%, or by RSD 399,653 thousand. The largest contribution to this increase was made by the growth of revenues from fees for payment transactions (increase of RSD 281,053 thousand, or 50.90%) as well as significant growth of revenues from fees charged to merchants (increase of RSD 120,475 thousand, or 477.79%), and which is the result of the expansion of the POS terminal network. Total operating expenses are higher for 19.47%, or by RSD 444,984 thousand comparing to the same period last year. The largest share in total operating expenses is recorded by salaries of employees with 47%, followed by depreciation with 9%, depreciation costs related to IAS 16 8%, premium paid to the Deposit Insurance Agency 5.9%, legal costs 3.2% and others.

Costs of legal services and litigation provisions were nearly RSD 132,230 thousand higher than in the same period last year.

The structure of interest income is presented in the following table:

(in RSD thousand)

Interest income	31.12.2020.	31.12.2021	% of change
Corporate clients	1,382,840	1,607,921	16.28%
Retail clients	918,605	1,019,070	10.94%
Securities	393,195	470,002	19.53%
Other	19,453	8,266	-57.51%
Total	**2,714,093**	**3,105,259**	**14.41%**

The structure of fee and commission income is presented in the following table:

(in RSD thousand)

Fee and commission income	31.12.2020.	31.12.2021	% of change
Fees from payment operations	552,145	833,198	50.90%
o/w Retail Segment	146,384	213,107	45.58%
o/w Corporate Segment	377,072	581,951	54.33%
o/w Banking Segment	28,689	38,140	32.94%
Fees from guarantees	172,134	226,024	31.31%
Fees from FX changes	101,803	149,340	46.70%
Fees from payment cards	100,849	245,361	143.30%
o/w Merchant service charges	25,215	145,690	477.79%
o/w Interchange fees	47,384	41,773	-11.84%
o/w payment cards and other	28,250	57,898	104.95%
Other fees	54,228	58,942	8.69%
Total	**981,159**	**1,512,865**	**54.19%**

The structure of interest expense is presented in the following table:

(in RSD thousand)

Interest expense	31.12.2020.	31.12.2021	% of change
Deposits – corporate	198,269	265,902	34.11%
Deposits – retail	137,474	183,900	33.77%
Banks deposits	92,278	99,780	8.13%
Borrowings IFI's	83,256	51,276	-38.41%
IFRS 16	10,270	14,555	41.72%
Total	**521,547**	**615,413**	**18.00%**

The structure of fee and commission expense is presented in the following table:

(in RSD thousand)

Fee and commission expenses	31.12.2020.	31.12.2021	% of change
Payment operations	104,291	154,203	47.86%
Fees from payment cards	88,941	164,480	84.93%
Credit bureau	13,145	14,624	11.25%
Credit lines	0	17	-
Other fees	727	5,833	702.34%
Total	**207,104**	**339,157**	**63.76%**

6. CASH FLOWS

Cash flows from operating activities during the 2020 and 2021 are presented in the table below:

(in RSD thousand)

Cash inflows from operating activities	I - XII 2020	I - XII 2021	Change
Interest	2,336,690	3,307,350	970,660
Fees	986,193	1,510,907	524,714
Other operating income	13,345	13,135	-210
Dividend and share in profit	0	622	622
Total cash inflows	**3,336,228**	**4,832,014**	**1,495,786**
Cash outflows from operating activities			
Interest	461,902	587,498	125,596
Fees	204,341	336,113	131,772
Salaries	1,017,402	1,044,406	27,004
Tax and contribution	205,930	215,398	9,468
Other operating expenses	722,890	893,020	170,130
Total cash outflows	**2,612,465**	**3,076,435**	**463,970**
Net cash inflows from operating activities before increase/decrease in financial assets or financial liabilities	**723,763**	**1,755,579**	**1,031,816**

Cash inflows from operating activities before increase/decrease in financial assets or financial liabilities during the 2021 increased for RSD 1,495,786 thousand comparing to the same period in 2020.

Cash outflows from operating activities before increase/decrease in financial assets or financial liabilities increased during the of 2021 for RSD 463,970 thousand comparing to the same period in 2020.

Net cash inflows from operating activities before increase/decrease in financial assets or financial liabilities in 2021 amounted to RSD 1,755,579 thousand, which is increase of RSD 1,031,816 thousand comparing to same period in 2020.

7. INVESTMENT PLAN

During the 2021 total investments in fixed assets, investment property and intangible investments amounted to RSD 970,497 thousand.

Changes at these balance sheet items are presented in the following table: (in RSD thousand)

Investments*	Buildings	Equipment	Investment property	Intangible investments	Rents in IFRS 16 scope	Total	Plan for 2021
Balance 31.12.2020	**212,371**	**581,297**	**133,306**	**321,182**	**574,008**	**1,822,164**	**1,928,346**
Total increase:	**5,294**	**225,125**	**0**	**472,856**	**272,381**	**975,656**	**3,280,541**
IT	0	157,674	0	472,856	0	630,530	815,432
Adaption of business premises	0	46,260	0	0	0	46,260	2,379,862
Other	135	21,191	0	0	0	21,326	38,214
IFRS 16 – rents (building and cars)	0	0	0	0	272,381	272,381	47,033
Revaluation	3,305	0	0	0	0	3,305	0
Reclassfication	1,854	0	0	0	0	1,854	0
Total decrease:	**11,895**	**172,321**	**6,618**	**77,144**	**204,869**	**472,847**	**482,051**
Depreciation	9,353	168,236	4,508	77,144	0	259,241	291,582
Depreciation – IFRS 16	0	0	0	0	204,869	204,869	190,469
Sell	1,854	3,754	2,110	0	0	7,718	0
Disposal and retirement	688	331	0	0	0	1,019	0
FX effects	0	0	0	0	0	0	36
Balance 31.12.2021	**205,770**	**634,101**	**126,688**	**716,894**	**641,520**	**2,324,973**	**4,726,801**

** Presented in net amount as oposed to the way it was presented in the Notes to the Financial statements*

The Bank's investments during the 2021 were related to the renewal of customer and other IT equipment, additional investments in licenses related to card business and capitalization of the salaries of the employees engaged with implemention of the new Core banking system project. During 2021, the bank invested in the purchase of new POS terminals and ATMs and it renewed Microsoft licenses. Significant funds were invested in reconstruction of existing and new branches and in the equipment for them. Also, a new business space was leased within the complex where the Bank's Headquarters is located, which houses the Information Technology Management Department, whose team was expanded in 2021, in order to adequately respond to the challenges imposed by the project of implementing the new core system, ie in order to realize the Core Fusion Project in the most efficient way. Of the stated increase in fixed assets, investment property and intangible assets, RSD 272,381 thousand relates to the effects of the application of IFRS 16, ie the accounting treatment of the new Real Estate Lease Agreements.

8. COMPLIANCE OF OPERATIONS WITH THE NBS REGULATIONS AND IFI AGREEMENTS

As of December 31st of 2021, all the operating ratios of the Bank were within the limits prescribed by the Law on Banks and NBS regulations.

Ratio	The values prescribed by the NBS regulations	Values as at December 31st 2021
Regulatory Capital	Min 10,000,000 €	122,147,239€
Capital adequacy ratio	minimalno 8% (SREP 16.33%)	23.64%
Foreign exchange risk ratio	maksimalno 20%	0.73%
Liquidity ratio	Min 1	1.93
Narrow liquidity ratio	Min 0.7	1.66
Liquidity coverage ratio	Min 100%	149.86%
Exposure to one person or group of related persons	maksimalno 25%	12.34%
Sum of large exposures	maksimalno 400%	33.64%
Investment in non-financial sector	maksimalno 10%	0%
Bank's investments into non-financial sector, fixed assets and investment property	maksimalno 60%	11.20%

Business policy for 2021 as one of the main goals in the risk management process defines maintenance of capital adequacy ratio above 18%, taking into account planned capital increase in 2021 for EUR 30 million.

During the second quarter, the planned capital increase for EUR 30 million was realized, in the form of capital increase of the Bank. Additionally, based on the Decision of the Bank's General Meeting, held on April 27th of the current year, the total profit realized in 2020 as well as retained earnings from previous years in the total amount of EUR 10 million is also included in the Bank's capital.

As at December 31st 2021, calculated capital adequacy ratio was at the level of 23.64% (21.18% as at 31.12.2020.), which is still significantly above required regulatory limits.

By the Decision on the Minimum Requirement for Capital and Eligible Liabilities of a Bank, National Bank of Serbia (IO NBS br.38, February 11th 2021) defines ratio of Capital and Eligible Liabilities to total liabilities for the Bank equal to 7.97%, which was previously at level of 8.44%. As per the last available calculation from June 30th 2021, the ratio of the Capital and Eligible Liabilities to total liabilities of the Bank was 20.89%, which is significantly above the defined limit. Given the structure of the portfolio, the Bank expects that this indicator will be at a similar level, and certainly many times above the prescribed level, as of 31.12.2021.

Compliance with the covenants from the agreements concluded with the international financial institutions (IFIs)

Pursuant to the defined limits in the agreements concluded with the international financial institutions (IFIs) - German Development Bank (KfW), Green for Growth Fund (GGF), and European Fund for Southeast Europe (EFSE) the Bank is required to comply with agreed financial covenants until the final repayment of the loans. As of December 31st of 2021, the Bank is aligned with all indicators.

III RISK MANAGEMENT ADEQUACY

Fundamentals of the risk management process

Having in mind the activity it is engaged in, the Bank is inclined to take different types of risks in its business and therefore the presence of risk is a general characteristic of different business activities of the Bank. In this regard, the Bank has established a comprehensive and reliable risk management system based on its clear risk management strategy and included in all its business activities, thus ensuring compliance of the Bank's risk profile with its identified risk appetite.

Risk management strategy is based on a conservative approach, which implies restrictive takeover of all the risks that Bank is or may be exposed in its operations. The affirmation of this principle is in line with a key strategic business objectives such as achieving positive financial results and preserving the capital base, i.e. improving the market position of the Bank.

The functioning of the risk management system is regulated by the adopted internal policies and procedures for each material risk, and is subject to independent assessment by internal audit.

The risk management system is designed in accordance with the size and organizational structure, nature, size and complexity of the Bank's business activities, ie. its risk profile.

Pursuant to the Law on Banks and the National Bank of Serbia (hereinafter: NBS) Decision on Risk Management, in Halkbank a.d. Beograd (hereinafter: the Bank) the most significant risks have been identified to which the Bank is exposed in its operations, namely:

- Liquidity risk;
- Credit risk, including residual risk, dilution risk, settlement/delivery risk, counterparty risk, credit risk induced by interest rate risk, FX credit risk, portfolio currency structure risk and concentration risk;
- Risk of losses from external influences (macroeconomic risk);
- Interest rate risk;
- Foreign exchange risk, pricing risk and other market risks;
- Outsourcing risk;
- The risk of money laundering and terrorist financing;
- The risk of introducing new products / services;
- Risks of investing in other legal entities and fixed assets of the Bank;
- Risks relating to the country of origin of the entity to which the Bank is exposed (country risk);
- Operational risk, including legal risk;
- Reputation risk;
- Strategic risk;
- Risk of compliance of the Bank's operations, including risk of regulatory sanctions, risk of financial losses and reputation risk;

- Environmental and social risk;

The Bank's targets in risk management are minimization of negative effects on the financial result and equity, based on the Bank's exposure to the aforementioned risks, with obeying defined risk appetite frame and the maintenance of required capital adequacy level.

During 2021, the Bank continued to strengthen its risk management system by improving internal documents, methods and processes that are in line with regulatory changes and recommendations of the internal and external audit and the National Bank of Serbia.

Risk management framework

The risk management system established in the Bank includes the following:

- Risk management strategies and policies, as well as procedures, guidelines and methodologies for risk identification, measurement, assessment and managing risks
- Risk appetite - The Bank's intention to take risks to realize its strategies and policies (risk structure), as well as to determine the acceptable level of risk assumed (risk tolerance).
- Risk profile - the Bank's assessment of the structure and levels of all risks exposed or likely to be exposed in its business.
- Risk appetite framework (hereinafter: RAF) - The overall approach, including strategies, policies, procedures, processes, controls and systems through which he risk appetite is established, communicated and monitored. It includes a statement of appetite risk, risk limits and an overview of the roles and responsibilities of organizational parts of the Bank that monitor the application and follow-up of the RAF. RAF takes into account material risks for the Bank, as well as for the good business reputation that the Bank enjoys in relation to customers, depositors, creditors and the market in general. RAF is in line with the Bank's business policy.
- Risk appetite statement (hereinafter: RAS) - Represents an aggregated level of risk that the Bank is willing to accept, or to avoid, in order to achieve its business objectives. It includes qualitative descriptions, as well as quantitative measures expressed in relation to income, capital, risk measurement, liquidity and other relevant indicators. It also provides quantification of levels of risk that are hardly measurable, such as reputation risk, business compliance risk, as well as prevention of money laundering and terrorism financing.
- Internal organisation / organisational structure ensuring that risk management activities and administration activities are functionally and organisationally separated from the activities of assuming risk, with clearly defined segregation of operations and duties of staff in order to avoid any conflict of interests
- Effective and efficient risk management process, including mitigation, monitoring and control of the risks to which the Bank is or may be exposed
- Internal control system as a group of processes and procedures established for the purpose of appropriate risk control, monitoring effectiveness and efficiency of business, reliability of financial and other data and information of the Bank, as well as their adjustment to regulations and internal documents with the aim to ensure safety and stable operations
- Appropriate information system.

The Bank's Supervisory Board is responsible for establishing a risk management system in the Bank and for supervising such system. The Bank's Supervisory Board is responsible to ensure that the Executive Board identifies risks to which the Bank is exposed and to control such risks pursuant to adopted policies and procedures.

The Executive Board implements risk management strategies and policies adopted by the Supervisory Board, adopts procedures for risk identification, measuring, assessment and management, analyses efficiency of their implementation and reports to the Supervisory Board about such activities.

The Audit Committee is responsible for continuous supervision over the implementation of risk management policies and procedures, and the system of internal controls.

ALCO is in charge of monitoring the Bank's exposure to risks arising from the structure of its balance sheet receivables and liabilities and off-balance sheet items and it proposes risk management measures.

Relevant Credit Committee make decisions on granting loans and origination of other receivables, as well as on amendments to the conditions of such loans and receivables. Decides on all issues related to collection, including reprogramming and restructuring, and all other issues related to potentially problematic, problematic and contested claims.

The following Bank's organisational units participate in the risk management process: the Risk Management Department, Credit Division, Internal Audit Department and Compliance and AML Department.

Risk Management Department - monitors legislation in the field of risk management, the NBS decisions and internal documents of the Bank and is responsible for their proper implementation; manages risk-weighted assets and off-balance sheet items of the Bank; conducts activities related to the registration, measurement, management and mitigation of credit, market, operational and other risks to which the Bank is exposed.

Credit Division – management of lending operations through established lending procedures, analyzes the financial condition and creditworthiness of corporate and retail clients, evaluates proposed collaterals, monitors placements at the client level in order to identify and mitigate credit risk.

Internal Audit Department - provides the Board of Directors with an independent and objective opinion on issues subject to audit, performs advisory activities aimed at improving the existing system of internal controls and operations of the Bank and provides assistance to the Supervisory Board in achieving its goals, applying a systematic, disciplined and documented approach, risk management, control and process management.

Compliance and AML Department - responsible for the identification and monitoring of compliance risk of the Bank and management of such risk, which in particular includes the risk of sanctions of the regulatory body and financial losses as well as reputational risk.

The risk management process consists of several stages:

- Risk identification;
- Risk measurement and assessment;
- Risk mitigation and mitigation;
- Risk monitoring and risk control;
- Risk reporting.
- The process is based entirely on documented policies, guidelines and procedures, which are regularly reviewed in terms of their comprehensiveness, accuracy and quality.

The process is based entirely on documented policies, guidelines and procedures, which are regularly reviewed in terms of their comprehensiveness, accuracy and quality.

Credit Risk

The Bank measures and monitors the credit risk level through assessing the clients' solvency and controlling the loan portfolio through the calculation of impairment provisions pursuant to the IFRS rules.

Structure of gross risk-weighted assets in terms of classification categories

(in RSD thousand)

Classification category	Classified amount as of 31.12.20	% of the share in gross classified assets		Classified amount as at 31.12.21	% of the share in gross classified assets	
A	37,463,655	42.94%	71.36%	41,085,491	40.03%	74.58%
B	24,798,118	28.42%		35,463,243	34.55%	
V	15,098,539	17.31%	17.31%	18,465,416	17.99%	17.99%
G	6,680,529	7.66%	11.33%	3,761,704	3.66%	7.43%
D	3,203,971	3.67%		3,869,135	3.77%	
Total	**87,244,812**	**100.00%**		**102,644,989**	**100.00%**	

Compared to December 31ST 2020, total assets that are classified increased by 17,65%.

Compared to the end of 2020 the structure of the Bank's portfolio was improved in terms of increasing the share of assets classified in categories A and B in total classified assets by 3.21 p.p., and decrease in categories G and D by 3.90 p.p. The share of assets classified in category V was increased by 0,68 p.p.

Portfolio quality on 31.12.2021. year according to the internal classification is at a medium level of risk, given that less than 75% of assets are classified in categories A and B.

Collection and coverage of NPLs

Gross NPL based on the methodology of reporting to the National Bank of Serbia is shown in the following table:

(in RSD thousand)

	31.12.2020	31.12.2021	Change
NPL portfolio	1,622,254	1,508,461	-113,793

NPL as of December 31st 2021 was reduced by 114 million RSD compared to December 31st 2020, as a result of collection of NPL receivables, as well as accounting write-off conducted for 100% impaired non-performing receivables. In the year of 2021, the Bank has collected 358 million RSD of NPL, while accounting write-off of 100% impaired non-performing receivables in the same period amounted to 242 million RSD. Despite of performing accounting write-off of receivables and transfer to off-balance sheet items the Bank does not waive its rights for the collection of non-performing exposures and legal rights arising from such loans.

On the other hand, new exposures that became the NPL comparing the end of the year 2021 to the end of the year 2020 amounted 361 million RSD.

Share of gross NPLs in total gross Bank's loans

Ratio	31.12.2020	31.12.2021	Change
Share of NPLs in total loans	2.87%	2.25%	-0,62 p.p.

In Credit risk management policy adopted on 30.12.2021, the limit for the level of problematic loans (NPL indicator) was defined as the ratio of gross NPL and gross loans at the level of 5%. On 31.12.2021 the Bank is below the defined limit of this indicator.

NPL coverage

Ratio	31.12.2020.	31.12.2021.
Ratio of NPL coverage with Impairment provisions for loans	67.75%	67.76%
Ratio of NPL coverage with NPL Impairment provisions	54.63%	53.93%

The Bank's Credit Risk Management Policy adopted on December 30, 2021. defined the highest acceptable level of bad assets in relation to on-balance sheet and off-balance sheet assets classified at a level of less than 5%, as well as the ratio of coverage of problematic loans by NPL provisions at a level of more than 35%. Share of bad assets (NPE) on 31.12.2021. year in the total classified assets is 2.02% and is significantly below the defined limit. Participation decreased compared to 31.12.2020. by 0.04 pp The ratio of coverage of non-performing loans by NPL provisions is 53.93% and is significantly above the defined limit.

Liquidity Risk

Liquidity Ratio and Narrow Liquidity Ratio prescribed by NBS in the period from January 1st to December 31st of 2021

	Liquidity Ratio	Narrow Liquidity Ratio
Value as of 31.12.2021	1.93	1.66
Average	1.98	1.77
Maximum	2.36	2.20
Minimum	1.63	1.41
Daily NBS limit	Minimum 0.8	Minimum 0.5
NBS limit on monthly level	Minimum 1	Minimum 0.7

Liquidity ratios of the Bank during the period from January 1st to December 31st 2021 were in accordance with the prescribed limits by the Decision on liquidity risk management by banks. In order to manage liquidity risk adequately, the Bank monitors internally established indicators of structural liquidity, besides the limits prescribed by the NBS.

Additional liquidity ratios in the period from 01.01-31.12.2021 – internally established

	Min.	Max.	Average	Limit
Liquid assets ratio	26.75%	31.63%	29.65%	Min 20.00%
Net loans to total deposits ratio	87.98%	91.72%	89.91%	Max 200.00%
Customers' deposits to total deposits ratio	86.97%	93.74%	90.61%	Min 75.00%
Deposit concentration ratio	17.09%	23.62%	20.15%	Max 30.00%

The Bank was within internally prescribed liquidity limits during the period from 01.01-31.12.2021.

Foreign exchange risk

FX Risk ratio in the period from 01.01. - 31.12.2021

Value as of 31.12.2021	0.73%
Average	1.57%
Maximum	5.50%
Minimum	0.19%
Limit NBS	Maksimalno 20%

Foreign currency risk measured by FX Risk ratio was located in the low risk category during the 2021.

Interest rate risk

The impact of changes in interest rates on the economic value of the Bank is monitored through total net weighted position of the banking book.

Total net weighted position of the Bank as of December 31st 2021

	(in RSD thousand)
Total net weighted position	-659,210
Equity	14,362,328
Total net weighted position and equity ratio	4.59%
Internally prescribed maximum	20%

Operational risk

In the period from Janiary 1st to December 31st 2021 in terms of Operational risk, 118 events were reported in the Application of Operational risks. Seventy-five events of operational risk that were reported referred to cash shortage or surpluses and have been successfully resolved (46 events of cash shortage and 29 events of cash surpluses).

Number of events	118
Cash shortage	46
Cash surplus	29
External frauds	1
Other	42
Net loss in RSD	1,449,905

The Bank performs also risk assessment of Outsourcing processes, based on the contract concluded with third parties, which have clearly defined rights and obligations of the parties. When introducing new products, processes and systems or new business activities, the Bank also performs assessment and identification of operational risk.

Exposure risk

The Bank's exposure* to persons related to the Bank and its large exposures as of December 31st 2021

	(in RSD 000)	% of equity	Limit NBS
Persons related to the Bank	1,938,024	13.49%	-
Large exposures	4,830,235	33.64%	Max 400%

* The Bank's exposure refers to exposure after applying credit risk mitigation techniques and deductions, in line with NBS Decision on Risk management.

Concentration risk

The Bank monitors the concentration risk through a concentration ratio that was defined as the ratio of the 20 largest gross exposures at the level of the client or the group of related parties reduced by exposures covered with cash deposits and total regulatory capital.

The policy of credit risk management has determined that the concentration ratio should be maintained at a level below 300%.

	31.12.2020.	31.12.2021.	Prescribed value
Concentration ratio of 20 largest clients/groups of related parties	154.54%	133.07%	Max 300% of regulatory capital

As of December 31st 2021, the concentration ratio is within an internally defined limit.

Additionally, in order to manage the concentration risk, by the Procedure for the Credit Risk Management at the portfolio level, exposure limits (balance sheet assets and off-balance sheet items) have been established to specific geographical areas and to a specific sector / business activity, which provide diversification of the portfolio. As of December 31st in the mining and processing industry, the largest exposure of the Bank is 22.51% and in retail 20.52%, which is significantly below the internally defined limit of 60% and 25% respectively. The exposure of the Bank in relation to geographical areas is monitored through the participation of exposures to clients from individual geographical areas in the total classified gross balance sheet assets and off-balance items. The Bank's largest exposure is to clients belonging to the region of Belgrade 33.43% and region of Central and Western Serbia and amounts to 33.28%, which is significantly below the internally defined limit of 50% and 70% respectively.

Exposures of the Bank to specific product types is monitored in accordance with NBS decision on concentration risk management. Exposures of the Bank to retail loans with a contractual maturity of more than 2920 days may not exceed 30% of the Bank's capital determined in accordance with the decision regulating the bank's capital adequacy increased by the amount of all bank liabilities in dinars with a remaining maturity of more than 1825 days. The calculation of the capital amount referred to in the preceding paragraph shall not be subject to the regulatory adjustments and deductions from capital prescribed by the NBS decision regulating the bank's capital adequacy, except for deductions for the loss of the current year and earlier years and for unrealized losses. As of December 31st 2021, concentration risk ratio in retail segment calculated as previously described is 7.31%, which is significantly below the defined limit.

Investment Risk

The Bank did not have investments in non-financial sector as of December 31st 2021. Total investments in entities that are not in financial sector and in fixed assets and investment property were in the category of low risk (below 45% of capital).

Bank's investments into non-financial sector, fixed assets and investment property as at December 31st 2021

	Investments into non-financial sectors	Investments into fixed assets and investment property	Total
Amount (000 RSD)	0	1,608,053	1,608,053
Share in capital	0%	11.20%	11.20%
Limit NBS	Max 10%	-	Max 60%

Country risk - The risk relating to the country of origin of the person to whom the Bank is exposed

Bank establishes a system of country classification regarding the level of country risk and is committed to a system of risk classification by applying categories assigned by international rating agencies (Moody's, Standard&Poors and Fitch).

In the period from 01.01. to 31.12.2021, the Bank had exposures to clients, which operate in countries that are classified as low-risk and medium-risk countries, according to the Classification of official international credit rating agencies and the Bank Procedure.

Bank exposure towards countries, which are in the category of low risk, is without limits. The country from this category as of December 31th 2021 were Germany, Austria, USA and Czech Republic.

Countries in the category of medium risk were Macedonia, Türkiye, Romania, Bosnia, Croatia and Montenegro. Exposure to countries in the category of medium risk was significantly below adopted internal limits during observed period.

Review of countries of clients whose exposure is involved in country risk as of December 31st 2021

Country	Risk category	Limit	Share in Bank's capital
Germany	low	without limit	5.68%
Austria	low	without limit	2.02%
USA	low	without limit	0.59%
Czech Republic	low	without limit	0.10%
Macedonia	medium	100% regulatory capital	30.67%
Türkiye	medium	100% regulatory capital	21.54%
Romania	medium	20% regulatory capital	7.40%
Bosnia	medium	40% regulatory capital	2.46%
Croatia	medium	10% regulatory capital	0.02%
Montenegro	medium	40% regulatory capital	0.01%
Albania	medium	25% regulatory capital	0.00%
Italy	medium	10% regulatory capital	0.00%

Report on relief in repayment according to the NBS Decision as of December 31st 2021

In view of the declared risk of spreading infective disease caused by the COVID-19 virus (corona virus), on December 14th 2020, the National Bank of Serbia passed a Decision on temporary measures for banks to enable adequate credit risk management amid COVID-19 pandemic (hereinafter the NBS Decision), which prescribes measures and activities that banks are required to implement to adequately manage credit risk, which means timely identification of potential difficulties for debtors and taking appropriate steps .

By these Decisions, the NBS prescribes an obligation for banks to approve relief in repayment to debtors (natural persons, farmers, entrepreneurs and companies) who due to the conditions caused by the COVID-19 pandemic have or may have difficulties in the repayment of liabilities, at their request. In accordance with the Decision and guidelines of the NBS, the Bank offered its debtors the possibility to use the repayment reliefs by posting the offer on its website and sending an individual notice to its debtors who are in arrears longer than 30 days on November 30th 2020.

The amendment to the Decision from February 2021 stipulates the obligation for banks to deliver an individual notice to debtors who are in arrears longer than 30 days on February 28th, 2021

The Bank approved to a debtor (natural person, farmer, entrepreneur and company) a relief in repayment of liabilities if all of the following conditions have been met:

- a borrower is unable to settle its liabilities to the bank and/or may have difficulties in settling these liabilities due to the COVID-19 pandemic;

- as at February 29th 2020 and in the 12-month period before that date, a borrower did not default on its liabilities to such bank, and neither of the claims on such borrower was classified as a non-performing loan.

The repayment reliefs are approved at the request of the debtor, and applies to the obligations of the Bank's clients on the basis of loans and credit products (credit cards and allowed overdrafts on the current account), approved until the date of entry into force of the Decision (December 15th 2020). The request may be submitted for one or more loans / credit products in use, no later than April 30th 2021.

The reliefs provided by the Decision refer to the reprogramming and refinancing of loans and liabilities, with the approval of a grace period of 6 months and the appropriate prolongation of the repayment period, so that the debtor's monthly obligations do not exceed those from the repayment plan before approving the relief. During the grace period, the Bank calculates interest, whereby the debtor determines whether to pay interest during the grace period or after its expiration.

In accordance with the provisions of the Decision, the Bank sent, until December 31st 2020, ie until March 31st 2021, individual notices to all debtors who met the criteria defined by the Decision.

As at June 30th 2021, the Bank has realised all accepted notifications and approved requests for relief in repayment.

The total number of debtors for whom the relief in the repayment of receivables has been applied is shown in the tables below:

(in thousands RSD)

Type of debtor	Realised notifications / Requests		With paying interest			
	No of debtors	Amount	No of debtors	Amount	% No of debtors	% Amount
Retail	1,066	1,007,269	210	156,336	19.7%	15.5%
Farmers	65	97,593	33	29,263	50.8%	30.0%
Legal entities	147	2,154,675	117	1,853,354	79.6%	86.0%
Entrepreneurs	104	249,725	88	226,398	84.6%	90.7%
TOTAL	**1,382**	**3,509,262**	**448**	**2,265,351**	**32.4%**	**64.6%**

Out of the total number of debtors, 32.4% decided to pay interest during the grace period.

The number of debtors who decided to pay interest during the grace period is the lowest in the retail segment (19.7%), while the share in the segment of legal entities and entrepreneurs is significantly higher (81.7%).
The relief provided by the Decision were realized on a total of 1646 loans, with only 38 loans being refinanced, while the other 1608 loans were rescheduled.

As at December 31st 2021, NPL ratio of loans with realized reliefs is 6,26%. An overview of by type of debtor is given in the table below:

(in thousands RSD)

Type of debtor	Total number of loans	Total amount	Number of NPL loans	NPL amount	NPL %
Retail	1,141	977,580	77	44,131	4.51%
Farmers	68	98,436	2	3,523	3.58%
Legal entities	219	1,718,769	6	137,679	8.01%
Entrepreneurs	128	185,387	3	1,212	0.65%
TOTAL	**1,556**	**2,980,172**	**88**	**186,545**	**6.26%**

Related to the status of debtors with whom the reliefs were applied, as of December 31st 2021, out of the total number of debtors, 76,3%, ie 52,6% of the total amount of exposure, is classified in Stage 1 in accordance with IFRS 9.

An overview of by type of debtor and stage is given in the table below:

Per number of debtors

Type of debtor / Stage	Retail	Farmers	Legal entities	Entrepreneurs	Total	%
Stage 1	819	61	63	67	1,010	76.3%
Stage 2	124	2	59	29	214	16.2%
Stage 3	78	2	16	4	100	7.6%
TOTAL	**1,021**	**65**	**138**	**100**	**1,324**	**100.0%**

Per amount

(in thousands RSD)

Type of debtor / Stage	Retail	Farmers	Legal entities	Entrepreneurs	Total	%
Stage 1	821,720	92,727	520,185	134,351	1,568,983	52.6%
Stage 2	107,803	2,186	910,789	48,248	1,069,026	35.9%
Stage 3	48,057	3,523	287,795	2,788	342,163	11.5%
TOTAL	**977,580**	**98,436**	**1,718,769**	**185,387**	**2,980,172**	**100.0%**

IV SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

After the end of the business year, there were no events that have a material impact on the financial statements for the period ending December 31st, 2021.

V PROJECTED FUTURE DEVELOPMENT

The business policy and strategy of the Bank define the basic business goals and main guidelines for the development of Halkbank a.d. Belgrade on the Serbian market.

With the capital increase in 2021 in the amount of EUR 30 million, the Bank has achieved and will have an excellent basis for rapid growth and continued business in the future.

One of the main goals is to expand the business network to more than 50 branches, while raising market share in Belgrade and other regions where the Bank currently has no branches. The bank will continue to be SME-oriented, but will remain focused on the retail segment as well. It is planned that key balance sheet positions will grow faster than the expected growth of the banking sector.

All these activities will contribute to increasing market share in the banking sector to 3% in terms of total assets with sustainable growth, good liquidity and capital adequacy.

VI RESEARCH AND DEVELOPTMENT ACTIVITIES

The Bank conducts regular research of financial markets, analyzes the financial needs of clients and conducts research on the degree of satisfaction of users of financial services.

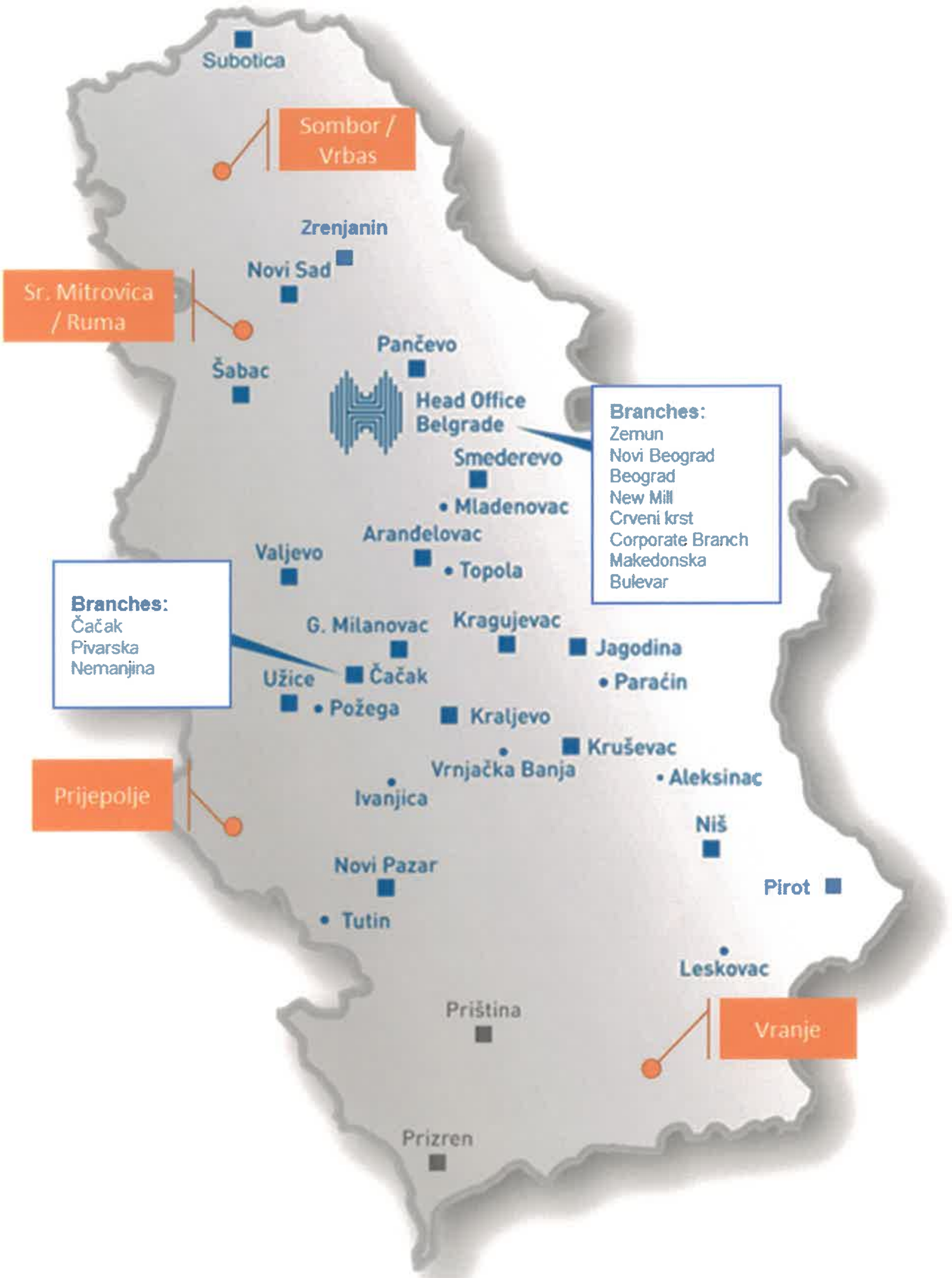
The Marketing Department continuously develops new products and services of the Bank and strives to develop and offer modified existing products, as well as completely new products and services, based on the information and conclusions obtained through market research activities and customer needs.

VII INFORMATION ON REDEMPTION OF SHARES

There was no redemption of own shares during 2021.

VIII EXISTENCE OF AFFILIATES

Halkbank a.d. Belgrade has been successfully expanding its business network and client base. Today, the Bank's products and services are provided through a business network of 28 branches, 8 branches and 1 counter. As of December 31, 2021, the Bank has 9 branches in Belgrade, 3 branches in Čačak, branches in Smederevo, Jagodina, Gornji Milanovac, Kraljevo, Užice, Kragujevac, Kruševac, Arandjelovac, Valjevo, Šabac, Niš, Leskovac, Novi Sad, Pancevo, Novi Pazar and Subotica, as well as 8 branches - in Paracin, Pozega, Topola, Ivanjica, Vrnjacka Banja, Zrenjanin, Tutin and Pirot.


Subotica
Sombor / Vrbas
Zrenjanin
Novi Sad
Sr. Mitrovica / Ruma
Pančevo
Šabac
Head Office Belgrade
Branches:
Zemun
Novi Beograd
Beograd
New Mill
Crveni krst
Corporate Branch
Makedonska
Bulevar
Smederevo
Mladenovac
Aranđelovac
Valjevo
Topola
Branches:
Čačak
Pivarska
Nemanjina
G. Milanovac
Kragujevac
Jagodina
Čačak
Paraćin
Užice
Požega
Kraljevo
Kruševac
Vrnjačka Banja
Aleksinac
Prijepolje
Ivanjica
Niš
Novi Pazar
Pirot
Tutin
Leskovac
Priština
Vranje
Prizren

IX CORPORATE GOVERNANCE RULES

Corporate governance rules of Halkbank a.d. Beograd are regulated in the following by-laws:

- Statute;
- Foundation Agreement;
- Corporate Governance Code;
- Business Code of Supervisory Board Members;
- Code of Conduct and Ethical Principles;
- Anti-corruption Policy and
- General Operating Conditions.

NON-FINACIAL REPORT

2021

I. PROFILE OF THE BANK

1. Vision and Mission Statement

Our vision is to be one of the most respected and chosen Leading Banks in the country.

Our mission is to be a bank that:

- by understanding the needs and expectations of clients, through the best channels offers the most appropriate solutions, a bank that provides banking services to all clients in the fastest and most efficient way through efficient alternative distribution channels or through its branches;
- is focused on the real sector together with a strong presence in the retail field, has high technology, innovative products and services, one that is aware of social responsibility and corporate values, with high quality standards, which provides productive activities and long-term profitability;
- one that puts people first and that pays attention to customer satisfaction at the highest level.

2. Corporate values

Trust - You can be sure that your money is in good hands.

Respect - We value your hard work and respect the capital you have acquired.

Honesty - Our business is transparent, and our priority is to fully protect your interests.

Quality - Our products and services are created in accordance with your requirements and expectations.

Simplicity - Our procedures are affordable and simple.

Speed - The processing of your requests is done in the shortest possible time.

Efficiency - It is in our and your interest to come up with quick solutions with simple procedures.

Development - HALKBANK follows world standards and business trends in order to constantly improve and adapt its products and services to market requirements.

Professionalism - We have carefully selected associates and colleagues and assembled a team of top professionals who are trained and ready to meet all your requirements.

Discipline - We diligently and conscientiously fulfill all our obligations to meet your and our professional needs.

3. Membership

Halkbank is a member of many associations, with which it cooperates and thus improves the business environment and economic development, including:

Turkish-Serbian bisuness association

Association of Serbian Banks

CFO Association of Serbia

4. Prizes and awards

HALKBANK has been repeatedly recognized by Commerzbank as a bank that provides excellent quality in the delivery of commercial payments and transfers of financial institutions.

Based on research conducted by the international organization "ICERTIAS" HALKBANK a.d. Belgrade was awarded the prestigious "Customers' Friend" award.

Following the motto "People first", HALKBANK launched the "Meet us" campaign. For this campaign, the Bank was awarded in 2018

5. Communication strategy

HALKBANK's communication strategy in 2021 had to adapt to the COVID-19 pandemic. The communication was aimed at supporting the economy, the population and the health system, all in accordance with the mission and vision of HALKBANK a.d. Belgrade. The bank's products and services and community support activities in the era of the pandemic have been successfully communicated. Digital

communication channels were used to ensure smoothly communication with the external and internal public.
On the Bank's website, clients can find up-to-date information on activities undertaken in order to prevent the spread of the COVID-19 and to preserve the health of employees and clients.
Although the Bank turned to digital media in the pandemic, it also took its appearance in media articles. In line with expectations, a large number of visits to the Bank's website and social networks profiles were recorded - Facebook, Instagram, LinkedIn, Youtube.

All important information and measures related to COVID-19 are constantly distributed through traditional and modern communication channels. All stakeholders were informed about the new situations - Moratorium I, II and III, new ways of pensions

II KEY EVENTS IN THE PREVIOUS YEAR

JANUARY

HALKBANK has introduced the possibility of opening a current account online.
Prospective clients of the Bank are enabled to send requests for opening a current account via the Bank's website. Opening an account is further facilitated by the fact that after sending the request, all documentation and cards are delivered to the client's address, so you do not need to come to the Bank.
In January, a new electronic banking solution - HALCOM - was presented to corporate clients.
Halcom e - banking service is a fast and efficient way to perform domestic and international payment transactions for all legal entities and entrepreneurs who are clients of HALKBANK.

MARCH

A new Visa Gold credit card has been available to customers since March. In addition to accessing additional funds when needed, this card brings additional benefits, with a special emphasis on benefits for those who like to travel.

payment, business loans within the State Guarantee Scheme. This reduced the pressure on the business network and call center as customers were able to obtain the necessary information.
Halkbank a.d. Belgrade is the first bank in Serbia to start cooperation with the Serbian Foundation for Entrepreneurship (SEF) on the project of providing loans for maintaining liquidity and working capital and providing loans to companies affected by the coronavirus pandemic. The focus is on young companies and agricultural farms, to which the Bank provides favorable conditions for improving business development. The project includes a special line of start-up loans aimed at newly established micro, small and medium enterprises as well as individual agricultural farms not older than 2 years. Supporting young entrepreneurs increases the competitiveness of small business

MAY

Capital of HALKBANK a.d. Belgrade has been increased by 30m euros. This way, the Bank's capital reached the value of 136 million euros. The parent Bank once again confirmed its long-term commitment to development in Serbia, providing support to employees and customers of the bank.
In a desire support the economy, and help the recovery of the business companies affected by the corona virus pandemic, HALKBANK, in cooperation with the SEF, created a special credit line. Liquidity and working capital loans were offered through the support initiative.

JUNE

After an unstable year in which we were affected by the pandemic, knowing that everyone needs rest and relaxation, HALKBANK has provided an offer of Tourist Loans under very attractive conditions and a number of benefits.

JULY

HALKBANK retail clients are enabled to withdraw money from all ATMs without commission during their stay in Türkiye. This way, we contributed to the enjoyment of a relaxed holiday, in the period until the end of October.

AUGUST

The possibility of accessing additional funds for business clients has been further facilitated by the introduction of the Mastercard Business credit card. With this card, customers can simply and easily pay for goods and services and withdraw cash in Serbia and abroad, up to an approved limit tailored to their business.

SEPTEMBER

To make it easier to start school, we have created special loans. School loans were intended for the purchase of books, school supplies and other things needed by students who start school.

OCTOBER

Once again, a support was given to the "Budi Human" foundation. Funds were donated to help those whose lives were in danger.

Cooperation with SEF was re-established, and this time the focus was on start-ups. Special loans intended for newly established business and agricultural entities, that have been operating for less than 2 years, have provided support to companies with great ideas that needed additional financial resources.

DECEMBER

Halkbank a.d. Belgrade has successfully implemented the first phase of the HALK Fusion project. This project was started in order to improve the services provided by the Bank to customers and improve the user experience.

The HALK Fusion project will bring many benefits to the Bank's clients through a larger offer of HALKBANK products and services, making them simpler and more efficient. Major changes are expected in the field of applications, including mBanking and eBanking services.

III KEY STAKEHOLDERS AND MATERIAL TOPICS

KEY STAKEHOLDERS		
STAKEHOLDER GROUP	**COMMUNICATION AND ENGAGEMENT CHANNELS**	**STAKEHOLDER AREA OF INTEREST**
CUSTOMERS	Branches	Timely, accessible and reliable information about products and services
Natural persons	Bank website	Continuous improvement of support
Small and Medium-Sized Enterprises	Call centre	Preventive actions and healthcare during the pandemic
Big Corporate Clients	Print and digital media	Responsible advertising
	Meetings	Flexible products and services
SHAREHOLDERS AND INVESTORS	General meetings	Transparent management
Majority	Annual reports	Business results
	Bank website	
EMPLOYEE	Official Executive Board decisions	Opportunities for development and improvement
Bank Executive Board and Management	Meetings	internal communication improvement
Business Network employee	Trainings	Employee satisfaction
Other employees	Intranet	Preventive actions and healthcare during the pandemic
Union		

STATE-OWNED INSTITUTIONS	Annual reports	Transparent management
Regulatory Bodies Ministries and Government Institutions	Meetings and consultations Conferences	Business results Regulatory compliance
LOCAL COMMUNITY	Annual reports	Investment in local community development
Local Self-Government	Meetings and consultations Donations and sponsorship procedures	Partneship projects
BUSINESS COMMUNITY	Annual reports	Partneship projects
Business Associations Suppliers Business Partners	Meetings and consultations Involvement in business association work groups and boards	Supplier selection transparency
MEDIA	Press conferences	Timely and open comunication
National Local	Press releases Print and digital media	Business results Investing in Local community
CIVIL SECTOR	Meetings and consultations	Partneship projects
Non-governmental organisations Non-profit organisations	Donations and sponsorship procedures Annual reports	Investing in community Promotion od Corporate Social Responsibility Volunteering promotion

Material topics

Material topics are defined in accordance with the GRI guidelines and represent issues of importance to our stakeholders in the context of the Bank's impact on the environment in which it operates.

- Safety and health at work, training and education, equal opportunities for promotion and rewards
- Compliance with business standards, laws and regulations
- Responsible resource management, respect for the principles of "green procurement", recycling, energy management
- Responsible financing
- Marketing and communication with clients
- Contribution to the local community through continuous development of products and services available to all clients, donations and support for youth employment through the program "moja prva plata"

IV CORPORATE MANAGEMENT

Halkbank, like all its employees, adheres to the highest standards of corporate governance, which is the foundation of responsible and sustainable business. The Bank is fully committed to complying with all legal provisions and regulatory frameworks relevant to our operations, which together with our management and control system ensures that the interests of all stakeholders are fully protected.

The Bank's Board of Directors strives to continuously improve management processes in order to ensure business coherence, transparency and accountability in decision-making, as well as to ensure a healthy corporate culture.

The Bank has adopted a Corporate Governance Code whose main goal is to present in a transparent and efficient manner the corporate governance system established in the Bank and the introduction of good business practices in the field of corporate governance, which should balance the influence of its holders , all in order to ensure the long - term business development of the Bank.

In its operations, the Bank, through internal acts and the work process, ensures the avoidance of conflicts of interest between members of management bodies and persons related to them, taking into account the law and good corporate governance practice. The Code of Business Conduct and Ethical Principles consolidates general and specific rules and guidelines for ethical business conduct and conduct, while a number of other individual policies strengthen the system of governance and internal controls.

GROSS DOMESTIC PRODUCT	in RSD thousand	in RSD thousand
Contribution of the bank to GDP	2021	2020
Total income	4,777,365	3,823,993
Interest and fees expenses	- 954,570	- 728,651
Losses on impairment of financial assets	- 165,781	- 294,510
Contribution of the bank to GDP	**3,657,014**	**2,800,832**
I. Employees		
Net salaries	737,972	680,579
Tax on salaries	90,345	83,636
Contributions on salaries borne by the employees	192,190	173,115
Contributions on salaries borne by the employer	163,986	147,989
Other personnel employees	22,438	21,037
Total	**1,206,931**	**1,106,356**
II. Suppliers of goods and services	**597,963**	**556,176**
III. Donations/sponsorships	**1,999**	**2,364**
IV. State		
Profit tax	58,614	7,656
(Profit)/loss from deferred taxes	- 1,519	-
Communal taxes	23,770	21,499
Property tax	1,952	2,449
VAT	21,622	18,218
Other taxes	4,006	8,816
Deposit insurance	160,237	129,423
Tax on salaries	- 90,345	- 83,636
Contributions on salaries borne by the employees	- 192,190	- 173,115
Contributions on salaries borne by the employer	- 163,986	- 147,989
Total	**- 177,840**	**- 216,679**

Management structure, mandate and composition of management bodies

The bodies of the Bank are: the Assembly, the Supervisory Board and the Executive Board.

The Assembly consists of the Bank's shareholders and it is the highest body since its sessions decide on the most important business issues: define business goals, decide on increasing and decreasing capital, use and distribution of profits, adopt the Statute and adopt amendments to the Founding act and other issues in accordance with applicable regulations.

One of the most important issues within the scope of the Bank's Assembly is the appointment and dismissal of the President and members of the Supervisory Board in accordance with legal regulations.

The governing bodies of the Bank are the Supervisory Board and the Executive Board.

Supervisory Board

The members of the Supervisory Board have a good business reputation, rich experience in the field of finance and appropriate qualifications in accordance with the regulations of the National Bank of Serbia.

The term of office of the members of the Supervisory Board is four years with the possibility of re-election. At the end of 2021, the Supervisory Board of the Bank consisted of 7 (seven) members, including the President, of which two were independent members with active knowledge of the Serbian language and residing in the territory of the Republic of Serbia.

The Supervisory Board of the Bank meets at least once every three months, and more often if necessary. One of the most important duties of the Supervisory Board is to provide strategic direction to the Bank's management, harmonization of operations with laws, regulations and acts of the National Bank of Serbia, as well as internal acts of the Bank and the Group's guidelines, in achieving long-term goals.

During 2021, the Supervisory Board of the Bank held 10 sessions. The subject of consideration and decision-making at these sessions, in the context of strategic and business decisions, were: regular monitoring of financial and business performance of the Bank, strategic and business initiatives especially in managing the situation caused by the Covid-19 epidemic, risk management, internal system control, business compliance and internal audit, as well as other important issues.

Executive Board

The members of the Executive Board of the Bank are dismissed and appointed by the Supervisory Board for a period of 4 years with the possibility of re-election. The Executive Board consists of 3 members, including the President.

During 2021, the Executive Board of the Bank held a total of 54 sessions. One of the basic competencies of the Executive Board is to supervise the day-to-day business activities of the Bank and to ensure that the overall organization of the Bank adequately supports the implementation of the business strategy and the achievement of the Bank's planned business objectives.

In order to improve operations and more adequate supervision, the Bank has other committees in accordance with applicable regulations: the Business Monitoring Committee (Audit Committee), the Credit Committee and the Assets and Liabilities Management Committee.

These committees ensure that the Bank operates in accordance with applicable regulations and are committed to reviewing issues in the field of risk management and internal control systems, business compliance and prevention of money laundering and terrorist financing, adequacy and efficiency of the Bank's procedures and security systems. All types of placements, as well as other issues important for the work of the Bank, each board within its scope.

SUPERVISORY BOARD
1. Osman ARSLAN - president
2. Hasan TUNCAY, member
3. Olcay DOĞAN, member
4. Altan TAŞKIRAN, member
5. Hakan BAŞARAN member
6. Dr Jasmina BOGIĆEVIĆ member
7. Vesna VUKOVIĆ member

EXECUTIVE BOARD
1. Kenan Bozkurt – president
2. Ertürk Sümer, member
3. Dušica Erić, member

Audit Committee
1. Hasan TUNCAY, president
2. Hakan BAŞARAN, member
3. Dr Jasmina BOGIĆEVIĆ, member

Credit Committee
Decision on establishing Credit Committee and appointement members of the Credit Committee

Assets and Liability Management Committee	
Decision on establishing and appointment President and Members of the Assets and Liability Management Committee	
1.	The President of the Executive Board, president
2.	Members of the Executive Board, members
3.	The Head of the Credit Division, member
4.	The Head of the Treasury Division, member
5.	The Head of the Financial Management and Budgeting Division, member
6.	The Head of the Corporate and SME Marketing Division , member
7.	The Head of the Retail Marketing Division, member

Code of Business Conduct

The Code of Business Conduct and Ethical Principles is a set of principles and working rules that employees of HALKBANK a.d. Belgrade should adhere to its work and serve as a reminder of certain standards they need to meet. The purpose of this Code is to establish general ethical principles and norms of professional banking behavior in order to prevent all disputes and conflicts that may arise between employees, clients and the Bank, but also contribute to the success and reputation of the Bank.

The Code is based on the vision, mission and corporate values of the bank: trust, discipline, efficiency, honesty, quality and professionalism. The Code of Business Conduct directs us to act responsibly, respectfully and sustainably in all aspects of business, protect and further strengthen our good reputation and build trust among our stakeholders.

Activities by which the Bank supports the goals of sustainable development of the United Nation

1 NO POVERTY	- Providing financial services to vulnerable groups through the development of special products, market presence and adjustment of branches. - Contribution to the local community.
2 ZERO HUNGER	- Contribution to the local community.
3 GOOD HEALTH AND WELL-BEING	- Implementation of safety measures at work. - Voluntary health insurance program. - Free systematic examinations for employees - Working conditions adapted to epidemiological measures
4 QUALITY EDUCATION	- Training program for employees. - Possibility of youth employment through the program "Moja prva plata".
5 GENDER EQUALITY	- The employment policy and procedure gives employment opportunities to anyone who meets the criteria
6 CLEAN WATER AND SANITATION	- Responsible treatment of the environment.
7 AFFORDABLE AND CLEAN ENERGY	- Loans intended for households for energy efficiency - Waste, energy and recycling management
8 DECENT WORK AND ECONOMIC GROWTH	- Contribution to the social product. - Contribution to the local community. - A wide range of bank products available to everyone
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	- Contribution to the local community. - Accessibility of branches and sub-branches - Product development and improvement and digital services
10 REDUCED INEQUALITIES	- A wide range of bank products available to everyone
11 SUSTAINABLE CITIES AND COMMUNITIES	- Contribution to the local community. - Donations
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	- Providing clear and transparent product information. - Respect for the principle of "green procurement"
13 CLIMATE ACTION	- Recycling - Waste management - Energy management
14 LIFE BELOW WATER	- Responsible treatment of the environment.
15 LIFE ON LAND	- Responsible treatment of the environment.
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	- Compliance of business with relevant legal and other regulations, business standards, procedures on prevention of money laundering and terrorist financing
17 PARTNERSHIPS FOR THE GOALS	- Cooperation with EIB, SEF, GGF, EFSE, ITL, DHB, FRK

V ALTERNATIVE DISTRIBUTION CHANNELS

Following the enviable trend of growth and development of the offer of products, services and services in 2020 and earlier years, Halkbank a.d. Belgrade in 2021, in line with its long-term strategy, remains very focused on developing a digital portfolio. In addition to providing quality services by default, in accordance with the principles of traditional banking, great importance is given to the development of technology that aims to, with superior user experience, enable digitally oriented target group to use banking services efficiently.

After the implementation and start of production of its own processing center for card transactions and card personalization systems in 2020, in 2021 Halkbank's forces are focused on exploiting new systems, products and services that resulted from the successful completion of the project under the internal name "Tesla". With its own center for processing card transactions and card personalization, the Bank has provided a solid foundation for further development of digital solutions and card business. This long-term business concept provides the bank with significant savings from the operational aspect, and at the same time it is very important because it creates an opportunity for quick reaction when defining and placing new products and services.

In this regard, Halkbank offers the Serbian market a total of ten card products from the debit and credit segment. A complete change in the concept in previous years, in relation with the submission of card requests, production and delivery of payment cards to customers, helps Halkbank only in 2021 to increase the number of issued debit cards by over 60% in the retail segment while growth in the corporate segment increased by over 500%. An enviable result was also achieved in the field of issuing credit cards for individuals and legal entities, when almost 5,000 cards were issued in 2021 alone.

Numerous benefits for Visa and Mastercard card users were presented during 2021, in the way that customers had the opportunity to win valuable prizes in return in relation to the regular use of Halkbank payment cards as a means of payment at POS terminals. Also, for debit card users, Halkbank enabled cash withdrawals at all ATMs in Türkiye during the summer holidays free of charge.

In support of the development of the domestic card scheme, Halkbank will complete the development and implementation of chip technology for DinaCard cards in 2021. In this way, the DinaCard card gives users additional security when paying, bearing in mind that much is already in the security of chip technology compared to the traditional magnetic track.

Payment with cards is becoming more and more common on the Internet, and Halkbank's goal is to do everything in this field that technology enables in order to protect the interests and financial resources of its customers. Accordingly, in 2021, Halkbank has upgraded the 3DSecure security system to version 2.0, which will provide users with a more pleasant experience when paying by card in virtual stores in the future.

With aggressive steps, Halkbank proudly joined the race to conquer the market in the segment of accepting payment cards at merchants' POS terminals. During 2021, Halkbank achieved almost incredible growth in the number of acquired merchants, the number of installed POS terminals, the number of processed transactions and realized turnover. During 2021, the increase in the number of retailers will reach 65%, while the number of POS terminals will increase by over 100%. The growth in the number of approved transactions on the Halkbank POS terminal network in 2021 compared to 2020 is 491%, and at the same time the volume of approved transactions increased by 488% in 2021 compared to 2020.

In addition to its market presence with a network of POS terminals for accepting payment cards, in 2021 the Bank will make final preparations for the start of providing card acceptance services in virtual online stores for domestic merchants. Preparations during 2021 in this segment were aimed at realizing the intention to make Halkbank the dominant eCommerce acceptor with a wide range of options in the eCommerce segment. In this regard, in addition to the standard eCommerce service, Halkbank has prepared a platform in 2021 that will offer merchants eCommerce business with the option to store card data for future fast payments, the option of automatic renewal billing in a given period, the option to create a payment link and more methods for integration with the bank's system depending on the technical preconditions and readiness of the merchant.

Aware of the fact that the number of ATMs plays a major role in the decision when choosing a bank, Halkbank gives great importance to maintaining and expanding the ATM network. As of 2021, the Halkbank network has 91 ATMs. During 2021, 38 old ATMs were replaced with completely new modern ATMs. The result of the investment in the rejuvenation of the ATM network leads to the fact that Halkbank has 36 ATMs that, among other options, offer the function of depositing dinars directly to the current account of an individual. There was an increase in this segment as well, and the number of transactions at Halkbank ATMs in 2021 increased by 37% compared to 2020 and the volume increased by as much as 53%.

Supported by the Covid-19 virus pandemic, digital banking has taken an important position in the past, which leads to the fact that the entire market is growing, and the same applies to the result of Halkbank, which reaches enviable values in this area.

By introducing a completely new and innovative platform for electronic and mobile banking in 2020, an environment has been created with which Halkbank manages to significantly increase efficiency , quality, stability, security and user experience while using the service in 2021. Halkbank respects the requirements of its customers, so in 2021, Halcom e-banking solutions become available to customers. With numerous improvements in the field of electronic and mobile banking available to Google users Play , App Store and Huawei AppGallery , there was a significant and stable growth in the number of users, the number of accounts and the turnover. Thus, the number of payment orders for individuals in domestic payment transactions in 2021 increased by 40% and 69% in transactions respectively, and the number of payment orders for legal entities in domestic payment transactions increased by 22% and 36% in transactions, respectively.

A very important role in the process of providing quality service is played by the Halkbank Contact Center, which is available 24/7 throughout the year, including holidays. Contact of the Halkbank Center through telecommunication channels, in addition to standard inquiries and providing information, provides support to payment card users, merchants, users of electronic services and the entire network of business units. In this way, during 2021, the Contact Center provided customer support by 25% more in 2021 compared to 2020 in terms of the number of telephone calls

VI COMPLIANCE AND AML DEPARTMENT

The Compliance and AML Department was established in accordance with the Law on Banks. The Head of the Department is appointed by the Supervisory Board of the Bank and reports directly to him.

The part of the Department that prevents money laundering and terrorism financing is independent of other business activities of the Bank. The member of the Executive Board who is responsible for the implementation of the Law on Prevention of Money Laundering and Terrorism Financing (hereinafter: the Law) is appointed by the Supervisory Board of the Bank. The Authorized Person and his Deputy shall be appointed by the Executive Board of the Bank in accordance with the Law. Authorized persons of the Bank report directly to the Executive Board and are independent in their work.

Within the Department, there is also a function related to the protection of personal data and the application of the Personal Data Protection Law.

The main goal of the Department is to support the establishment of an appropriate system of internal controls at the Bank level, which allows it to operate in accordance with the set of ethical values contained in the Code of Conduct and ethical principles and in accordance with applicable laws, regulations and internal acts and international best practice.

In order to preserve independence in the work of the Department, the Head and Authorized persons periodically report to the Bank's Audit Committee, the Supervisory Board and the Executive Board on the activities of the Department and issues related to compliance risk and money laundering and terrorism financing risk.

The scope of work of the Department is as follows:

- Controls the compliance of operations with relevant legal and other regulations and takes care of the application of binding provisions on the prevention of money laundering and terrorism financing;

- Monitors regulations, informs the competent organizational units of the Bank on innovations and changes in regulations and controls their implementation in procedures, instructions and other acts of the Bank;

- Controls the compliance of procedures and instructions with laws and other regulations, business standards, procedures on prevention of money laundering and terrorism financing, as well as with other acts regulating the Bank's operations;

- Prepares, updates and harmonizes internal acts of the Department;

- Prepares the Operational Annual Plan for Monitoring the Compliance of the Bank's Operations;

- Prepares regular reports on performed controls of compliance with operations;

- Prepares annual reports on performed controls of compliance with identified and assessed main compliance risks and risk management plan;

- Reports to the Executive Board and the Audit Committee on the determined results of compliance control in accordance with the Compliance Monitoring Program and the Procedure, and reports on deficiencies related to the identified compliance with legal regulations and internal acts regularly to the Executive Board and the Audit Committee at least once a year Supervisory Board of the Bank;

- Prepares annual reports on the performed internal control and measures taken in connection with the implementation of the Law on Prevention of Money Laundering and Terrorism Financing;

- Prepares an annual assessment of the bank's exposure to the risk of money laundering and terrorism financing in accordance with the Decision on Guidelines for the Application of the Law on Prevention of Money Laundering and Terrorist Financing for Obligors overseen by the National Bank of Serbia;

- Prepares an annual risk analysis of money laundering and terrorism financing;

- Preparation of six-monthly reports for the National Bank of Serbia on the activities undertaken by the Bank in the field of prevention of money laundering and terrorism financing;

- Ensures proper and timely submission of data to the Anti-Money Laundering Administration in accordance with legal regulations;

- Obtains, controls, analyzes and forms reports to Anti-Money Laundering Administration on cash transactions in the amount of EUR 15,000 and more in dinar equivalent at the middle exchange rate of the NBS in accordance with regulatory regulations;

- Analyzes clients and transactions on their accounts, makes official notes and reports suspicious clients and transactions to the Anti-Money Laundering Administration;

- Forms and submits data upon requests of the Anti-Money Laundering Administration, the Financial Investigation Unit and the Anti-Corruption Agency;

- Acts on the orders of the competent authority to suspend transactions or monitor the financial operations of the party;

- Develops the annual Plan and training program for employees in order to implement regulations in the field of prevention of money laundering and terrorism financing and implements its implementation;

- Manages risks arising from omissions or non-compliance with laws, business standards, anti-money laundering and anti-terrorism financing procedures, as well as non-compliance with other acts, which ensure the Bank's operations;

- Actively cooperates with all organizational units of the Bank as well as the National Bank of Serbia, the Anti-Money Laundering Administration and the Association of Serbian Banks in obtaining views and opinions for the application of certain regulations and resolving disputes in their application;

- Monitors the implementation of the provisions of the Law governing the protection of personal data, other laws and internal regulations relating to the protection of personal data, including issues of division of responsibilities, awareness raising and training of employees in processing operations, as well as control;

- Takes all other measures for the protection of personal data in accordance with the Law, especially taking into account the legality, expediency and proportionality of the processing of personal data;

- Cooperates with the Commissioner for Information of Public Importance and Personal Data Protection, is a contact point for cooperation with the Commissioner and consults with him on issues related to processing, including informing and obtaining opinions on the obligation to assess the impact on protection of personal data;

- Performs other tasks ordered by the Bank's management.

In addition to the above activities, in the field of compliance risk management, the Bank pays special attention to the fight against corruption, according to which it applies the principle of zero tolerance.

The Bank bases its activities on the prevention of behaviors that may lead to corruption.

The Bank has adopted the Anti-Corruption Policy and the Code of Business Conduct and ethical principles according to which any type of corrupt behavior is strictly prohibited.

The Bank's internal acts regulating the area of anti-corruption are available to all employees through the Bank's internal portal, and it is the obligation of all employees to be regularly informed about newly adopted documents.

Raising employee awareness and targeted training are an extremely important part of the corruption risk management system. As one of the ways of risk mitigation in this area, the Compliance and Anti Money Laundering Deraptment conducts regular training of employees.

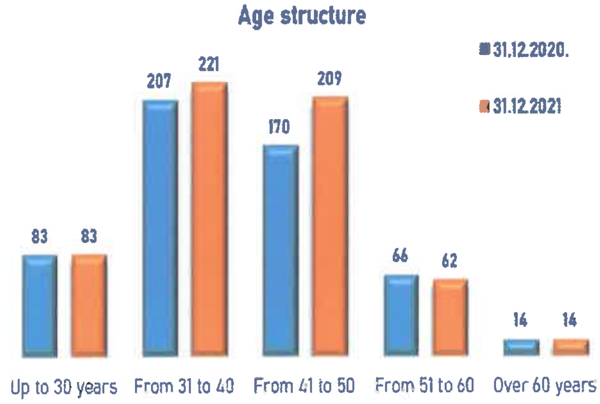
Training in the field of business compliance "Business Morality and Ethical Principles" was organized by the Department in September 2021, in the form of a presentation that was delivered to all employees of the Bank via e-mail. The training covered general topics related to corruption and business ethics. The result of the training is to familiarise employees with zero tolerance, risks, ways of recognizing, ways of reporting and escalating cases related to this risk, relevant acts that need to be known and contact persons for any question in this area.

VII HUMAN RESOURCES

The Bank invests significant resources in the care of employees, staff development and careful selection of new staff, in order to adequately follow the growth and development of business and increasingly demanding market conditions. At the end of the 2021, the Bank had 589 employees, which represents a growth of 9%, with the largest increase in the number of employees in the Information Technology Sector. The following table provides an overview of the structure of the number of employees in the Bank's Head Office and business network::

Number of employees	31.12.2020	31.12.2021	Plan 2021
Headquarter	228	271	253
Branches	312	318	327
Total	**540**	**589**	**580**

The following graphs show the qualification and age structure of employees as of December 31st 2020 and December 31st 2021:



In the qualification structure of employees at the end of the 2021, the share of employees with high education was 68.8%, while the participation of younger than 40 years was 51.6%. The Bank intensively invests in improving the skills and knowledge of employees through external and internal trainings and participation in educational panels. Particular attention is paid to the Bank's internal communication to all employees in order to be familiar with the strategic goals and results, and the most important challenges and activities.

Expenses for salaries, salary compensation and other personal expenses in the 2021 amounted to RSD 1,125,268 thousand and accounts for 104% of budget for 2021.

As of COVID-19 pandemic outbreak, the Bank has undertaken a number of activities in order to protect employees. Employees were provided with protective equipment and disinfectants and regular disinfection of facilities was provided. Employees are enabled to work from home in order to ensure business continuity, while respecting self-isolation measures in cases prescribed by regulations.

Working at Halkbank a.d. Belgrade

Halkbank a.d. Belgrade since its founding, has set as one of its main goals employee satisfaction, as well as continuous investment in the development and career advancement of each of its employees. Our motto is: "People first" and in accordance with that we are committed to continuous improvement of our human resources, through advanced selection process, training programs, evaluation methods and rewards, aware that our employees are the greatest advantage of the Bank. The main goal of the Human Resources and Organization Department is to contribute on the one hand through cooperation with business units, and on the other hand through organization and active relationship and support to employees on all issues that are important to them. In that way, we ensure continuous and successful business.

One of the challenges we faced in 2020 and 2021 was the emergence of the COVID-19 pandemic. The work is organized in accordance with the prescribed epidemiological measures in order to preserve business continuity with special emphasis on preserving the health of employees. In all organizational units where the job description allows work outside the Bank's premises, employees are sent to work from home.

The procedures applied during selection process as well as the promotion of employees are clear and give the possibility of employment to anyone who meets the set criteria defined by the Employment Policy and Procedure.

In accordance with the business plans in 2021, the number of employees was approximately the same as in the previous year (589 employees in 2021 compared to 540 employees in 2020).

The average age of Halkbank employees in 2021 was 40, of which 83 employees are younger than 30, 430 are between 30 and 50, while 76 are older than 50. Compared to the previous year, the differences are small: in the group up to 30 years of age in 2020 there were 83 employees, between 30 and 50 years were 377, and over 50 there were 80. The age structure of members of the Bank's Executive Board is in line with average years employees of the Bank.

In accordance with modern trends in the provision of financial services, in the total number of employees, women predominate in relation to the number of men employed in the Bank - 69% of women and 31% of men. Gender representation among the Bank's management is balanced, with 53% of women in senior management compared to 44% of men, while the distribution among other employees is 72% of women and 28% of men.

The bank's headquarters are located in Beograd, where 56% of employees work. Branch network is growing from year to year, so that we currently have 36 branches / sub-branches / counters in several cities throughout Serbia.

Type of business structure		
Year	2020	2021
Head Office employees	237 (43,89%)	303 (56,11%)
Branch Network employees	270 (45,84%)	319 (54,16%)

Age structure		
Year	2020	2021
Up to 30 years old	83 (15,37%)	83 (14.09%)
31 – 50 years old	377 (69,81%)	430 (73,01%)
Above 50 years old	80 (14,82%)	76 (12,90%)

Age / type of position structure			
Type of position	Up to 30 years	31-50 years	Above 50 years
Total	83 (14,09%)	430 (73,01%)	76 (12,90
Managerial position	3 (2,86%)	80 (76.19%)	22 (20,95%)
Operational position	80 (16,54%)	350 (73,31%)	54 (11,16%)

Employees fluctuation		
Year	2020	2021
Employed		
Total	78	135
Male	31 (39.75%)	43 (31.86%)
Female	47 (60.25%)	92 (68.14%)
Concract termination		
Total	63	86
Male	26 (41.27%)	31 (36.05%)
Female	37 (58.63%)	55 (63,95%)
Fluctuation	11,83%	15,23%

Gender/type of position structure				
Type of position	Male 2020	Female 2020	Male 2021	Female 2021
Total	172 (31.85%)	368 (68.15%)	184 (31.24%)	405 (68.76%)
Managerial position	41 (45,56%)	49 (54.44%)	49 (46.67%)	56 (53.33%)
Operational position	131 (29.11%)	319 (70.89%)	135 (27.89%)	349 (72.11%)

Qualification structure		
Year	2020	2021
University degree	376 (69.63%)	405 (68.76%)
College degree	60 (11.11%)	73 (12,39%)
High school or less	104 (19.26%)	111 (18.85%)

Total number and turnover rate of employees

›Retirement: 2021 - 1

›Employed: 2021 – 135; 2020 – 78

›Termination of employment: 2021 – 86; 2020 – 63

›Fluctuation in 2021 was at the level of 15.23%, and in 2020 11.83%

›Of all employees whose employment with Halkbank was terminated in 2021, 64% were female and 36% male.

Employment selection process

During 2021, the Bank continued to grow as well as introduce new jobs. Most needs were noted within the IT Department and Branch Network. The process of employment selection is based on the corporate values that the bank nurtures, and these are firstly trust, respect and honesty, then professionalism and discipline, speed and efficiency, quality and simplicity, and finally in accordance with all these development. In line with its strategy for continuous growth and commitment to our clients, there is a need for a motivated and talented team ready to take the initiative, so the key criteria in selecting new employees are expertise and professional approach to business commitments. In addition to the mentioned qualities, the selection process includes interviews that are held live or through the Microsoft Teams application, testing foreign language skills and possessing other specialized skills and / or knowledge. In the process of searching for candidates and selection, in 2021 the Bank continued the usual way of advertising through digital channels, such as social networks.

Halkbank a.d. Beograd took part in the state program "My first salary". The goal of the program is to provide opportunities for graduate students to gain their first work experience, knowledge and skills in institutions that see potential in young people. In accordance with that, the Bank gave 5 young people a chance to get to know the work of the financial institution through work on specific jobs within the sales network as well as the headquarters.

Employee appraisal system

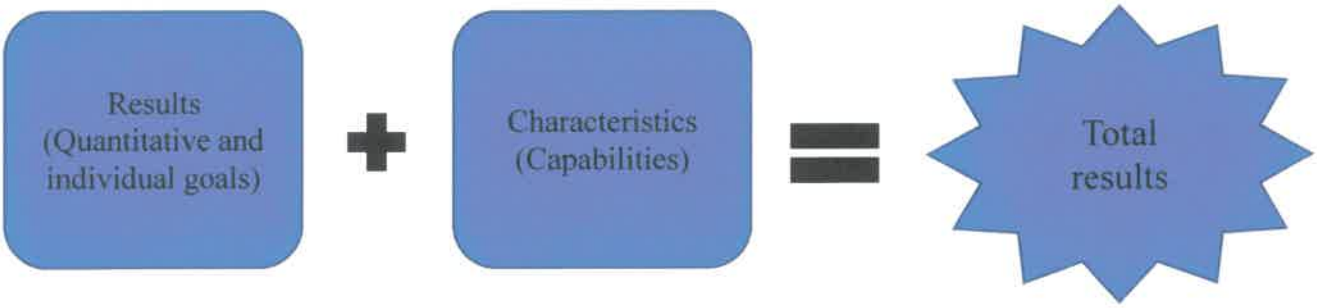
The employee appraisal system is divided into two categories:

- Key performance indicators - individual quantitative goals defined in accordance with the Bank's strategic goals
- Competences - behaviors that represent a set of required knowledge, skills and abilities, in order to perform business processes

When the manager and employees establish the expectations and results that must be achieved, as well as the methods and approaches needed to achieve them, they establish the path to success.

Competences are the same for all employees of the Bank, and their values differ depends on the business line (front office or back office). Competences are as follows: ethical principles, customer orientation, approach to work, teamwork and cooperation, orientation towards quality of work, management and development, effective communication, risk and control.

The final determination of the results is calculated on the basis of the following formula:



Employee training and development

Internal training

Internal trainings at Halkbank are intended for smaller or larger groups of employees in accordance with the topic or agenda of the training itself. The initiative for organizing the training starts from the direct managers of employees or managers of other professional business lines, as well as the Human Resources and Organization Department .

Internal trainings are held at the Bank's premises or online using digital communication channels. In the previous period, the Bank recognized employees who distinguished themselves as competent lecturers, ie employees who are experts in their fields of work and have the ability to transfer knowledge to their colleagues.

Halkbank organizes mandatory induction training for new employees, during which employees are introduced to the scope of work of each organizational unit in the bank and the emphasis is placed on a more detailed presentation of the Code of Business Conduct and rules of written and oral communication.

Mandatory internal trainings, ie trainings that are in accordance with the legal regulations are conducted in accordance with the annual plans of the competent organizational units.

External, in-house trainings, specialist seminars and certifications

The trainings are intended for all employees in accordance with the job descriptions they perform. The training plan was set in accordance with the analysis of needs for additional training conducted by all Departments and Departments within the Bank.

Each type of education is related to the employee development plan and Halkbank invests certain financial resources every year to enable employees to improve.

The Bank also enables its employees to take professional certificates, which are important both for the employee and for the Bank itself. In 2021, the Bank enabled employees to be certified by the ACCA (Association of Chartered Certified Accountants), CIA (Certified Internal Auditor) and certificates required for colleagues in the IT sector.

In-house training called "Cutomer Relationship Management" is organized with the aim of further development and advancement in the field of credit business and debt structuring. This training is characterized by great interactivity and work on practical examples. It was organized in December 2021 for 45 colleagues in managerial positions in the network (branch directors, head of sub-branches directors, regional directors). Training is based on the rich experience of lecturers and a unique way of transferring knowledge.

The number of employees who attended trainings in 2021 is 673, which shows that employees attended more than 1 training. The emphasis was on attending as many internal trainings as possible as well as specialized external trainings.

The number of training hours in 2021 was about 4,700.

Employee rights

Employees of Halkbank a.d. Beograd is guaranteed the right to associate, without discrimination on the basis of membership in associations or trade unions.

The rights of all employees are regulated by the Labor Rulebook, which is fully in accordance with the Labor Law.

Within Halkbank a.d. Beograd there is a representative union with over 200 members, while general act in Halkbank a.d. Beograd is Labor Rulebook.

Employees have the right to healthy and safe work. Halkbank a.d. Beograd respects all legal regulations related to safety and health at work, organizes first aid training, regular ophthalmological examination for all employees who work at the computer for more than 4 hours a day.

During 2021, there were no deaths related to accidents at work, nor occupational diseases that would result in a longer absence from work, and 3 injuries at work were recorded. 1 injury at work was characterized as severe (bone fractures), while the other two injuries were characterized as minor. Due to the mentioned 3 injuries at work during 2021, employees spent a total of 696 working hours on sick leave.

During 2021, 34 maternity leave was realized at the level of the Bank, compared to 26 in 2020, there were no male colleagues who used maternity leave.

Compensation (cash benefits) and other benefits

As part of the employee benefits, cooperation with Wiener Stadtische osiguranje continued in 2021 and employees were enabled to participate in the additional private health insurance program.

All employees of Halkbank a.d. Beograd are insured in cases of surgery and / or serious illness, in case of injury and / or current or permanent incapacity for work and in case of accidents in accordance with the insurance policy paid by the Bank. Also, for the children of deceased employees, scholarships are paid during regular schooling.

Complaints mechanisms

Employees of Halkbank a.d. Beograd have the opportunity to send their complaints to the competent colleagues in accordance with internal policies and procedures and related to - the Law on Prevention of Harassment at Work, the Law on Protection of Whistleblowers, the Rulebook on the Procedure of Internal Alarm,

Employees are free to contact their manager or the Human Resources and Organization Department and submit any type of application or complaint, which is resolved in accordance with the Bank's capabilities.

During 2021, no complaints regarding human rights violations were filed through the above procedures, just as during 2020, when there were no complaints. During 2021 and 2020, there were no complaints from our employees, ie identified cases related to discrimination based on race, gender, religion and etc.

Achieved in 2021:

- High level of retention of expert positions in the Bank
- Improving the work process in the area of human resources administration
- Regularly informing employees about all epidemiological measures taken, relevant information related to health protection and instructions on the organization of work in changed circumstances (including providing work from home for all employees whose work allows it).
- Intensive promotion of the Bank's corporate values

Goals for 2022:

- Strengthening the employer brand in the labor market
- Cooperation with educational institutions in order to attract young and talented staff
- Defining personal plans for employee development
- Active acquisition of talent in the market

- Digitalization of HR process
- Introducing strict employee promotion policy

VIII RESPONSIBILITY TOWARDS CLIENTS

Custimer support

The Bank is committed to social responsibility, primarily through support to the development of entrepreneurship and strengthening the entrepreneurial spirit in Serbia. During 2021, we started cooperation with the Serbian Entrepreneurship Foundation (SEF), established by the German Development Bank KfW and the Serbian Chamber of Commerce. It is a non-profit, non-governmental organization founded to achieve socially useful goals, based in Belgrade. The main goals of the SEF Foundation are to facilitate access to financial products for start-up clients, SME clients, entrepreneurs and registered agricultural holdings, through cooperation with financial institutions.

In the second quarter of 2021, the Bank introduced Covid-19 credit line, which was designed in cooperation with the SEF Foundation to support small and medium enterprises, entrepreneurs and AGRO clients whose business is directly or indirectly affected by the Covid-19 pandemic. Clients benefit through easier access to finance, in order to ensure business continuity in times of crisis and thus preserve employment. Through the credit line, the Bank realized 146 loans in the total amount of EUR 2.6 million.

In the fourth quarter of 2021, the Bank expanded its cooperation with the SEF Foundation by providing support to beginners in business through a start-up credit line. In this way, we provide support to new SME clients, entrepreneurs and AGRO clients who have very difficult access to finance in the market. Thus, the Bank, in cooperation with the SEF partner foundation, provides real support to the development of entrepreneurship, self-employment and empowering private initiative in business. It is planned to provide clients with financial education and assistance in formalizing business ideas through the development of business plans.

Customer care

HALKBANK, guided by the slogan People first and foremost, always puts clients first and in the focus of all its activities. As clients satisfaction is the foundation of our business success, the Bank within the Corporate Communications and Quality Management Department is continuously working to improve the quality of service we provide to clients.

The quality management system is incorporated in the procedures Quality Management and Complaints of the Clients.

Respecting the quality management procedure, we strive for client satisfaction, trust and loyalty. One of our main goals is performance consistency - we want every branch or employee who serves the client to provide the same service. With regular branch visits, we want to ensure the speed of service, process efficiency as well as the kindness of employees and a friendly attitude towards customers. Through continuous research, we strive to achieve better, faster and simpler processes without unnecessary steps.

Listening clients needs through suggestions, praise, questions and complaints, the Bank is always available to clients with maximum commitment. Quick and efficient resolving of complaints as well as prevention of complaints are aimed at raising the quality of services provided by the Bank to clients. The resolving of complaints process includes a number of activities, including cooperation with managers in the relevant organizational units of the Bank, depending on the nature of the complaint, in order to assess the complaint, analyze it, gather information and evidence and find solution. The Bank's response is always clear, complete and understandable to the client. The Corporate Communications and Quality Management Department also cooperates with the National Bank of Serbia in order to provide clients with transparent and timely information. In the total number of complaints Bank received during the previous year, there were no complaints regarding non-compliance with regulations in the field of marketing communications, as well as complaints that have a systemically significant risk to the Bank's operations. Through regular reporting and monitoring of complaints through the application Monitoring operational risk and clients complaints, the Bank aims to constantly improve and enhance its products and services, as well as quality.

IX LOCAL COMMUNITY

The foundations of Halkbank's socially responsible business are in building good relationships with both clients and employees. The slogan "People first and foremost" is not just a sentence, but part of our corporate culture. We are proud of the relationships we build with our customers, because their satisfaction is a reflection of the Bank's efforts to achieve the best results. Establishing good relationships with clients and with the local and global community is of great importance because creating these relationships leads to building a better environment for common growth and development.

Halkbank aims to make a good impact on the surrounding community, beside challenging circumstances of the Covid-19 virus pandemic in which we found ourselves in early 2020. The bank has found ways to contribute to the local community supporting city institutions, the health system, other companies and those who need help the most. The bank stands behind the fact that success requires not only quality business, but also a contribution to the community.

Support to the health system of the Republic of Serbia

In March 2020, we entered the Covid-19 pandemic. Among the challenges in terms of daily life, business environment and lack of supplies, the biggest hit was health institutions, whose services were crucial at the time. In accordance with our socially responsible business priorities, on April 8, 2020, the Bank met the needs of the community that cares for the most endangered by allocating 1,200,000.00 RSD for a donation sent to the Republic Public Health Insurance Fund of the Republic of Serbia during the first wave of the pandemic. The Bank again met the needs of the health system on July 14, 2020, by donating a financial aid of 500 EUR to the hospital in Novi Pazar. The bank also decided to contribute to the General Hospital in Čačak in the form of furniture allocation. As a socially responsible company, with these gestures we have continued the practice of helping health institutions and supporting the development of local communities.

Donation to the archive in Cacak

As Halkbank always looks for ways to contribute to the development of its community, on November 5, 2020, Bank donated equipment to the Inter-Municipal Historical Archive of Čačak, with purchase value of RSD 20 million. The purpose of the donation is to encourage the progress of digitalization, which is of great importance for the Archive, which is a cultural asset of the Republic of Serbia.

Help to those who need it most

The bank donated EUR 5,000 to the humanitarian organization "Be Human - Aleksandar Sapic. This way, the Bank has made care, assistance and quick intervention a priority when the future of the youngest is endangered.

Supporting through sponsorship

The Bank supported the conference "Serbian Insurance Days" of the Association of Insurers of Serbia and set aside EUR 10,800 for this occasion. The conference was held from 24-26.11.2021. in the Hotel Izvor in Arandjelovac as well as electronically in the form of a WEBINAR. Halk animations were shown at the event and the logo of HALKBANK a.d. Belgrade on all commercials, as well as on the website of the Association of Insurers of Serbia.

Environmental protection

In 2021, Halkbank a.d. Belgrade, as a socially responsible company, implemented already established practice and measures in the field of environmental protection and thus mitigated the negative effects on the environment.

The fulfillment of the goals set, resulted in not having any penalties for non-compliance with environmental laws and regulations.

Procurement and supplier relationship

Procurement performed in the Bank is conducted in the spirit of good domestic business in order to ensure the quality of procurement while respecting ethical principles and professional standards.

Integrity, honesty, independence, objectivity, impartiality, political neutrality, prevention of conflicts of interest, confidentiality of information, competence and professional conduct are expected of employees participating in the procurement process.

The procurement process is defined by the Procedure which determines the authorizations in approval and verification depending on the value of the procurement. Limits have also been set for the selection of suppliers depending on the value of the procurement, and for all procurements over EUR 5,000, the Procurement Commission has significant role.

The Bank strives to be guided by the principles of "green procurement" at every opportunity, and to that end it procures and installs equipment with the highest energy efficiency, leases vehicles with the latest generation engines and uses exclusively PEFC (FSC) paper.

We build and nurture a professional relationship and encourage mutual cooperation with suppliers, equally valuing benefits and ethics. We strive to be a fair and honest partner and we firmly believe that a relationship based on trust and integrity will be sustainable and beneficial for all. We place the same demand on our suppliers, whom we expect to adhere to ethical standards, employment practices, environmental protection and occupational safety.

Environmental management system

The Bank uses resources responsibly and conscientiously, invests in sustainable development and thus strives to repay debt to society and communities. In order to protect the environment, it takes into account various aspects and continuously monitors key initiatives aimed at reducing the negative impact on the environment, such as:

- Rational consumption of energy and water
- Prevention of waste material generation
- Safe disposal of waste material
- Recycling

Conservation of natural resources

Indirect energy consumption refers to electricity used during the Bank's business activities, while direct energy consumption refers to the combustion of natural gas for heating purposes.

In 2021, electricity consumption was 1,689.38 MWh.

Energy management

By investing and installing modern electronic equipment, the Bank contributes to the application of clean technologies and technologies that save electricity and emit less noise.

Reducing energy consumption and implementing energy management programs is the ultimate goal that the Bank implements by performing the following activities:

- Installation of energy efficient lamps and bulbs (LED lamps and bulbs) in all new and renovated business premises;
- Installation of energy efficient air conditioners in all new and renovated business premises;
- Gradual replacement of outdoor advertising with a new type of advertising that has LED lighting;
- Leasing of environmentally friendly vehicles with the latest generation engines;
- The use of video and telephone conferencing to reduce business travel and fuel consumption, which was particularly pronounced in 2021 due to the Covid 19 pandemic;
- Lease a printer with an advanced printing system to reduce energy, paper and toner consumption
- Installation of MOBOTIX cameras that saves energy and IT resources for many years.

Activities related to the structure, construction and maintenance of electrical installations, safety measures and responsibilities of employees as well as control of electricity consumption are defined in the Procedure for electrical installations and control of electricity consumption.

Waste management

In waste management, the Bank acts in accordance with positive legal regulations and implements an integrated waste management system, which includes:

- Waste prevention
- Reduction of waste and its hazardous characteristics

- Planning and control of waste management activities and processes

- Transport and disposal of waste

- Education of employees regarding waste management

All activities, systems and obligations of the Bank related to waste management are defined in the Waste Management Plan, which includes measures for waste management within the collection, transport, storage, treatment and disposal of waste.

The Bank has established a waste management system based on the following principles:

1. Reduction of waste at source

2. Reuse

3. Recycling

4. The principle of sustainable development

5. Principle of the waste management hierarchy

6. The precautionary principle

7. The principle of proximity and regional approach to waste management

8. The principle of choosing the most optimal option for the environment

9. The „polluter pays" principle

10. Principle of responsibility

By applying the stated principles in environmental protection and waste management, the Bank also achieves economic benefits which are manifested in the reduction of costs of storage, handling, transport, treatment and final disposal of waste materials.

Waste recycling

The Bank has concluded an agreement with an authorized operator for the transport, disposal and treatment of hazardous waste, as well as an agreement on the takeover of secondary raw materials of paper origin. Toner recycling is managed by a company that leases multifunctional devices to the bank.

In 2021, the Bank handed over 2,420 kg of hazardous electronic and electrical waste for destruction and recycling and 700 kg of paper.

GOALS FOR 2022:

In the implementation of business policy in the field of environmental protection, the Bank's goals for 2022 are:

- replacement of existing video surveillance systems and installation of MOBOTIX cameras

- conducting training of employees in order to inform about the legal regulations related to environmental protection.

- Continuation of activities on replacement of fluorescent lighting with LED lamps and light bulbs

- support to institutions and bodies of local self-governments in the creation and implementation of environmental policy, improvement of energy efficiency, preservation of natural resources and improvement of environmental financing.

X RISK MANAGEMENT

This chapter explains the risks, ie risk management mechanisms related to environmental issues, social and personnel issues, respect for human rights, corruption, in order to eliminate them completely.

Environmental risk management

The Bank recognizes that its operations can have direct or indirect impact on the environment and the community in which it operates. The bank's objective is to responsibly manage the environmental and social risks (hereinafter: E&S) associated with its operations in order to minimize E&S impacts and to enhance long-term returns to the Bank's shareholders.

Although the Bank's activity is classified in low E&S risk category, it is obliged to ensure that during its activities it will not take any actions that may jeopardise cultural and historical locations, natural resources, flora and fauna, or cause involuntary resettlement.

E&S risk is managed in the Bank in two ways:

- Directly through management E&S risks arising from the Bank's basic activity
- Through management E&S risk encountered by the Bank's clients

The following bodies are responsible for managing E&S risk in the Bank:

- Supervisory Board that establishes and at least once a year reviews E&S Risk Management Policy and identifies the need for any amendments,
- Executive Board that implements the adopted policy and establishes the E&S Risk Management Procedure,
- Credit Committee that monitors the Bank's exposure to E&S risk and proposes certain measures to be taken,
- Credit Division in charge of identification of E&S risk on the level of individual transaction or client to which certain credit products are granted,
- The Risk Management Department that is responsible for operational implementation of this Policy through monitoring and reporting of risk exposure to the bank's management and relevant authorities.

Key employees in charge of managing E&S risk as well as continuity in carrying out environmental and social risk management policy are: president of the Executive Board and the member of the Executive Board in charge of risk management, director of Credit Division, employees in Corporate and SME Credit Department, Credit Analysis Department, Credit Monitoring Department, employees in Collection Unit and employees in Risk Management Department.

The Bank is particularly cautious to invest only in the projects that do not cause any environmental and social harm. Environmental and social (E&S) protection includes, besides ecological aspects, the issues of a local community and employee protection.

The aim of managing E&S risk is identification, assessment and control of the risks that may cause E&S harm and it is carried out in accordance with the E&S Risk Management Policy and the E&S Risk Management Procedure.

The following bodies are responsible for managing the E&S risk in the Bank:

- Board of Directors that establishes and at least once a year reviews E&S Risk Management Policy and identifies the need for any amendments,
- Executive Board that establishes and implements the E&S Risk Management Procedure,
- Credit Committees that make decisions on loan disbursement on the basis of the E&S information available and the opinion of the Corporate and SME Marketing Division,
- Credit Division that assesses the impact of the activity and the project during the process of appraising customers' creditworthiness,
- The Risk Management Department that monitors loans at the portfolio level by categories of E&S risks through the preparing and analysis of reports.

When processing individual clients' applications, E&S risk is classified for the basic activity of the client and the activity which is subject to financing.
There are the following E&S risk categories:

- High – Exclusion List;
- High – Category A;
- High;
- Medium and
- Low

Environmental risk

Overview of the Bank's exposures by environmental and social risk categories

(in RSD thousand)

Risk category	Number of clients		Amount of placements (balance and off-balance)		Increase/ decrease
	31.12.2020.	31.12.2021.	31.12.2020.	31.12.2021.	
High – Exclusion List	0	0	0	0	0
High – Category A	14	17	513,623	1,350,312	836,689
High	382	408	15,730,447	17,006,335	1,275,888
Medium	2,534	2,809	25,194,166	29,216,303	4,022,137
Low	2,364	2,452	26,733,615	31,589,808	4,856,193
Total	5,294	5,686	68,171,851	79,162,758	10,990,907

*For the purpose of analisys of environmental risk, the Bank includes only relevant part of portfolio.

In the structure of exposures (balance sheet and off-balance sheet exposures) to clients, legal entities and entrepreneurs, as of December 31, 2021, the largest share was held by clients with activities with low environmental and social impact 39.90%, then exposures to clients with activities with medium impact participate with 36.91%, activities with high impact participate 21.48% and activities with high risk category A participate with 1.71%.

Social and personnel issues, respect for human rights and prevention of corruption

As for the risks related to social and personnel issues as well as respect for human rights, the Bank hascompletely eliminated these risks through the introduction of policies, procedures and instructions, as well as through the obligation of all employees to implement them.
Current policies, procedures and instructions are:

Code of Business Conduct and Ethical Principles

All employees of Halkbank a.d. Belgrade are obliged to adhere to all principles and working rules defined by the Code of Business Conduct and Ethical Principles. In this way, all disputes and conflicts that may arise between employees, clients and the Bank are avoided, but also contribute to the success and reputation of the Bank.

Anti-Corruption policy

The Bank is obliged not to show tolerance for corruption in all its operations and to operate in accordance with laws and regulations, international laws, ethical and business principles for the prevention of corruption. The policy applies to all employees, as well as to the Board of Directors. The policy also defines the way of its implementation, procedures in case of bribery and corruption, obligations of training and informing all employees, clearly defines possible risks so that this policy could not be violated or disregarded in any case (gifts, donations).

Whistleblowing rulebook

The Whistleblowing rulebook regulates the whistleblowing process at Halkbank a.d. Belgrade in accordance with the provisions of the Law and the Rulebook. Whistleblowing is the disclosure of information related to violations of regulations, human rights violations, exercise of public authority contrary to the purpose for which it was entrusted, threaths to life, public health, safety, environment, as well as to prevent large-scale damage. All employees are familiar with the Rulebook.

Decision on the prevention of harassment at work

All employees of the Bank must be familiarised with the Decision on the prevention of harassment at work. The Rulebook prescribes the rules of conduct of employer and employees, ie other persons engaged by the Bank, in relation to the prevention and protection against harassment at work and in relation to work, ie sexual harassment.

The Labour rulebook regulates the rights, obligations and responsibilities arising from the work contract. The rulebook applies to all employees employed by the Bank.

An effective employee appraisal system is one of the key tools for achieving the bank's organizational goals, therefore **the Employee Appraisal System Procedure** precisely defines activities related to employee performance management and as such it is applied in all organizational parts of the Bank.

Establishment and termination of employment and keeping records of employees - which describes the process of establishment (selection), termination of employment, as well as induction training where the new employee is introduced to the rules, procedures of the bank and basic activities of all sectors in the bank.

Employee training procedure - this procedure defines the identification of needs and launching initiatives for training, training planning and type of training, evaluation of training to ensure that bank employees develop the required skills and knowledge to perform their jobs and activities.

HALKBANK A.D. BEOGRAD

Financial Management and Budgeting Division
Aleksandar Mijailović

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President of Executive Board
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