KOMERCIJALNA BANKA AD BEOGRAD

NLB GROUP

ANNUAL REPORT

OF A PUBLIC COMPANY

FOR THE YEAR 2021

Belgrade, April 2022

CONTENTS

Interno

To be filled out by the bank
Registration number: 0 7 7 3 7 0 6 8 Activity code: 6 4 1 9 Tax identification number: 1 0 0 0 0 1 9 3 1
Name of the Bank: KOMERCIJALNA BANKA AD BEOGRAD
Bank's registered office: Beograd, 14, Svetog Save Street

BALANCE SHEET

as of 31.12.2021.

(in RSD thousand)

Group of accounts, account	ITEM	ADP code				Remark number	Current year amount	Previous year amount	
								Closing balance	Opening balance
1	2	3				4	5	6	7
00 without 002, 010, 025, 05 (exept 050, 052 and part of 059), 060, 07, 085, 196, 296 and parts of 009, 019, 029, 069, 089, 199 and 299	**ASSETS** Cash and assets held with central bank	0	0	0	1	3k; 21.	82.055.481	80.045.107	67.558.219
	Pledged financial assets	0	0	0	2		-	-	-
120, 125	Receivables from derivatives	0	0	0	3		-	-	-
120, 122, 124, 220, 222, 224, 129, 229	Securities	0	0	0	4	3j; 22.	149.588.755	153.776.323	138.469.551
002, 01 (except 010 and part of 019), parts of 020, 028, 050, 052, 06 (except 060 and part of 069), parts of 080, 088, 10, 11, 16, 20, 21, 26, 190, 191, 290, 291, parts of 493 and 593 as deductible items (SSKR - SS code 1 (except code 17), code 70 and parts of codes 71 and 74) and parts of 009, 029, 059, 089, 199 and 299	Loans and receivables due from banks and other financial institutions	0	0	0	5	3j; 23.	29.114.381	18.142.070	24.733.958
01 (except 010 and part of 019), parts of 020, 028, 06 (except 060 and part of 069), 080, 088, 10, 11, 16, 20, 21, 26, 190, 191, 290, 291, parts of 493 and 593 as deductible items (SSKR - SS code 17 and all other codes except the code 70 and parts of codes 71 and 74) and parts of 029, 069, 089, 199 and 299	Loans and receivables due from customers	0	0	0	6	3j; 24	209.044.942	189.296.089	180.852.563
123, 223	Changes in fair value of items that are the subject of hedging	0	0	0	7		-	-	-
126, 226	Receivables from derivatives held for hedging	0	0	0	8		-	-	-
130, 131, 230, 231, part of 139 and 239	Investments in associates and joint ventures	0	0	0	9	3j; 25	1.488.063	-	-
132, 232, part of 139 and 239	Investments in subsidiaries	0	0	1	0	3j; 26	140.000	3.433.697	3.433.697
33	Intangible assets	0	0	1	1	3lj; 27.	582.101	510.669	665.735
34	Property, plant and equipment	0	0	1	2	3l; 28.	8.755.659	6.045.330	6.437.937
35	Investment property	0	0	1	3	3m; 2.5.1; 29.	2.610.531	2.393.183	2.825.930
034 and part of 039	Current tax assets	0	0	1	4	20.1.	18.911	12.237	-
37	Deferred tax assets	0	0	1	5	20.4.3.	509.242	-	1.074.197
36	Non-current assets held for sale and discontinued operations	0	0	1	6	30.	101.614	130.426	196.300
021, 022, 024, 027, 03 (except 034 and part of 039), 081, 082, 084, 087, 09, 134,192, 194, 195, 234, 292, 294, 295, 30, 38 and parts of 029, 089, 139, 199, 239 and 299	Other assets	0	0	1	7	3j; 31.	5.430.725	6.216.268	7.100.359
	TOTAL ASSETS (from 0001 to 0017)	0	0	1	8		**489.440.405**	**460.001.399**	**433.348.446**

Group of accounts, account	I T E M	ADP code				Remark number	Current year	Previous year	
								Closing balance	Opening balance
1	2	3				4	5	6	7
411, 511	**LIABILITIES** Liabilities from derivatives	0	4	0	1		-	-	-
parts of 40, 420, 421, 490, 50, 520, 521, 590, and parts of 193 and 293 as deductible items (SSKR - SS code 1 (without code 17) and code 70 and parts of codes 71 and 74)	Deposits and other liabilities due to banks, other financial institutions and the central bank	0	4	0	2	3o; 32.	2.134.969	4.989.315	5.021.756
parts of 40, 420, 421, 490, 50, 520, 521, 590, and parts of 193 and 293 as deductible items (SSKR - SS code 17 and all other codes, except for code 70 and parts of codes 71 and 74)	Deposits and other liabilities due to other customers	0	4	0	3	3o; 33.	403.286.418	372.699.401	335.317.154
417, 517	Liabilities from derivatives held for hedging	0	4	0	4		-	-	-
418, 518	Changes in fair value of items that are the subject of hedging	0	4	0	5		-	-	-
410, 412, 415, 423, 496, 510, 512, 515, 523, 596 and 127 and 227 as deductible items	Liabilities from securities	0	4	0	6		-	-	-
424, 425, 482, 497, 524, 525, 582, 597 and parts of 193 and 293 as deductible items	Subordinated liabilities	0	4	0	7		-	-	-
450, 451, 452, 453, 454	Provisions	0	4	0	8	3p; 34.	4.233.853	2.529.268	2.328.130
46	Liabilities from non-current assets held for sale and discontinued operations	0	4	0	9		-	-	-
455	Current tax liabilities	0	4	1	0		-	-	-
47	Deferred tax liabilities	0	4	1	1	20.4.3.	-	147.400	-
426, 427, 43, 44, 456, 457, 491, 492, 494, 495, 526, 527, 53, 591, 592, 594 and 595	Other liabilities	0	4	1	2	3o; 35.	4.142.443	4.975.476	13.861.230
	TOTAL LIABILITIES (from 0401 to 0412)	0	4	1	3		**413.797.683**	**385.340.860**	**356.528.270**
80	EQUITY Equity	0	4	1	4	3t; 36	40.034.550	40.034.550	40.034.550
128	Own shares	0	4	1	5		-	-	-
83	Profit	0	4	1	6	3t; 2.5.1; 36.	9.573.620	5.893.027	11.393.901
84	Loss	0	4	1	7		-	-	-
81, 82 - credit balance	Reserves	0	4	1	8	3t; 36.	26.034.552	28.732.962	25.391.725
81, 82 - debit balance	Unrealized losses	0	4	1	9		-	-	-
	Non-controlling interest	0	4	2	0		-	-	-
	TOTAL EQUITY (0414 - 0415 + 0416 - 0417 + 0418 - 0419 + 0420) ≥ 0	0	4	2	1		**75.642.722**	**74.660.539**	**76.820.176**
	TOTAL DEFICIENCY OF CAPITAL (0414 - 0415 + 0416 - 0417 + 0418 - 0419 + 0420) < 0	0	4	2	2		**-**	**-**	**-**
	TOTAL LIABILITIES (0413 + 0421 - 0422)	0	4	2	3		**489.440.405**	**460.001.399**	**433.348.446**

In Belgrade,

on 3.3.2022.

Legal representative of the bank

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To be filled out by the bank		
Registration number: 0 7 7 3 7 0 6 8	Activity code: 6 4 1 9	Tax identification number: 1 0 0 0 0 1 9 3 1
Name of the Bank: KOMERCIJALNA BANKA AD BEOGRAD		
Bank's registered seat: Beograd, 14, Svetog Save Street		

INCOME STATEMENT

in period from January 1st to December 31st, 2021.

(in RSD thousand)

Group of accounts, account	I T E M	ADP code				Remark number	Current year	Previous year
1	2	3				4	5	6
70	Interest income	1	0	0	1	3c; 8.	13.103.701	13.201.267
60	Interest expenses	1	0	0	2	3c; 8.	958.592	1.131.977
	Net interest income (1001-1002)	1	0	0	3		**12.145.109**	**12.069.290**
	Net interest expenses (1002-1001)	1	0	0	4		**-**	**-**
71	Fee and commission income	1	0	0	5	3d; 9	7.647.524	6.696.915
61	Fee and commission expenses	1	0	0	6	3d; 9	1.910.160	1.821.507
	Net fee and commission income (1005 - 1006)	1	0	0	7		**5.737.364**	**4.875.408**
	Net fee and commission expenses (1006 - 1005)	1	0	0	8		**-**	**-**
774-674+776-676+777-677	Net gains from changes in fair value of financial instruments	1	0	0	9	3e; 10.	4.823	95.629
674-774+676-776+677-777	Net losses from changes in fair value of financial instruments	1	0	1	0		-	-
727-627+728-628	Net gains on reclassification of financial instruments	1	0	1	1		-	-
627-727+628-728	Net losses on reclassification of financial instruments	1	0	1	2		-	-
720-620+721-621	Net gains based on derecognition of financial instruments valued at fair value	1	0	1	3	3f; 11.	197.243	157.796
620-720+621-721	Net losses based on derecognition of financial instruments valued at fair value	1	0	1	4		-	-
775-675+770-670	Net gains based on hedging	1	0	1	5		-	-
675-775+670-770	Net losses based on hedging	1	0	1	6		-	-
78-68	Net income from foreign exchange differences and the effects of contracted foreign currency clause	1	0	1	7	3b; 12.	53.070	4.404
68-78	Net expenses from foreign exchange differences and the effects of contracted foreign currency clause	1	0	1	8		-	-
750-650+751-651+756-656+760-660+729-629	Net income from reversal of impairment of financial assets that are not valued at fair value through profit and loss	1	0	1	9	3j; 13.	15.772	-
650-750+651-751+656-756+660-760+629-729	Net impairment losses of financial assets that are not valued at fair value through profit and loss	1	0	2	0	3j; 13.	-	1.072.032
726-626	Net gains based on derecognition of financial instruments valued at amortised cost	1	0	2	1		-	-
626-726	Net losses based on derecognition of financial instruments valued at amortised cost	1	0	2	2		-	-
723-623	Net gains based on derecognition of investments in associates and joint ventures	1	0	2	3	14	563	-
623-723	Net losses based on derecognition of investments in associates and joint ventures	1	0	2	4		-	-

Group of accounts, account	I T E M	ADP code				Remark number	Current year	Previous year
1	2	3				4	5	6
74, 766	Other operating income	1	0	2	5	3g; 15.	211.190	211.389
	NET OPERATING PROFIT (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) ≥ 0	1	0	2	6		**18.365.134**	**16.341.884**
	NET OPERATING LOSS (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) < 0	1	0	2	7		**-**	**-**
63, 655-755	Costs of salaries, allowances and other personnel expenses	1	0	2	8	3r; 16	4.961.166	5.819.946
642	Depreciation costs	1	0	2	9	3h; 3l; 3lj; 2.5.1; 17.	912.825	938.963
752, 753, 761, 762, 767, 768, 773	Other income	1	0	3	0	2.5.1; 18	587.010	889.752
64 (exept 642), 652, 653, 661, 662, 667, 668, 673	Other expenses	1	0	3	1	2.5.1; 19	9.614.769	6.674.208
	PROFIT FROM CONTINUING OPERATIONS BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1	0	3	2		**3.463.384**	**3.798.519**
	LOSS FROM CONTINUING OPERATIONS BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) < 0	1	0	3	3		**-**	**-**
850	Tax on profit	1	0	3	4		-	-
861	Deffered tax income for the period	1	0	3	5	3i; 20.1	348.040	120.049
860	Deffered tax expense for the period	1	0	3	6	3i; 20.1	165.725	1.384.134
	PROFIT FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) ≥ 0	1	0	3	7		**3.645.699**	**2.534.434**
	LOSS FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) < 0	1	0	3	8		**-**	**-**
769-669	NET PROFIT OF DISCONTINUED OPERATIONS	1	0	3	9		-	-
669-769	NET LOSS OF DISCONTINUED OPERATIONS	1	0	4	0		-	-
	NET PROFIT (1034 - 1035 + 1036 - 1037) ≥ 0	1	0	4	1		**3.645.699**	**2.534.434**
	NET LOSS (1034 - 1035 + 1036 - 1037) < 0	1	0	4	2		**-**	**-**
	Profit attributable to parent legal entity	1	0	4	3		-	-
	Profit attributable to non-controlling interest stakeholders	1	0	4	4		-	-
	Loss attributable to parent legal entity	1	0	4	5		-	-
	Loss attributable to non-controlling interest stakeholders	1	0	4	6		-	-
	Earnings per share							
	Basic earnings per share (in RSD, rounded)	1	0	4	7	3u; 2.5.1; 36.2	216	150
	Diluted earnings per share (in RSD, rounded)	1	0	4	8	3u; 2.5.1; 36.2	216	150

Legal representative of the bank

In Belgrade,
on 3.3.2022.

To be filled out by the Bank		
Registration number: 0 7 7 3 7 0 6 8	Activity code: 6 4 1 9	TIN: 1 0 0 0 0 1 9 3 1
Name of the Bank: KOMERCIJALNA BANKA AD BEOGRAD		
Bank's registered seat: Beograd, 14, Svetog Save Street		

STATEMENT OF OTHER COMPREHENSIVE RESULT
in period from 01.01.2021. to 31.12.2021.

(in RSD thousand)

Group of accounts, account	ITEM	ADP Code				Remark number	Current year	Preceding year
1	2	3				4	5	6
	PROFIT FOR THE PERIOD	2	0	0	1		3.645.699	2.534.434
	LOSS FOR THE PERIOD	2	0	0	2		-	-
820	Other result for the period **Components of other result that cannot be reclassified to profit or loss:** Increase of revaluation reserves against intangible assets and fixed assets	2	0	0	3	20.5	-	7.894
820	Decrease of revaluation reserves against intangible assets and fixed assets	2	0	0	4		-	-
822	Actuarial gains	2	0	0	5	20.5; 34	-	3.954
822	Actuarial losses	2	0	0	6	20.5; 34	137.159	-
821	Positive effects of the changes in the value of equity instruments that are valued at fair value through the other result	2	0	0	7	20.5	146.991	118.902
821	Negative effects of the changes in the value of equity instruments that are valued at fair value through the other result	2	0	0	8	20.5	-	863
825	Unrealized gains arising from risk-protection equity instruments that are valued at fair value through other result	2	0	0	9		-	-
825	Unrealized losses arising from risk-protection equity instruments that are valued at fair value through other result	2	0	1	0		-	-
825	Unrealized gains on the basis of financial liabilities of a bank valued at fair value through profit and loss resulting from a change in the bank's creditworthiness	2	0	1	1		-	-
825	Unrealized losses on the basis of financial liabilities of a bank valued at fair value through profit and loss resulting from a change in the bank's creditworthiness	2	0	1	2		-	-
825	Positive effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss	2	0	1	3		-	-
825	Negative effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss	2	0	1	4		-	-
823	**Components of other result that can be reclassified to profit or loss:** Positive effects of the changes in the value of debt instruments that are valued at fair value through other result	2	0	1	5		-	-
823	Negative effects of the changes in the value of debt instruments that are valued at fair value through other result	2	0	1	6	20.5	3.147.675	388.567

Group of accounts, account	ITEM	ADP Code				Remark number	Current year	Preceding year
1	2	3				4	5	6
824	Gains from hedging instruments in a cash flow hedge	2	0	1	7		-	-
824	Losses from hedging instruments in a cash flow hedge	2	0	1	8		-	-
826	Unrealized gains arising from the calculation of transactions and balances in foreign currencies and the translation of result and financial position of foreign operations	2	0	1	9		-	-
826	Unrealized losses arising from the calculation of transactions and balances in foreign currencies and the translation of result and financial position of foreign operations	2	0	2	0		-	-
826	Unrealized gains based on instruments designed to protect against the risks of net investment in foreign operations	2	0	2	1		-	-
826	Unrealized losses based on instruments designed to protect against the risks of net investment in foreign operations	2	0	2	2		-	-
826	Unrealized gains on other instruments designed to protect against risks	2	0	2	3		-	-
826	Unrealized losses on other instruments designed to protect against risks	2	0	2	4		-	-
826	Positive effects of changes in values arising from other components of other result that can be reclassified to profit or loss	2	0	2	5		-	-
826	Negative effects of changes in values arising from other components of other result that can be reclassified to profit or loss	2	0	2	6		-	-
82	Tax-related profit that pertains to other result for the period	2	0	2	7	20.5	498.239	60.916
82	Tax-related loss that pertains to other result for the period	2	0	2	8	20.5	22.049	18.428
	Total positive other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 -2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2019 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 + 2027 - 2028) ≥ 0	2	0	2	9		-	-
	Total negative other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 -2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2019 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 + 2027 - 2028) < 0	2	0	3	0		**2.661.653**	**216.192**
	TOTAL POSITIVE RESULT FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2	0	3	1		**984.046**	**2.318.242**
	TOTAL NEGATIVE RESULT FOR THE PERIOD (2001 - 2002 + 2029 - 2030) < 0	2	0	3	2		-	-
	Total positive result for the period that pertains to parent entity	2	0	3	3		-	-
	Total positive result for the period that pertains to owners without control rights	2	0	3	4		-	-
	Total negative result for the period that pertains to parent entity	2	0	3	5		-	-
	Total negative result for the period that pertains to owners without control rights	2	0	3	6		-	-

In Belgrade,

on 3.3.2022.

Legal representative of the Bank

To be filled out by the bank		
Registration number : 0 7 7 3 7 0 6 8	Activity code: 6 4 1 9	Tax identification number: 1 0 0 0 0 1 9 3 1
Name of the Bank: KOMERCIJALNA BANKA AD BEOGRAD		
Bank's registered seat : Beograd, 14, Svetog Save Street		

CASH FLOW STATEMENT

in period from 01.01. to 31.12.2021.

(in RSD thousand)

ITEM	ADP code				Current year	Previous year
1	2				3	4
A. CASH FLOWS FROM OPERATING ACTIVITIES						
I. Cash inflows from operating activities (from 3002 to 3005)	3	0	0	1	**25.421.639**	**19.453.387**
1. Inflow from Interest	3	0	0	2	14.888.804	12.039.482
2. Inflow from fees	3	0	0	3	7.728.413	6.777.100
3. Inflow from other operating activities	3	0	0	4	2.788.527	627.413
4. Inflow from dividends and profit sharing	3	0	0	5	15.895	9.392
II. Cash outflows from operating activities (from 3007 to 3011)	3	0	0	6	**15.843.705**	**12.333.889**
5. Outflow from interest	3	0	0	7	911.886	953.415
6. Outflow from fees	3	0	0	8	1.911.192	1.861.331
7. Outflow from gross salaries, allowances and other personnel expenses	3	0	0	9	5.001.342	4.452.983
8. Outflow from taxes, contributions and other levies charged against income	3	0	1	0	991.483	913.879
9. Outflow from other operating expenses	3	0	1	1	7.027.802	4.152.281
III. Net cash inflow from operating activities prior to increase or decrease in financial assets and financial liabilities (3001 - 3006)	3	0	1	2	**9.577.934**	**7.119.498**
IV. Net cash outflow from operating activities prior to increase or decrease in financial assets and financial liabilities (3006 - 3001)	3	0	1	3	**-**	**-**
V. Decrease in financial assets and increase in financial liabilities (from 3015 to 3020)	3	0	1	4	**35.222.874**	**39.996.398**
10. Decrease in loans and other receivables from banks and other financial institutions, central bank and customers	3	0	1	5	-	-
11. Decrease in receivables from securities and other financial assets that are not intended for investment	3	0	1	6	7.865.437	2.164.218
12. Decrease in receivables from derivatives held for hedging and change in fair value of items that are the subject to protection against risk	3	0	1	7	-	-
13. Increase in deposits and other financial liabilities to banks, other financial institutions, central banks and customers	3	0	1	8	27.357.437	37.832.180
14. Increase of other financial liabilities	3	0	1	9	-	-
15. Increase in liabilities from derivatives intended for protection against risk and change in fair value of items that are subject of hedging	3	0	2	0	-	-
VI. Increase in financial assets and decrease in financial liabilities (from 3022 to 3027)	3	0	2	1	**26.994.912**	**3.244.706**
16. Increase in loans and other receivables from banks and other financial institutions, central bank and customers	3	0	2	2	26.994.912	3.244.706
17. Increase in receivables from securities and other financial assets that are not intended for investment	3	0	2	3	-	-
18. Increase in receivables from derivatives intended for protection against risk and change in fair value of items that are the subject of hedging	3	0	2	4	-	-
19. Decrease in deposits and other financial liabilities to banks, other financial institutions, central bank and customers	3	0	2	5	-	-
20. Decrease of other financial liabilities	3	0	2	6	-	-
21. Decrease in liabilities from derivatives intended for protection against risk and change in fair value of items that are the subject of hedging	3	0	2	7	-	-
VII. Net cash inflow from operating activities before profit tax (3012 - 3013 + 3014 - 3021)	3	0	2	8	**17.805.896**	**43.871.190**
VIII. Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)	3	0	2	9	**-**	**-**
22. Profit tax paid	3	0	3	0	6.674	12.237
23. Dividends paid	3	0	3	1	94.154	14.223.065
IX. Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)	3	0	3	2	**17.705.068**	**29.635.888**
X. Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)	3	0	3	3	**-**	**-**

ITEM	ADP code	Current year	Previous year
1	2	3	4
B. CASH FLOWS FROM INVESTMENT ACTIVITIES			
I. Cash inflow from investment activities (from 3035 to 3039)	3034	**35.172.283**	**19.211.692**
1. Inflow from long-term investment in securities	3035	32.585.411	19.211.692
2. Inflow from sale of investments in subsidiaries and associates and joint ventures	3036	2.586.872	-
3. Inflow from sale of intangible assets, property, plant and equipment	3037	-	-
4. Inflow from sale of investment property	3038	-	-
5. Other inflow from investment activities	3039	-	-
II. Cash outflow from investment activities (from 3041 to 3045)	3040	**42.979.990**	**38.540.938**
6. Outflow from investment in long-term securities	3041	39.769.940	38.394.476
7. Outflow for purchase of investments in subsidiaries and associates and joint ventures	3042	71	-
8. Outflow for purchase of intangible assets, property, plant and equipment	3043	3.209.979	146.462
9. Outflow for purchase of investment property	3044	-	-
10. Other outflow from investment activities	3045	-	-
III. Net cash inflow from investment activities (3034 - 3040)	3046	**-**	**-**
IV. Net cash outflow from investment activities (3040 - 3034)	3047	**7.807.707**	**19.329.246**
V. CASH FLOWS FROM FINANCING ACTIVITIES			
I. Cash inflow from financing activities (from 3049 to 3054)	3048	**329.732.785**	**330.334.960**
1. Inflow from capital increase	3049	-	-
2. Inflow from subordinated liabilities	3050	-	-
3. Inflow from borrowings	3051	329.732.785	330.334.960
4. Inflow from issued securities	3052	-	-
5. Inflow from sale of own shares	3053	-	-
6. Other inflow from financing activities	3054	-	-
II. Cash outflow from financing activities (from 3056 to 3060)	3055	**331.360.368**	**329.862.375**
7. Outflow from purchase of own shares	3056	-	-
8. Outflow from subordinated liabilities	3057	-	-
9. Outflow from borrowings	3058	330.992.412	329.415.905
10. Outflow from issued securities	3059	-	-
11. Other outflow from financing activities	3060	367.956	446.470
III. Net cash inflow from financing activities (3048 - 3055)	3061	**-**	**472.585**
IV. Net cash outflow from financing activities (3055 - 3048)	3062	**1.627.583**	**-**
Г. TOTAL CASH INFLOW (3001 + 3014 + 3034 + 3048)	3063	425.549.581	408.996.437
Д. TOTAL CASH OUTFLOW (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	3064	417.279.803	398.217.210
Ђ. NET INCREASE IN CASH (3063 - 3064)	3065	**8.269.778**	**10.779.227**
E. NET DECREASE IN CASH (3064 - 3063)	3066	**-**	**-**
Ж. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3067	**51.637.298**	**40.866.651**
З. FOREIGN EXCHANGE GAINS	3068	1.329.954	551.911
И. FOREIGN EXCHANGE LOSSES	3069	598.993	560.491
J. CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)	3070	**60.638.037**	**51.637.298**

In Belgrade,
on 3.3.2022.

Legal representative of the bank

To be filled out by Bank		
Registration number: 0 7 7 3 7 0 6 8	**Activity code: 6 4 1 9**	**TIN: 1 0 0 0 0 1 9 3 1**
Name of the Bank: KOMERCIJALNA BANKA AD BEOGRAD		
Bank's registered seat: Beograd, 14, Svetog Save Street		

Interno

STATEMENT OF CHANGES IN EQUITY

Over the period from 01.01. to 31.12.2021.

(in RSD thousand)

No.	ITEM	ADP code	Share and other capital (accounts 800,801,803,809)	ADP code	Own shares (account 128)	ADP code	Issue premium (account 802)	ADP code	Reserves from profit and other reserves (account group 81)	ADP code	Revaluation reserves (account group 82 credit balance)	ADP code	Revaluation reserves (account group 82 debit balance)	ADP code	Profit (account group 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Minoriy interest	ADP code	Total (column 2-3+4+5+6-7+8-9+10)≥0	ADP code	Total (column 2-3+4+5+6-7+8-9+10)<0
	1		2		3		4		5		6		7		8		9		10		11		12
1.	**Opening balance as of January 1st of preceding year**	4001	17.191.466	4033		4065	22.843.084	4097	18.565.207	4129	6.826.518	4147	3.538	4165	10.425.898	4203		4241		4285	75.848.635	4291	-
2.	Effects of first aplication of new IFRS – increase	4002		4034		4066		4098		4130		4148		4166		4204		4242		x	x	x	x
3.	Effects of first aplication of new IFRS – decrease	4003		4035		4067		4099		4131		4149	3.538	4167		4205		4243		x	x	x	x
4.	Correction of material misstatement and changes to accounting policies in preceding year – increase	4004		4036		4068		4100		4132		4150		4168	1.056.880	4206		4244		x	x	x	x
5.	Correction of material misstatement and changes to accounting policies in preceding year – decrease	4005		4037		4069		4101		4133		4151		4169	88.877	4207		4245		x	x	x	x
6.	**Adjusted opening balance as of January 1st of preceding year (number 1+2-3+4-5)**	4006	17.191.466	4038	0	4070	22.843.084	4102	18.565.207	4134	6.826.518	4152	0	4170	11.393.901	4208	0	4246		4286	76.820.176	4292	-
7.	Total positive other comprehensive result for the period	x	x	x	x	x	x	x	x	4135		4153		x	x	x	x	4247		x	x	x	x
8.	Total negative other comprehensive result for the period	x	x	x	x	x	x	x	x	4136	240.763	4154		x	x	x	x	4248		x	x	x	x
9.	Profit for the year	x	x	x	x	x	x	x	x	x	x	x	x	4171	2.534.434	x	x	4249		x	x	x	x
10.	Loss for the year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4209		4250		x	x	x	x
11.	Transfer from reserves to result due to release of reserves – increase	x	x	x	x	x	x	x	x	x	x	x	x	4172		4210		4251		x	x	x	x
12.	Transfer from reserves to result due to release of reserves - decrease	x	x	x	x	x	x	x	x	x	x	x	x	4173		4211		4252		x	x	x	x
13.	Transactions with owners, recorded directly in equity – increase	4007		4039		4071		4103		x	x	x	x	4174		4212		4253		x	x	x	x
14.	Transactions with owners, recorded directly in equity – decrease	4008		4040		4072		4104		x	x	x	x	4175		4213		4254		x	x	x	x
15.	Profit distribution – increase	4009		4041		4073		4105	3.582.000	x	x	x	x	4176		4214		4255		x	x	x	x
16.	Profit distribution, and/or loss coverage – decrease	4010		4042		4074		4106		x	x	x	x	4177	3.582.000	4215		4256		x	x	x	x
17.	Dividend payments	4011		4043		4075		4107		x	x	x	x	4178	4.477.879	4216		4257		x	x	x	x
18.	Other – increase	4012		4044		4076		4108		x	x	x	x	4179	24.571	4217		4258		x	x	x	x
19.	Other – decrease	4013		4045		4077		4109		x	x	x	x	4180		4218		4259		x	x	x	x
20.	**Total transactions with owners (number 13-14+15-16-17+18-19) ≥ 0**	4014	0	4046	0	4078	0	4110	3.582.000	x	x	x	x	4181	0	4219	0	4260		x	x	x	x
21.	**Total transactions with owners (number 13-14+15-16-17+18-19) < 0**	4015	0	4047	0	4079	0	4111	0	x	x	x	x	4182	8.035.308	4220	0	4261		x	x	x	x
22.	**Balance as of December 31st of preceding year (number 6+7-8+9-10+11-12+20-21 for columns from 2,3,4,5,6,8,9), for column 7 (number 6+8-7)**	4016	17.191.466	4048	0	4080	22.843.084	4112	22.147.207	4137	6.585.755	4155	0	4183	5.893.027	4221	0	4262		4287	74.660.539	4293	-

No.	ITEM	ADP code	Share and other capital (accounts 800,801,803,809)	ADP code	Own shares (account 128)	ADP code	Issue premium (account 802)	ADP code	Reserves from profit and other reserves (account group 81)	ADP code	Revaluation reserves (account group 82 credit balance)	ADP code	Revaluation reserves (account group 82 debit balance)	ADP code	Profit (account group 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Minoriy interest	ADP code	Total (column 2-3+4+5+6-7+8-9+10)≥0	ADP code	Total (column 2-3+4+5+6-7+8-9)+10<0
	1		2		3		4		5		6		7		8		9		10		11		12
23.	**Opening balance as of January 1st of the current year**	4017	17.191.466	4049		4081	22.843.084	4113	22.147.207	4138	6.585.755	4156	0	4184	5.893.027	4222	0	4263		4288	74.660.539	4294	-
24.	Effects of first aplication of new IFRS – increase	4018		4050		4082		4114		4139		4157		4185		4223		4264		x	x	x	x
25.	Effects of first aplication of new IFRS – decrease	4019		4051		4083		4115		4140		4158		4186		4224		4265		x	x	x	x
26.	Correction of material misstatement and changes to accounting policies in preceding year – increase	4020		4052		4084		4116		4141		4159		4187		4225		4266		x	x	x	x
27.	Correction of material misstatement and changes to accounting policies in preceding year – decrease	4021		4053		4085		4117		4142		4160		4188		4226		4267		x	x	x	x
28.	**Adjusted opening balance as of January 1st of the current year (number 21+22-23)**	4022	17.191.466	4054	0	4086	22.843.084	4118	22.147.207	4143	6.585.755	4161	0	4189	5.893.027	4227	0	4268		4289	74.660.539	4295	-
29.	Total positive other comprehensive result for the period	x	x	x	x	x	x	x	x	4144		4162		x	x	x	x	4269		x	x	x	x
30.	Total negative other comprehensive result for the period	x	x	x	x	x	x	x	x	4145	2.698.410	4163		x	x	x	x	4270		x	x	x	x
31.	Profit for the year	x	x	x	x	x	x	x	x	x	x	x	x	4190	3.645.699	x	x	4271		x	x	x	x
32.	Loss for the year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4228		4272		x	x	x	x
33.	Transfer from reserves to result due to release of reserves – increase	x	x	x	x	x	x	x	x	x	x	x	x	4191		4229		4273		x	x	x	x
34.	Transfer from reserves to result due to release of reserves – decrease	x	x	x	x	x	x	x	x	x	x	x	x	4192		4230		4274		x	x	x	x
35.	Transactions with owners, recorded directly in equity – increase	4023		4055		4087		4119		x	x	x	x	4193		4231		4275		x	x	x	x
36.	Transactions with owners, recorded directly in equity – decrease	4024		4056		4088		4120		x	x	x	x	4194		4232		4276		x	x	x	x
37.	Profit distribution – increase	4025		4057		4089		4121		x	x	x	x	4195		4233		4277		x	x	x	x
38.	Profit distribution, and/or loss coverage – decrease	4026		4058		4090		4122		x	x	x	x	4196		4234		4278		x	x	x	x
39.	Dividend payments	4027		4059		4091		4123		x	x	x	x	4197		4235		4279		x	x	x	x
40.	Other – increase	4028		4060		4092		4124		x	x	x	x	4198	34.894	4236		4280		x	x	x	x
41.	Other – decrease	4029		4061		4093		4125		x	x	x	x	4199		4237		4281		x	x	x	x
42.	**Total transactions with owners (number 31-32+33-34-35+36- 37) ≥ 0**	4030	0	4062	0	4094	0	4126	0	x	x	x	x	4200	34.894	4238	0	4282		x	x	x	x
43.	**Total transactions with owners (number 31-32+33-34-35+36- 37) < 0**	4031	0	4063	0	4095	0	4127	0	x	x	x	x	4201	0	4239	0	4283		x	x	x	x
44.	**Balance as of December 31st of the current year (number 24+25-26+27+28+29-30+38-39 for columns from 2,3,4,5,6,8,9), for the column 7 (number 24+26-25)**	4032	17.191.466	4064	0	4096	22.843.084	4128	22.147.207	4146	3.887.345	4164	0	4202	9.573.620	4240	0	4284		4290	75.642.722	4296	-

In Belgrade,

on 3.3.2022.

Legal representative of the Bank

KOMERCIJALNA BANKA AD BEOGRAD

NOTES

TO THE FINANCIAL STATEMENTS
THE 2021

March 2022

1. ESTABLISHMENT AND OPERATIONS OF THE BANKING GROUP

Komercijalna banka a.d. Beograd (hereinafter "The Bank") was established on December 1, 1970, and was transformed into a joint stock company on May 6, 1992. The Bank was registered with the Commercial Court in Belgrade on July 10, 1991, and was legally re-registered in the Business Registers Agency on April 14, 2006. The Bank was granted a banking license from the National Bank of Yugoslavia on July 3, 1991.

The largest share in the controlling activities of the Bank is:

NLB d.d. Ljubljana	88.28%

By signing the Agreement on the transfer of shares on December 30, 2020 between the Republic of Serbia and NLB d.d. Ljubljana, Slovenia, the sale process of Komercijalna banka ad Belgrade was concluded. The subject of the agreement was 83.23% of ordinary shares of Komercijalna banka, which made NLB d.d. Ljubljana the owner of shares held by the Republic of Serbia and the largest individual owner of the Bank with the right to manage.

On March 11, 2021, the NLB d.d. Ljubljana published an Offer to take over the remaining ordinary and the entire issue of prefernce shares of Komercijalna banka a.d. Beograd. By additional acquiring of ordinary shares until December 30, 2021, the NLB d.d. Ljubljana increased its shares in the management shares of Komercijalna banka a.d. Beograd at the level of 88.28%.

The Bank is registered for performing crediting, depositary and guarantee operations, as well as for payment transfer operations within the country and abroad.

As of December 31, 2021, the Bank was comprised of the Head Office located in Belgrade in Svetog Save Street no. 14, 6 business centers, 3 divisions for corporate banking related to small&medium sized enterprises, 1 branch and 190 sub-branches in the territory of the Republic of Serbia (December 31, 2020: 6 business centres, 3 divisions for corporate banking related to small&medium sized enterprises, 1 branch and 203 sub-branches in the territory of the Republic of Serbia).

As of December 31, 2021, the Bank had 2,372 employees (December 31, 2020: 2,669 employees). The Bank’s tax identification number is 100001931.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of Financial Statements

The Bank’s standalone financial statements (the “financial statements”) for 2021 have been prepared in accordance with the International Financial Reporting Standards (“IFRS“).

The accompanying financial statements represent the Bank’s standalone financial statement. The Bank separately prepares and presents its consolidated financial statements in accordance with the International Financial Reporting Standards.

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

The accompanying financial statements are presented in the format prescribed under the Decision on the Forms and Contents of the Items in the Forms of Financial Statements of Banks (Official Gazette of RS nos. 93/2020).

These financial statements were prepared at historical cost principle unless otherwise stipulated in the accounting policies presented hereunder.

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

The Banks financial statements are presented in thousands of RSD („Serbian Dinars“). Dinar represents the official reporting currency in the Republic of Serbia.

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

2.2. Changes and additions to IFRSs whose implementation is mandatory in the current year

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

- **IFRS 16: Leases and IFRIC 23: Uncertainty over Income Tax Treatment**

Pursuant to the Decision on Determining the Translation of International Financial Reporting Standards (Official Gazette of the RS, Nos. 123/2020 and 125/2020) a translation of all IFRS, including IFRS 16 Leases, was published. furthermore, the basic texts of IAS or IFRS are applied starting from the financial statements prepared as of December 31, 2021, while the earlier application to the financial statements prepared as of December 31, 2020 is possible with disclosure. relevant information in the Notes to the financial statements. Therefore, under the Decision translation of the new IFRS 16 - Leases and IFRIC 23 - Uncertainty over Income Tax Treatment was published, while other standards are disclosed under repeated translation published in previous decision which is repealed except in the case of its application when preparing financial statements on 31 December 2020, with mandatory application of all standards starting from the financial statements as of December 31, 2021.

2.3. Standards that are issued but not yet effective and were not adopted in the past

- **IAS 12 Income Taxes: Amendments Related to Deferred Taxes**

On May 7, 2021, the IASB issued “Deferred Tax on Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)” clarifying how entities compute deferred tax on transactions such as leasing and decommissioning obligations. The changes are effective for annual periods beginning on or after January 1, 2023.

- **IFRS 17 Insurance Contracts (Amendments)**

On June 25, 2020, the IASB issued "Amendments to IFRS 17" in order to overcome the implementation challenges identified after the publication of IFRS 17 "Insurance Contracts" in 2017. The changes are effective for annual periods beginning on or after January 1, 2023.

- **IAS 1 and IFRS 2 - Changes in Disclosure of Accounting Policies**

On February 12, 2021, the IASB issued “Accounting Disclosures (Amendments to IAS 1 and the IFRS Statement of Practice 2)” with amendments aimed at assisting preparers in deciding which accounting policies to disclose in their financial statements. The changes are effective for annual periods beginning on or after January 1, 2023.

- **IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors - Changes in Disclosure of Accounting Policies**

The standard requires compliance with any specific IFRSs that apply to a transaction, event or condition, and provides guidance on the development of accounting policies for other items that result in relevant and reliable information. Changes in accounting policies and corrections of errors are generally considered retrospectively, while changes in accounting estimates are generally calculated on a prospective basis. On February 12, 2021, the IASB issued a “Definition of Accounting Estimates (Amendments to IAS 8)” to help entities differentiate between accounting policies and accounting estimates. The changes are effective for annual periods beginning on or after January 1, 2023.

- **Amendment to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale of Assets between Investors and Subsidiaries**

The amendments indicate a known discrepancy between the requirements in IFRS 10 and those in IAS 28, related to the sale or transfer of assets between an investor and its subsidiaries and joint ventures. The main consequence of the changes relates to the fact that the total loss or gain is recognized when the transaction affects the business (regardless of whether it is a subsidiary or not). Partial gain or loss is recognized when the transaction affects a non-business asset, even when the asset is part of a subsidiary. In December 2015, the International Accounting Standards Board postponed the date of application of this standard indefinitely pending the outcome of the research related to the application of participation methods. The amendments have not yet been endorsed by the EU. It is not expected that the requirements of this standard will have significant effect on Bank’s financial statements.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.3. Standards that are issued but not yet effective and were not adopted in the past (continued)

➢ **IAS 1 Presentation of Financial Statements: Classification of Short-Term and Long-Term Liabilities (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2022, and earlier application is permitted. The International Accounting Standards Board has issued an exposure proposal to postpone the entry into force of these amendments until January 1, 2023. The purpose of the amendments is to promote consistency in the application of requirements by helping companies determine whether the statement of financial position, debts and other liabilities uncertain maturity dates need to be classified as short-term or long-term. The amendments affect the presentation of liabilities in the statement of financial position and do not change the existing requirements regarding the measurement or timing of recognition of any assets, liabilities, income or expenses, or the information that the company discloses about these items. Also, the amendments clarify the requirements for the classification of debt that a company can settle by issuing its own equity instruments. The amendments have not yet been endorsed by the EU. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

➢ **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Annual Improvements (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. The International Accounting Standards Board has issued amendments to IFRS of narrow scope as follows:

- **IFRS 3 Business Combinations (Amendments)** updates the reference in IFRS 3 Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (Amendments)** prohibits an entity from deducting from the cost of property, plant and equipment amounts received from the sale of manufactured items while the company is preparing an asset for its use. Instead, the company will recognize such sales revenue and related costs in the income statement.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** what costs an entity includes in determining the cost of performing a contract to assess whether the contract is onerous.
- **Annual improvements** lead to minor changes to IFRS 1, the first-time adoption of International Financial Reporting Standards, if IFRS 9 Financial Instruments, IAS 41 Agriculture and Illustrative Examples accompany IFRS 16 Leases.

The amendments have not yet been endorsed by the EU. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

➢ **Interest Rate Benchmark Reform - Phase 2 - IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**

In August 2020, the International Accounting Standards Board (IASB) has published 'Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)' with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments provide temporary relief to address the effects of financial reporting when the interbank offered rate (IBOR) is replaced by an alternative close to risk-free rate (RFR). In particular, the amendments provide for a practical exception when calculating changes in the basis for determining the contractual cash flows of financial assets and liabilities, in order to require an adjustment to the effective interest rate, equivalent to market interest rate movements. The amendments also introduce facilities for termination of a hedging relationship, including a temporary exemption from the need to meet a separately identifiable requirement when an RFR instrument is designated for a hedging risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurance companies that continue to apply IAS 39 to receive the same benefits as those provided for in the amendments to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures that enable users of financial statements to understand the effects of reference interest rate reform on financial instruments and entity risk management strategy. The amendments are effective for annual periods beginning on or after January 1, 2021, with the possibility of earlier application. When the application is retrospective, the entity is not required to modify data from prior periods. The amendments have not yet been endorsed by the EU. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.4. Comparative data

For all amounts disclosed in the financial statements under the items of the current period, comparative data in respect of previous year is also presented, unless standards or interpretations allow or require otherwise. For amounts disclosed under application of IAS 8, comparative data is adjusted to the current year's ones.

In 2021, the Bank changed its accounting policy in the matter subsequent evaluation of investment property and accordingly made appropriate adjustments to the previously stated Balance Sheet as of December 31, 2020, as well as the Income Statement for the year 2020. The adjustments were made in accordance with the requirements of IAS 8 - Accounting Policies, Changes in Accounting Policies and Errors, as explained in detail in Note 2.5.

2.5. Changes in accounting policies

Pursuant to the Decision made by Board of Directors dated December 17, 2021, the Bank's management changed the accounting policy for subsequent evaluation of investment property and thus previously used cost method after initial recognition was replaced with the fair value method. The new policy applies to all investment properties of the Bank.

The Bank's management has voluntarily changed the accounting policy in order to comply it with the accounting policies of the NLB Group, as well as compiling financial statements that will result in providing more reliable and relevant information on the effects of transactions on the financial position and financial performance of the Bank.

2.5.1 Effects of changes in accounting policies

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, requires that changes in accounting policies be made retrospectively, unless the amount of resulting adjustments relating to relevant prior periods or the cumulative effect of accounting policies cannot be determined with sufficient reliability. Accordingly, on this basis, changes in the fair value of investment property, based on estimates of the value of individual properties from 2019, are recorded as an adjustment to the opening balance of retained earnings on January 1, 2020, while changes in fair value relative to estimates on December 31, 2020, recorded against income statement for 2020.

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

2.5. Changes in accounting policies (continued)

2.5.1 Effects of changes in accounting policies (continued)

a) Outcome of balance sheet adjustments on January 1, 2020

	2019	Adjustments +/-	January 1, 2020
ASSETS	***previous***		***adjusted***
Cash and assets held with the central bank	67,558,219	-	67,558,219
Securities	138,469,551	-	138,469,551
Loans and receivables from banks and other financial organisations	24,733,958	-	24,733,958
Loans and receivables from clients	180,852,563	-	180,852,563
Investments in subsidiaries	3,433,697	-	3,433,697
Intangible assets	665,735	-	665,735
Property, plant and equipment	6,437,937	-	6,437,937
Investment property	1,857,927	968,003	2,825,930
Deferred tax assets	1,074,197	-	1,074,197
Non-current assets held for sale and discontinued operations	196,300	-	196,300
Other assets	7,100,359	-	7,100,359
TOTAL ASSETS	**432,380,443**	**968,003**	**433,348,446**
	-	-	-
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and other liabilities to banks, other financial organisations and central bank	5,021,756	-	5,021,756
Deposits and other financial liabilities to clients	335,317,154	-	335,317,154
Provisions	2,328,130	-	2,328,130
Other liabilities	13,861,230	-	13,861,230
TOTAL LIABILITIES	**356,528,270**	**-**	**356,528,270**
EQUITY			
Share capital	40,034,550	-	40,034,550
Profit	10,425,898	968,003	11,393,901
Reserves	25,391,725	-	25,391,725
TOTAL EQUITY	**75,852,173**	**968,003**	**76,820,176**
TOTAL LIABILITIES AND EQUITY	**432,380,443**	**968,003**	**433,348,446**

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

2.5. Changes in accounting policies (continued)

2.5.1 Effects of changes in accounting policies (continued)

b) Outcome of balance sheet adjustments on December 31, 2021

	2020	Adjustments +/-	2020
ASSETS	***previous***		***adjusted***
Cash and assets held with the central bank	80,045,107	-	80,045,107
Securities	153,776,323	-	153,776,323
Loans and receivables from banks and other financial organisations	18,142,070	-	18,142,070
Loans and receivables from clients	189,296,089	-	189,296,089
Investments in subsidiaries	3,433,697	-	3,433,697
Intangible assets	510,669	-	510,669
Property, plant and equipment	6,045,330	-	6,045,330
Investment property	1,819,507	573,676	2,393,183
Deferred tax assets	12,237	-	12,237
Non-current assets held for sale and discontinued operations	130,426	-	130,426
Other assets	6,216,268	-	6,216,268
TOTAL ASSETS	**459,427,723**	**573,676**	**460,001,399**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and other liabilities to banks, other financial organisations and central bank	4,989,315	-	4,989,315
Deposits and other financial liabilities to clients	372,699,401	-	372,699,401
Provisions	2,529,268	-	2,529,268
Deferred tax liabilities	147,400	-	147,400
Other liabilities	4,975,476	-	4,975,476
TOTAL LIABILITIES	**385,340,860**	**-**	**385,340,860**
EQUITY			
Share capital	40,034,550	-	40,034,550
Profit	5,319,351	573,676	5,893,027
Reserves	28,732,962	-	28,732,962
TOTAL EQUITY	**74,086,863**	**573,676**	**74,660,539**
TOTAL LIABILITIES AND EQUITY	**459,427,723**	**573,676**	**460,001,399**

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

2.5. Changes in accounting policies (continued)

2.5.1 Effects of changes in accounting policies (continued)

c) Outcome of income statement adjustments on January 1, 2020

	December 31, 2020 *previous*	Adjustments +/-	December 31, 2020 *adjusted*
Interest income	13,201,267	-	13,201,267
Interest expenses	(1,131,977)	-	(1,131,977)
Net interest gains	**12,069,290**	**-**	**12,069,290**
Income from fees and commissions	6,696,915	-	6,696,915
Expenses on fees and commissions	(1,821,507)	-	(1,821,507)
Net gains from fees and commissions	**4,875,408**	**-**	**4,875,408**
Net gains from changes in fair value of financial instruments	95,629	-	95,629
Net gains from derecognition of the financial instruments measured at fair value	157,796	-	157,796
Net exchange rate gains / (losses) and gains / (losses) from agreed currency clause	4,404	-	4,404
Net income / (expenses) from reduction in impairment of financial assets not measured at fair value through income statement	(1,072,032)	-	(1,072,032)
Other operating income	211,389	-	211,389
TOTAL NET OPERATING INCOME	**16,341,884**	**-**	**16,341,884**
Salaries, salary compensations and other personal expenses	(5,819,946)	-	(5,819,946)
Depreciation costs	(977,383)	38,420	(938,963)
Other income	859,417	30,335	889,752
Other expenses	(6,211,126)	(463,082)	(6,674,208)
PROFIT BEFORE TAX	**4,192,846**	**(394,327)**	**3,798,519**
		-	
Gains from deferred taxes	120,049	-	120,049
Loss on deferred taxes	(1,384,134)	-	(1,384,134)
PROFIT AFTER TAX	**2,928,761**	**(394,327)**	**2,534,434**
		-	
RESULT FOR PERIOD - PROFIT	**2,928,761**	**(394,327)**	**2,534,434**

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

2.5. Changes in accounting policies (continued)

2.5.1. Effects of changes in accounting policies (continued)

d) Outcome of changes in equity adjustments for the year 2020

	Share capital and other equity	Premium on issue of shares	Reserves from profit and other reserves	Revaluation reserves (credit balance)	Profit	Total
Opening balance as at January 1, 2020	**17,191,466**	**22,843,084**	**18,565,207**	**6,826,518**	**10,425,898**	**75,852,173**
Changes in accounting policy					968,003	**968,003**
The adjusted opening balance as at January 1, 2020	**17,191,466**	**22,843,084**	**18,565,207**	**6,826,518**	**11,393,901**	**76,820,176**
Total negative other comprehensive income for the period	-	-	-	(240,763)	-	**(240,763)**
Profit for the current year	-	-	-	-	2,928,761	**2,928,761**
Adjusted profit of the current year +/-					(394,327)	**(394,327)**
Distribution of profit – increase			3,582,000	-	-	**3,582,000**
Distribution of profit and/or coverage of losses – decrease	-	-	-	-	(3,582,000)	**(3,582,000)**
Dividend payments	-	-	-	-	(4,477,879)	**(4,477,879)**
Other – increase	-	-	-	-	24,571	**24,571**
Total transactions with owners	**-**	**-**	**3,582,000**	**-**	**(8,035,308)**	**(4,453,308)**
Balance as at December 31, 2020	**17,191,466**	**22,843,084**	**22,147,207**	**6,585,755**	**5,893,027**	**74,660,539**

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

2.5. Changes in accounting policies (continued)

2.5.1 Effects of changes in accounting policies (continued)

e) Outcome of earning per share adjustments

	In thousands of RSD	*In RSD*
	Increase / decrease the results attributable to shareholders	Increase / decrease in basic earnings per share
Effects of changes in accounting policies	(394,327)	(23)

	2020	**2020**
	previous	***adjusted***
Basic earnings per shares (in RSD without cents)	173	150

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES

When compiling and presenting the financial statements for the period January - December 2021, the legal regulations of the NBS were applied, according to which banks were obliged to apply the forms of financial statements valid from December 31, 2021.

(a) Consolidation

The Bank has control over the following legal entities as of December 31, 2021, which are not consolidated into these financial statements:

Legal Entity	Equity Interest
UCITS Fund Management Company KomBank INVEST a.d. Beograd, Serbia	100%

During 2021, the Bank lost control over:

- Komercijalna banka a.d. Podgorica, Montenegro due to the legal status change - merger to NLB banka a.d. Podgorica occurred in November 2021. The Bank's equity share in NLB banka a.d. Podgorica after the merger amounts to 23.97% and in this regard the legal status became associate;
- Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina by selling 100% of shares occurred in December 2021.

The Bank's consolidated financial statements are prepared and disclosed separately.

In Bank's standalone financial statements, investments in subsidiaries are measured at cost, reduced for impairment losses.

(b) Foreign Exchange Translation

Business transactions in foreign currency are translated into RSD at the middle exchange rate of the currency that was valid on the day of the business transaction.

Monetary positions in foreign currency assets and liabilities, which are measured at cost, are translated into RSD according to the middle exchange rate prevailing at the balance sheet date. Foreign exchange differences arising from the translation of foreign exchange positions are presented in the profit and loss statement. Non-monetary positions of assets that are measured at cost in foreign currency are translated into RSD according to the average exchange rate of the currency that was valid on the day of the business transaction.

The most important currencies used in the conversion of balance sheet items denominated in foreign currency, as determined by the National Bank of Serbia, are disclosed in Note 42

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3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(c) Interest

Interest income and expense are recognized in the profit and loss statement using the effective interest method. An effective interest rate is the rate at which future cash flows are discounted over the expected period of financial assets or liabilities (or, if necessary, for a shorter period) to its present value.

When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses that might arise.

The calculation of the effective interest rate includes all paid or received fees and charges, which are an integral part of the effective interest rate - loan approval fees as well as annexation fees.

Transaction costs are costs directly attributable to the acquisition or the issuance of a financial asset or liability.

Recognition of interest income on impaired loans is done by net principle, by reducing the gross accrued interest for the amount of the impairment, or for the amount that is certain that it will not be charged.

Recognition of interest income on credit-impaired placements that are classified as Stage 3, by net principle, is carried out using an alternative unwinding concept. When a financial asset becomes credit-impaired as compared to the moment of initial recognition and is therefore regarded as Stage 3, the Bank calculates interest income by using an alternative concept of unwinding - IRC method, by reducing the accrued interest income with associated impairment recognized in the current year, whereby interest receivable is recognized at gross principle.

(d) Fees and Commissions

Fee and commission income and expenses, which are an integral part of the effective interest rate of a financial asset or liability, are included in the determination of the effective interest rate. Other fees are accrued and a proportional part is recorded as income for the current period.

Income from fees and commissions is recorded at the moment of services provided. Income from fees and commissions includes revenues from international and domestic payment services, issuance and use of payment cards, issuance of guarantees, letters of credit and other banking services.

Fee and commission expenses are mainly related to fees based on transaction and service performed and are recorded at the moment of receiving the service.

(e) Net gains arising on the fair value measurement of financial instruments

Net gains based on the fair value of financial instruments includes gains less losses due to changes in value: derivatives, changes in the value of financial assets that are measured at fair value through profit and loss and gains less losses arising from changes in the value of financial liabilities valued at fair value through the profit and loss account.

(f) Net gain on the derecognition of financial instruments at fair value

Net gain on derecognition of financial instruments at fair value refers to financial assets and liabilities at fair value through profit and loss and fair value through other comprehensive income.

g) Dividends

Dividend income is recognized at the moment of inflow of economic benefits from dividends. Dividends are presented under position of Other operating income.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(h) Leasing

At the beginning of the contract, the Bank assesses whether the contract contains a leasing component or represents a lease. More specifically, it analyzes whether the contract transfers the right to control the use of separable assets over a defined period of time in exchange for a fee.

Bank as leasee

The Bank applies a uniform recognition and measurement approach for all leases except for short-term leases and leases of low value assets. The Bank recognizes the leasing obligation to pay the lease and the right to use, which represents the right to use the fixed assets.

(i) Right of use assets

The Bank recognizes right of use assets on the day the lease begins (i.e. the date the asset is available for use). Right of use assets are measured at cost less accumulated depreciation and impairment losses, and adjusted for any subsequent measurement of the lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received.

Right of use assets are depreciated on a straight-line basis over a period shorter than the lease term or the estimated useful life of the asset.

Right of use assets are depreciated at a rate ranging from 92.31% to 6.70% annually, depending on the contractual right to use the asset.

(ii) Leasing liabilities

At the commencement of the lease, the Bank recognizes the lease liability, measured at the present value of the lease payment to be made during the lease term. Leasing payments include fixed payments less all lease incentive receivables, variable lease payments that depend on an index or a rate, and amounts to be paid under residual value guarantees. The Lease payments also include the exercise price of the purchase option reasonably expected to be made by the Bank and the payment of penalties for termination of the contract if the termination option is available to the Bank for the duration of the contract.

Variable lease payments that do not depend on an index or rate are recognized as an expense (unless incurred to produce inventories) in the period in which the events or conditions that give rise to the payment occur.

In calculating the present value of a lease payment, the Bank uses its incremental borrowing rate at the date of commencement of the lease because the implicit leasing interest rate cannot be easily determined. After the commencement date, the amount of the lease liability increases by the accrued interest for the previous period and decreases for the lease payments made. In addition, the carrying amount of a lease liability is remeasured if there is a modification of the contract, a change in the lease term, a change in the lease payment (e.g., changes in future payments resulting from a change in the index or rate used to determine such lease payments), or a change in the valuation of the purchase option where the underlying asset is the subject of the lease.

During 2021, the incremental indebtedness rate did not have large variations and rates ranged from 0.4748% to 2.4310% for EUR and 1.4690% to 4.7848% for RSD (2020: 0.2305% to 3.1000% for EUR i.e. 0.47950% to 4.95119% for RSD)

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(h) Leasing (continued)

(iii) Short-term leases and leases of low value assets

The Bank applies an exemption from the recognition of short-term leases for its short-term leases of machinery and equipment (i.e. those leases that have a term of less than 12 months from the commencement date and do not include an option to purchase). The exemption from recognition for the lease of low value assets on the lease of office equipment also applies. Lease payments for short-term leases and leases of low value assets are recognized as an expense, pro rata over the lease term.

Bank as a leaser

Leases in which the Bank does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Lease income is calculated on a pro rata basis over the life of the contract and is recorded as income in the income statement because of its operational nature. The initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as income in the period in which they are earned.

(i) Tax Expenses

Tax expenses incurred current taxes and deferred taxes. Current taxes and deferred taxes are shown in the profit and loss statement except to the extent that they relate to items that are recognized directly within the capital or within the other comprehensive income.

(i) Current Income Tax

Current tax represents the expected liability or profit tax receivable for the accounting period, using tax rates applicable or effective at the reporting date, with appropriate tax adjustments from the previous year.

(ii) Deferred Income Tax

Deferred taxes are determined in relation to temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the value of assets and liabilities for tax purposes. When defining deferred taxes, the tax rates that are expected to be applied at the time of occurrence of temporary differences are used and based on the legal regulations that were applied at the reporting date.

Deferred tax assets and deferred tax liabilities are netted if there is a legal right to net current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities relate to the income tax imposed by the same tax authority on the same taxpayer or different taxpayers who intend to either settle current tax liabilities and assets on a net basis or to simultaneously realize assets and settle liabilities in each future period in which a significant repayment or refund of deferred tax liabilities or assets is expected.

Deferred tax assets are recognized for all deductible temporary differences and the tax effects of income tax losses available for carry forward and tax credits, to the extent that it is probable that the future taxable profits will be available against which the deductible temporary differences and tax losses carry forward can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax liabilities are recognized on all taxable temporary differences.

(iii) Other Taxes and Contributions

In accordance with the applicable regulations in the Republic of Serbia, the Bank pays various taxes and contributions, such as service tax, tax on investments in equity and contributions on salaries and wages. These expenditures are included in “Other expenses”.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

A financial asset is any asset that is:

- cash,
- an equity instrument of another legal entity,
- a contractual right to receive cash or another financial asset from another legal entity,
- a contractual right to exchange financial assets or financial liabilities with another legal entity under conditions that are potentially favourable to the entity,
- a contract that will or may be settled in the entity's own equity instruments and is and which is non-derivative and for which the Bank is or may be required to receive a variable number of equity instruments,
- a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments

Financial liabilities

A financial liability is any liability that is:

- a contractual obligation to deliver cash or another financial asset to another legal entity,
- a contractual obligation to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

Principles of measurement of financial instruments

From the aspect of classification and measurement, IFRS 9 prescribes criteria for the classification of financial assets, other than equity instruments and derivatives, based on an assessment of the business model of managing specific financial assets and contractual characteristics of cash flows of financial instruments.

Financial assets

The classification of financial assets is based on the application of an appropriate business model for the management of financial assets and the fulfilment of the test of characteristics of contracted cash flows.

The business model determines whether cash flows arise from the collection of contracted cash flows, the sale of financial assets or both. The business model for the classification of financial assets is determined at the appropriate level of aggregation.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Fulfilment of the test of characteristics of contracted cash flows means that cash flows consist solely of principal and interest payments on the remaining principal (SPPI criterion).

Financial assets can be classified into the following categories:

- financial assets measured at amortized cost (AC)
- financial assets measured at fair value through profit and loss (FVTPL)
- financial assets measured at fair value through other comprehensive income with recognition through profit and loss - "recycling" (FVOCI) on derecognition
- financial assets valued at fair value through other comprehensive income without recognition through profit and loss account (FVOCI)

In accordance with the classification of assets from the previous paragraph, the Bank categorizes all placements from its portfolio relating to:

- Loans and receivables as non-derivative financial assets with fixed or determinable payments that are not quoted in the active market and which the Bank does not intend to sell in the short term,
- Securities that are measured at fair value through profit and loss statement that are instruments acquired for the purpose of generating profit from the fluctuation of prices and margins
- Securities, which include debt securities and equity securities (capital instruments):

  - Debt securities include bonds and transferable securitized debt instruments, government records, treasury bills, commercial records, deposit certificates, bank notes, subordinated bonds and other similar debt securities traded on financial markets.

  - Equity securities include shares representing a share in the equity of a joint stock company and convertible bonds which, under the conditions set out in the issuing decision, give the right to a replacement for ordinary shares of the company. Equity securities (equity instruments) are all forms of participation in the capital of legal entities for which there is an intention to hold for an indefinite period of time, which can be sold due to the need for liquidity or due to changes in interest rates, foreign exchange rates or market prices.

  - Investments in subsidiaries that provide control, that is, over 50% of management rights and investments in associated legal entities that provide from 20% to 50% of management rights and

- Financial derivatives that include forward and swap transactions.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Classification and measurement

From a classification and measurement perspective, standard required all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

According to IFRS 9, financial assets are being measured in one of the following methods: amortised cost, fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI). Equity instruments that are not held for trading, can be classified as assets that are valued at fair value through other comprehensive income, without any subsequent reclassification of gains and losses through the Profit and loss statement.

Initially, the financial asset is measured at fair value plus the transaction costs, except in the case of financial assets that are measured at fair value through the Profit and loss statement (FVtPL) in which these costs are recognized as cost in the Profit and loss statement.

A financial asset is measured at amortized cost unless it is designated as FVTPL and meets the following criteria:

- the goal of a business model of holding a financial asset is the collection of contracted cash flows and
- contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Debt instruments are valued as FVOCI only if the following criteria are met and FVtPL option is not chosen:

- the goal of the business model of holding a financial asset is the collection of contracted cash flows and sales, and
- contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Subsequently, gains or losses on the financial assets of the FVOCI will be recognized through the other comprehensive income, except for income or expense on impairment of financial assets and exchange rate differences, until the moment when the recognition of a financial asset ceases or when it is reclassified.

When the recognition of a financial asset ceases, the cumulative gain or loss previously recognized in the other comprehensive income will be reclassified from equity to the profit and loss statement. Interest calculated using the effective interest rate is recognized in the profit and loss statement.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Classification and measurement (continued)

Financial liabilities

After initial measurement, financial liabilities are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on financial liabilities, and costs that are an integral part of the EIR.

The Bank does not have financial liabilities designated as FVTPL.

Impairment of financial assets

IFRS 9 has changed IAS 9's incurred loss approach with a forward-looking expected credit loss (ECL) approach, through the inclusion of the impact of the expected movement of macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank defined the criteria for classifying financial instruments into stages 1, 2 and 3, depending on the degree of increase in credit risk from the moment of initial recognition. The subject of the classification are financial instruments that are measured at amortized cost, as well as debt financial instruments that are valued at fair value through other comprehensive income.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Classification and measurement (continued)

Stage 1

Impairment allowance of financial instruments that are not deemed to have a significant deterioration in credit risk are calculated on the basis of 12-month expected losses (ECL) in accordance with IFRS 9. Stage 1 also includes exposures to the Republic of Serbia, the National Bank of Serbia and other low credit risk exposures, except for the exposure on the basis of mandatory reserve and similar exposures.

Stage 2

All financial instruments for which significant increase in credit risk since initial recognition has been identified are classified in stage 2, and impairment allowance are calculated on the basis of expected credit losses for the entire lifetime of the instrument.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. According to the internal policy of the Bank, a significant increase in credit risk is considered to be days past due of 31 to 90 days, restructuring, Watch-list clients etc.

Stage 3

Financial instruments are included in stage 3 if there is objective evidence of impairment. There is no change in the treatment of loans classified in that stage, apart from the fact that multiple collection scenarios were introduced. The impairment calculation on an individual basis will continue on the same principle.

In the assessment of expected credit losses (ECL), the Bank also included information on the expected trends in macroeconomic parameters for the next three years, for which a statistically significant dependence was established.

As different levels of impairment result in different ways of calculating the expected credit losses, the Bank has developed a methodology and accounted for risk parameters in accordance with the requirements of IFRS 9.

POCI

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Wite-offs

The subject of write-offs are receivables that the Bank failed to collect despite the implementation of all collection activities defined by its policies and procedures: extension, restructuring, settlement, taking over collateral to collect receivables, concluding contracts with interested third parties, litigation and other.

If the measures taken to regulate placements, ie forced collection and court proceedings did not give the expected results, ie when there is no possibility of collecting receivables in full, a proposal for permanent write-off of the Bank's remaining receivables or transfer from on-balance sheet to off-balance sheet records is initiated.

Pursuant to the Decision of the National Bank of Serbia on the accounting write-off of the balance sheet assets "Official Gazette of RS", no. 77/2017 dated August 10, 2017, the Bank write-off non-performing receivables in the case when impairment recorded in favor of allowance for impairment amounts 100% of its gross book value.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Classification and measurement (continued)

(iii) Derecognition

The Bank ceases to recognize a financial asset when the contractual rights over cash flows associated with an asset expire, or when the Bank transfers the transaction with all essential rights and benefits related to the ownership of a financial asset or if it does not transfer or retain all substantive property rights, but does not retain control over a financial asset. All ownership of a transferred financial asset that meets the criteria for termination of recognition that Bank has created or retained is recognized as a separate asset or liability in the balance sheet. Upon derecognition of a financial asset, the difference between the carrying amount (or the carrying amount of the part of the asset transferred), and collection of received remuneration (including new assets acquired less for new assumed liabilities), as well as the aggregate gains or losses previously recognized in the report on the total result are recognized in the profit and loss statement.

The Bank carries out transactions by which it transfers the assets recognized in his balance sheet, although he reserves all or substantially, all the risks and benefits or part of the transferred assets. If all or substantially all risks and benefits are retained, then there is no cessation of recognition of the asset. The transfer of funds by retaining all or substantially all risks and benefits includes, for example, re-purchase transactions.

In the case of transactions in which the Bank neither holds, nor transfers substantially all the risks and rewards of ownership of a financial asset and retains control over the asset, the Bank continues to recognize the asset to the extent that its relationship with the asset continues, which is determined on based on its exposure to changes in the value of the transferred asset. The Bank shall execute the obligation when the obligation is settled, terminated or transferred to another.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

(ibi) Modifications

Modifications to financial assets that do not result in derecognition.

Amendments to the contract due to the financial difficulties of the debtor are not considered a significant modification that leads to the cessation of recognition of the financial asset.

In accordance with IFRS 9, the Bank determines the new gross carrying amount of a financial asset and recognizes income or expense based on a modification in the income statement. The effect is recognized in the Income statement, under position Net gains/lossess from decrease/increase in impairment of financial assets that are not measured at fair value through profit or loss. The gross carrying amount of a financial asset is determined as the present value of the modified cash flows discounted using the original effective interest rate. Any transaction costs incurred adjust the carrying amount of the modified financial asset and are amortized over its useful life.

(iv) Netting

Financial assets and liabilities are netted and the net amount is disclosed in the statement of financial position only when the Bank has the legal right to net recognized amounts and when it intends to settle liabilities on a net basis or at the same time realize the asset and settle the obligation.

Income and expense is disclosed by net principle only when permitted by IFRS or for income and expenses arising from a Bank of similar transactions, such as transactions held by the Bank in trading.

Accounting policies for calculation of Expected Credit Losses are described in Note 4. Risk Management, 4.1. Credit risk - IFRS 9 Financial Instruments.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, assets with central banks that can be unrestrictedly disposed of and highly liquid financial assets with an original maturity shorter than 3 months, low risk of change in value, which are used by the Bank for short-term liquidity management.

Cash is carried at amortized cost in the balance sheet.

(l) Property and Equipment

(i) Recognition and Measurement

Initial measurement of property and equipment is done at cost.

The cost includes expenses directly attributable to the acquisition of the asset. Purchased software, which is an integral part of the software necessary for the functional usability of the equipment, is capitalized as part of this equipment.

After initial recognition the property is measured at cost less accumulated depreciation and subsequent accumulated impairment losses.

Following initial recognition, property is measured at revaluation amount which represents its fair value at valuation date less subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is carried out on a regular basis in order to ensure that the carrying amount does not differ significantly from the value that would have been achieved using fair value at the end of the reporting period.

Recording the effects of revaluation depends on whether the difference between the carrying amount of the asset and its fair value at the date of revaluation is positive or negative. Positive effects are recognized as an increase in the revaluation reserve and / or as income from changes in the value of fixed assets to the level of previously recognized expenses on the same basis for the same asset. Negative effects are recognized as a reduction in the previously formed revaluation reserve and / or as an expense based on changes in the value of fixed assets. The revaluation reserve arising on this basis is transferred in full to retained earnings upon derecognition of the property. The revaluation reserve can be transferred to retained earnings while the asset is used in the amount of the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost of the asset. The transfer of revaluation reserves to retained earnings is not made through profit or loss statement.

When parts of property or equipment have different useful lives, they are kept as separate items (main components) of equipment.

Gains or losses arising from the disposal of property and equipment are determined as the difference between the value of their sale and their carrying amount and are recorded in other income or expenses.

(ii) Subsequent Costs

Replacement cost for an item of property, plant and equipment is recognized as part of the carrying amount of that fixed asset if it is probable that future economic benefits associated with that component will accrue to the Bank and if the cost of the cost of that part can be reliably measured. The carrying amount of the replaced part is written off. Maintenance costs for property and equipment are recognized in the Profit and loss statement when they arise.

(iii) Depreciation

Depreciation is recognized in the profit and loss statement in equal annual amounts over the estimated useful lives of a given item of property, plant and equipment, since this way best reflects the expected consumption of the useful economic value contained in the asset. Leased assets are depreciated during the lease period or useful life of the asset, depending on the period of time it is shorter.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(l) Property and Equipment (continued)

(iii) Depreciation (continued)

The applied depreciation rates in the current and previous accounting period are:

Asset	Estimated useful life (in years)	Rate %
Buildings	40	2.50%
Computer equipment	4	25.00%
Furniture and other equipment	5 - 10	10 - 20%
Investments in other fixed assets	4,58 -20	5 - 21.83%
Leased fixed assets	1.1 -14.11	6.70 – 92.31%

The method of depreciation, useful life and residual value are estimated at the end of each reporting period and, when necessary, their reassessment is made.

Maintenance costs are recognized in the Profit and loss statement for the period in which they are incurred.

(lj) Intangible Assets

Intangible assets are valued at cost less amortization and impairment losses.

Subsequent costs from investing in intangible assets can only be capitalized in the event of increased future economic benefits from the assets to which they relate. All other costs represent the expense of the period in which they were incurred.

Amortization is presented in the profit and loss statement in equal annual amounts during the estimated useful lives of the item of intangible assets, since it thus best reflects the expected consumption of the useful economic value contained in the asset. Estimated useful lives of intangible assets is 3 to 10 years, i.e. amortization rates range from 10.00% to 33.34%.

The method of amortization, useful life and residual value are estimated at the end of each reporting period and, when necessary, their reassessment is made.

(m) Investment Property

Investment properties represent real estate held to earn rental income or capital appreciation for both purposes and not for sale in a regular course of business or for use in the production or purchase of goods or services or for administrative purposes.

Initial valuation of investment property is carried out at cost. The cost of the purchased investment property includes its purchase price and all expenses directly attributable to the acquisition of the asset.

After initial recognition, subsequent measurement of investment property is done at fair value method. Fair value is the price that would be charged to sell an asset or paid to transfer a liability in a regular transaction between market participants at the measurement date.

Gains or losses arising from changes in the fair value of investment property are recognized as income or expense in the period they arise.

In 2021, the Bank voluntary changed its accounting policy for the subsequent valuation of investment property and thus previously used cost method was changed by fair value method (Note 2.5).

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(n) Impairment of Non-Financial Assets

The carrying amount of non-financial assets is analysed at the end of each reporting period in order to determine whether there are impairment indicators. In case it is determined that there are certain indicators of impairment, the recoverable amount of the assets is determined. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is determined as a value that is greater than the asset's fair value and fair value.
For the purposes of determining the use value, estimated future cash inflows from the asset are discounted to their present value, using a pre-tax discount rate, reflecting the current market estimate of the time value of money as well as asset-specific risks.

An impairment loss is recognized in the case where the carrying amount of an asset is greater than its recoverable amount. An impairment loss is recognized within the results of the period..

Impairment losses from previous periods are estimated at the end of each reporting period in order to determine whether loss reductions have occurred or that they no longer exist. An impairment loss is reversed if there has been a change in the assumptions used to determine the recoverable amount of the asset. Impairment losses are reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, less amortization, in the event that there was no recognition of the impairment loss.

(o) Deposits, Borrowings and Subordinated Liabilities

Deposits, debt securities, loans and subordinated liabilities are the Bank’s main sources of financing.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms for a specific instruments.

Deposits, debt securities, loans and subordinated liabilities are initially valued at fair value plus all direct transaction costs, while their subsequent valuation is carried at amortized cost using the effective interest rate method.

(p) Provisions

Provision is recognized when a Bank expects, as a result of past events, to have a present legal or enforceable obligation that can be reliably identified and whose settlement is expected to result in an outflow of resources representing economic benefits to the Bank. The provision is determined by discounting the expected future cash outflows using a pre-tax discount rate that reflects the current market estimate of the time value of money and, where appropriate, the risks specific to the obligation.

(r) Employee benefits

In accordance with regulations, the Bank is obliged to pay liabilities to state funds to ensure the social security of employees. These obligations include employee contributions at the expense of the employer in amounts calculated according to the rates laid down by relevant legal regulations. The Bank is also obliged to suspend contributions from employees' gross salaries and to pay them on behalf of employees. Contributions made at the expense of the employer and contributions made at the expense of the employee shall be credited to the expense of the period to which they relate.

In accordance with the Labour Law, the Bank is obliged to pay compensation to employees when retiring. Long-term liabilities arising from retirement benefits after meeting the requirements, as at December 31, 2021, represent the present value of expected future payments to employees determined by actuarial valuation using the assumptions disclosed in Note 34(b).

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(s) Financial Guarantees

Financial guarantees are contracts that a Bank is obligated to make to their customers for losses incurred due to default of a particular debtor by default, and in accordance with the terms of the debt instrument.

Liabilities for financial guarantees are initially recognized at fair value, and the initial fair value is amortized over the term of the financial guarantee. The liability under the guarantee is subsequently measured in the amount that is greater than the amortized value and the present value of the expected future payment (when the payment on the basis of the guarantee is likely).Financial guarantees are recorded under off-balance sheet items.

(t) Capital and Reserves

The Bank's capital includes founding shares, future issuance shares, emission premium, reserves, fair value reserves, accumulated results and the result of the current year.

The Bank's capital is comprised of funds invested by the Bank's founders in monetary form and non-monetary form. A founder cannot withdraw funds invested in the Bank's equity.

(u) Earnings per Share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. The basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

The diluted earnings per share is calculated by dividing the adjusted gain or loss attributable to ordinary shareholders for the effects of preferential, convertible shares, weighted average of the number of ordinary shares in circulation during the period.

(v) Segment Reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by Bank management (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which separate financial information is available.

In accordance with IFRS 8 "Operating Segments", the Bank discloses information on performance of segments, thus providing the users of the financial statements with additional information on income and expenses arising from its key business activities.

When determining the operational segments, the following were used:

a) Different products and services that segments offer;
b) Separate Segment Management and
c) Structure of internal reporting.

4. RISK MANAGEMENT

The Bank has recognized risk management process as the key element of business since exposure to risks stems from all business activities, as an inseparable part of banking operations, managed through identification, measurement, evaluation, monitoring, control and mitigation, or the establishment of risk limits, as well as reporting in accordance with strategies and policies.

The Bank has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, individual risk management methodologies, appropriate organizational structure, effective and efficient process of managing all risks to which the Bank is exposed, or may be exposed in its operations, adequate internal control system, adequate information system and adequate process of internal capital adequacy assessment. Since the Bank became a member of the NLB Group at the end of the year, in the following period, additional adjustments will be made to the risk management system with the risk management system of the banking Group. During 2021, the strategic acts in the field of risk management were harmonized with the relevant acts of the NLB Group (risk appetite - statement, system of internal limits, fair valuation methodology, risk management strategy and individual risk management policy, internal rating system, Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), etc.).

The risk management process includes clearly defining and documenting the risk profile, as well as its alignment with the Bank's preference for risk and risk tolerance, in accordance with adopted strategies and policies.

With the risk management strategy, the Bank has set the following key objectives in risk management: regular identification, assessment and review of risks within the ICAAP and ILAAP processes; managing, monitoring, controlling and reporting on the risks to which it is exposed; defining limits in the Bank's risk appetite and their inclusion in the risk management strategy, ICAAP, ILAAP, Recovery Plan and business strategy; continuous development and improvement of risk management models and methodologies, including stress testing and early warning system (EWS system); assessing and measuring individual risks; establishing an appropriate decision-making system; managing the activities of restructuring and resolving disputed claims in a professional, efficient manner.

Recognizing the need to harmonize processes and risk management system of the Bank with the appropriate systems, processes and practices of the parent bank NLB dd, and the need for continuous improvement of risk management recommendations of the external auditor, the Bank has made appropriate changes of internal acts regulating risk management in 2021.

Risk Management System

The risk management system is defined by the following acts:

- Risk Management Framework
- Risk Management Strategy and Capital Management Strategy;
- Risk Management Policies;
- Risk Management Procedures;
- Methodologies for Managing Individual Risks; and
- Other acts.

With it’s Risk Management Framework, the Bank defines the basic principles of the risk management, as well as a set of indicators that best represent the Bank's exposure to material risks (credit risk, liquidity risk, interest rate risk, foreign exchange risk, operational risk and adequacy capital). The Risk Management Framework defines a set of limits and targets for the listed risk exposure indicators. The Bank's risk management is harmonized with the Risk Management of NLB dd, and in accordance with the defined plan.

The risk management strategy defines the basic risks to which the Bank is exposed or may be exposed, as well as the basic principles of identification, monitoring, measurement, control and management of these risks, as well as the tendency to take a risk (Risk appetite). The Strategy establishes a comprehensive and reliable risk management system, which is included in all activities of the Bank and which ensures that the risk appetite and profile are always in line with the already established risk appetite. The risk management system is proportional to the nature, scope and complexity of the Bank's operations, ie its risk profile.

4. RISK MANAGEMENT (continued)

Also, the Risk Management Strategy defines the criteria for determining, as well as the basic principles of bas asset management and the highest acceptable level of bad assets for the Bank, as well as the basic principles of risk management arising from exposure in dinars with foreign currency clause and exposure in foreign currency.

The key principles related to risk-taking, which are an integral part of business decision-making, are expressed using the following criteria:

- determination of target business activities and activities that are not acceptable for the Bank, in terms of assumed risks,
- determining the maximum amount of risk taken,
- monitoring the profitability of individual transactions in relation to the risks taken.

The Bank's risk management strategy is based on:

- strategic goals defined in the Business Strategy of Komercijalna banka AD Belgrade,
- guidelines on risk readiness to be defined in the Risk Appetite of Komercijalna banka AD Belgrade,
- regular annual review of strategic goals, business planning and capital planning process,
- Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP),
- activities and measures in case of activation of the Recovery Plan,
- other internal stress tests and risk analyzes,
- regulatory and internal reports,
- Risk appetite and Risk Management Strategy at the level of the NLB Group.

The Bank is guided by the main principles of risk management by:

- takes into account the main concept of risk appetite and the limits defined in the risk appetite of the Bank;
- includes risk analyzes in the decision-making process at the strategic and operational level in order to prevent risks posed by volatile exposures with a potentially negative outcome;
- applies diversification to avoid concentration at the portfolio level;
- includes and optimally uses capital and manages its allocation through business segments;
- creates an adequately balanced risk-weighted (adjusted) price;
- ensures overall compliance of operations through internal acts / documents;
- provides an adequate system of internal controls based on the "three lines of defense" model.

The Bank has established basic principles of risk management in order to meet its long-term goals:

- Taking over and managing risks is adjusted to the realization of the Bank's business strategy and plans;
- Risk assumption and management is based on a risk management system that is in accordance with the legislation in the Republic of Serbia, standards in the NLB Group and good business practice in this area;
- Taking over and managing risks is one of the key management functions in the Bank. This function is integrated into all business activities of the Bank, so that the phases of identifying, measuring and monitoring risks, on the one hand, and taking and managing risks, on the other hand, are clearly separated, while respecting the principle of independence;
- Risk assumption and management is based on the Risk Management Strategy and Policies. It is a documented process with clearly defined goals, activities, powers and responsibilities;
- Assumption and management of risks is determined according to the set legal and internally prescribed limits by risk categories, with clearly defined procedures in case of exceeding the limits;
- Taking and managing risks implies the establishment and implementation of an appropriate system of internal controls. These controls are a set of processes and procedures that include continuous verification, reporting and changes in order to develop or improve risk management systems.

4. RISK MANAGEMENT (continued)

Within the management of exposure to default, depending on the assessment of the potential repayment capacity and business viability of clients, the Bank has the following options:

- agreement with the client on voluntary (out-of-court and court) payment of obligations;
- centralized collection before the court by telephone;
- debt restructuring without discounts;
- debt restructuring at a discount;
- debt collection (liquidation of collateral - sale of real estate, movable property, securities, shares, receivables, etc.);
- taking over adequate assets (especially real estate - a solution based on the foundations of special purpose entities, whose goal is comprehensive management of real estate under mortgage);
- write-off of remaining receivables in case all legal possibilities have been exhausted;
- sale of receivables, if possible, in a package;
- active management of issued guarantees for bankrupt construction companies in cooperation with contractual partners;
- application of other measures to achieve maximum debt repayment.

The principles of risk management arising from RSD exposures with a foreign currency clause and foreign currency exposures include:

- The Bank manages FX exposures by setting limits,
- As a long-term goal, the Bank strives to reduce the share of FX exposures,
- The Bank establishes a limit in a way that optimizes the risk that may arise from the level of FX exposure and the realization of business strategy,
- Risk assessment of FX exposure is included in the credit process and clients are presented with the risks that may arise from changes in foreign exchange rates as well as proposed measures to mitigate the risk,
- When assessing the creditworthiness of the debtor, the Bank takes into account the risk of exchange rate changes in accordance with the defined rules,
- The level of risk arising from FX exposure is subject to regular reporting to the competent committees of the Bank,
- The Bank calculates the internal capital requirement for FX exposures.

Management policies for certain types of risk define in more detail:

- The way of organizing the Bank's risk management process and clear delineation of the responsibilities of employees at all stages of the process, including the process of managing bad assets or risk placements;
- The method of assessing the risk profile of the Bank and the methodology for identification and measurement, or risk assessment;
- Ways of monitoring and controlling risks and establishing a system of limits, that is, the type of limits that the Bank uses and their structure;
- The manner of deciding and acting in case of exceeding established limits, while defining exceptional circumstances in which the approval of overdraft is possible within the legal framework;
- Measures to mitigate risks and rules for the implementation of these measures;
- Method and methodology for implementing the process of internal capital adequacy assessment of the Bank;
- Principles of functioning of the internal control system;
- The framework and frequency of stress testing, as well as treatment in cases of adverse stress test results.

With the Risk Management Procedures the Bank defines the risk management process and the responsibilities and responsibilities of all organizational parts of the Bank in the risk management system.

The individual methodologies of the Bank set out in more detail the methods and approaches used in the risk management system.

4. RISK MANAGEMENT (continued)

Jurisdiction

The Board of Directors is in charge and responsible for the adoption of risk management strategy and strategy and capital management strategy, establishing a system of internal controls in the Bank and supervising its effectiveness, overseeing the work of the Executive Board, adopting quarterly reports on risk management, adopting the Recovery Plan, and implementation of the process of internal capital adequacy assessment, and others.

The Executive Board is responsible and accountable for the implementation of risk management strategy and policies and capital management strategies by adopting risk management procedures, ie identifying, measuring and assessing risks, and ensuring their implementation and reporting to the Governing Board in relation to those activities. Also, the Executive Board analyzes the risk management system and at least quarterly reports the Board of Directors on the level of risk exposure and risk management and decides, with the prior approval of the Board of Directors, of any increase in the Bank's exposure to a person related to the Bank, and shall inform the Management Board thereof.

The Audit Committee (the Banking Supervision Committee) is responsible and accountable for the analysis and supervision of the application and adequate implementation of adopted strategies and policies for risk management and internal control systems of the Bank. At least once a month, the Board of Directors reports on its activities and irregularities and proposes the way in which they will be removed, proposes improvement of policies and procedures for risk management and implementation of the internal control system.

The Assets and Liabilities Management Committee is competent and responsible for monitoring the Bank's exposure to risks arising from the structure of its balance sheet receivables, liabilities and off-balance sheet items, as well as proposing measures for managing interest rate risk and liquidity risk.

The Credit Committee decides on credit requirements within the framework of the Bank's regulations, analyzes the Bank's exposure to credit, interest and currency risk, analyzes the loan portfolio, and also proposes measures to the Executive Board of the Bank.

The risk management function defines and proposes to adopt the strategy, policies, procedures and risk management methodologies, identify, measure, mitigate, monitor and control and report on the risks to which the Bank is exposed in its operations. It is also responsible for developing models and methodologies for identifying, measuring, mitigating, monitoring and controlling risks, as well as for reporting to the competent authorities of the Bank.

The asset management sector is responsible for managing assets and liquidity, as well as in managing the assets and liabilities of the Bank. It also participates in the management of liquidity risk, interest rate risk and foreign exchange risk.

The internal audit function is responsible for the continuous implementation of an independent evaluation of the risk management system, as well as for the regular assessment of the adequacy, reliability and efficiency of the internal control system. The Internal Audit reports the Audit Committe and the Board of Directors on its findings and recommendations.

The business compliance control function is obliged to identify and evaluate the risks of such compliance at least annually and to submit risk management plans, on which it draws up a report to the Executive Board and the Board for monitoring the operations of the Bank.

4. RISK MANAGEMENT (continued)

Risk Management Process

The Bank regularly measures, or estimates, the risks it identifies in its business. Measurement implies the application of qualitative and quantitative methods and measurement models that enable the detection of changes in the risk profile and the assessment of new risks.

For all identified risks, the Bank determines their significance based on a comprehensive risk assessment inherent in certain Bank's products, products, activities and processes.

Risk mitigation involves diversification, transfer, reduction and / or avoidance of risks, and the Bank implements it in accordance with risk profile, risk aversion and risk tolerance.

Monitoring and control of risk is carried out through continuous monitoring of exposure according to different criteria, as well as through monitoring and control of the limits established by the Bank, which depend on the business strategy and market environment, as well as on the level of risk that the Bank is willing to accept.

The Bank has established a system of regular reporting on risk exposure and risk profile that enables relevant employees at all levels in the Bank to provide timely, accurate and sufficiently detailed information that is necessary for making business decisions and efficient risk management, ie safe and stable operation.

Risk management reports are regularly submitted to: the Board of Directors, the Executive Board, the Audit Committee, the Assets and Liabilities Management Committee and the Credit Committee, which contain all the information necessary for the risk assessment and risk conclusions of the Bank.

In its regular course of business, the Bank is particularly exposed to the following risks: credit risk and risks associated with the credit risk, liquidity risk, market risk, operational risks, investment risk, exposure risk and country risk as well as to all other risks that may arise from the Bank's regular operations.

4.1. Credit risk

Credit risk is the risk of possible negative effects on the financial result and capital of the Bank due to non-fulfillment of obligations of debtors to members of the Bank.

During 2020 and 2021, a special challenge from the aspect of credit risk management is the conditions caused by the COVID-19 virus pandemic, which are completely different in relation to the previous business circumstances faced by the real and financial sector. The pandemic certainly affected a significant number of clients, primarily activities related to tourism and catering, transport, bus transport, certain segments in the automotive industry, etc. were most affected. With the reaction of the state, primarily the National Bank of Serbia through moratoriums, the Ministry of Finance and the Ministry of Agriculture through various programs, guarantee scheme and subsidies, the situation is significantly facilitated for all affected clients to bridge or mitigate the later effects of the COVID-19 pandemic on their business. It was noticed that most clients achieved revenue growth and their activities in the first 6 months of this year compared to the same period last year.

The Bank has defined criteria for granting loans, changing conditions, extending the deadline and restructuring the receivables, which are prescribed by procedures and methodologies for placement approval and risk management.

Prior to the approval of placements, the Bank assesses the creditworthiness of the debtor as the primary source of repayment of loans based on internally defined criteria and the collateral offered as a secondary source of collection. Based on the identified and measured level of credit risk (assessment of the financial condition and creditworthiness of the debtor, as well as the value and legal security of credit protection and other relevant factors) and independent risk assessment, competent persons, committees and bodies of the Bank, make a decision on approval / changes of placements, in accordance with the defined decision system.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The Bank defined the decision on the exposure to credit risk through the decision-making system, depending on the type of clients and the level of exposure. Credit decision makers are: persons with special powers from the Risk Management function, the Credit Committee, the Executive Board and the Board of Directors.

When making decisions, the principle of double control (the so-called "four-eye principle") is respected, which ensures that there is always a side which proposes and a side which approves a particular placement.

For placements contracted in foreign currency or in dinars with a currency clause, the Bank assesses the impact of changes in the dinar exchange rate on the financial condition and creditworthiness of the debtor, and in particular analyzes the adequacy of the debtor's cash flows in relation to the changed level of credit obligations due to changes in exchange rates.

Since the Bank became a member of the NLB Group at the end of 2020, in the upcoming period, loan origination and approval process will be additionally aligned with the established system at the level of the Banking Group.

The organizational model of the Bank's credit risk management system ensures adequate communication, information exchange and cooperation at all organizational levels, and also provides a clear, operational and organizational separation of the function of independent risk management and support activities on the one hand, from risk-taking activities, competencies and responsibilities on the other hand. The Bank has established an adequate information system that includes full information of persons involved in the credit risk management system.

Credit risk management

In accordance with the scope, type and complexity of the operations it performs, the Bank has organized a credit risk management process and clearly delineates the responsibilities of employees at all stages of the process.

The acceptable level of exposure to the Bank's credit risk is in line with the defined risk management strategy and depends on the structure of the Bank's portfolio, which limits the potential impact of negative effects on the financial result and capital adequacy.

The basic principles of credit risk management are:

- Credit risk management at the level of individual placements and at the level of the Bank's entire portfolio;
- Maintaining the level of credit risk that minimizes the negative impact on the financial result and equity;
- Ranking of placements according to their risk;
- Performance in accordance with good practices for approving loans;
- Providing adequate controls for credit risk management.

With the aim of credit risk management, the Bank strives to deal with clients with good creditworthiness and obtain appropriate collaterals. The Bank assess the creditworthiness of each client at the time of filing the application and monitor debtors, placements and collaterals in order to be able to undertake appropriate activities for the purpose of collecting receivables.

The Bank perform quantitative and / or qualitative measurement, i.e. an assessment of the identified credit risk. The process of measuring credit risk is based on measuring the risk level of individual placements based on the internal rating system.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

A rating system is an instrument for making individual decisions and assessing the level of risk of individual placements. In addition, the rating system serves to assess the level of risk of the total portfolio, and is also used in the process of impairment of placements in order to rank the level of risk and to show the real value of the receivables. Internal rating system is subject to regular audit and improvement. As part of the process of harmonization of the Bank's risk management system with the appropriate system at the level of the NLB Group, during 2021 the process of harmonization of the internal rating system began, which will be subject to additional improvements in the future.

In the credit risk analysis, in addition to the internal rating system, the Bank uses the principles prescribed by the regulations of the National Bank of Serbia, which require the classification of each placement based on the prescribed criteria and the calculation of the reserve for estimated losses. In December 2018, the National Bank of Serbia adopted an amendment to the regulations which, as of January 1, 2019 confirms the abolition of the calculation of reserves for estimated losses and required reserves.

Credit risk mitigation involves maintaining the risk at an acceptable level for the Bank's risk profile, or maintaining an acceptable level of quality of the Bank's loan portfolio.

The basic techniques of credit risk mitigation are:
- Exposure Limits - concentration risk,
- Diversification of investments,
- Security instruments.

Exposure limits based on a single debtor are based on an assessment of the debtor's creditworthiness, and exposure limits at the portfolio level are focused on the concentration limit of exposure in the portfolio. The Bank continuously control the credit risk changes within a defined risk profile.

The concentration risk includes: large exposures (exposure to one person or Bank of related persons and persons associated with the Bank), exposure Banks with the same or similar risk factors such as economic sectors, product types, geographical areas and similar, and collaterals.

The Bank monitors exposure to defined limits with the same or similar risk factors and, depending on the general economic trends, trends in particular activities and geographical areas, the values set forth in the Business Plan of the Bank, regularly reviews the defined limits and proposes redefinition of these in the event of a change in risk factors.

By the Decision on risk concentration management based on the exposure of the bank to certain types of products, the National Bank of Serbia, from January 1, 2019 banks were obliged to monitor the risk of concentration or exposure of the bank towards group of products, primarily exposure to cash, consumer and other loans granted to retail sector of agreed maturity over 8 years in 2019, over 7 years in 2020 and 6 years from 2021.

Monitoring of quality of placements at the individual debtor level is primarily based on providing up-to-date information on financial condition and creditworthiness of the debtor and the market value of collateral, while monitoring credit risk at the portfolio level is done by identifying changes at the level of client Banks of a certain level of risk, required reserves for expected and unexpected losses, in order to determine and manage the condition and quality of assets.

Credit risk control implies the process of continuous monitoring of operations with a defined system of limits, especially when exposure to credit risk tends to the upper limit of the defined risk profile, especially when introducing new business products and activities.

In order to protect against the risk of non-fulfilment of liabilities in dealing with clients, the Bank members take the following measures for regulating receivables: extension of the deadline, restructuring, settlement, takeover of collateral for the collection of receivables, conclusion of a contract with the interested third party, initiation of court proceedings and other measures.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

If the measures taken to regulate the placements, i.e. the forced collection and the court procedure did not give the expected results or when there is no possibility of collecting the receivables in full, a proposal for the permanent write-off of the remaining receivables or transfer from the balance sheet to the off-balance sheet is initiated.

A Bank, besides balance sheet exposure, also has an off-balance sheet exposure (payable and performance guarantees, guarantees, letters of credit) on the basis of which it has a potential obligation to make payments on behalf of third parties. For off-balance sheet exposure, the Bank members use the same control processes and procedures that are used for credit risk.

The credit risk reporting includes the internal and external reporting system, which is implemented according to the established dynamics in accordance with the defined reporting system.

IFRS 9 Financial instruments

The Bank continuously applies IFRS 9. In accordance with IFRS 9, the financial assets can be classified and measured as:

- Financial instruments at amortized cost (AC), a business model for collecting contractual cash flows of principal and interest, and fulfilled SPPI criterion;
- Financial instruments at fair value through other comprehensive income (FVOCI), SPPI fulfilled, but the business model is the collection of contractual cash flows and sales;
- Financial instruments at fair value through profit and loss account (FVTPL).

Considering that the Bank became a member of the NLB Group at the end of the year, during the 2021, the process of harmonizing impairment methodologies with the established rules at the level of the Banking Group began. In the 2021, the values of the hair cut for individual impairment of placements were adjusted, the material significance threshold for the impairment of NPE clients of individuals was changed (the threshold was increased from RSD 2.5 million to EUR 50,000), the calculation of impairment for placements that have a guarantee of the Republic of Serbia has been changed, and the PD for the calculation of impairment of securities of the Republic of Serbia has also been changed and the formula for the application of LGD has been changed. Also, the use of monthly PD instead of annual, using exposure to monthly amortization plans, included the effects of macroeconomic variables on the value of LGD secured and LGD unsecured, tested the value of hair cut with the historical realization of Bank collateral and adjusted hair cut these where there were deviations.

The Bank's business model, in the part of lending to the corporate and retail clients, as well as corporate bonds, is defined as holding for the purpose of collecting cash on the basis of principal and interest, which is supported by an analysis that indicates that there are no facts that the Bank has defined a different business model. From the aspect of classification and measurement, IFRS 9 requires that all financial assets, other than equity instruments and derivatives, are estimated on the basis of the business model of managing specific financial assets and contractual characteristics of cash flows of the instruments themselves (based on the SPPI criteria test). Cash flows of financial instruments that are measured by amortized cost consist of principal and interest payments whose components are fees for the time value of money, credit risk, administrative costs and profit margin.

Equity instruments, in entities other than subsidiaries that are not held for trading, are classified as assets whose value is measured at fair value through other comprehensive income.

Also, by applying IFRS 9, the Bank calculates impairment for credit placements given to the countries and Central Banks of the Bank's members (for assets not available on demand) recorded at the expense of the income statement, as well as impairment based on the securities recorded through other comprehensive result.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Identification of NPL and restructured receivables

The Bank monitor the quality of the portfolio based on identifying and analysing early warning signals from clients. Warning signals are monitored on a regular basis and on the basis of their analysis, clients are classified as Standard, Potentially risky (Watch List) and NPL clients (clients with problematic receivables).

In accordance with the application of IFRS 9, starting from January 1, 2018, the Bank also introduced impairment stages (Stage 1, Stage 2 and Stage 3) that monitor the status of the client. Standard clients ranked as stage 1, clients identifying credit risk increase (Watch List clients, days past due from 31 days to 90 days) are ranked as stage 2, and NPL clients rank as stage 3. Impairment allowances for Stage 1 and Stage 2 clients are calculated on collective basis, while for Stage 3 clients, with the fulfilment of the criteria of material significance, impairment is calculated on individual basis. NPL clients at stage 3, with less material exposure, are impaired on a Bank basis, while respecting the requirements of IFRS 9 for at least two collection scenarios.

Restructured unproblematic clients are classified as potentially risky clients, that is, to Stage 2 category, while restructured problematic are classified as problematic clients, and are categorized into Stage 3.

The purpose of monitoring the quality of the portfolio is to prevent the direct transfer of Standard clients into the category of clients with problematic receivables without prior identification of clients as potentially risky and without implementing measures to prevent the occurrence of risky placements, i.e. mitigating and reducing credit risk through the implementation of an adequate strategy and action plans. Potentially risky clients are more closely monitored than Standard clients, and if further credit risk is identified, clients are reclassified to category of problematic receivables.

Problematic receivables include all receivables that have more than 90 past due days, for any material liability to the Bank, its parent or subordinated companies, receivables in which it is estimated on the basis of the financial condition that the debtor will not be able to settle its obligations in full without taking into account the possibility of the realization of credit protection instruments (regardless of whether they are late in settling liabilities), receivables for which the amount of the impairment was determined on an individual basis. Problems are also deemed to arise from: the cessation of the recording of interest income, fees and charges in the income statement, specific adjustments for credit risk that are calculated due to significant deterioration of credit quality following the occurrence of exposure, significant loss effected by the transfer of receivables, restructuring receivables made due to the financial difficulties of the debtor, as well as filing a motion for initiating bankruptcy proceedings against the debtor. In the last quarter of 2021, the Bank introduced two new criteria for individuals (deceased and lost their jobs) for default status (stage 3 and NPL status), for placements that are not over 90 days late. Problematic receivables are all receivables from the debtor, if one receivable is classified as problematic receivable.

Restructuring of receivable is the approval, due to the financial difficulties of the debtor, the concessions in connection with the repayment of individual receivable that would not be approved to the debtor if he were not in such difficulties, irrespective of whether there are any due liabilities, whether the receivable was impaired and whether it was in the status of default. Restructuring is carried out in one of the following ways: by changing the conditions under which the receivable was originated, especially if the subsequent contractual terms of repayment are more favourable than originally agreed (interest rate reduction, write-off of principal and / or interest, change in maturity dates, etc.) as well as refinancing of receivables. Such circumstances are often called in practice ‘forbearance’. In addition, the category of restructured receivables also includes receivables in which:

- changes in the contractual conditions for repayment of problematic receivables or which, in the absence of the above mentioned changes, would be classified as problematic receivables,
- a change in the contractual conditions for the repayment of receivables leading to total or partial write-off in a material amount,
- the Bank members activated the contractual restructuring clauses on the basis of which the terms of repayment change due to occurrence of certain events (embedded clauses) against the debtor from which the receivable has already been classified into a Bank of problematic receivables or would have been so classified if those clauses were not activated,
- if the debtor, at the same time as the new receivable was approved (or in the short period before or after that approval), paid on the basis of another receivable of the Bank (or other legal entity under which the receivable was transferred to that debtor), which has been classified or fulfilled conditions to be classified in a Bank of problematic ones or, in the absence of a new receivable, would be classified in the said Bank, that is, fulfil those conditions.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

In accordance with the IFRS 9 requirements, any restructuring of receivables due to financial difficulties is considered as a modified financial asset.

Modifications that result in the derecognition of the old financial asset and recognition of the new one, which were motivated by a decline in creditworthiness and repayment capacity, lead to the initial recognition of financial assets that the standard defines as "POCI" purchased or originated credit-impaired, initially valued at fair value. At the time of initial recognition, they have no impairment, but it is necessary to include the expected credit losses over the life of the asset in the calculation of the effective interest rate.

Consequently, the Bank includes initial expected credit losses in the assessment of cash flows when calculating the credit-adjusted effective interest rate of a financial asset that is deemed to have been impaired at the time of initial recognition. Also, for the purpose of calculating impairment, these assets will remain at stage 3 for the entire period of time.

IFRS 9 indicates that in the event of a significant modification of a financial instrument, derecognition of old financial asset and recognition of the new one should be made at fair value at the date of recognition.

Derecognition leads to a permanent gain or loss recognized in the income statement and is equal to the difference between the amortized cost of an old financial asset and the fair value of a new financial asset.

In each change of credit conditions, in placements that are not in the status of problematic (PL) clients, as with bad (NPL) clients, the Bank calculates 10% test in order to determine whether it is a significant or less significant modification.

The Bank in its system logs every modification of the asset, regardless of whether it is a less or more significant modification, and whether the modification is caused by the change of market conditions in good (PL) clients or caused by problems in the (NPL) clients.

The Bank regularly follows the measures taken to restructure risky placements and control the timeliness of undertaking these measures. Monitoring of the measures taken, ie realization of them, such as, for example, settlement of matured liabilities is done on a daily basis. The monitoring of the operations of the restructured clients is done regularly every 6 months, or more often, if necessary. The analysis of the financial statements, the analysis of indebtedness, the checking of the adequacy of the provision of monitoring the overall performance of strategies towards debtors are the key points of the mentioned monitoring.

Restructured receivable classified in the Bank of problematic receivable of a member of the Bank after one year from the date of its restructuring are classified into a Bank of receivables that are not considered problematic if the following conditions are met:

- the amount of impairment for restructured receivable has not been determined and the status of default has not occurred;
- in the last 12 months, payments were made in due time or with a delay not exceeding 30 days, in accordance with the changed terms of repayment;
- Based on the analysis of the financial condition, ie the creditworthiness of the debtor, it was estimated that the debtor will be able to settle the liabilities in full in accordance with the changed terms of repayment.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Risk of asset quality change

During the 2021, the process of harmonizing the internal rating system with the appropriate system at the level of the NLB Group began, which will be subject to additional improvements in the coming period. The quality of the Bank's assets is measured by the degree of exposure to particular risk categories according to the criteria defined by the internal rating system. The internal rating system is based on quantitative and qualitative parameters for determining the rating of the debtor. The rating scale contains five risk categories, divided into 19 sub-categories. Different exposures to the same debtor define the same rating category, regardless of the specificity of the different types of loans.

The Bank uses different rating models for credit risk depending on the type of clients. The calculation of the rating is done on a monthly basis based on qualitative and quantitative parameters and timely settlement of liabilities. A low level of risk involves dealing with clients with good creditworthiness and is acceptable to the Bank (rating categories 1 and 2), a higher level of risk is the business with clients who have certain business problems and which can negatively affect the settlement of liabilities and whose business is intensively monitored (rating category 3 and 4) and a high level of risk denotes clients with negative business results and bad credit history (risk categories 4D, 4DD, and 5). Risk Category 4 is divided into three sub-categories: 4+, 4 and 4- - Non-risk clients (PE), 4D risk clients (NPE) with delay of up to 90 days and 4DD risky clients (NPE) with a delay of 91 to 180 days.

The Bank protects itself against the risk of asset quality changes through continuous monitoring of client's operations, identifying changes that may result from deterioration of the debtor's balance, delay in repayments or changes in the environment, and the provision of appropriate collateral.

Risk of asset quality change – impairment of assets

The impairment of the placement is aimed at ensuring a reasonable, careful and timely determination of losses in order to protect the Bank's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the potential liabilities.

Impairment of placements and provisions are made only when there is a reasonable basis, ie when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, difficulties in the cash flows of the debtor (financial difficulties), decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that, realistically, the loan will be settled from these assets. The Bank assesses the impairment of receivables on a group and individual basis.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Individual and Group Assessment at Stage 3

The Bank estimates impairment allowance for each individually significant placement with default status (risky placement, under a risk category 4D, 4DD and 5 according to the internal rating system), i.e. placements that are classified in stage 3 in accordance with IFRS 9. For this purpose, financial position of the loan beneficiary is taken into account, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the creditworthiness of the client, the value of the collaterals and the certainty of fulfilment of the client's obligations towards the Bank, a new assessment of the impairment of the placements is made.

The materiality threshold of the Bank is determined on the basis of an analysis of the value structure of the portfolio by types of clients and products.

An impairment allowance on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

Individual assessment

Objective evidence that indicates the need for impairment of placements is considered to be:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfilment of other contractual provisions;
- when the Bank , due to the financial difficulties of the debtor, substantially change the terms of receivables repayment in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) etc.

Evidence can be documented by analysis in the Watch process, information on the increased level of risk of the debtor.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the planned future cash flows of the debtor.

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Bank recognizes the existence of multiple collection scenarios when estimating the expected future cash flows in accordance with IFRS 9. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Bank on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

For a group of smaller material receivables in stage 3, when calculating the impairment, there are also several collection scenarios that are applied with certain probabilities, where these probabilities are calculated on the basis of statistical models using historical collection information.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Group assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and are stage 1 - standard clients and stage 2 - clients with identified credit risk increase, as well as receivables based on commissions and other receivables that are not reduced to the present value.

Group estimates are carried out by the Bank according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the corporate sector and by rating by type of placements in the retail sector), based on the internal rating system at the monthly level. The impairment methodology has significantly changed and instead of the approach to the incurred credit loss in accordance with IAS 39, the principle of future expected credit loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of statistically proven interdependencies.

In accordance with IFRS 9, the impairment is measured as follows:

- Stage 1 - Loans in which no deterioration in credit risk has been identified in relation to the moment of initial recognition. The Bank calculates the impairment charge based on the 12-month expected credit losses;
- Stage 2 - Loans in which a significant deterioration in credit risk has been identified in relation to the moment of initial recognition. The Bank calculates the impairment charge based on the expected credit losses for the lifetime of the instrument.

The cost of impairment of financial instruments that are not considered to have significant credit risk deterioration are calculated on the basis of 12-month expected losses (ECL). Stage 1 includes exposures to the State and Central Banks of the Bank's members and other exposures with a credit risk weight of zero, in accordance with the Bank's Capital Adequacy Resolution, except for the exposure on the reserve requirement and similar exposures, on the basis of which the expected credit losses tend to zero.

All financial instruments in which significant increase in credit risk has been carried out are classified into Stage 2 and impairment costs are calculated on the basis of expected losses for the lifetime of the instrument. In addition to qualitative and quantitative criteria for the classification to Stage 2, due to the conditions caused by the COVID-19 pandemic, the Bank has transferred a significant number of clients from industries which are affected by the COVID-19 virus pandemic the most (catering, tourism, transport ...) to Stage 2 for the purpose of preventive action and a realistic view of impairment, given the possible negative consequences of the COVID-19 pandemic on the mentioned clients' operations. This was conducted through an structural analysis of portfolio per industry, as well as by the analysis of individual clients.

An analysis was carried out for all clients with the exposure above the defined threshold which are operating in industries exposed the most to negative effects caused by the COVID-19 pandemic. All clients that are deemed to be exposed to, or may be exposed to the effects of the COVID-19 virus pandemic, although they do not have previously defined criteria for transfer to Stage 2, in accordance with the IFRS 9, are immediately classified as Stage 2. Also, an analysis was conducted for clients in the retail segment who are employed in non-state-owned companies and non-public sectors and who are not pensioners. If the absence of earnings has been identified for these clients, or is reduced by an amount above the defined threshold, such clients have been transferred to Stage 2. Consequently, lifetime expected credit losses have been calculated for the specified clients.

During the 2021, the Bank continued to grant benefits to clients affected by the COVID 19 pandemic in accordance with the NBS Decision (moratorium 3) and in accordance with the Decision of the Government of the Republic of Serbia (Guarantee Schemes 1 and 2).

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Group assessment (continued)

The Bank considers whether there is a significant increase in credit risk from initial recognition of the asset in relation to the default risk at the end of each reporting period. The identification of a significant deterioration in credit risk is based on defined quantitative and qualitative criteria (such as early warning signals, more than 30 days pas due, etc.).

The Bank calculates the impairment of debt securities that are valued at fair value through other comprehensive income (FVOCI), as the accumulated amount of impairment that also affects the Income Statement. However, the expected credit losses do not reduce the amount of gross financial assets in the balance sheet.

For retail and corporate sector, the Bank calculates the expected credit losses (impairment) in the following way:

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

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

This formula is used to calculate the expected credit losses (impairments) at stages 1 and 2, along with respect to the time horizon.

EAD, that is, the exposure at default, represents an estimate of the carrying amount in accordance with IFRS 9 at the time of default, taking into account the profile of contracted cash flows and the possible use of funds from approved credit lines before the default moment.

Exposure at default (EAD) represents the gross carrying amount of financial instruments is subject to impairment calculation, taking into account the ability of the client to increase its exposure at default.

For the calculation of EAD for stage 1, the Bank assesses the possibility of default within 12 months for the calculation of a twelve month expected credit loss (ECL), that is, the impairment for a loan in the stage 1 is calculated, which is expected to result in payment inability of obligations in the period of 12 months from the balance sheet date. For stage 2, exposure to non-fulfilment of payment liabilities is required to be considered over the life of instrument.

PD represents an estimation of the probability of default in a given period of time. Failure to fulfil obligations may occur only at a specified time during the estimated period, unless it has previously ceased to recognize the instrument, and the Bank is still exposed. Based on historical data, the Bank calculates the PD parameter, especially in the corporate and retail sectors. In the corporate sector, PD is calculated by type of entity (large enterprises, medium-sized enterprises, small enterprises ...), and in the retail sector by type of product (housing loans, cash loans, agricultural loans ...).

After calculating historical PDs, the Bank includes forward looking component through a Beta factor that predisposes the impact of the movement of macroeconomic variables (the movement of the GDP, unemployment, inflation rate, industrial production ...) to the future PD. The beta factor is calculated using statistical and econometric models.

For the purpose of including the forward looking component, the Bank includes three scenarios of the movement of macroeconomic variables (optimistic, realistic and pessimistic) when calculating the Beta factor value, after which the annulment is performed with the probability of the anticipated realization of the above scenarios, in order to obtain the final Beta Factor that contains all three scenarios (optimistic, realistic, pessimistic).

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Macroeconomic factors used in the impairment process

In defining macroeconomic assumptions, the Bank uses a set of different relevant external sources, as well as internal estimates. In order to determine the share of each of the scenarios for the purposes of calculating impairment, the positive and negative trends in the previous period (quarterly) of each of the variables that were found to be statistically significant were considered.

In 2021, the recovery of the economy is noticeable. Real growth of gross domestic product, according to preliminary estimates of the Republic Bureau of Statistics in 2021 was 7.5%. Observed by activities, compared to the previous year, the highest real growth and significant recovery was recorded in the sectors most affected in 2020 due to the Covid virus pandemic:

- tourist nights (29.7% compared to minus 38.4% in 2020)
- wholesale (22.0% compared to minus 4.9% in 2020)
- traffic (39.9% compared to minus 36.0% in 2020)
- catering (74.2% compared to minus 25.8% in 2020)

Industrial production in the Republic of Serbia in 2021 is higher by 6.3% compared to 2020, with:

- growth in 22 sectors (participation in the structure of industrial production - 89%),
- decline in 7 sectors (participation in the structure of industrial production - 11%).

Observed by sectors, the biggest impact on the increase in industrial production in 2021, compared to 2020, had the manufacturing industry - growth of 5.5%, thanks to growth in the branches: Production of coke and petroleum products, Manufacture of other transport equipment, Electricity equipment and Manufacture of other machinery and equipment nec. In addition to the mentioned branches of the processing industry, the largest contribution to the growth of total industrial production was made in the mining sector - growth of 27.6% in the branch of metal ore exploitation.

Based on the projection of the National Bank of Serbia, in 2022, economic activity is expected to grow by 4-5% according to the latest available data, which will be significantly driven by economic recovery, ie. private sector investment, government investment, but also private consumption growth, which is in line with the projections of real GDP growth used by the Bank.

According to the data of the National Employment Service, the number of unemployed persons during the first two quarters of 2021 increased compared to the same period last year, unlike the second half of the year when unemployment began to decline. In December 2021, compared to December 2020, the number of unemployed persons decreased by 13,783, or 2.8%. The unemployment rate, according to the Labor Force Survey, was 10.5% in the third quarter of 2021, which is 0.7 percentage points. more compared to the same period last year. During 2022, a recovery in the labor market is expected.

Year-on-year inflation in December 2021 was 7.9% compared to the same month last year, while average annual inflation was 4%. Stronger growth of year-on-year inflation during 2021 is the result of the dominantly low base from the previous year and a significant increase in oil prices due to the recovery from the pandemic, but also partly due to the growth of the price of primary agricultural products. By the end of 2022, it is expected to return to the target limits.

BELIBOR (BELIBOR - Belgrade Interbank Offered Rate) is the reference interest rate determined on the Panel of Banks, on the Serbian interbank market. The National Bank of Serbia did not change the reference interest rate during 2021. On the other hand, the National Bank of Serbia reduces the degree of expansion of monetary policy from October 2021, by increasing the weighted average interest rate on reverse repo auctions which withdraw excess liquidity from the banking system for a week, as well as the percentage of dinar excess liquidity withdrawn by banks. .

More restrictive monetary policy has had an impact on the movement of the BELIBOR rate, which has been showing continuous growth since October. Further tightening of monetary conditions is expected, ie continued growth of BELIBOR rates.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Macroeconomic factors used in the impairment process (continued)

The EURIBOR (EuroIBOR - Euro Interbank Offered Rate) rate in 2021 recorded significantly lower volatility compared to 2020. In 2021, the European Central Bank did not change the reference interest rate (0.00%), as well as the rates on credit (0.25%) and deposit facilities (-0.50%). The future movement of EURIBOR will largely depend on the policy of the European Central Bank in the coming period, ie the extent to which an expansionary monetary policy will be pursued.

In December 2021, the European Central Bank decided to complete the Net Bond Purchase Program (PEPP) by the end of March 2022, with the reinvestment period continuing at least until the end of 2024. from the zone of negative rates is not expected before 2024.

Macroeconomic factors that showed statistically based relationships with default rates, and consequently with expected credit losses with projected values used in each of the three scenarios (realistic, pessimistic and optimistic), are presented in detail.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Projection of macroeconomic factors as at December 31, 2021

Macroeconomic factor	ECL scenario	2022	2023	2024
Industrial production index				
	Optimistic scenario	110	112	113
	Realistic scenario	106	108	109
	Pessimistic scenario	98	100	101
6M Euribor (%)				
	Optimistic scenario	(0.25)	(0.24)	(0.23)
	Realistic scenario	(0.15)	(0.14)	(0.13)
	Pessimistic scenario	0.06	0.07	0.08
3M Belibor (%)				
	Optimistic scenario	0.69	0.84	0.99
	Realistic scenario	1.73	1.88	2.03
	Pessimistic scenario	3.80	3.95	4.10
Number of unemployed persons (in thousands)				
	Optimistic scenario	463	442	421
	Realistic scenario	530	509	489
	Pessimistic scenario	665	644	623

Projection of macroeconomic factors as at December 31, 2021 – for LGD scenarios

Macroeconomic factor	LGD scenario	2022	2023	2024
GDP (%)				
	Optimistic scenario	5.6	5.9	5.9
	Realistic scenario	4.7	4.5	3.9
	Pessimistic scenario	3.0	1.9	1.0
Year-to-year inflation (%)				
	Optimistic scenario	3.6	3.7	4.0
	Realistic scenario	2.7	2.6	2.6
	Pessimistic scenario	1.5	1.0	0.6
Unemployment rate (%)				
	Optimistic scenario	9.4	6.8	5.1
	Realistic scenario	9.5	7.4	6.0
	Pessimistic scenario	9.9	8.5	8.1

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Macroeconomic factors used in the impairment process (continued)

Calculation of credit risk impairment for stages 1 and 2

For impairment calculation for Stage 1 clients the Bank uses one-year PDs recalculated on a monthly basis for the first 12 months, which are the product of the historical PD and Beta factor calculated for the first year.

When calculating impairment for Stage 2, where the impairment is calculated for each year of a financial asset, the Bank uses a marginal PD that represents the difference between two cumulative PD, between t + 1 and t, where t represents a time period of one year which are reduced to a monthly level. The cumulative PD refers to the default probability that will occur with the period t. The probability that the default will be realized before or at the end of maturity T corresponds to the lifetime PD, i.e. the probability of default for the entire life of the financial instrument, with the addition of a protective impairment layer for credit risk with the aim of including the effects caused by the COVID-19 pandemic.

PD parameters are updated semi-annually once a year 31.05. and more often if necessary.

LGD represents Loss given default and is an estimate of losses that arise in the event of default at a specified time. It is calculated as the difference between the contracted cash flows and the cash flows the creditor expects to receive, including the realization of any collateral. This is usually expressed as a percentage of EAD. The Bank, in its assessment of credit losses assessed in accordance with the Impairment Assessment Methodology and IFRS 9, wishes to reflect the possibility of collecting cash flows from regular cash flows, but also from the realization of collateral and other collateral, which are directly related to a financial instrument.
In that sense, the Bank applies the general concept of a separate LGD secured and LGD unsecured parameter, depending on the degree of securing individual placements. For the purpose of calculating the LGD Secured, or the expected loss rate after collateral, the Bank takes into account all internally available collaterals where there is an estimate of the probability of collectability.

Starting from 31.12.2021. In the calculation of LGD unsecured and LGD secured, the Bank included the influence of macroeconomic factors in the next three years, inventing three scenarios (optimistic, realistic and pessimistic).

The final step in calculating the impairment is the discount factor - **DF** for the purpose of reducing to the present value. For discounting, the initial effective interest rate is used, which includes only those interest and fees that can be identified as direct income of the Bank. At stage 2, the period of discounting depends on the duration of the financial asset, while at stage 1, the time factor is always equal to one year (12 months).

For the purpose of calculating impairment for exposures to countries, financial institutions and impairment of securities, the Bank uses a different method of calculating impairment. The Bank does not have an adequate history in terms of migration and default exposure to countries and financial institutions.

When assessing the impairment and default risk exposure of financial instruments of the state, its bodies, central banks and financial institutions, it relies on surveys and external rating data of Moody's agency.

It then uses all available resources that can be obtained with undue cost and effort, in order to adequately determine the probability of default for the purposes of impairment calculation. The probability of default for a period of one year is determined as the probability of migration from the specified external rating of the counterparty (or a rating of the related counterparty if no external rating is available) in the default status. The cumulative PD is determined simply by exponential elevation to the degree of one-year defaults, in the following way:

$$CPD_t = 1 - e^{-(default\ rate * t)}$$

The values of the annual rate of PD used in the calculation of the impairment of securities and financial institutions are reduced to monthly level.

For LGD unsecured the parameter used is prescribed for exposures to countries and financial organizations, in accordance with Basel standards. LGD secured (if there is a collateral) is used in the same way as in the corporate and retail sector.

Impairment of placements to the corporate and retail, countries and financial institutions reduces the value of placements and is recognized as an expense within the income statement, and impairment of securities is recorded through other comprehensive income.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Determining the probable loss on off-balance sheet items

Determining the individual probable loss on off-balance sheet items (contingent liabilities - payable and performance guarantees, letters of credit, and other off-balance sheet items) is carried out when there is estimated that there is a sufficient certainty that an outflow of funds will be made to settle the contingent liability and the debtor is classified at stage 3. Also, for stages 1 and 2, the Bank establishes an estimate of the probable loss on off-balance sheet items for all off-balance sheet items, including unused commitments. The method of impairment of off-balance sheet items for stage 1 and stage 2 is the same as the impairment of balance sheet receivables other than in the part of recognition of EAD. When estimating the probable loss on off-balance items, the Bank reduces exposure for the Conversion Factor (CCF). In accordance with IFRS 9, the Bank calculated credit conversion factors (CCFs) based on experience that represent the likelihood of conversion of off-balance sheet exposures into balance sheet exposures and concluded that it does not have sufficient historical data to define CCF. Therefore, the Bank uses the best approximation of CCF, and these are the conversion factors defined by the regulations of the Central Banks of the Bank's members. For unused commitments for which the Bank has contracted an unconditional cancellation of a contract or the possibility of terminating a contractual obligation if the client violates the contractual obligations, the Bank does not account for provisions based on unused commitments.

The probable loss on off-balance sheet items is recognized as an expense in the income statement.

Means of protection against credit risk (collateral)

In order to protect against exposure to credit risk, the most common practice that the Bank uses, in addition to regular monitoring of clients' operations, is to obtain security instruments (collaterals), which secure the collection of receivables and minimizes credit risk. The amount and type of collateral required depends on the credit risk assessment of the other counterparty.

As standard security instruments, the Bank provides contracting authorities and bills of exchange to clients, while as additional instruments, depending on the assessment of credit risk, and types of placements, other collaterals can be contracted:

- For commercial loans or corporate loans and loans for small businesses - mortgages on movable and immovable items (mortgages), deposits, banking, corporate and government guarantees, guarantees, stocks on securities, shares and receivables;
- For retail loans - mortgages on real estate, deposits, guarantees of a solidary debtor, insurance of the National Corporation for securing housing loans at the Parent bank, and others;
- For borrowed securities and repurchase agreements - money or securities.

When assessing real estate or mortgages on movable property, the Bank requires a professional and independent assessment of the value of immovable property by authorized appraisers in order to minimize the potential risk of unrealistic valuation. Property, goods, equipment and other movable items that are the subject of inventory must be and are insured by an insurance company acceptable to the Bank, and the policies are vinculated for the benefit of the Bank.

In order to protect against the change in market values of collateral (mortgages, pledges, securities, etc.), the estimated collateral value is corrected for a defined percentage (haircut) depending on the type of collateral and location, which are regularly reviewed and revised. In this way, the Bank protects against potential losses due to inability to collect collateral.

The correction factor (haircut) represents the difference between the estimated value of the collateral and the cash inflow that can be realized by selling collateral in the collection process. Haircut brings down the estimated market value of each collateral instrument to the expected value that will be collected by its realization in the future, taking into account the volatility of market value, the possibility of realization and cash outflows based on activation and sales costs (court fees, tax costs that fall under the burden of the seller, costs of consultants and advertising and other costs), the expected decline in market value from the moment of estimation to the moment of the planned realization, as well as the inherent uncertainty in determining the value.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The Bank pays attention to the regular valuation of collaterals. For non-risk placements (standard clients) - stage 1 and clients on the Watch list - stage 2, mortgages on residential and business properties are assessed at least once in three years by an authorized appraiser. For risky placements (NPE) - stage 3, mortgages on residential buildings are estimated at least once in three years, mortgages on business premises (business premises, premises, warehouses, construction land with and without building permit, agricultural land, other) at least once in 18 months, and mortgages on industrial facilities are estimated at least once a year (12 months) by an authorized appraiser. Securities are assessed on a monthly basis for all placements.

Regular monitoring of the value of real estate implies checking the value of the real estate based on available data and information, comparing the values of the real estate with the values on the market of the member countries of the Bank (realized sales, supply and demand) by the regions specified in the collateral catalogue, using the statistical model, etc. For all business real estate, the Bank conducts a check of value at least once a year, and for residential and other real estate at least once in three years.

The value of collateral and the trend of movement is monitored and updated by the Bank in order to minimize the potential risk of unrealistic estimation and, if necessary, may require additional collateral in accordance with the concluded contract. Collaterals represent a secondary source of collection of receivables.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk

The total exposure to credit risk as at December 31, 2021 and December 31, 2020 is shown in the table below, without taking into account any collateral or other credit protection. The stated values are expressed in gross and net book value (after impairment effects).

Total credit risk exposure

In thousands of RSD

	December 31, 2021		December 31, 2020	
	Gross	**Net**	**Gross**	**Net**
I. Assets	**509,774,490**	**489,440,405**	**484,187,876**	**460,001,399**
Cash and balances with the central bank	82,055,481	82,055,481	80,045,107	80,045,107
Loans and advances to banks and other financial institutions	29,135,282	29,114,381	18,146,238	18,142,070
Loans and receivables from customers	218,173,938	209,044,942	200,690,207	189,296,089
Financial assets (securities and derivatives)	149,596,997	149,588,755	153,780,536	153,776,323
Other assets	6,584,298	5,430,725	8,510,717	6,216,268
Non monetary assets	24,228,494	14,206,121	23,015,071	12,525,542
II. Off-balance sheet items	**61,730,331**	**61,521,512**	**42,691,687**	**42,467,225**
Payable guarantees	7,400,757	7,331,131	4,014,943	3,952,927
Performance guarantees	10,882,641	10,832,350	6,116,729	6,051,112
Irrevocable liabilities	43,413,347	43,344,379	32,332,800	32,279,122
Other	33,586	13,652	227,215	184,064
Total (I+II)	**571,504,821**	**550,961,917**	**526,879,563**	**502,468,624**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Changes in loans and receivables to customers by Stage of risk during 2021

In thousands of RSD

	Stage 1	Stage 2	Stage 3	Total
December 31, 2020	**171,917,691**	**11,095,822**	**17,676,694**	**200,690,207**
New receivables	63,499,170	533,857	237,002	64,270,029
Decrease/collection of receivables	(22,871,762)	(1,068,984)	(5,511,388)	(29,452,134)
Transfer to Stage 1	-	(5,942,875)	(210,211)	(6,153,086)
Transfer to Stage 2	(2,305,893)	-	(488,829)	(2,794,722)
Transfer to Stage 3	(958,066)	(582,465)	-	(1,540,531)
Transfer from other Stages	6,153,086	2,794,722	1,540,531	10,488,339
Other changes	(15,487,692)	(416,495)	(1,429,977)	(17,334,164)
As of December 31, 2021	**199,946,534**	**6,413,582**	**11,813,822**	**218,173,938**

Changes in impairment allowance of loans and receivables to customers by Stage of risk during 2021

In thousands of RSD

	Stage 1	Stage 2	Stage 3	Total
December 31, 2020	**802,035**	**212,915**	**10,379,168**	**11,394,118**
New receivables	626,347	15,305	157,605	799,257
Decrease/collection of receivables	(118,193)	(36,513)	(4,449,371)	(4,604,077)
Transfer to Stage 1	-	(83,090)	(86,228)	(169,318)
Transfer to Stage 2	(19,260)	-	(40,619)	(59,879)
Transfer to Stage 3	(5,459)	(19,060)	-	(24,519)
Transfer from other Stages	169,319	59,879	24,519	253,717
Other changes	131,332	146,429	1,261,935	1,539,696
As of December 31, 2021	**1,586,121**	**295,865**	**7,247,009**	**9,128,995**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

During 2021, transitions of exposures by Stages are consequence of regular business transactions:

- transition to Stage 1 from Stage 2 and 3 is a consequence improvement of performance and financial indicators of business clients (transition from stage 2 to 1), as well as of the settlement of due liabilities in whole or in part (decrease in arrears);
- transition to Stage 2 from Stage 1, is mostly due to the deterioration of business with individual clients in the corporate sector changes in the methodology in the area of identifying clients for the Watch list within the harmonization process with the NLB Group, as well as the process of harmonization with the NLB Group in the part of changing the NLB rating for 3 subcategories from the moment of approval, ie from 31.03.2021. when the Bank first introduced the NLB rating;
- transition to Stage 3 from Stages 1 and 2 is a consequence of increasing client risk, mostly in the micro segment, agriculture and individuals, as well as the application of continuous arrears and NLB rating scale, where clients who receive D, DF and E enter Stage 3. The decrease in receivables in Stage 3, for the most part, is a consequence of the transfer of 100% of impaired receivables to off-balance sheet records, as well as the regulation of risky receivables (collection from collateral and regular business of clients). The mentioned transition from Stages 1 and 2 to Stage 3 was accompanied by the movement of value adjustment, which significantly increased after entering Stage 3. During the year, receivables from Stage 1 were in Stage 2 before moving to Stage 3.
- - The increase in cost of risk in other changes in stage 1, and stage 2, mostly refers to the change of the Methodology in accordance with the harmonization process with NLB Group, in the part of PD calculation and new values of Beta factor. In addition to the above, the increase in stage 2 corrections also affected the withdrawal of previously approved placements by clients who were already in stage 2.
- The increase in impairments in other changes in stage 3, due to changes in methodology in the value of haircuts for collateral, which were increased in accordance with the harmonization process with NLB Group, as well as increase in impairment that occurred after the transition of the client from stage 1 and stage 2 and stage 3, under the already clarified assumptions.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level of risk

In thousands of RSD

December 31, 2021	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	51,717,845	281,167	882,434	52,881,446	39,662	1,980	551,661	593,303	52,288,142
Cash Loans	39,752,894	307,923	556,759	40,617,576	227,845	16,431	440,670	684,946	39,932,630
Agricultural Loans	12,152,637	157,646	263,810	12,574,093	124,004	5,718	171,468	301,190	12,272,903
Other Loans	3,939,523	50,199	199,853	4,189,575	24,832	2,541	180,864	208,237	3,981,338
Micro Business	9,305,709	1,379,944	418,004	11,103,657	138,159	24,767	201,411	364,337	10,739,320
Total retail	**116,868,608**	**2,176,879**	**2,320,860**	**121,366,347**	**554,502**	**51,437**	**1,546,074**	**2,152,013**	**119,214,334**
Large corporate clients	38,090,634	2,686,374	4,173,753	44,950,761	479,645	181,813	2,746,853	3,408,311	41,542,450
Middle corporate clients	12,840,354	587,428	249,519	13,677,301	99,912	3,927	160,001	263,840	13,413,461
Small corporate clients	4,083,048	357,777	498,639	4,939,464	46,513	3,879	160,267	210,659	4,728,805
State owned clients	22,630,517	605,124	3,053,533	26,289,174	300,909	54,809	1,123,741	1,479,459	24,809,715
Other	5,433,373	-	1,517,518	6,950,891	104,640	-	1,510,073	1,614,713	5,336,178
Total corporate	**83,077,926**	**4,236,703**	**9,492,962**	**96,807,591**	**1,031,619**	**244,428**	**5,700,935**	**6,976,982**	**89,830,609**
Total	**199,946,534**	**6,413,582**	**11,813,822**	**218,173,938**	**1,586,121**	**295,865**	**7,247,009**	**9,128,995**	**209,044,943**
Due from banks	**29,135,282**	**-**	**-**	**29,135,282**	**20,901**	**-**	**-**	**20,901**	**29,114,381**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level of risk

In thousands of RSD

December 31, 2020	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	45,177,028	688,692	905,200	46,770,920	16,848	4,057	416,440	437,345	46,333,575
Cash Loans	37,136,903	637,940	277,545	38,052,388	121,729	32,729	223,138	377,596	37,674,792
Agricultural Loans	11,475,146	222,594	282,684	11,980,424	92,244	21,850	122,071	236,165	11,744,259
Other Loans	4,277,483	82,170	198,889	4,558,542	23,469	4,846	178,465	206,780	4,351,762
Micro Business	8,318,090	1,429,708	440,735	10,188,533	115,242	38,180	219,625	373,047	9,815,486
Total retail	**106,384,650**	**3,061,104**	**2,105,053**	**111,550,807**	**369,532**	**101,662**	**1,159,739**	**1,630,933**	**109,919,874**
Large corporate clients	24,164,279	6,231,195	6,429,321	36,824,795	72,656	62,304	3,675,082	3,810,042	33,014,753
Middle corporate clients	7,876,894	740,097	531,659	9,148,650	41,383	6,090	194,402	241,875	8,906,775
Small corporate clients	2,959,089	298,297	823,753	4,081,139	27,425	4,937	393,345	425,707	3,655,432
State owned clients	21,815,385	764,054	3,588,648	26,168,087	70,593	37,864	1,087,247	1,195,704	24,972,383
Other	8,717,394	1,075	4,198,260	12,916,729	220,446	58	3,869,353	4,089,857	8,826,872
Total corporate	**65,533,041**	**8,034,718**	**15,571,641**	**89,139,400**	**432,503**	**111,253**	**9,219,429**	**9,763,185**	**79,376,215**
Total	**171,917,691**	**11,095,822**	**17,676,694**	**200,690,207**	**802,035**	**212,915**	**10,379,168**	**11,394,118**	**189,296,089**
Due from banks	**18,146,238**	**-**	**-**	**18,146,238**	**4,168**	**-**	**-**	**4,168**	**18,142,070**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Changes in impairment allowance of receivables in the Balance Sheet

In thousands of RSD

	December 31, 2020	Increase in impairment allowance	Reversal of impairment allowance	Other changes	December 31, 2021
Total retail	1,630,933	3,221,861	(2,156,325)	(544,456)	2.152.013
Total corporate	9,763,185	4,700,895	(2,681,253)	(4,805,845)	6.976.982
Total	**11,394,118**	**7,922,756**	**(4,837,578)**	**(5,350,301)**	**9.128.995**
Due from banks	**4,168**	**50,262**	**(33,667)**	**138**	**20,901**

** Other changes relate to the transfer of 100% impaired receivables from balance sheet to off-balance sheet records, exchange rate differences and other changes.*

Problematic loans and receivables – Stage 3

Problematic loans and receivables are those loans and receivables for which the Bank has determined that there is objective evidence that indicates impairment and for which it does not expect the payment of due principal and interest due in accordance with the loan agreement (impaired receivables). Estimates of impairment for problematic receivables are made for each individually significant placement with the status of default (risk sub-category 4D and 4DD according to the internal rating system and risk category 5), if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of the financial asset and if there is a measurable decrease in future cash flows. Also, problematic loans include less materially significant Stage 3 loans, and their impairment calculation is done on a group basis in accordance with the requirements of IFRS 9.

Non-problematic loans and receivables – Stage 1 and 2

For non-problematic receivables in Stages 1 and 2 (rating categories 1, 2, 3 and subcategory 4), impairment is assessed on a group Stage (non-impaired receivables). Group estimates are carried out by groups according to similar credit risk characteristics that are formed on the basis of an internally prescribed methodology (rating groups by type of clients and placements), based on the internal rating system at the monthly Stage.

The impairment assessment on a group basis is based on the expected credit loss in accordance with probability unfulfilled commitments over the next 12 months (receivables in Stage 1), unless there is a significant deterioration of credit risks in relation to the time of the initial recognition, when you estimate credit losses made on the basis of the probability of the neizmirenja obligations for a period of life of the instrument (claims at Stage 2). By appreciating specificity in dealings with clients, in particular establishes the migration for corporate clients, micro business, retail by product types.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Receivables by days past due **– Stage 1 and Stage 2**

In thousands of RSD

	Stage 1						Stage 2					
December 31, 2021	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**
Housing Loans	51,575,978	141,867	-	-	-	**51,717,845**	232,743	3,166	42,530	2,727	-	**281,167**
Cash Loans	37,047,151	2,705,743	-	-	-	**39,752,894**	116,090	80,544	69,858	41,432	-	**307,923**
Agricultural Loans	11,980,655	171,982	-	-	-	**12,152,637**	94,462	7,358	41,340	14,486	-	**157,646**
Other Loans	3,628,886	310,637	-	-	-	**3,939,523**	26,426	8,153	9,760	5,860	-	**50,199**
Micro Business	8,726,237	579,472	-	-	-	**9,305,709**	1,125,515	191,711	54,256	8,462	-	**1,379,944**
Total retail	**112,958,907**	**3,909,701**	**-**	**-**	**-**	**116,868,608**	**1,595,236**	**290,932**	**217,744**	**72,967**	**-**	**2,176,879**
Large corporate clients	38,087,679	2,955	-	-	-	**38,090,634**	2,686,374	-	-	-	-	**2,686,374**
Middle corporate clients	12,292,788	547,566	-	-	-	**12,840,354**	526,554	60,874	-	-	-	**587,428**
Small corporate clients	3,976,815	106,233	-	-	-	**4,083,048**	159,628	195,245	2,904	-	-	**357,777**
State owned clients	22,302,664	327,853	-	-	-	**22,630,517**	470,690	134,434	-	-	-	**605,124**
Other	5,433,373	-	-	-	-	**5,433,373**	-	-	-	-	-	**-**
Corporate clients	**82,093,319**	**984,607**	**-**	**-**	**-**	**83,077,926**	**3,843,246**	**390,553**	**2,904**	**-**	**-**	**4,236,703**
Total	**195,052,226**	**4,894,308**	**-**	**-**	**-**	**199,946,534**	**5,438,482**	**681,485**	**220,648**	**72,967**	**-**	**6,413,582**
Out of which: restructured	-	-	-	-	-	**-**	161,980	101,468	1,998	-	-	**265,446**
Due from banks	**20,728,515**	**8,406,767**	**-**	**-**	**-**	**29,135,282**	**-**	**-**	**-**	**-**	**-**	**-**

Translation disclaimer: The English version is a translation of the original in Serbian for information purposes only. In case of discrepancy, the Serbian version will prevail

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Receivables by days past due **– Stage 1 and Stage 2**

In thousands of RSD

	Stage 1						Stage 2					
December 31, 2020	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**
Housing Loans	45,133,418	43,610	-	-	-	45,177,028	551,533	3,053	88,293	45,813	-	688,692
Cash Loans	34,256,339	2,880,564	-	-	-	37,136,903	165,285	118,593	248,709	105,353	-	637,940
Agricultural Loans	11,219,296	255,850	-	-	-	11,475,146	68,022	20,534	82,356	51,682	-	222,594
Other Loans	3,970,234	307,249	-	-	-	4,277,483	33,645	10,294	27,028	11,203	-	82,170
Micro Business	7,925,617	392,473	-	-	-	8,318,090	1,042,963	302,015	73,106	11,624	-	1,429,708
Total retail	**102,504,904**	**3,879,746**	-	-	-	**106,384,650**	**1,861,448**	**454,489**	**519,492**	**225,675**	-	**3,061,104**
			-	-	-						-	
Large corporate clients	24,094,092	70,187	-	-	-	24,164,279	6,138,683	92,512	-	-	-	6,231,195
Middle corporate clients	7,773,498	103,396	-	-	-	7,876,894	629,973	107,051	3,073	-	-	740,097
Small corporate clients	2,864,269	94,820	-	-	-	2,959,089	225,281	30,505	42,511	-	-	298,297
State owned clients	21,439,880	375,505	-	-	-	21,815,385	595,476	61,171	107,407	-	-	764,054
Other	8,717,394	0	-	-	-	8,717,394	1,075	-	-	-	-	1,075
Corporate clients	**64,889,133**	**643,908**	-	-	-	**65,533,041**	**7,590,488**	**291,239**	**152,991**	**-**	-	**8,034,718**
			-	-	-						-	
Total	**167,394,037**	**4,523,654**	-	-	-	**171,917,691**	**9,451,936**	**745,728**	**672,483**	**225,675**	-	**11,095,822**
Out of which: restructured	-	-	-	-	-	-	287,926	24,334	110,022	2,279	-	424,561
			-	-	-						-	
Due from banks	**18,146,238**	**-**	-	-	-	**18,146,238**	**-**	**-**	**-**	**-**	-	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from clients according to the criterion of inclusion in Stage 2

In thousands of RSD

	December 31, 2021					December 31, 2020				
	Change of IR	Restructuring	Due up to 30 days	Other	Total	Change of IR	Restructuring	Due up to 30 days	Other	Total
Housing Loans	60,444	148,789	23,958	47,976	281,167	28.535	252.908	37.823	369.426	688.692
Cash Loans	6,543	-	72,711	228,669	307,923	3.428	316	88.172	546.024	637.940
Agricultural Loans	38,434	4,456	73,754	41,002	157,646	-	6.138	113.976	102.480	222.594
Other Loans	257	12,880	8,085	28,977	50,199	268	15.371	12.746	53.785	82.170
Micro Business	47,102	-	61,518	1,271,324	1,379,944	344.515	-	165.998	919.195	1.429.708
Total retail	**152,780**	**166,125**	**240,026**	**1,617,948**	**2,176,879**	**376.746**	**274.733**	**418.715**	**1.990.910**	**3.061.104**
Large corporate clients	992,124	-	-	1,694,250	2,686,374	4.641.240	-	-	1.589.955	6.231.195
Middle corporate clients	-	-	-	587,428	587,428	7.498	-	3.073	729.526	740.097
Small corporate clients	-	-	162,801	194,976	357,777	23.756	-	115.073	159.468	298.297
State owned clients	22,839	99,321	-	482,964	605,124	439.346	149.828	184	174.696	764.054
Other		-		-	-	-	-	-	1.075	1.075
Corporate clients	**1,014,963**	**99,321**	**162,801**	**2,959,618**	**4,236,703**	**5.111.840**	**149.828**	**118.330**	**2.654.720**	**8.034.718**
Total	**1,167,743**	**265,446**	**402,827**	**4,577,566**	**6,413,582**	**5.488.586**	**424.561**	**537.045**	**4.645.630**	**11.095.822**
Due from banks				**-**	**-**					**-**

The other includes technical and expert signals (in accordance with the process of early identification of potentially risky exposures (Watch list), as well as impaired creditworthiness of individuals. The change of the rating refers to the change of the NLB rating for 3 categories from the moment of approving the placement, ie from 31.03.2021. years for the existing portfolio.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Impairment allowance according to the criterion of inclusion in Stage 2

In thousands of RSD

	December 31, 2021					December 31, 2020				
	Change of IR	**Restructuring**	**Due up to 30 days**	**Other**	**Total**	**Change of IR**	**Restructuring**	**Due up to 30 days**	**Other**	**Total**
Housing Loans	61	930	895	94	1,980	98	1.524	118	2.317	4.057
Cash Loans	103	-	8,303	8,026	16,432	49	-	13.681	18.999	32.729
Agricultural Loans	400	150	4,298	870	5,718	-	248	15.797	5.805	21.850
Other Loans	2	826	1,138	575	2,541	1	3.393	730	722	4.846
Micro Business	308	-	957	23,502	24,767	14.640	-	6.195	17.345	38.180
Total retail	**874**	**1,907**	**15,590**	**33,067**	**51,438**	**14.788**	**5.165**	**36.521**	**45.188**	**101.662**
Large corporate clients	179,874	-	-	1,940	181,814	60.007	-	-	2.297	62.304
Middle corporate clients	-	-	-	3,927	3,927	455	-	29	5.606	6.090
Small corporate clients	-	-	1,466	2,412	3,878	1.928	-	655	2.354	4.937
State owned clients	379	3,610	-	50,820	54,809	32.907	2.805	1	2.151	37.864
Other				-	-	-	-	-	58	58
Corporate clients	**180,253**	**3,610**	**1,466**	**59,099**	**244,428**	**95.297**	**2.805**	**685**	**12.466**	**111.253**
Total	**181,127**	**5,517**	**17,056**	**92,166**	**295,866**	**110.085**	**7.970**	**37.206**	**57.654**	**212.915**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Impaired receivables by days past due – **Problematic receivables, Stage 3**

In thousands of RSD

December 31, 2021	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	315,972	4,880	23,333	3,818	534,431	**882,434**
Cash Loans	171,327	63,347	25,558	21,592	274,935	**556,759**
Agricultural Loans	77,811	5,360	6,503	1,156	172,980	**263,810**
Other Loans	25,659	4,468	4,417	4,290	161,019	**199,853**
Micro Businesses	168,389	40,395	4,212	7,866	197,142	**418,004**
Retail clients	**759,158**	**118,450**	**64,023**	**38,722**	**1,340,507**	**2,320,860**
Large corporate clients	2,275,290	-	-	-	1,898,463	**4,173,753**
Middle corporate clients	141,965	6,860	26,410	-	74,284	**249,519**
Small corporate clients	63,314	-	2,286	-	433,039	**498,639**
State owned clients	2,921,376	-	-	-	132,157	**3,053,533**
Other	216,895	-	-	-	1,300,623	**1,517,518**
Corporate clients	**5,618,840**	**6,860**	**28,696**	**-**	**3,838,566**	**9,492,962**
Total	**6,377,998**	**125,310**	**92,719**	**38,722**	**5,179,073**	**11,813,822**
Out of which: restructured	4,817,948	1,482	31,741	1,049	1,325,318	**6,177,538**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**

Receivables with a delay of less than 90 days in Stage 3 relate to clients who have financial difficulties as a result of the impact of the pandemic caused by the COVID-19 virus on the decline in business activity and reduction of financial potential to regulate liabilities to the Bank. The Bank has estimated that there is a risk of default by the end of the loan repayment.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Impaired receivables by days past due – **Problematic receivables, Stage 3**

In thousands of RSD

December 31, 2020	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	267,714	1,130	71,295	46,172	518,889	**905,200**
Cash Loans	41,801	19,780	15,113	51,643	149,208	**277,545**
Agricultural Loans	48,529	10,887	20,242	11,218	191,808	**282,684**
Other Loans	17,941	2,375	2,224	1,091	175,258	**198,889**
Micro Businesses	33,232	18,287	36,035	19,314	333,867	**440,735**
Retail clients	**409,217**	**52,459**	**144,909**	**129,438**	**1,369,030**	**2,105,053**
Large corporate clients	1,111,839	-	303,977	-	5,013,505	**6,429,321**
Middle corporate clients	194,086	-	41,773	4,094	291,706	**531,659**
Small corporate clients	37,004	-	34,525	10,472	741,752	**823,753**
State owned clients	3,418,323	-	-	-	170,325	**3,588,648**
Other	196,673	-	-	-	4,001,587	**4,198,260**
Corporate clients	**4,957,925**	**-**	**380,275**	**14,566**	**10,218,875**	**15,571,641**
Total	**5,367,142**	**52,459**	**525,184**	**144,004**	**11,587,905**	**17,676,694**
Out of which: restructured	4,003,837	5,009	56,271	19,125	5,037,927	**9,122,169**
Due from banks	-	-	-	-	-	**-**

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2 Problematic receivables

Participation of problematic receivables, Stage 3 in total loan

In thousands of RSD

December 31, 2021	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructured receivables	Stage 3 Impairment allowance	Share of Stage 3 in total loans (%)	Collateral value Stage 3
Total retail	**121,366,347**	**2,152,013**	**2,320,860**	**165,776**	**1,546,074**	**1,91%**	**1,836,069**
Housing Loans	52,881,446	593,303	882,434	80,414	551,661	1,67%	882,104
Cash Loans	40,617,576	684,946	556,759	9,077	440,670	1,37%	187,051
Agricultural Loans	12,574,093	301,190	263,810	44,479	171,468	2,10%	253,643
Other	4,189,575	208,237	199,853	10,962	180,864	4,77%	16,532
Micro Businesses	11,103,657	364,337	418,004	20,844	201,411	3,76%	496,739
Corporate clients	**96,807,591**	**6,976,982**	**9,492,962**	**6,011,762**	**5,700,935**	**9,81%**	**7,844,168**
Agriculture	3,163,493	18,747	15,144	-	2,926	0,48%	30,248
Manufacturing Industry	16,822,078	1,555,048	2,183,388	2,108,437	1,271,793	12,98%	2,182,839
Electric Energy	5,144,496	67,359	-	-	-	0,00%	-
Construction	15,551,101	693,521	733,092	43,801	613,374	4,71%	738,069
Wholesale and Retail	19,363,305	293,294	83,137	15,912	32,894	0,43%	83,682
Service Activities	15,953,991	1,718,269	3,397,515	2,826,685	1,402,480	21,30%	3,407,376
Real Estate Activities	8,184,243	653,950	1,283,501	963,962	629,126	15,68%	1,295,817
Other	12,624,884	1,976,794	1,797,185	52,965	1,748,342	14,24%	106,137
Total	**218,173,938**	**9,128,995**	**11,813,822**	**6,177,538**	**7,247,009**	**5,41%**	**9,680,237**
Due from banks	**29,135,282**	**20,901**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2 Problematic receivables (continued)

Participation of problematic receivables, Stage 3 in total loans

In thousands of RSD

December 31, 2020	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructured receivables	Stage 3 Impairment allowance	Share of Stage 3 in total loans (%)	Collateral value Stage 3
Total retail	**111,550,807**	**1,630,933**	**2,105,053**	**340,790**	**1,159,739**	**1,89%**	**1,733,364**
Housing Loans	46,770,920	437,345	905,200	145,700	416,440	1,94%	895,187
Cash Loans	38,052,388	377,596	277,545	5,823	223,138	0,73%	103,692
Agricultural Loans	11,980,424	236,165	282,684	48,649	122,071	2,36%	264,313
Other	4,558,542	206,780	198,889	16,384	178,465	4,36%	18,916
Micro Businesses	10,188,533	373,047	440,735	124,234	219,625	4,33%	451,256
Corporate clients	**89,139,400**	**9,763,185**	**15,571,641**	**8,781,379**	**9,219,429**	**17,47%**	**13,971,723**
Agriculture	2,876,122	13,199	9,002	-	4,928	0,31%	9,170
Manufacturing Industry	12,077,559	1,162,333	2,847,426	2,796,569	1,095,828	23,58%	2,846,877
Electric Energy	3,529,051	15,861	-	-	-	0,00%	-
Construction	12,650,343	547,050	669,404	7,057	525,043	5,29%	669,539
Wholesale and Retail	17,314,441	435,322	672,784	503,610	354,573	3,89%	666,399
Service Activities	11,828,689	2,313,040	4,632,020	4,582,130	2,253,170	39,16%	4,631,098
Real Estate Activities	8,092,592	491,452	1,356,389	687,488	474,825	16,76%	1,371,167
Other	20,770,603	4,784,928	5,384,616	204,525	4,511,062	25,92%	3,777,473
Total	**200,690,207**	**11,394,118**	**17,676,694**	**9,122,169**	**10,379,168**	**8,81%**	**15,705,087**
Due from banks	**18,146,238**	**4,168**	**-**	**-**	**-**	**0,00%**	**-**

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2 Problematic receivables (continued)

Changes in problematic receivables

In thousands of RSD

	December 31, 2020	New problematic receivables – Stage 3	Decrease in problematic receivables – Stage 3	Foreign exchange rate effect	Other changes	December 31, 2021	Net value at the end of year
Housing Loans	905,200	400,965	(359,882)	3,114	(66,964)	882,433	330,773
Cash Loans	277,545	572,246	(174,888)	-	(118,144)	556,759	116,088
Agricultural Loans	282,684	173,591	(141,260)	4	(51,208)	263,811	92,343
Other Loans	198,889	96,389	(86,772)	200	(8,853)	199,853	18,988
Micro Businesses	440,735	428,098	(303,841)	5	(146,994)	418,003	216,594
Total retail	**2,105,053**	**1,671,289**	**(1,066,643)**	**3,323**	**(392,163)**	**2,320,859**	**774,786**
Large corporate clients	6,429,321	-	(1,381,173)	102	(874,497)	4,173,753	1,426,900
Middle corporate clients	531,659	52,006	(208,923)	7	(125,230)	249,519	89,517
Small corporate clients	823,753	41,183	(346,337)	7	(19,967)	498,639	338,373
State owned clients	3,588,648	10,436	(482,895)	53	(62,709)	3,053,533	1,929,791
Other	4,198,260	2,619	(2,724,457)	40,286	811	1,517,519	7,446
Corporate clients	**15,571,641**	**106,244**	**(5,143,785)**	**40,455**	**(1,081,592)**	**9,492,963**	**3,792,027**
Total	**17,676,694**	**1,777,533**	**(6,210,428)**	**43,778**	**(1,473,755)**	**11,813,822**	**4,566,813**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The decrease of restructured receivables mostly refers to the transfer of 100% of impaired receivables to off-balance sheet records, as well as collection of non-performing placements.

Other changes relate to a partial increase / decrease in the amount of receivables within one lot during the year, and most often relate to partial collection.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.3. Nonproblematic receivables (Stage 1 and Stage 2)

In thousands of RSD

	December 31, 2021				December 31, 2020			
	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals
Housing Loans	51,980,174	18,838	51,999,012	51,005,399	45,757,208	108,512	45,865,720	45,451,796
Cash Loans	39,991,948	68,870	40,060,818	9,549,530	37,579,003	195,840	37,774,843	10,494,298
Agricultural Loans	12,277,055	33,228	12,310,283	11,877,066	11,611,627	86,113	11,697,740	11,065,548
Other Loans	3,982,438	7,283	3,989,721	196,778	4,332,597	27,056	4,359,653	206,082
Micro Businesses	10,101,387	584,266	10,685,653	10,606,918	9,247,799	499,999	9,747,798	9,737,277
Retail	**118,333,002**	**712,485**	**119,045,487**	83,235,691	**108,528,234**	**917,520**	**109,445,754**	**76,955,001**
Large corporate clients	36,644,209	4,132,799	40,777,008	40,842,438	24,713,727	5,681,747	30,395,474	30,401,513
Middle corporate clients	13,410,160	17,623	13,427,783	13,414,845	8,536,154	80,837	8,616,991	8,619,042
Small corporate clients	4,341,002	99,823	4,440,825	4,421,677	3,059,170	198,216	3,257,386	3,243,678
State owned clients	18,090,465	5,145,176	23,235,641	21,739,089	17,249,553	5,329,886	22,579,439	22,742,430
Other	3,523,808	1,909,564	5,433,372	4,222,590	4,404,927	4,313,542	8,718,469	6,899,846
Corporate Clients	**76,009,644**	**11,304,985**	**87,314,629**	84,640,639	**57,963,531**	**15,604,228**	**73,567,759**	**71,906,509**
Total	**194,342,646**	**12,017,470**	**206,360,116**	**167,876,330**	**166,491,765**	**16,521,748**	**183,013,513**	**148,861,510**
Due from banks	**29,135,282**	**-**	**29,135,282**	**-**	**18,146,238**	**-**	**18,146,238**	-

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables

In thousands of RSD

December 31, 2021	Gross exposure	Impairment of gross exposure	Restructured receivables	Impairment of restructured receivables	Restructured receivables stage 2	Impairment of restructured receivables- stage 2	Restructured receivables stage 3	Impairment of restructured receivables- stage 3	Percentage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Total retail	**121,366,347**	**2,152,013**	**331,901**	**110,280**	**166,125**	**1,907**	**165,776**	**108,373**	**0,27%**	**322,269**
Housing Loans	52,881,446	593,304	229,203	51,560	148,789	930	80,414	50,630	0,43%	229,203
Cash Loans	40,617,576	684,946	9,077	6,390	-	-	9,077	6,390	0,02%	1,426
Agricultural Loans	12,574,093	301,190	48,936	25,828	4,457	150	44,479	25,677	0,39%	48,936
Other	4,189,575	208,236	23,841	10,510	12,879	827	10,962	9,684	0,57%	21,860
Micro Businesses	11,103,657	364,337	20,844	15,992	-	-	20,844	15,992	0,19%	20,844
Corporate Clients	**96,807,591**	**6,976,982**	**6,111,083**	**3,221,939**	**99,321**	**3,610**	**6,011,762**	**3,218,329**	**6,31%**	**6,120,716**
Agriculture	3,163,493	18,747	-	-	-	-	-	-	0,00%	-
Manufacturing Industry	16,822,078	1,555,048	2,108,437	1,259,470	-	-	2,108,437	1,259,470	12,53%	2,108,437
Electric Energy	5,144,496	67,359	-	-	-	-	-	-	0,00%	-
Construction	15,551,101	693,521	43,801	30,771	-	-	43,801	30,771	0,28%	43,801
Wholesale and Retail	19,363,305	293,294	15,912	13,588	-	-	15,912	13,588	0,08%	15,912
Service Activities	15,953,991	1,718,269	2,826,685	1,319,804	-	-	2,826,685	1,319,804	17,72%	2,826,686
Real Estate Activities	8.184.243	653,950	963,962	553,756	-	-	963,962	553,756	11,78%	963,962
Other	12,624,884	1,976,794	152,286	44,550	99,321	3,610	52,965	40,940	1,20%	161,918
Total	**218,173,938**	**9,128,995**	**6,442,984**	**3,332,219**	**265,446**	**5,517**	**6,177,538**	**3,326,702**	**2,95%**	**6,442,985**
Due from banks	**29,135,282**	**20,901**	**-**	**-**	**-**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

In thousands of RSD

December 31, 2020	Gross exposure	Impairment of gross exposure	Restructured receivables	Impairment of restructured receivables	Restructured receivables stage 2	Impairment of restructured receivables-stage 2	Restructured receivables stage 3	Impairment of restructured receivables-stage 3	Percentage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Total retail	**111,550,807**	**1,630,933**	**615,523**	**143,459**	**274,733**	**5,165**	**340,790**	**138,294**	**0,55%**	**608,443**
Housing Loans	46,770,920	437,345	398,608	57,930	252,908	1,524	145,700	56,406	0,85%	398,608
Cash Loans	38,052,388	377,596	6,139	4,564	316	0	5,823	4,564	0,02%	1,095
Agricultural Loans	11,980,424	236,165	54,787	21,111	6,138	248	48,649	20,863	0,46%	54,481
Other	4,558,542	206,780	31,755	17,862	15,371	3,393	16,384	14,469	0,70%	30,025
Micro Businesses	10,188,533	373,047	124,234	41,992	-	-	124,234	41,992	1,22%	124,234
Corporate Clients	**89,139,400**	**9,763,185**	**8,931,207**	**4,245,431**	**149,828**	**2,805**	**8,781,379**	**4,242,626**	**10,02%**	**8,931,208**
Agriculture	2,876,122	13,199	-	-	-	-	-	-	0,00%	-
Manufacturing Industry	12,077,559	1,162,333	2,796,569	1,095,279	-	-	2,796,569	1,095,279	23,16%	2,796,569
Electric Energy	3,529,051	15,861	-	-	-	-	-	-	0,00%	-
Construction	12,650,343	547,050	7,057	3,516	-	-	7,057	3,516	0,06%	7,057
Wholesale and Retail	17,314,441	435,322	503,610	307,622	-	-	503,610	307,622	2,91%	503,610
Service Activities	11,828,689	2,313,040	4,582,130	2,235,253	-	-	4,582,130	2,235,253	38,74%	4,582,130
Real Estate activities	8.092.592	491,452	711,166	425,806	23,678	107	687,488	425,699	8,79%	711,167
Other	20,770,603	4,784,928	330,675	177,955	126,150	2,698	204,525	175,257	1,59%	330,675
Total	**200,690,207**	**11,394,118**	**9,546,730**	**4,388,890**	**424,561**	**7,970**	**9,122,169**	**4,380,920**	**4,76%**	**9,539,651**
Due from banks	**18,146,238**	**4,168**	**-**	**-**	**-**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Changes in restructured receivables

In thousands of RSD

	December 31, 2020	New restructured receivables	Decrease in restructured receivables	Foreign exchange rate effect	Other changes*	December 31, 2021	Net
Housing Loans	398,608	-	(154,623)	1,531	(16,313)	229,203	177,643
Cash Loans	6,139	4,456	(1,433)	-	(85)	9,077	2,687
Agricultural Loans	54,786	12,336	(13,483)	1	(4,704)	48,936	23,108
Other Loans	31,755	5,466	(9 ,008)	-	(4,372)	23,841	13,332
Micro Businesses	124,234	-	(103,390)	1	(1)	20,844	4,852
Retail	615,523	22,258	(281,937)	1,533	(25,475)	331,901	221,622
Large corporate clients	5,296,620	280,916	(1,323,958)	86	(866,111)	3,387,553	1,250,049
Middle corporate clients	384,958	-	(86,120)	5	(94,775)	204,068	66,125
Small corporate clients	171,521	-	(141,127)	-	36,899	67,293	28,375
State owned clients	3,078,108	-	(585,362)	50	(40,627)	2,452,169	1,544,595
Other	-	-	-	-	-	-	-
Corporate clients	8,931,207	280,916	(2,136,567)	141	(964,614)	6,111,083	2,889,144
Total	**9,546,730**	**303,174**	**(2,418,504)**	**1,674**	**(990,089)**	**6,442,984**	**3,110,766**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

**The increase in restructured receivables is a consequence of restructuring of NPL of clients whose business is affected by the influence of COVID 19 (Service activities) in order to relax the client. The decrease of restructured receivables mostly refers to the transfer of 100% of impaired receivables to off-balance sheet records, as well as the approval of moratorium III to one NPL client affected by the COVID 19 pandemic (Transportation) in accordance with the Decision of the National Bank of Serbia.*

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Measures that the Bank implements in the restructuring of receivables

The bank implements different restructuring measures depending on the needs of clients, respecting the Bank's interest in taking into account the complete business, financial and collateral position of clients.

The measures that the Bank members most often implement during the restructuring of placements are:

- The extension of the maturity period, which is mainly followed by the adjustment of the interest rate, which is in line with the financial position of the clients,
- The introduction of a grace period or moratorium on the settlement of obligations within a specified period
- Capitalization of days past due, if there are matured liabilities due to maturity, they are returned to unexpected liabilities during the implementation of the restructuring, or a new initial balance of claims is formed,
- Refinancing of receivables - in justified cases it is possible to refinance receivables from other creditors in order to improve the position of the Bank (collateral or financial approval of favorable repayment terms),
- partial write-offs - in the past period, the Bank members did not carry out partial write-offs in the course of restructuring,
- The conversion of debt into equity - has not been carried out in the past period

These measures can be implemented individually or by implementing a number of measures depending on each individual restructuring process.

4.1.5. Risk of concentration

The Bank manages the risk of concentration through a set limit system that includes exposure limits with the same or similar risk factors (according to sectors / activities, geographical areas, individual debtors or groups of related parties, credit protection instruments ...). Establishing appropriate exposure limits is the basis for risk concentration control in order to diversify the loan portfolio. Bank on an annual basis depending on market trends, appetite for risk, business policy Bank and the annual business plan, reviewed and, if necessary, changes internally set limits.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

Loans and receivables from banks and other financial organizations by branch and geographical concentration of exposures

In thousands of RSD

December 31, 2021	Non problematic receivables					Problematic receivables				
	Serbia	Montenegro	B&H	EU	Other	Serbia	Montenegro	B&H	EU	Other
Retail	**119,045,487**	**-**	**-**	**-**	**-**	**2,320,860**	**-**	**-**	**-**	**-**
Housing Loans	51,999,012	-	-	-	-	882,434	-	-	-	-
Cash Loans	40,060,818	-	-	-	-	556,758	-	-	-	-
Agricultural Loans	12,310,283	-	-	-	-	263,810	-	-	-	-
Other	3,989,721	-	-	-	-	199,854	-	-	-	-
Micro Businesses	10,685,653	-	-	-	-	418,004	-	-	-	-
Corporate	**81,878,911**	**697,393**	**4,738,325**	**-**	**-**	**9,492,962**	**-**	**-**	**-**	**-**
Agriculture	3,148,348	-	-	-	-	15,144	-	-	-	-
Manufacturing Industry	14,638,690	-	-	-	-	2,183,388	-	-	-	-
Electric Energy	5,144,496	-	-	-	-	0	-	-	-	-
Construction	14,818,008	-	-	-	-	733,092	-	-	-	-
Wholesale and Retail	19,280,169	-	-	-	-	83,137	-	-	-	-
Service Activities	12,556,477	-	-	-	-	3,397,515	-	-	-	-
Real Estate Activities	6,900,742	-	-	-	-	1,283,501	-	-	-	-
Other	5,391,981	697,393	4,738,325	-	-	1,797,185	-	-	-	-
Total	**200,924,398**	**697,393**	**4,738,325**	**-**	**-**	**11,813,822**	**-**	**-**	**-**	**-**
Due from banks	**9,664,698**	**2,718**	**66,022**	**17,265,585**	**2,136,259**	**-**	**-**	**-**	**-**	**-**

Total credit exposure nonproblematic receivables are Montenegro and Bosnia and Herzegovina and are located in Stage 1.
Depending on general economic trends and developments in individual industrial sectors, the Bank members carried out the diversification of investments in industrial sectors that are resistant to the impact of negative economic developments.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

In thousands of RSD

December 31, 2020	Non problematic receivables					Problematic receivables				
	Serbia	Montenegro	B&H	EU	Other	Serbia	Montenegro	B&H	EU	Other
Retail	**109,445,754**	**-**	**-**	**-**	**-**	**2,105,053**	**-**	**-**	**-**	**-**
Housing Loans	45,865,720	-	-	-	-	905,200	-	-	-	-
Cash Loans	37,774,843	-	-	-	-	277,545	-	-	-	-
Agricultural Loans	11,697,740	-	-	-	-	282,684	-	-	-	-
Other	4,359,653	-	-	-	-	198,889	-	-	-	-
Micro Businesses	9,747,798	-	-	-	-	440,735	-	-	-	-
Corporate	**64,849,738**	**2,494,280**	**6,223,741**	**-**	**-**	**15,571,641**	**-**	**-**	**-**	**-**
Agriculture	2,867,120	-	-	-	-	9,002	-	-	-	-
Manufacturing Industry	9,230,133	-	-	-	-	2,847,426	-	-	-	-
Electric Energy	3,529,051	-	-	-	-	0	-	-	-	-
Construction	11,980,938	-	-	-	-	669,404	-	-	-	-
Wholesale and Retail	16,641,657	-	-	-	-	672,784	-	-	-	-
Service Activities	7,196,670	-	-	-	-	4,632,020	-	-	-	-
Real Estate Activities	6,736,204	-	-	-	-	1,356,389	-	-	-	-
Other	6,667,965	2,494,280	6,223,741	-	-	5,384,616	-	-	-	-
Total	**174,295,492**	**2,494,280**	**6,223,741**	**-**	**-**	**17,676,694**	**-**	**-**	**-**	**-**
Due from banks	**4,542,713**	**538,842**	**320,686**	**11,213,216**	**1,530,781**	**-**	**-**	**-**	**-**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (concentration)

Loans and receivables to customers by geographical concentration of exposures in Serbia

In thousands of RSD

	December 31, 2021				December 31, 2020			
	Vojvodina	Belgrade	Central Serbia	Total	Vojvodina	Belgrade	Central Serbia	Total
Total retail	30,573,744	43,760,645	47,031,957	**121,366,346**	24,638,429	47,508,396	39,403,982	**111,550,807**
Corporate clients	22,072,987	41,662,437	27,636,450	**91,371,874**	31,230,721	35,992,358	13,198,299	**80,421,378**
Total	**52,646,731**	**85,423,082**	**74,668,407**	**212,738,220**	**55,869,150**	**83,500,754**	**52,602,281**	**191,972,185**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.6. Securities

In thousands of RSD

	December 31, 2021		December 31, 2020	
	Gross	Net	Gross	Net
Securities:				
-at fair value through profit and loss	512,823	512,823	8,308,106	8,308,106
-at fair value through other comprehensive income	148,142,030	148,141,448	144,626,430	144,625,977
-at amortized cost	942,144	934,484	846,000	842,240
TOTAL	149,596,997	149,588,755	153,780,536	153,776,323

Financial assets at fair value through profit and loss relate to investment units of the Kombank Monetary Fund, which are valued by mark to market.

Financial assets at fair value through other comprehensive income are placements that are intended to be held for an indefinite period of time and that may be sold due to the need for liquidity or due to changes in interest rates, exchange rates or market prices. They consist, for the most part, of bonds issued by the Republic of Serbia, local self-government units and bonds of other banks and countries (the United States of America, the Republic of Slovenia and the Republic of Ireland).

Securities at fair value through other comprehensive income are initially estimated at cost, and their fair value is calculated on a monthly basis, based on market prices for securities traded on the stock market, as well as applying internally developed models in the event that independent sources of market information are not available for a particular financial instrument, or when the available prices do not change regularly nether there are significant trading volumes. This model of valuation is based on the maturity date of the security and level of risk free interest rates.

Securities held at amortized cost relate to corporate bonds.

4.1.7. Collateral against credit risk (collateral)

In the following reviews, the value of the collateral is presented at the fair value of the collateral, so that the collateral value is only shown up to the amount of gross placements (in cases where the value of the collateral exceeds the amount of the loan). When the collateral value is lower than the value of gross placement, the value of the collateral is expressed.

The value of collateral and guarantees received in order to mitigate the exposure to credit risk arising from the placement of clients is shown in the following table:

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In thousands of RSD

December 31, 2021	Stage 1					Stage 2				
	Real Estate	Deposits	Guarantees	Other collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	47,687,370	3,149	-	3,034,485	**50,725,004**	280,384	-	-	12	**280,396**
Cash Loans	11,574	483,456	-	8,974,616	**9,469,646**	-	5,728	-	74,156	**79,884**
Agricultural Loans	4,814,918	3,225	2,390	6,903,368	**11,723,901**	98,356	-	-	54,809	**153,165**
Other Loans	92,136	1,701	-	90,085	**183,922**	3,602	247	-	9,009	**12,858**
Micro business	509,859	613,396	5,942,221	1,502,101	**8,567,577**	287,179	137,312	668,068	946,781	**2,039,340**
Total retail	**53,115,857**	**1,104,927**	**5,944,611**	**20,504,655**	**80,670,050**	**669,521**	**143,287**	**668,068**	**1,084,767**	**2,565,643**
Large corporate clients	19,426,939	147,041	178,209	18,117,349	**37,869,538**	2,164,623	-	286,524	521,751	**2,972,898**
Middle corporate clients	2,518,415	400,245	3,302,787	6,390,237	**12,611,684**	226,553	-	234,757	341,852	**803,162**
Small corporate clients	543,294	124,816	1,946,794	1,356,364	**3,971,267**	152,149	366	104,374	193,522	**450,411**
State owned clients	3,901,029	-	4,096,268	12,295,571	**20,292,868**	-	-	-	1,446,221	**1,446,221**
Other	-	-	-	4,222,591	**4,222,591**	-	-	-	-	**-**
Corporate clients	**26,389,677**	**672,102**	**9,524,058**	**42,382,110**	**78,967,947**	**2,543,325**	**366**	**625,655**	**2,503,346**	**5,672,692**
Total	**79,505,534**	**1,777,029**	**15,468,669**	**62,886,765**	**159,637,995**	**3,212,846**	**143,653**	**1,293,723**	**3,588,113**	**8,238,335**
Of which: restructured	-	-	-	-	**-**	153,587	-	-	110,637	**264,224**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

* Other collaterals relate to pledges on the goods, pledges on receivables, pledges on equipment, other guarantees.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In thousands of RSD

December 31, 2021	Stage 3				
	Real Estate	Deposits	Guarantees	Other collaterals	Total
Housing Loans	875,964	-	-	6,140	882,104
Cash Loans	-	5,693	-	181,358	187,051
Agricultural Loans	161,043	-	-	92,600	253,643
Other Loans	565	1,074	-	14,893	16,532
Micro business	124,398	60,000	79,670	232,671	496,739
Total retail	**1,161,970**	**66,767**	**79,670**	**527,662**	**1,836,069**
Large corporate clients	3,782,867	-	-	325,456	4,108,323
Middle corporate clients	167,136	-	15,104	80,216	262,456
Small corporate clients	412,438	-	29,542	75,807	517,787
State owned clients	559,764	-	-	2,361,494	2,921,258
Other	31,845	-	956	1,543	34,344
Corporate clients	**4,954,050**	**-**	**45,602**	**2,844,516**	**7,844,168**
Total	**6,116,020**	**66,767**	**125,272**	**3,372,178**	**9,680,237**
Of which: restructured	3,760,260	-	-	2,418,500	6,178,760
Receivables from banks	**-**	**-**	**-**	**-**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In thousands of RSD

December 31, 2020	Stage 1					Stage 2				
	Real Estate	Deposits	Guarantees	Other collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	42,495,115	11,880	-	2,259,057	44,766,052	657,595	-	-	28,149	685,744
Cash Loans	6,090	564,087	-	9,681,758	10,251,935	127	10,204	-	232,032	242,363
Agricultural Loans	4,297,713	9,271	31,422	6,535,348	10,873,754	87,366	3,269	-	101,159	191,794
Other Loans	77,486	2,479	-	111,040	191,005	3,579	439	-	11,059	15,077
Micro business	643,012	552,313	3,871,910	3,098,204	8,165,439	397,175	181,335	142,226	851,102	1,571,838
Total retail	**47,519,416**	**1,140,030**	**3,903,332**	**21,685,407**	**74,248,185**	**1,145,842**	**195,247**	**142,226**	**1,223,501**	**2,706,816**
Large corporate clients	11,551,288	178,205	3,416,827	8,803,852	23,950,172	5,660,395	-	220,144	570,802	6,451,341
Middle corporate clients	2,486,091	379,558	2,006,189	2,817,659	7,689,497	324,956	-	193,408	411,181	929,545
Small corporate clients	732,488	159,811	858,063	1,121,968	2,872,330	141,153	92	72,959	157,144	371,348
State owned clients	1,535,845	-	4,872,521	15,584,509	21,992,875	19,403	-	-	730,152	749,555
Other	-	-	-	6,899,846	6,899,846	-	-	-	-	-
Corporate clients	**16,305,712**	**717,574**	**11,153,600**	**35,227,834**	**63,404,720**	**6,145,907**	**92**	**486,511**	**1,869,279**	**8,501,789**
Total	**63,825,128**	**1,857,604**	**15,056,932**	**56,913,241**	**137,652,905**	**7,291,749**	**195,339**	**628,737**	**3,092,780**	**11,208,605**
Of which: restructured	-	-	-	-	-	249,991	-	-	172,863	422,854
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

* Other collaterals relate to pledges on the goods, pledges on receivables, pledges on equipment, other guarantees.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In thousands of RSD

December 31, 2020	Stage 3				
	Real Estate	Deposits	Guarantees	Other collaterals	Total
Housing Loans	857,295	-	-	37,892	895,187
Cash Loans	533	813	-	102,346	103,692
Agricultural Loans	198,608	-	-	65,705	264,313
Other Loans	3,454	510	-	14,952	18,916
Micro business	217,186	-	10,481	223,589	451,256
Total retail	**1,277,076**	**1,323**	**10,481**	**444,484**	**1,733,364**
Large corporate clients	5,324,586	60	-	1,098,637	6,423,283
Middle corporate clients	447,496	-	-	82,111	529,607
Small corporate clients	254,436	-	20,213	562,812	837,461
State owned clients	568,989	-	-	2,856,666	3,425,655
Other	2,755,593	-	-	124	2,755,717
Corporate clients	**9,351,100**	**60**	**20,213**	**4,600,350**	**13,971,723**
Total	**10,628,176**	**1,383**	**30,694**	**5,044,834**	**15,705,087**
Of which: restructured	5,830,895	-	-	3,285,902	9,116,797
Receivables from banks	- -	- -	- -	- -	-

Translation disclaimer: The English version is a translation of the original in Serbian for information purposes only. In case of discrepancy, the Serbian version will prevail

4 RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

The ratio of the amount of loans and the estimated value of the real estate held as collateral is monitored according to the range of Loan to Value Ratio - LTV ratios.

Overview of loans covered by PP&E according to LTV range

In thousands of RSD

	As of December 31, 2021	As of December 31, 2021
Less than 50%	18,331,413	18,976,984
50% - 70%	32,360,446	28,659,176
71% - 100%	23,164,003	28,222,903
101% - 150%	6,895,815	3,373,854
More than 150%	11,535,393	6,424,904
Total exposure	**92,287,070**	**85,657,821**
Average LTV	**59.78%**	**67.09%**

4.1.8. Foreclosed assets at net value

Foreclosed assets from Bank in the process of collecting placements are presented in the following table:

In thousands of RSD

	Residential Premises	Business Premises	Equipment	Land and Forests	Total
December 31, 2020	**48,829**	**1,042,203**	**24,063**	**115,766**	**1,230,861**
Acquisition	-	5,068	-	-	5,068
Sale	-	(224,536)	-	(3,852)	(228,388)
Transfer to investment property	(12,298)	(138,133)	-	-	(150,431)
Other – change in value	16,768	50,021	(2,279)	14,870	79,380
December 31, 2021	**53,299**	**734,623**	**21,784**	**126,784**	**936,490**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk

In order to adequately manage liquidity risk, in 2021 the Bank established an internal liquidity adequacy assessment process (ILAAP), which is conducted at least once a year. The internal liquidity adequacy assessment process provides comprehensive liquidity risk management and the establishment of a comprehensive internal assessment taking into account qualitative and quantitative elements. Qualitative elements describe strategies, procedures, methodologies, the established system of limits used in the Bank to manage and control liquidity risk, as well as liquidity management in crisis situations. Quantitative aspects of ILAAP are related to qualitative elements including insight into the fulfilment of prescribed limits, stress tests, gap analysis, liquidity ratios and other tools in order to successfully assess the liquidity position of the Bank.

The Bank adjusts its operations with the liquidity indicator, as follows: 0.8 calculated for one business day; then a minimum of 0.9 for no more than three consecutive working days, i.e. a minimum of 1 as the average of all working days of the month, as well as with regulated limits with a rigid liquidity ratio, as follows: 0.5 calculated for one working day; then a minimum of 0.6 not more than three consecutive working days, i.e. a minimum of 0.7 as the average of all working days of the month.

During 2021 the Bank has aligned its operations with a liquidity coverage ratio in all currencies, which maintains at a level not lower than 100%, i.e. internally defined limit.

Compliance with externally defined liquidity limits:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquidity coverage ratio	
	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020
On the day	3.88	4.06	3.65	3.94	454%	405%
Average for the period	4.18	4.17	3.94	4.00	601%	385%
Maximum for the period	4.68	4.73	4.42	4.50	757%	413%
Minimum for the period	3.51	3.42	3.37	3.27	425%	295%

During 2021 liquidity ratio, rigid liquidity indicator and the liquidity coverage ratio ranged above the defined limits, as well as within the defined risk tolerance. The Bank has established a system of internal limits and the Risk Appetite Framework, in accordance with the Group's standards for structural liquidity indicators, as well as with the nature of the Bank's operations.

The Bank maintains a stable liquidity position and a sufficient and adequate level of liquidity reserves. Liquidity reserves are mostly in the form of cash and highly liquid debt government securities, which can be redeemed in a relatively short period of time. At the same time, the minimum amount of unsecured liquidity reserves to cover potential outflows in the event of stress is continuously monitored and maintained. In addition, the Bank complies with the limits of structural liquidity indicators, which are set in accordance with the Standards in the field of risk management in the NLB Group, and relate to the minimum level of available and unsecured liquidity reserves. The Bank also actively manages daily liquidity, in order to ensure timely settlement of due liabilities, taking into account the normal course of business and the emergency liquidity situation.In addition, the Bank limits and harmonizes operations with limits defined in terms of maturity by major currencies, as well as defined targets for diversification of funding sources.

Compliance with internally defined liquidity limits on the last day:	Limits	December 31, 2021	December 31, 2020
NSFR	Min 110%	221%	242%
Unsecured liquidity reserves	Min 18%	39%	41%
Self-financing indicator - LTD ratio	Max 105%	52%	51%
Share of non-banking sector deposits in total liabilities (excluding capital)	Min 65%	97%	96%
Strong stress test - 3 months	Min 100%	186%	234%

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at December 31, 2021

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	82,055,481	-	-	-	-	82,055,481
Loans and receivables due from other banks and other financial institutions	18,135,567	5,235,112	2,800,000	2,943,702	-	29,114,381
Loans and receivables due from customers	7,287,184	9,769,465	47,487,657	96,892,497	47,608,139	209,044,942
Financial assets (securities)	14,337,691	3,799,363	22,784,256	93,961,416	14,706,029	149,588,755
Other assets	1,333,996	581,039	60,532	-	-	1,975,567
Total	**123,149,919**	**19,384,979**	**73,132,445**	**193,797,615**	**62,314,168**	**471,779,126**
Deposits and other liabilities due to banks, other financial institutions and central bank	1,942,883	34,864	156,887	335	-	2,134,969
Deposits and other liabilities due to customers	339,785,262	8,048,414	31,098,419	23,275,420	1,078,903	403,286,418
Other liabilities	1,096,298	324,183	409,857	661,701	26,488	2,518,527
Total	**342,824,443**	**8,407,461**	**31,665,163**	**23,937,456**	**1,105,391**	**407,939,914**
Net liquidity gap As of December 31, 2021	**(219,674,524)**	**10,977,518**	**41,467,282**	**169,860,159**	**61,208,777**	**63,839,212**
Net liquidity gap As of December 31, 2020	**(199,526,987)**	**1,422,262**	**14,387,186**	**177,323,899**	**69,330,711**	**62,937,071**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at December 31, 2020

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	80,045,107	-	-	-	-	80,045,107
Loans and receivables due from other banks and other financial institutions	13,341,137	1,191,407	216,874	3,392,652	-	18,142,070
Loans and receivables due from customers	7,514,766	8,096,112	37,469,686	89,570,644	46,644,881	189,296,089
Financial assets (securities)	508,922	5,558,437	12,956,168	110,831,363	23,921,433	153,776,323
Other assets	1,138,614	983,624	573,006	-	-	2,695,244
Total	**102,548,546**	**15,829,580**	**51,215,734**	**203,794,659**	**70,566,314**	**443,954,833**
Deposits and other liabilities due to banks, other financial institutions and central bank	4,887,487	600	80,664	20,564	-	4,989,315
Deposits and other liabilities due to customers	295,543,959	14,110,912	35,881,120	25,954,180	1,209,230	372,699,401
Other liabilities	1,644,087	295,806	866,764	496,016	26,373	3,329,046
Total	**302,075,533**	**14,407,318**	**36,828,548**	**26,470,760**	**1,235,603**	**381,017,762**
Net liquidity gap As of December 31, 2020	**(199,526,987)**	**1,422,262**	**14,387,186**	**177,323,899**	**69,330,711**	**62,937,071**
Net liquidity gap As of 31.12.2019	**(154,650,166)**	**5,801,156**	**12,127,356**	**139,813,989**	**58,662,015**	**61,754,350**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The report on the maturity structure of monetary assets and liabilities contains monetary balance sheet items distributed according to the remaining maturity, with the conservative assumption that all transaction and demand deposits will be withdrawn within one month.

The Bank collects deposits from legal entities and individuals, which usually have shorter maturities and can be withdrawn upon request. The short-term nature of these deposits increases the Bank's liquidity risk and requires active management of this risk, as well as constant monitoring of market trends.

In the short term, the Bank manages liquidity risk by monitoring and controlling positions in all major currencies, in order to assess the need for additional sources of financing in case of maturity of appropriate positions, ie plans long-term structure of its sources and placements to provide sufficient stable sources and liquidity reserves.

The Bank's management believes that the appropriate diversification of the deposit portfolio by number and type of depositors, as well as the Bank's previous experience provide a good precondition for a stable and long-term deposit base, ie no significant outflows are expected.

The Bank regularly conducts a liquidity risk stress testing process as well as a reverse liquidity stress test.

The results of the stress test show how long the Bank is ready to "survive" the given assumptions of the stress scenario. Based on the results of the stress test, it is determined whether the Bank has sufficient liquid assets to survive three months of severe stress.

The reverse stress test provides additional insight into the Bank's risk position by finding scenarios that could potentially lead to the Bank's problems and on the basis of which the Bank can identify its weaknesses. It may also influence future business decisions of the Bank.

The Bank regularly tests the Liquidity Management Plan in crisis situations and checks the survival period and solvency of the Bank, the availability of sources to cover liabilities that may arise, ie evaluates support in the assumed conditions of the crisis.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows of monetary assets and monetary liabilities as at December 31, 2021

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	82,055,481	-	-	-	-	82,055,481
Loans and receivables due from other banks and other financial institutions	18,136,822	5,255,559	2,818,901	2,943,702	-	29,154,984
Loans and receivables due from customers	7,914,657	11,068,727	52,804,620	110,754,388	57,928,176	240,470,568
Financial assets (securities)	15,561,200	4,132,881	24,129,766	99,141,702	14,546,201	157,511,750
Other assets	1,333,996	581,039	60,532	-	-	1,975,567
Total	**125,002,156**	**21,038,206**	**79,813,819**	**212,839,792**	**72,474,377**	**511,168,350**
Deposits and other liabilities due to banks, other financial institutions and central bank	1,943,052	35,138	157,494	335	-	2,136,019
Deposits and other liabilities due to customers	339,818,887	8,079,011	31,276,800	24,198,252	1,248,498	404,621,448
Other liabilities	1,097,208	325,921	416,501	674,920	29,251	2,543,801
Total	**342,859,147**	**8,440,070**	**31,850,795**	**24,873,507**	**1,277,749**	**409,301,268**
Net liquidity gap As of December 31, 2021	**(217,856,991)**	**12,598,136**	**47,963,024**	**187,966,285**	**71,196,628**	**101,867,082**
Net liquidity gap As of December 31, 2020	**(198,953,604)**	**2,660,351**	**19,641,867**	**192,899,076**	**81,751,466**	**97,999,156**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows of monetary assets and monetary liabilities as at December 31, 2020

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	80,045,107	-	-	-	-	80,045,107
Loans and receivables due from other banks and other financial institutions	13,341,261	1,193,658	234,190	3,422,521	-	18,191,630
Loans and receivables due from customers	8,214,810	9,507,033	43,115,649	106,602,346	59,339,794	226,779,632
Financial assets (securities)	508,922	5,558,437	12,956,168	110,831,363	23,921,433	153,776,323
Other assets	1,138,614	983,624	573,006	-	-	2,695,244
Total	**103,248,714**	**17,242,752**	**56,879,013**	**220,856,230**	**83,261,227**	**481,487,936**
Deposits and other liabilities due to banks, other financial institutions and central bank	4,890,897	657	81,862	20,756	-	4,994,172
Deposits and other liabilities due to customers	295,667,334	14,285,938	36,288,520	27,440,382	1,483,388	375,165,562
Other liabilities	1,644,087	295,806	866,764	496,016	26,373	3,329,046
Total	**302,202,318**	**14,582,401**	**37,237,146**	**27,957,154**	**1,509,761**	**383,488,780**
Net liquidity gap As of December 31, 2020	**(198,953,604)**	**2,660,351**	**19,641,867**	**192,899,076**	**81,751,466**	**97,999,156**
Net liquidity gap As of 31.12.2019	**(154,031,077)**	**7,047,125**	**17,091,802**	**152,309,641**	**69,057,915**	**91,475,406**

Undiscounted cash flows arising from monetary assets and liabilities include future cash flows based on balance sheet positions and future interest rates.

4. RISK MANAGEMENT (continued)

4.3 Market risks

Market risk is the possibility of negative effects on the Bank's financial result and equity due to changes in market variables and includes interest rate risk in the banking book, foreign exchange risk for all business activities it performs and price risk of trading book positions.

The Bank is exposed to price risk, foreign exchange risk, counterparty risk, and the risk of settlement delivery based on items listed in the trading book. The trading book contains balance sheet and off-balance sheet items of assets and liabilities based on financial instruments held for trading purposes or for the protection of positions in other financial instruments held in a trading book.

The Bank has established an appropriate organizational structure, which clearly delineates the process of taking over market risks from the process of its management. The primary role in the market risk management process is performed by the Assets and Liabilities Management Committee, as well as other relevant committees of the Bank, whose decisions may influence the Bank's exposure to this risk.

4.3.1. Interest rate risk

Interest rate risk is the risk of negative effects on the Bank's financial result and equity based on positions in the banking book due to adverse changes in interest rates. Exposure to this type of risk depends on the ratio of interest-sensitive assets and interest-sensitive liabilities.

The Bank manages the following types of interest rate risk:

• Risk of time mismatch of repayment and repricing risk;

• Yield curve risk - to whom it is exposed due to change in yield curve shape;

• Base risk - to which it is exposed due to different reference interest rates in interest-sensitive positions with similar characteristics in terms of maturity or re-pricing;

• Optionality risk - to whom it is exposed because of contracted options - loans with the possibility of early repayment, deposits with the possibility of early withdrawal, and others.

The main objective of interest rate risk management is to maintain an acceptable level of exposure to interest rate risk from the aspect o impact on the financial result, by maintaining an adequate policy of maturity adjustment of the period for re-forming the interest rate, matching the appropriate sources with placements according to the type of interest rate and maturity, as well as the projection of the movement of the yield curve on the foreign and domestic market. Primarily, the Bank manages the internal yield margin through the cost of loans and deposits, focusing on the interest margin.

The Bank particularly examines the impact of changes in interest rates and the structure of interest-bearing assets and liabilities from the aspect of maturity, re-forming interest rates and currency structure and managing their impact on the economic value of capital.

The Bank processes the impact that could have a standardized interest rate shock (parallel positive and negative interest rate pops on the reference crisis yield by 200 basis points) for each significant value individually and for all other values individually

The process of managing interest rate risk is carried out through identification, measurement, mitigation, monitoring, control and reporting of interest rate risk.

During the first half of 2021, the Bank harmonized the interest rate risk management process with the standards of the NLB Group.

Identification of interest rate risk involves a comprehensive and timely identification of the causes that lead to the creation of risks and involves determining current exposure as well as exposure to interest rate risk based on new business products and activities.

4. RISK MANAGEMENT (continued)

4.3.1. Interest rate risk (continued)

Measurement, or interest rate risk assessment, is a quantitative assessment of the identified interest rate risk using the following methods:

• GAP analysis;

• Ratio analysis;

• Duration;

• Basis risk analysis;

• Credit spread risk analysis - the impact of the sensitivity of changes in the credit spread on the securities portfolio.

Interest rate risk mitigation involves maintaining the risk at an acceptable level for the Bank's risk profile and implies the process of defining the Bank's exposure limits, as well as defining and implementing measures to mitigate interest rate risk.

The monitoring and monitoring of interest rate risk includes the process of monitoring compliance with the established system of limits, as well as monitoring the defined measures for reducing the Bank's interest rate risk. Interest rate risk control involves control at all levels of governance as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Interest rate risk reporting involves a clearly defined system of internal reporting to the competent committees and bodies of the Bank's members on interest rate risk management.

Internal limits are determined on the basis of the internal interest report GAP, which includes all balance sheet items. Internal limits are set within the risk appetite and refer to the indicator of the economic value of capital, the indicator of the credit spread on the portfolio of securities and the indicator of interest income.

During 2021, interest rate risk indicators were within internally defined limits.

The compliance with internally defined interest rate risk limits on the last day was as follows:

	Limits	**2021**	**2020**
Credit spread indicator - securities portfolio	7%	5.37%	4.47%
Interest income indicator (NII)	3.5%	1.24%	0.89%

Compliance with internally defined limits of economic value of capital:

	2021	**2020**
As of December 31	2.69%	2.89%
Average for period	2.77%	3.83%
Maximum for period	3.13%	5.21%
Minimum for period	1.44%	2.89%
Limit	**8%**	**10%**

4. RISK MANAGEMENT (continued)

4.3 Market risks (continued)

4.3.1. Interest rate risk (continued)

Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2021

Exposure to interest rate risk can also be seen on the basis of the GAP Report on interest rate risk for monetary assets and liabilities:

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total Interest-Bearing	Non-Interest Bearing	Total
Cash and cash funds held with the central bank	25,209,646	-	-	-	-	25,209,646	56,845,835	82,055,481
Loans and receivables due from other banks and other financial institutions	21,079,269	5,235,112	2,800,000	-	-	29,114,381	-	29,114,381
Loans and receivables due from customers	91,730,632	20,754,905	51,424,776	43,137,734	1,996,895	209,044,942	-	209,044,942
Financial assets (securities)	13,824,868	3,799,363	22,784,256	93,866,822	14,706,029	148,981,338	607,417	149,588,755
Other assets	-	-	-	-	-	-	1,975,567	1,975,567
Total	**151,844,415**	**29,789,380**	**77,009,032**	**137,004,556**	**16,702,924**	**412,350,307**	**59,428,819**	**471,779,126**
Deposits and other liabilities due to banks, other financial institutions and central bank	2,133,493	-	-	-	-	2,133,493	1,476	2,134,969
Deposits and other liabilities due to customers	340,549,150	7,715,980	29,490,012	22,998,574	1,038,413	401,792,129	1,494,289	403,286,418
Other liabilities	-	-	-	-	-	-	2,518,527	2,518,527
Total	**342,682,643**	**7,715,980**	**29,490,012**	**22,998,574**	**1,038,413**	**403,925,622**	**4,014,292**	**407,939,914**
Net liquidity gap as at:								
As of December 31, 2021	**(190,838,228)**	**22,073,400**	**47,519,020**	**114,005,982**	**15,664,511**	**8,424,685**	**55,414,527**	**63,839,212**
As of December 31, 2020	**(186,026,874)**	**12,523,922**	**28,407,641**	**134,961,865**	**24,958,589**	**14,825,143**	**48,111,928**	**62,937,071**

4. RISK MANAGEMENT (continued)

4.3 Market risks (continued)

4.3.1. Interest rate risk (continued)

Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2020

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total Interest-Bearing	Non-Interest Bearing	Total
Cash and cash funds held with the central bank	32,130,108	-	-	-	-	32,130,108	47,914,999	80,045,107
Loans and receivables due from other banks and other financial institutions	15,174,439	1,208,548	798,865	-	-	17,181,852	960,218	18,142,070
Loans and receivables due from customers	68,487,874	19,680,365	49,050,661	49,539,202	2,187,853	188,945,955	350,134	189,296,089
Financial assets (securities)	-	5,558,437	12,956,168	110,831,363	23,921,433	153,267,401	508,922	153,776,323
Other assets	-	-	-	-	-	-	2,695,244	2,695,244
Total	**115,792,421**	**26,447,350**	**62,805,694**	**160,370,565**	**26,109,286**	**391,525,316**	**52,429,517**	**443,954,833**
Deposits and other liabilities due to banks, other financial institutions and central bank	4,888,698	-	79,959	20,364	-	4,989,021	294	4,989,315
Deposits and other liabilities due to customers	296,892,340	13,923,428	34,318,094	25,388,336	1,150,697	371,672,895	1,026,506	372,699,401
Other liabilities	38,257	-	-	-	-	38,257	3,290,789	3,329,046
Total	**301,819,295**	**13,923,428**	**34,398,053**	**25,408,700**	**1,150,697**	**376,700,173**	**4,317,589**	**381,017,762**
Net liquidity gap as at:								
December 31, 2020	**(186,026,874)**	**12,523,922**	**28,407,641**	**134,961,865**	**24,958,589**	**14,825,143**	**48,111,928**	**62,937,071**
31.12.2019	**(169,137,057)**	**17,566,198**	**27,086,199**	**130,109,292**	**19,883,410**	**25,508,042**	**36,246,308**	**61,754,350**

4. RISK MANAGEMENT (continued)

4.3 Market risks (continued)

4.3.1. Interest rate risk (continued)

The GAP report on the interest rate risk of the monetary sub-balance sheet contains monetary balance positions arranged according to the period of re-forming the interest rate or the remaining period to maturity, depending on which period is shorter. In accordance with the above, a conservative assumption was made that all transactions and avista deposits will be withdrawn within one month.

The management of the Bank believes that the appropriate position matching by type of interest rate and re-establishment period provides a good precondition for existence with the required financial result while preserving the economic value of the capital.

Risk of interest rate changes

In addition to monitoring interest rate GAP, interest rate risk management involves monitoring the sensitivity of Bank's assets and liabilities to different interest rate scenarios, the Group regularly implements stress-based interest rate risk testing, which assesses the impacts of the change of key factors on the interest rate risk of the Bank.

In modelling the scenario, in addition to changing interest rates, the impact of early withdrawal of deposits and early repayment of loans, assessed by the Bank on the basis of historical developments and expert assessments, is specifically considered, the Bank has carried out an estimate of the movement of transaction deposits, demand deposits and retail savings by applying relevant statistical models from domain analysis of time series.

Baseline scenarios for stress testing of economic value indicators of capital include: standard shock - parallel shift of the yield curve by +/- 400 bps for RSD and +/- 200 bps for other currencies, rotation of the curve as well as growth / decline of the short-term curve.

The modeling scenarios for stress testing of interest income indicators use assumptions in the part of yield curve change based on historical series of averages of quarterly differences between market and applied interest rates as well as the scenario of parallel shift of yield curve by 100 basis points for RSD currency and 50 basis points for currencies EUR, USD, CHF and other currencies collectively, observed in the period up to one year

The analysis of the Bank's sensitivity, or the impact on the financial result of the increase and decrease in the interest rate, assuming symmetrical movements and a constant financial position, is given in the table:

In thousands of RSD

	Parallel increase of 100 b.p.	Parallel reduction of 100 b.p.
2021		
As at December 31,	812,124	(812,124)
2020		
As at December 31,	609,075	(609,075)

4. RISK MANAGEMENT (continued)

4.3.2. Foreign exchange risk

The process of managing foreign currency risk is carried out through identification, measurement, mitigation, monitoring, control and reporting on foreign exchange risk.

During the first half of 2021, the Bank harmonized the foreign exchange risk management process with the standards of the NLB Group.

The Bank comprehensively identifies in a timely manner the causes that lead to the creation of foreign currency risk, which implies determining the current exposure to foreign exchange risk, as well as the exposure to foreign exchange risk based on new business products and activities.

Measurement, or foreign exchange risk assessment, is a quantitative assessment of the identified foreign currency risk, using the following techniques:

• GAP analysis and foreign exchange risk indicator;

• VaR;

• Stress test;

• Backtesting.

Foreign exchange risk mitigation involves maintaining the risk at an acceptable level for the Bank's risk profile by setting a transparent system of limits and defining measures to mitigate foreign exchange risk.

Foreign exchange risk control and monitoring includes monitoring and the compliance of positions with internally and externally defined limits, as well as monitoring of defined and undertaken measures. Continuous monitoring and control of foreign currency risk enables timely measures to be taken to maintain foreign exchange risk within defined limits. Foreign exchange risk control involves control at all levels of governance, as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Foreign exchange risk reporting includes the internal and external reporting system and is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Bank coordinates its operations with the regulated foreign currency risk indicator, which represents the ratio of the open foreign exchange position and position in gold and regulatory capital.

Overview of the total risk foreign currency position and the regulated foreign currency risk indicator as at December 31, 2021:

	December 31, 2021	December 31, 2020
Total risk foreign exchange position	1,306,182	1,327,082
Foreign exchange risk indicator	2.00%	1.95%
Regulatory limit	**20%**	**20%**

4. RISK MANAGEMENT (continued)

4.3 Market risks (continued)

4.3.2. Foreign exchange risk (continued)

Review of monetary assets and monetary liabilities by currencies as at December 31,2021

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	43,703,757	210,126	8,007,477	620,924	**52,542,284**	-	-	-	29,513,197	**82,055,481**
Loans and receivables due from other banks and other financial institutions	15,242,500	2,097,905	450,110	3,077,949	**20,868,464**	-	-	-	8,245,917	**29,114,381**
Loans and receivables due from customers	6,910,244	1,138	-	-	**6,911,382**	138,770,935	-	47,704	63,314,921	**209,044,942**
Financial assets – securities	53,487,754	8,162,770	1,760,642	-	**63,411,166**	40,600	-	-	86,136,989	**149,588,755**
Other assets	612,254	2,136,748	894	119	**2,750,015**	-	-	-	-774,448	**1,975,567**
Total	**119,956,509**	**12,608,687**	**10,219,123**	**3,698,992**	**146,483,311**	**138,811,535**	**-**	**47,704**	**186,436,576**	**471,779,126**
Deposits and other liabilities due to banks, other financial institutions and central bank	970,794	192,765	140,395	29,461	**1,333,415**	1,352	-	-	800,202	**2,134,969**
Deposits and other liabilities due to customers	254,535,330	11,217,791	10,127,893	3,596,891	**279,477,905**	336,019	-	-	123,472,494	**403,286,418**
Other liabilities	313,134	149,104	4,868	14,948	**482,054**	805,394	-	-	1,231,079	**2,518,527**
Total	**255,819,258**	**11,559,660**	**10,273,156**	**3,641,300**	**281,293,374**	**1,142,765**	**-**	**-**	**125,503,775**	**407,939,914**
Net Currency Position December 31, 2021	**(135,862,749)**	**1,049,027**	**(54,033)**	**57,692**	**(134,810,063)**	**137,668,770**	**-**	**47,704**	**60,932,801**	**63,839,212**
Net Currency Position December 31, 2020	**(120,602,070)**	**79,935**	**(48,993)**	**72,710**	**(120,498,418)**	**119,348,953**	**-**	**53,894**	**64,032,642**	**62,937,071**

4. RISK MANAGEMENT (continued)

4.3 Market risks (continued)

4.3.2. Foreign exchange risk (continued)

Review of monetary assets and monetary liabilities by currencies as at December 31,2020

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	35,679,701	125,698	6,788,183	551,161	**43,144,743**	-	-	-	36,900,364	**80,045,107**
Loans and receivables due from other banks and other financial institutions	13,134,299	2,042,453	440,506	2,518,269	**18,135,527**	-	-	-	6,543	**18,142,070**
Loans and receivables due from customers	12,325,113	-	-	-	**12,325,113**	120,159,267	-	53,894	56,757,815	**189,296,089**
Financial assets – securities	53,996,985	9,753,914	1,739,077	-	**65,489,976**	105,757	-	-	88,180,590	**153,776,323**
Other assets	1,160,479	58,069	1,153	384	**1,220,085**	-	-	-	1,475,159	**2,695,244**
Total	**116,296,577**	**11,980,134**	**8,968,919**	**3,069,814**	**140,315,444**	**120,265,024**	**-**	**53,894**	**183,320,471**	**443,954,833**
Deposits and other liabilities due to banks, other financial institutions and central bank	1,507,857	914,569	135,295	21,147	**2,578,868**	20,158	-	-	2,390,289	**4,989,315**
Deposits and other liabilities due to customers	234,754,045	10,829,680	8,829,245	2,946,069	**257,359,039**	144,321	-	-	115,196,041	**372,699,401**
Other liabilities	636,745	155,950	53,372	29,888	**875,955**	751,592	-	-	1,701,499	**3,329,046**
Total	**236,898,647**	**11,900,199**	**9,017,912**	**2,997,104**	**260,813,862**	**916,071**	**-**	**-**	**119,287,829**	**381,017,762**
Net Currency Position December 31, 2020	**(120,602,070)**	**79,935**	**(48,993)**	**72,710**	**(120,498,418)**	**119,348,953**	**-**	**53,894**	**64,032,642**	**62,937,071**

4. RISK MANAGEMENT (continued)

4.3 Market risks (continued)

4.3.2. Foreign exchange risk (continued)

A review of the ten-day VaR

The Bank also performs stress testing of foreign exchange risk, which assesses the potential impact of specific events and/or changes in more financial variables on the financial result, equity and foreign exchange risk ratio.

VaR denotes the largest possible loss in the Bank's portfolio for a certain period and at a predetermined confidence interval. The Group calculates one-day and ten-day VaR, with a confidence interval of 99%, on foreign currency positions (foreign currency VaR). The Bank calculates VaR using the autoregressive-heteroscedic model GARCH, for which it did not request the approval of the National Bank of Serbia, in order to assess regulatory capital requirements for foreign exchange risk.

Foreign currency VaR is accounted for in foreign currency positions, as well as in positions of indexed currency clauses contained in the banking book and trading book.

A review of the ten-day VaR with a confidence interval of 99% for 2021 and 2020 is shown as follows:

In thousands of RSD

	As at December 31,	Average	Maximum	Minimal
2021				
Foreign currency risk	17,267	752	17,267	43
2020				
Foreign currency risk	926	2,841	61,825	82

4.4. Operational risk

Operational risk is the risk of possible negative effects on the Bank's financial result and capital due to omissions (intentional and unintentional) in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the bank, as well as unforeseen external events. Operational risk includes legal risk, but not strategic and reputational risk. However, due to its importance, reputational risk is taken into account in operational risk management. Operational risk is defined as an event that occurs as a result of inappropriate or failed internal processes, actions of employees and systems or systemic and other external events, internal and external fraud, employment and workplace safety practices, customer claims, product distribution, fines and penalties for injuries, damage to tangible assets, business disruptions and systemic failures and process management.

The Bank also monitors operational risk events along the following lines of business: financing of economic entities, trade and sales, brokerage operations with individuals, banking operations with companies, banking operations with individuals, payment operations, client account services and asset management.

The operational risk management process is an integral part of the Bank's activities implemented at all levels and enables identification, measurement, mitigation, monitoring and control and reporting of operational risks in accordance with regulatory requirements and deadlines. The existing process relies on reliable methods of measuring operational risk exposure , operational losses database, up - to - date control and reporting system.

4. RISK MANAGEMENT (continued)

4.4. Operational risk (continued)

The Bank monitor daily operational risk events and manage operational risks. In order to efficiently monitor operational risk, in each organizational part of the Bank, employees for operational risks are appointed, who are responsible for the accuracy and promptness of data on all operational risk events, as well as for recording all incurred events in the operational risk database. The organizational part of the Bank in charge of risk management monitors and reports on operational risks to the Bank's Board of Directors, the Bank's Executive Board and the Audit Committee, ALCO Committee and Operational Risk Committee.

The Bank performs measurement and / or assessment of operational risk through a quantitative and /or qualitative assessment of the identified operational risk. The Bank conduct measurement of operational risk exposure through event logging, and self-evaluation. Key risk indicators are an early warning to signal changes in the Bank's risk profile. They relate to a specific operational risk and show greater exposure in the occurrence of operational risk events. Their purpose is to help reduce losses and operational risks through proactive consideration of risk factors.

The Bank's operational risk profile represents the Bank's exposure to operational risk and serves as a basis for making additional decisions, which would improve the existing operational risk profile and bring it closer to the target profile. The existing profile of identified operational risks is the result of the identification and assessment of operational risks within certain processes by organizational forms, which is carried out at least once a year. The existing operational risk profile includes operational risks that operational risk custodians (persons responsible for monitoring operational risks, as well as other employees) see within their organizational forms or outside them. During 2021, besides other assessments of the operational risks in the processes the Bank conducted an assessment of operational risk exposure. in the context of the Covid 19 virus pandemic as well as in the integration process and identified operational risks. Appropriate risk mitigation measures have been defined for the identified operational risks.

During the first quarter of 2021, the Bank complied with the standards of the NLB Group in the area of internal acts that define a comprehensive process of operational risk management. In addition, in the second quarter of 2021, the Bank implemented new software (LED) which is also used within the NLB Group and is intended for recording, monitoring and analyzing operational risks and adverse events and is in line with the ICAAP process applied at the Group level.

The Bank can't eliminate all operational risks, but by introducing an appropriate control framework, monitoring and mitigating potential risks, it establishes a process for managing operational risk and the Bank takes measures to mitigate operational risks and proactively respond to potential operational risk events through permanent monitoring of all activities, implementation of adequate and a reliable information system and orientation to the project approach, whose implementation improves business practice and optimizes business processes.

Through reliable reporting on the implementation of measures to mitigate operational risks, the Bank has established a monitoring system for activities undertaken by the Bank in order to reduce operational risks and preventive responses to emerging operational events. The Bank assesses the risk of relying on third parties for performing certain activities related to business, based on a contract concluded with those persons that clearly define the terms, rights, obligations and responsibilities of the contracted parties.

For the purpose of smooth and continuous operation of all significant Bank's systems and processes, as well as limitation of losses in emergencies, the Bank adopted the Business Continuity Plan, with the goal of restoring the recovery of the information technology system in case of termination of operations. The Bank has adopted the Disaster Recovery Plan.

4. RISK MANAGEMENT (continued)

4.5. Risks of investment

The risk of the Bank's investment represents the risk of investments in other legal entities and in fixed assets and investment property. The Bank's investment in a entity which is not a entity in the financial sector may be up to 10% of the Bank's capital, whereby this investment implies an investment by which members of the Bank acquire a holding or shares of a person other than a person in the financial sector. The Bank's total investments in entities which are not entities in the financial sector and in fixed assets and investment property of the Bank may be up to 60% of the Bank's capital, except that this restriction does not apply to the acquisition of shares for their further sale within six months of the date of acquisition.

4.6. Risk of exposure

The Bank's large exposure to a single entity or a Bank of related parties, including entities related to the Bank, is an exposure that exceeds 10% of the Bank's capital.

In its business, the Bank takes care of compliance with the regulatory defined exposure limits:

• Exposure to a single client or a Bank of related parties must not exceed 25% of the Bank's capital;

• The sum of all large Bank exposures must not exceed 400% of the Bank's capital.

Defined limits of exposure to one client or a Bank of related parties also applies to clients related to the Bank.

The Bank's exposure to one entity or Bank of related parties, as well as the exposure to clients related to the Bank, was within the prescribed limits.

4. RISK MANAGEMENT (continued)

4.7. Country risk

The risk of the country is a risk that relates to the country of origin of the entity to which the Bank is exposed, or the risk of the possibility of negative effects on the Bank's financial result and capital due to the inability of the Bank members to collect receivables from the debtor for reasons arising from political, economic or social country of origin of the debtor. The country's risk includes the following risks:

• Political and economic risk, which implies the likelihood of a loss due to the inability of members of the Group to collect receivables due to restrictions established by the acts of the state and other authorities of the country of origin of the debtor, as well as the general and systemic circumstances in that country;

• Transfer risk, which implies the likelihood of a loss due to the inability to collect receivables denominated in a currency other than the official currency of the country of origin of the debtor, due to the limitation of the payment of obligations towards creditors from other countries in a particular currency as determined by the acts of the state and other authorities of the debtor country.

The Bank manages the country's risk at the level of individual placements and at the level of portfolio. The Bank measure and control the exposure of individual placements to country risk by determining the category of the internal rating of the debtor's country, based on the rating assigned by internationally recognized rating agencies and determining the exposure limit as a percentage of the Bank's capital depending on the country's internal rating category. The Bank performs measurement and control of the exposure of the country risk portfolio based on the grouping of receivables according to the degree of risk of the debtor countries.

In order to adequately manage the country's risk, the Bank defines the exposure limits individually by country of origin of the debtor.

The Bank's placements approved to debtors domiciled outside the Republic of Serbia for financing operations in the Republic of Serbia, whose financial obligations to the Bank are expected to be settled from the source of operations realized in the Republic of Serbia, represent the Bank's receivables.

4. RISK MANAGEMENT (continued)

4.8. Fair value of financial assets and liabilities

Overview of the carrying amount and fair value of financial assets and liabilities not measured at fair value

In thousands RSD

	December 31, 2021					December 31, 2020				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets										
Cash and cash funds held with the central bank	82,055,482	82,055,482	82,055,482	-	-	80,045,107	80,045,107	80,045,107		
Loans and receivables due from other banks and other financial institutions	29,114,381	29,114.381	29,114,381	-	-	18,142,070	18,142,070	18,142,070		
Loans and receivables due from customers	209,044,943	208,948,338			208,948,338	189,296,089	187,604,124	-	-	187,604,124
Other asset	5,430,723	5,430,723	5,430,723	-		6,216,270	6,216,270	6,216,270		
Securities at amortized cost	934,484	934,484	-	-	934,484	842,240	842,240			842,240
Liabilities										
Deposits and other liabilities due to banks, other financial institutions and central bank	2,134,969	2,134,969	1,705,139	-	429,830	4,989,315	4,989,315	4,855,845		133,470
Deposits and other liabilities due to customers	403,286,418	403,239,009			403,239,009	372,699,401	372,432,163			372,432,163
Other liabilities	4,142,443	4,142,443			4,142,443	3,329,046	3,329,046			3,329,046

The calculated fair value of loans and advances to customers, as well as deposits received is equal to the fair value estimated by NLB dd and at which they are recognized on the date of acquisition of the majority stake in the Bank. On the date of acquisition, the impairment of most of the financial assets that have the status of risk-free exposures was also recognized. The values in the table above are shown in accordance with the fair values of these positions estimated on the day of the takeover of the Bank (December 31, 2020) and amortized until December 31, 2021, respectively. years.

4. RISK MANAGEMENT (continued)

4.8. Fair value of financial assets and liabilities

4.8.2. Financial instruments measured at fair value

Financial assets	December 31, 2021 Level 1	Level 2	Level 3	Total fair value	December 31, 2020 Level 1	Level 2	Level 3	Total fair value
Financial assets at fair value through profit and loss in RSD	512,823	-	-	512,823	508,922	4,873,616	-	5,382,538
Financial assets at fair value through profit and loss in foreign currency	-	-	-	-	-	2,925,568	-	2,925,568
Financial assets at fair value through other comprehensive income in RSD	-	84,689,682	-	84,689,682	-	81,955,812	-	81,955,812
Financial assets at fair value through other comprehensive income in foreign currency	23,033,402	40,377,764	40,600	63,451,766	18,095,705	44,468,703	105,757	62,670,165
Total	**23,546,225**	**125,067,446**	**40,600**	**148,654,271**	**18,604,627**	**134,223,699**	**105,757**	**152,934,083**

Level 1 includes financial instruments that are traded on the international market and where there is an adequate price available or which are traded by the method of continuous trading, if the instruments are from the Belgrade Stock Exchange (bonds of the Republic of Serbia and Republika Srpska traded on the international market, Republic of Slovenia, Republic of Ireland, USA, Raiffeisen Bank International), while level 2 contains securities whose fair value is estimated on the basis of internally developed models based on information from auctions or the secondary securities market (RS bonds in RSD and EUR).

The fair value of assets for which no direct trading information is available is assigned to Level 3 (municipality bonds).

During 2021, one of the two municipal bonds was collected, so that the amount distributed in level 3 was further reduced and is immaterial, so that the movement is influenced by the calculation of interest and maturity.

4. RISK MANAGEMENT (continued)

4.9. Capital management

The Bank has established a risk management system in accordance with the scope and structure of its business activities, and the objective of capital management is the smooth realization of the Bank's business objectives.

The calculation of capital and capital adequacy ratios has been in accordance with Basel III standard as of June 30, 2017.

The main goals of managing the capital are:

- Preservation of the minimum regulatory requirement (EUR 10 million);
- Maintenance of individual capital buffers;
- Respect of the minimum regulatory capital adequacy ratios increased for the combined capital buffer;
- Maintaining confidence in security and business stability;
- Realization of business and financial plans;
- Supporting the expected growth in placements;
- Enabling the optimism of future sources of funds and their use;
- Achieving dividend policy.

The regulatory capital of the Bank is the sum of the Tier 1 capital (consisting of the Common Equity Tier 1 capital and additional Tier 1 capital) and Tier 2 capital, reduced for the deductible items. Capital adequacy ratios represent the ratio of capital of the Bank (total, Tier 1 or Common Equity Tier 1) and the sum of: risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries, settlement / delivery risk except on the basis of free delivery), market risks, operational risk, risk exposure amount for credit valuation adjustment and risk exposure amount related to exposure limit excesses in the trading book. Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries of the banking Bank shall be determined in accordance with the prescribed risk weight for all exposure classes. Risk exposure amount for operational risk is calculated by multiplying the reciprocal value of the prescribed capital adequacy and capital requirements for operational risk, determined as the three-year average of the product of the exposure indicator in all lines of business and the prescribed capital requirements for each business line.

4. RISK MANAGEMENT (continued)

4.9. Capital management (continued)

Capital adequacy ratios

	December 31, 2021	*In thousands of RSD* December 31, 2020
Tier 1 capital	66,069,102	68,767,512
Common Equity Tier 1 capital	65,695,592	68,394,002
Additional Tier 1 capital	373,510	373,510
Deductible items of capital	(713,172)	(547,809)
Capital	**65,355,930**	**68,219,703**
Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries	194,363,632	172,470,230
Risk exposure amount for operational risk	34,534,805	34,167,575
Risk exposure amount for market risks	-	3,268,120
Capital adequacy ratio (min. 19.07%)	**28.55%**	**32.50%**
Tier 1 capital adequacy ratio (min. 15.87%)	**28.55%**	**32.50%**
Common Equity Tier 1 capital adequacy ratio (min. 13.46%)	**28.39%**	**32.32%**

During 2021, all prescribed capital adequacy ratios were above regulatory limits (12.80% + combined capital buffer, 9.60% + combined capital buffer and 7.19% + combined capital buffer for indicators of adequacy of total, Tier 1 and Common Equity Tier 1 capital respectively) .

By the Capital Management Strategy and Plan, the Bank ensures the maintenance of the level and structure of internal capital that provides adequate support for the growth of placements, future sources of funds and their use at the banking group level, the implementation of dividend policy, and adjustment to changes in regulatory requirements.

During 2021, the Bank calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of the Tier 1 capital and the amount of exposures that are included in the calculation of the ratio.

The Capital Management Plan, as part of the capital management system, includes:

- Strategic goals and the period for their realization;
- A description of the process of managing the available internal capital, planning its adequate level and responsibility for this process;
- Procedures for planning an adequate level of available internal capital;
- The way to reach and maintain an adequate level of available internal capital;
- Restrictions on available internal capital;
- Demonstrating and explaining the effects of stress testing on internal capital requirements;
- Allocation of capital;
- Business plan in case of occurrence of unforeseen events.

4. RISK MANAGEMENT (continued)

4.9. Capital management (continued)

On a continuous basis, the Bank conducts the process of internal capital adequacy assessment in accordance with the nature, scope and complexity of its business activities, in accordance with the Risk Management Strategy, Individual Risk Management Policies and the Capital Management Strategy.

The process of internal capital adequacy assessment, as a documented and continuous process, meets the following requirements:

- is based on identification and risk measurement;
- provides a comprehensive assessment and monitoring of the risks to which the Bank is exposed or may be exposed;
- Provides adequate available internal capital in accordance with the risk profile of the Bank;
- is involved in the banking Bank management system and decision making;
- Subject to regular analysis, monitoring and verification.

The stages of the internal capital adequacy assessment process at the Bank include:

- Determination of materially significant risks, in accordance with qualitative and quantitative criteria;
- Calculation of the amount of internal capital requirements;
- Calculation of stressed internal capital requirement for individual risks;
- Determining the total internal capital requirement;
- Comparison of the following elements:
  a. capital and available internal capital;
  b. minimum capital requirements and internal capital requirements for individual risks;
  c. the sum of minimum capital requirements and total internal capital requirements.

5. USE OF ASSESSMENT

The management uses assumptions and estimates that have an effect on the presented values of assets and liabilities during the reporting period. Estimates, as well as assumptions on the basis of which estimates have been made, are the result of regular checks. These estimates and assumptions are based on previous experience, as well as different information available on the day of drawing up financial statements, which act in a realistic and reasonable manner in the circumstances, applying expected credit loss concept.

Key sources of estimation uncertainty

Provisions for credit losses

Assets that are valued at amortised cost are assessed for impairment in the manner described in accounting policy 3 (j).

The impairment of placements aims ensure a reasonable, careful and timely determination of losses in order to protect the Bank's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the contingent liabilities.

Impairment of placements and provisions are only made when there is a reasonable basis, i.e. when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, and which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, the difficulties in the cash flows of the borrower (financial difficulties), the decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that the loan will be settled from these assets.

The Bank assesses the impairment of receivables on a group and on a individual basis.

5. USE OF ASSESSMENT (continued)

Individual assessment

The Bank assesses the impairment allowance for each individually significant placement with the default status, i.e. placements that are classified at stage 3 in accordance with IFRS 9. On this occasion, account is taken of the financial position of the loan beneficiary, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the client's creditworthiness, the value of collateral and the certainty of fulfillment of client's obligations towards the Bank, a new assessment of the impairment of placements is made.

An impairment allowance on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

Objective evidence that indicates the need for impairment of placements is considered to be:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfilment of other contractual provisions;
- when the members of the Bank, due to the financial difficulties of the borrower, substantially change the terms of repayment of claims in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) and the like.

Evidence can be documented by the analysis of the Watch process, information on the increased level of debtors' risk, reports from meetings held with the debtor, reports on the monitoring of clients collateral, reports of enforced collection and days of blockade, reports on loans in arrears and other information which the Bank has.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the planned future cash flows of the borrower. When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Bank recognizes the existence of multiple collection scenarios when estimating the expected future cash flows. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Bank on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

5. USE OF ASSESSMENT (continued)

Group assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and which are not individually significant in default status and for placements for which impairment allowance calculated on individual assessment has not been determined, as well as receivables based on commissions and other receivables that are not reduced to the present value.

Bank estimates are carried out by groups according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the economy sector and by rating groups by type of placements in the household sector), based on the internal rating system at the monthly level. The principle of expected loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of statistically proven interdependencies.

Group-based impairment is based on the expected credit loss in accordance with the probability of default in the next 12 months (stage 1 receivables), except in cases where there is a significant increase in credit risk in relation to the moment of initial recognition, when the credit loss assessment is carried out on the probability of default for the instrument's life span (stage 2 receivables).

By appreciating the specifics of the clients, migrations for corporate clients, micro businesses, retail clients by product types, financial institutions and exposure to countries are determined separately.

The impairment allowance reduces the gross amount of the placements and is recognized as an expense in the income statement.

Determining the probable loss on off-balance sheet items

Determining the probable loss on off-balance sheet items (contingent liabilities) is carried out when it is estimated that there is enough certain expectation that an outflow of funds will be made to settle the contingent liability. The Bank also determines the probable loss for unused commitments, for which there is not unconditional and without prior notice, possible cancelation the contracted obligation. When calculating provisions based on unused commitments, the Bank uses a conversion factor (CCF) that adjusts the carrying amount of unused commitments.

5. USE OF ASSESSMENT (continued)

Determination of fair value

The fair value of financial instruments is the amount by which assets can be exchanged or liabilities settled between the well informed, willing parties in a transaction under market conditions.

The Bank performs valuation of financial instruments by:

- Fair value through profit and loss
- fair value through other comprehensive income, with the recognition of "recycling" or without recognition in the income statement.

Financial assets and liabilities classified at fair value through the profit and loss account are subsequently measured at the fair value without including the cost of sales or other expenses when the recognition is terminated. Gains / losses arising from the change in the fair value of these financial instruments, their dividend income, and exchange rate differences are recognized in the income statement. There is no test of the potential impairment of these financial instruments.

After initial recognition, equity instruments are subsequently measured depending on whether they have a quoted market price. Instruments of capital which have a quoted market price are measured at market value, and investments in equity instruments that do not have a quoted market price in an active market are measured using valuation techniques, combining more available approaches and techniques for measuring fair values.

Investments in equity instruments that are not held for trading and which are measured at fair value through other comprehensive income are subsequently measured at fair value excluding the cost of sales or other expenses in case of derecognition.
With the exception of received dividends recognized in the income statement, all other related gains and losses, including a component of foreign exchange differences, are recognized in the other comprehensive income, through equity.

The amounts shown in the other comprehensive income cannot be subsequently transferred to the income statement, although cumulative gains or losses can be transferred within equity, to undistributed profits.

Investments in debt instruments that are valued at fair value through other comprehensive income are valued in the following way after initial recognition:

a. gains / losses from impairment, which are derived from the same methodology, which is also applied to financial assets measured at amortized cost, are recognized in the income statement;
b. gains / losses on exchange differences are recognized in the income statement;
c. interest income, calculated using the effective interest method, is recognized in the income statement;
d. gains / losses from changes in fair value are recognized through other comprehensive income;
e. in case of modification made, the gain / loss from modification is recognized in the income statement and
f. in case of derecognition, the cumulative gain / loss previously recognized through the other comprehensive income is reclassified from equity to the income statement, as adjustment due to reclassification.

5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

Financial derivatives are subsequently translated at market value. Market values of financial derivatives are obtained on the basis of various valuation techniques, including the discounting of cash flows. The change in the value of financial derivatives is accounted for in the balance sheet and income statement.

Changes in the fair value of financial liabilities for liabilities that are measured at fair value are made in the case of:

- a change in fair value that is a consequence of a change in its own credit risk of an obligation is reflected in the other comprehensive income, and
- the remaining amount of the change in the fair value of the liability is recorded in the income statement.

Financial liabilities held for trading and derivatives, after initial recognition and impairment, are valued at fair value.

The change in the fair value of a financial liability held for trading is included in income statement of the period in which it was incurred.

If the Bank settles its obligations towards creditors and employees in cash, which is determined in relation to the price of the shares or has the option to determine between these two methods of settling the obligation, the valuation of such transactions is carried out in accordance with the relevant IFRS.

The concept of fair value

When measuring fair values, the Bank identifies methods/techniques that need to maximize the use of observable inputs and to minimize the use of unobservable inputs.

There are 3 approaches for measuring fair values:

- market approach
- income approach
- cost approach

The Bank determines the fair value of financial instruments at the balance sheet date. Whenever possible, the Bank performs measurement of fair value using the market prices available in the active market for the given instrument. The market is considered active if quoted prices are easily and regularly available and represent real and regular market transactions at market conditions.

In the event that the market for financial instruments is not active, fair value is determined using estimation methodology. Estimation methodologies include transactions at market terms between the well informed, willing parties (if available), reference to the existing fair value of other instruments that are essentially the same, discounted cash flow analyzes, and other alternative methods. The selected estimation methodology maximizes the use of market data, is based on the least possible extent on the Bank-specific estimates, includes all factors that market participants consider as determining for the price, in accordance with the accepted economic methodologies for determining the price of financial instruments. Input data for estimation methods reasonably reflect market expectations and risk-bearing factors that are contained in a financial instrument. The assessment methods are adjusted and tested for their correctness by using the prices from perceptible existing transactions on the market for the same instruments, based on other available observable market data.

5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

The best evidence of the fair value of a financial instrument in the initial recognition is the price achieved in the transaction, i.e. the fair value of the consideration given or received, unless the fair value of the instrument is proven by comparison with other remarkable existing transactions on the market for the same instruments (without modification or re-formulation) or is based on an estimation method whose variables include only data that is visible on the market. When the price achieved in a transaction gives the best evidence of fair value at initial recognition, financial instruments are initially measured at the cost of the transaction and all the differences between that price and the value initially established by the valuation method are subsequently recorded in the income statement, depending on the individual facts and circumstances transactions, but not later than the moment when the assessment is supported by perceptible market data or when the transaction is completed.

Any difference between the fair value at initial recognition and the amount that may depend on the non-observable parameters are recognized in the income statement without delay but are recognized over the life of the instrument in an appropriate manner or when they are purchased, transferred or sold, or when the fair value becomes noticeable. The assets and long positions are measured at the offered price, and the obligations and short positions are measured at the required price. The fair value reflects the credit risk of the instrument and includes adjustments that reflect the credit risk of the Bank and other counterparties, where relevant. Estimates of fair values based on assessment models are corrected for all other factors, such as liquidity risk or uncertainty models, to the extent that the Bank considers that third parties can take them into account when determining the transaction price.

Determination of the fair value of financial instruments and recognition of the effects of the assessment is carried out on the basis of the provisions of the Methodology for determining the fair value of financial instruments , based on Politics and Strategy risk management .

6. SEGMENT REPORTING

The Bank has three operating segments – profit centres, which are the Bank's strategic divisions and their business is object of segment reporting.

The following summary describes the operations in each of the Bank's reporting segments:

Corporate Banking	Includes loans, deposits and other transactions and balances with corporate customers but not with banks
Retail Banking	Includes loans, deposits and other transactions and balances with retail customers, micro businesses, entrepreneurs and agriculture clients
Investment banking and interbank operations	Include securities and other financial instruments, as well as transactions with banks

Revenues from collected written-off receivables in the total amount of RSD 2,566,904 thousand, provisions for severance pay in the amount of RSD 1,610,928 thousand and net provisions legal costs in the total amount of RSD 1,418,371 thousand had a significant impact on the Bank's operations in 2021.

When producing segment reports, operational operating costs are divided into direct operating costs (directly under the control of business segments or directly linked to segment business) and indirect operating costs (the amount of these costs is not directly controlled by the segments or there is no direct link to the business of the segments).

Each business segment is granted with direct operating costs relating to this segment as well as with part of indirect operating expenses (distribution of these costs to segments is performed using the corresponding keys that are used for the allocation of costs of cost centres to profit centres).

Direct operating expenses at Bank level amounted to RSD 8,037,683 thousand and make up 67% of total operating costs. Direct operating costs are mostly comprised of expenses that are directly attributable to the business segments (salaries, rental costs, depreciation costs, marketing and other costs), and a minor part are comprised of expenses that are allocated to the segments based on management decisions.

The amount which refers to the segment of retail banking was RSD 6,079,203 thousand of direct costs (76% of total direct costs) as a result of large business network and number of employees in the retail sector.

In accordance with the aforementioned, in 2021, the Bank realized pre-tax profit in the amount of RSD 3,463,384 thousand.

6. SEGMENT REPORTING (continued)

Operating segments report for 2021 is provided below:

	Retail Banking	Corporate Banking	Investment and Interbank operations	Other	Total
Revenues and expenses					
Interest income	7,052,260	2,167,413	3,884,028	-	13,103,701
Interest expenses	(667,468)	(46,131)	(220,854)	(24,139)	(958,592)
Net interest income	6,384,792	2,121,282	3,663,174	(24,139)	12,145,109
Net income from fees and commissions	4,506,477	854,181	376,706	-	5,737,364
Result before impairment allowance	10,891,269	2,975,463	4,039,880	(24,139)	17,882,473
Net gains/losses from impairment allowance	(923,178)	471,169	467,781	-	15,772
Profit before operating expenses	9,968,091	3,446,632	4,507,661	(24,139)	17,898,245
Direct operating expenses	(6,079,203)	(1,741,152)	(217,328)	-	(8,037,683)
Net foreign exchange gains/losses	-	-	53,070	-	53,070
Net other income and expenses	(2,096,439)	(350,815)	(127,191)	-	(2,574,445)
Profit before indirect operating expenses	1,792,449	1,354,665	4,216,212	(24,139)	7,339,187
Indirect operating expenses	(2,214,135)	(1,360,391)	(301,277)	-	(3,875,803)
Profit before tax	**(421,686)**	**(5,726)**	**3,914,935**	**(24,139)**	**3,463,384**
Assets per segment					
Cash and cash funds held with the central bank	-	-	82,055,481	-	82,055,481
Loans and receivables due from banks	-	-	29,114,381	-	29,114,381
Loans and receivables due from customers	119,203,834	89,841,108	-	-	209,044,942
Investment securities	-	-	149,588,755	-	149,588,755
Other	-	-	1,628,063	18,008,783	19,636,846
	119,203,834	**89,841,108**	**262,386,680**	**18,008,783**	**489,440,405**
Liabilities per segment					
Liabilities to banks	-	-	2,134,969	-	2,134,969
Obligations to clients	343,567,750	48,698,634	11,020,034	-	403,286,418
Other	-	-	-	8,376,296	8,376,296
	343,567,750	**48,698,634**	**13,155,003**	**8,376,296**	**413,797,683**

6. SEGMENT REPORTING (continued)

Operating segments report for 2020 is provided:

	Retail Banking	Corporate Banking	Investment and Interbank operations	Other	Total
Revenues and expenses					
Interest income	6,904,573	2,151,235	4,145,459	-	13,201,267
Interest expenses	(772,562)	(170,956)	(172,685)	(15,774)	(1,131,977)
Net interest income	6,132,011	1,980,279	3,972,774	(15,774)	12,069,290
Net income from fees and commissions	3,627,660	738,724	509,024	-	4,875,408
Profit before impairment allowance	9,759,671	2,719,003	4,481,798	(15,774)	16,944,698
Net gains/losses from impairment allowance	(186,045)	(903,135)	17,148	-	(1,072,032)
Profit before operating expenses	9,573,626	1,815,868	4,498,946	(15,774)	15,872,666
Direct operating expenses	(5,822,469)	(1,832,875)	(216,522)	-	(7,871,866)
Net foreign exchange gains/losses	-	-	4,404	-	4,404
Net other income and expenses	(1,288,112)	529,435	152,177	-	(606,500)
Profit before indirect operating expenses	**2,463,045**	**512,428**	**4,439,005**	**(15,774)**	**7,398,704**
Indirect operating expenses	(2,027,685)	(1,286,221)	(286,279)	-	(3,600,185)
Profit before tax	435,360	(773,793)	4,152,726	(15,774)	3,798,519
Assets per segment				-	
Cash and cash funds held with the central bank	-	-	*80*,045,107	-	80,045,107
Loans and receivables due from banks	-	-	18,142,070	-	18,142,070
Loans and receivables due from customers	109,884,102	79,411,987	0	-	189,296,089
Investment securities	-	-	153,776,323	-	153,776,323
Other	-	-	3,433,697	15,308,113	18,741,810
	109,884,102	**79,411,987**	**255,397,197**	15,308,113	460,001,399
Liabilities per segment					
Liabilities to banks	-	-	4,989,315	-	4,989,315
Obligations to clients	310,252,041	47,903,374	14,543,986	-	372,699,401
Other	-	-	-	7,652,144	7,652,144
	310,252,041	**47,903,374**	**19,533,301**	**7,652,144**	**385,340,860**

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

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

(i) Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are highly liquid or having a short term original maturity (less than one year) it is assumed that the carrying amount is approximate to their fair value. This assumption is also applied to demand deposits, saving accounts without a specific maturity and all variable interest rate financial instruments.

(ii) Fixed rate financial instruments

The fair value of fixed interest rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The assessed fair values of assets and liabilities with fixed interest rates mostly correspond to the carrying values thereof given that the interest rates applied do not depart from market interest rates. There are no materially significant departures in this respect (Note 4.8.).

8. NET INTEREST INCOME / (EXPENSES)

Net interest income / expenses include:

	In thousands of RSD Year ended December 31,	
Income from:	**2021**	**2020**
Loans and receivables due from banks (REPO)	60,480	69,140
Loans and receivables due from customers	9,219,445	9,055,660
The National Bank of Serbia (liquid assets deposited and mandatory reserves	28,635	100,519
Securities at fair value through profit or loss	35,541	-
Securities that are not carried at fair value through profit or loss	3,759,373	3,975,800
Leasing contracts - derecognition	227	148
Total interest income	**13,103,701**	**13,201,267**
Expenses from:		
Deposits and liabilities due to banks and other financial institutions	(92,859)	(71,389)
Deposits and liabilities due to customers	(828,250)	(1,040,911)
Borrowings received	(1,515)	(3,903)
Securities that are not carried at fair value through profit or loss	(11,829)	-
Leasing liabilities	(14,538)	(15,774)
Actuarial calculation	(9,601)	-
Total interest expenses	**(958,592)**	**(1,131,977)**
Net interest income	**12,145,109**	**12,069,290**

All interest income and expense shown in the previous table are calculated using the effective interest method, except those relating to securities carried at fair value through profit or loss (calculated using the agreed interest rate), leasing contracts (calculated using incremental). borrowing rates) and on the basis of actuarial calculation (calculated using the discount rate in accordance with IAS 19).

9. NET INCOME / (EXPENSES) FROM FEES AND COMMISSIONS

Net fee and commission income includes:

	In thousands of RSD Year ended December 31, 2021	2020
Fees and commission income in domestic currency		
Payment transfer operations	3,728,064	3,317,831
Fees on issued loans and guarantees	150,833	122,556
Fees on purchase and sale of foreign currencies	602,984	551,327
Brokerage and custody fees	32,666	26,975
Fees arising from card operations	2,204,651	1,878,548
Credit Bureau processing fees	62,579	50,929
Other banking services	534,802	475,227
	7,316,579	**6,423,393**
Fees and commission income in foreign currencies		
Payment transfer operations	109,832	95,977
Fees on issued loans and guarantees - corporate customers	2,126	1,920
Brokerage and custody fees	42,935	34,328
Fees arising from card operations	175,911	141,233
Other banking services	141	64
	330,945	**273,522**
Fee and commission income	**7,647,524**	**6,696,915**
Fee and commission expenses in domestic currency		
Payment transfer operations	(235,299)	(167,749)
Fees arising on purchase and sale of foreign currencies	(15,828)	(31,696)
Fees arising from card operations	(572,276)	(437,974)
Credit Bureau processing fees	(56,596)	(47,894)
Other banking services	(60,846)	(220,535)
	(940,845)	**(905,848)**
Fee and commission expenses in foreign currencies		
Payment transfer operations	(116,541)	(115,161)
Fees arising from card operations	(765,090)	(748,643)
Other banking services	(87,684)	(51,855)
	(969,315)	**(915,659)**
Fee and commission expenses	**(1,910,160)**	**(1,821,507)**
Net fee and commission income	**5,737,364**	**4,875,408**

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

Net gains on the financial assets held for trading include:

	In thousands of RSD Year ended December 31, 2021	2020
Gains on the fair values of securities and other funds are valued at fair value through PL-Bonds of the Republic of Serbia	-	90,707
Gains on the fair value adjustment of securities – investment units	4,823	4,922
Net gain / loss	**4,823**	**95,629**

11. NET GAINS / (LOSSES) FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Net gain/loss on the grounds of termination of recognition consists of:

	In thousands of RSD Year ended December 31, 2021	2020
Gains arising from derecognition of financial instruments at fair value through Other Comprehensive Income	163,816	70,778
Gains arising from derecognition of securities at fair value through Profit and loss	39,039	122,007
Gains arising from derecognition of derivatives at fair value through Profit and loss – FORWARD	-	4,537
Losses arising from derecognition of financial instruments valued at fair value through Other Comprehensive Income	(348)	-
Losses from derecognition of derivatives valued at fair value trough Profit and loss - FORWARD	-	(202)
Gains arising from derecognition of financial instruments at fair value through Other Comprehensive Income	(5,264)	(39,324)
Net gain / loss	**197,243**	**157,796**

Gains arising from derecognition of financial instruments valued at fair value through Other Comprehensive Income in the amount of RSD 163,816 thousand relates to bonds of the Republic of Serbia denominated in foreign currency.

Gains arising from derecognition of securities and other investments at fair value through income statement in the amount of RSD 39,039 thousand relates to: bonds of the Republic of Serbia in dinars in the amount of RSD 26,912 thousand, the bonds of the Republic of Serbia in foreign currency amounting to RSD 10,019 thousand, foreign government bonds in foreign currency in the amount of RSD 286 thousand and investment units in total of RSD 1,822 thousand.

11. NET GAINS / (LOSSES) FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (continued)

Losses arising from derecognition of securities and other investments at fair value through Profit and loss amounting to RSD 5,264 thousand relates to: bonds of the Republic of Serbia in dinars amounting to RSD 4,489 thousand and the bonds of the Republic of Serbia in a foreign currency of RSD 775 thousand.

12. NET EXCHANGE RATE GAINS / (LOSSES) AND GAINS / (LOSSES) ON AGREED CURRENCY CLAUSE

	In thousands of RSD	
	Year ended December 31,	
	2021	**2020**
Positive currency clause effects	91,548	150,499
Positive currency clause effects – value adjustment of securities	40	191
Foreign exchange gains – value adjustment of liabilities	62	220
Positive currency clause effects – leasing contracts	335	986
Foreign exchange gains	1,812,292	1,387,685
	1,904,277	**1,539,581**
Negative currency clause effects	(76,206)	(163,508)
Negative currency clause effects – value adjustment of securities	(40)	(211)
Negative currency clause effects – value adjustment of liabilities	(107)	(203)
Negative currency clause effects – leasing contracts	(412)	(895)
Foreign exchange losses	(1,774,442)	(1,370,360)
	(1,851,207)	**(1,535,177)**
Net gain / (loss)	**53,070**	**4,404**

13. NET GAINS / (LOSSES) FROM IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT

Net gain / (loss) from impairment of financial assets relates to:

	In thousands of RSD Year ended December 31, 2021	2020
Impairment allowance of financial assets measured at amortised cost	(8,154,575)	(4,461,954)
Provisions for off-balance sheet items	(367,549)	(235,337)
Impairment allowance for debt securities measured through other comprehensive income	(405,599)	(72,707)
Losses arising from the modification of financial instruments	-	(342,435)
Impairment allowance of direct write-off of placements	(3,198)	(174)
Reversal of impairment allowance of financial assets valued at amortised cost	5,886,266	3,401,198
Reversal of provisions for off-balance sheet items	383,192	201,851
Income from collection of receivables previously written-off	2,566,904	396,134
Reversal of allowance for debt securities measured through other comprehensive income	110,331	41,295
Revenues arising from modification of financial instruments	-	97
Total	**15,772**	**(1,072,032)**

During 2021, the Bank collected written-off receivables in the amount of RSD 2,566,904 thousand. Out of the total amount of collected written-off receivables, the largest part of the amount refers to the collection of receivables from off-balance sheet records for which a permanent write-off was previously made by transfer from the balance sheet to the off-balance sheet, of which RSD 166,839 thousand relate to the collection of loans to individuals, and the rest in the amount of RSD 2,400,065 thousand are to collect loans from legal entities, mostly.

By the date of issue of these financial statements the Bank did not make materially significant collections from impaired placements that would affect the reversal of impairment.

Effects arising from the credit risks of debt securities in the amount of net loss of RSD 295,268 thousand the Bank recognised in Equity, in the position losses of the debt instruments (Expenses of debt securities at fair value through Other Comprehensive Income in the amount of RSD 405,599 thousand and income on the same basis in amount of RSD 110,331 thousand). These positions are exempt from the structure of the table of changes in the impairment and provisions for off-balance sheet items.

13. NET GAINS / (LOSSES) FROM IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

MOVEMENT ON IMPAIRMENT ACCOUNTS AND PROVISIONS FOR OFF-BALANCE

	Loans and receivables due from banks (Note 23.2)	Loans and receivables due from customers (Note 24.2)	Securities - local government and corporate bonds (Note 22)	Investments in associates and joint ventures (Note 25)	Investment in Subsidiaries (Note 26)	Other assets (Note 31)	Off-balance sheet liabilities (Note 34)	Total
Balance as at January 1, 2021	**4,168**	**11,394,118**	**4,213**	**-**	**2,047,191**	**2,225,620**	**224,463**	**15,899,773**
New impairment allowance	50,262	7,922,757	15,735	-	-	165,821	367,549	8,522,124
Decrease in impairment allowance	(33,667)	(4,837,578)	(11,707)	(20,383)	(760,221)****	(222,710)	(383,192)	(6,269,458)
Foreign exchange effects	138	33,419	1			1,767		35,325
Permanent Write-offs	-	(5,508,881)	-	-		(16,322)	-	(5,525,203)
Other changes	-	125,160*	-	898,593**	(1,286,970)**	(1,062,385)***	(1)	(1,325,603)
Balance as at December 31, 2021	**20,901**	**9,128,995**	**8,242**	**878,210**	**-**	**1,091,791**	**208,819**	**11,336,958**

** the effect of recognizing interest income on impaired loans by applying an alternative concept of IRC methods related to netting interest income and impairment expenses*
*** transfer of impairment of investments in subsidiaries to associates in the amount of RSD 898,593 thousand and sale of subsidiaries in the amount of RSD 388,377 thousand*
**** cancellation of the adjustment based on impairment of assets acquired through collection of receivables and recording on the basic account*
***** reduction of the value adjustment of the investment in Komercijalna banka a.d. Banja Luka based on the new valuation on September 30, 2021.*

In 2021, the Bank increased net expenses from impairment of placements at amortized cost, off-balance provisions in total amount of RSD 2,252,666 thousand.

Among other changes on the impairment accounts and provisions the amount of RSD 5,525,203 thousand relates to permanent write-off that the Bank carried out in 2021, i.e. transfer from on-balance to off-balance records on the basis of the decisions of the NBS of the accounting write-off.

14. NET GAINS / (LOSSES) FROM DERECOGNITION OF INVESTMENTS IN ASSOCIATES

In thousands of RSD

	Year ended December 31, 2021	2020
Net gains/losses from derecognition of investments in subsidiaries	563	-
Net gain	**563**	**-**

The stated gain refers to the sale of 100% of the shares of Komercijalna banka a.d. Banja Luka occurred in December 2021. The total positive effect on the Income Statement for 2021, including the reduction of the adjustment in the amount of RSD 760,221 thousand (Note 13), amounts to RSD 760,784 thousand.

15. OTHER OPERATING INCOME

	In thousands of RSD Year ended December 31, 2021	2020
Other income from operations	192,523	199,291
Revenues from dividends and shares	18,667	12,098
Net income	**211,190**	**211,389**

In the other operating income from operations in the amount of RSD 192,523 thousand, the most significant amounts relate to revenue from lease of properties, including advances received for rental in the amount of RSD 108,613 thousand and refunds of court costs and utility costs in the amount of RSD 62,250 thousands, revenues from charged costs for the use of business mobile phones upon employee authorization and the cost of using business vehicles for private purposes in the amount of RSD 16,734 thousand.

During 2021, the Bank received dividends from other participations and shares in amount of RSD 18,667 thousand (2020: RSD 12,096 thousand), which form part of the position of Other income, and dividends from shares in Dunav Osiguranje ADO of RSD 9,425 thousand, VISA Inc. in the amount of RSD 7,140 thousand and MasterCard in the amount of RSD 2,102 thousand.

16. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

Costs of salaries, salary compensation and other personal expenses consist of:

	In thousands of RSD Year ended December 31, 2021	2020
Net salaries	2,816,018	2,694,582
Net benefits	493,316	430,756
Payroll taxes	401,203	383,023
Payroll contributions	825,716	832,187
Considerations paid to seasonal and temporary staff	6,621	761
Provisions for retirement benefits – net (Note 34)	(112,669)	79,181
Other personal expenses	530,961	1,399,456
Total	**4,961,166**	**5,819,946**

Salaries, benefits and other personal expenses in the amount of RSD 4,961,166 thousand are lower by RSD 858,780 thousand or 14.76% compared to the same period last year. Other personal expenses are mostly related to annual bonuses to employees.

17. DEPRECIATION COSTS

	In thousands of RSD Year ended December 31, 2021	2020
Amortization costs – intangible assets (Note 27.2)	228,884	221,070
Depreciation costs – property and equipment (Note 28.2)	311,856	340,139
Depreciation costs – investment property (Note 29.1)	-	-
Depreciation costs – right of use assets (Note 28.2)	372,085	377,754
Total	**912,825**	**938,963**

18. OTHER INCOME

Other income consists of:

	In thousands of RSD Year ended December 31, 2021	2020
Income from reversal of unused provisions for litigations	74,459	775,329
Gains on sale of fixed assets and assets held for sale	36,781	-
Income from sale of real estate acquired through collection of receivables	127,828	-
Income from decrease of liabilities	1,252	2,874
Income from changes in the value of investment property (Note 29.1)	107,537	30,335
Income from changes in the value of assets held for sale (Note 30)	17,002	-
Income from changes in the value of assets acquired through the collection of receivables	112,014	-
Other income	110,137	81,214
Total	**587,010**	**889,752**

Income from changes in the value of investment property in the amount of 107,537 thousand dinars relate to the recording of positive outcomes of valuations of investment property in accordance with the amended accounting policy for subsequent valuation of investment property (Note 2.5 and Note 29)

Within the item other income incurred in 2021, the most significant amount relates to interest income from previous years totalled RSD 83,567 thousand dinars (citizens in the amount of RSD 4,414 thousand, entrepreneurs in RSD 1,995 thousand, farmers in RSD 2,101 thousand and the corporate in the amount of RSD 75,057 thousand).

19. OTHER EXPENSES

Other expenses include:

	In thousands of RSD Year ended December 31, 2021	2020
Cost of materials	314,385	312,082
Cost of production services	1,729,741	1,236,532
Non-material costs (without taxes and contributions)	2,993,695	2,371,230
Tax costs	163,960	157,695
Contributions costs	690,891	696,277
Other operating costs	34,154	18,507
Other expenses	498,554	403,006
Losses on disposal and write-off of fixed assets, intangible assets and inventories	12,377	687
Expenses arising from changes in value of investment property (Note 29.1)	40,620	463,082
Expenses arising from changes in value of assets held for sale (Note 30)	-	7,591
Expenses arising from changes in value of assets acquired through the collection of receivables	32,634	-
Expenses arising from provisions for legal costs (Note 34)	1,492,830	1,007,519
Expenses arising from provisions for severance pay accor. to voluntary severance package (Note 34)	1,610,928	-
Total	**9,614,769**	**6,674,208**

19. OTHER EXPENSES (continued)

a) Other expenses

Within the position of other expenditures in the amount of RSD 498,554 thousand, among others the following are recorded expenditures arising from paid invoices of insurance companies for life insurance policies of clients in favour of the Bank in the amount of RSD 249,870 thousand, and whose payment was covered by the Bank. The specified policies are used as collateral for loans granted to individuals. Additionally, this position also includes expenditures related to insurance policies for users of current account sets and travel insurance international payment cards in the amount of RSD 23,033 thousand.

b) Provision for legal costs

Expenses arising from provisions for legal costs totalling to RSD 1,492,830 thousand (note 34) are result of increased expenditures for 17,733 new cases during the year 2021, and increase provisions for active cases from previous years.

c) Expenses arising from provisions for severance pay accor. to voluntary severance package

Expenses arising from provisions for severance pay accor. to voluntary severance package in the amount of RSD 1,610,928 thousand (Note 34) relate to the recognition of provisions for reorganization costs made on the basis of the Bank's Voluntary Severance Package adopted by the Bank.

20. INCOME TAX – current tax and deferred tax

20.1 Components of income taxes as of December 31 were as follows:

In thousands of RSD

	Year ended December 31, 2021	2020
Gains from deferred taxes	348,040	120,049
Losses from deferred taxes	(165,725)	(1,384,134)
Total	**182,315**	**(1,264,085)**

Upon submitted tax return and tax balance for 2019, the Bank paid an advance income tax for 2020, until the submission of the tax balance for 2020. After the submission of the tax return and the tax balance for 2020 on June 18, 2021, and bearing in mind that the Bank for 2020 has no income tax duty remained, the Bank overpaid the amount. Input taxes can be used for future periods, a request for a refund can be submitted or the amount will be used to cover other tax liabilities. The bank paid RSD 18,911 thousand in advance, as shown in the account of receivables for overpaid taxes on December 31, 2021.

20.2 Reconciliation of the effective tax rate is presented in the table below:

In thousands of RSD

	2021	2021	2020	2020
Profit for the year before taxes	-	**3,463,384**		**4,192,846**
Tax calculated using the local income tax rate	15%	519,508	15%	628,927
Expenses not recognized for tax purposes	1.73%	60,036	3.64%	152,443
Tax effects of the net capital losses /gains	-0.17%	(5,875)	-0.01%	(384)
Tax effects of income reconciliation	-0.73%	(25,337)	-2.77%	(116,098)
Tax effects on IFRS 9	-1.01%	(34,851)	-0.83%	(34,851)
Tax credit received and used in the current year	0.86%	29,732	-1.14%	(47,600)
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-15.68%	(543,213)	-13.89%	(582,437)
Tax effect adjustments (used and new ones)	-5.26%	(182,315)	30.15%	1,264,085
Tax effects stated within the income statement		**182,315**		**(1,264,085)**

20. INCOME TAX – current tax and deferred tax (continued)

20.3 Movements in deferred taxes as at December 31 are presented as follows:

	In thousands of RSD Year ended December 31, 2021	2020
Balance as of January 1	(147,400)	1,074,197
Occurrence and reversal of temporary differences	656,642	(1,221,597)
Balance as of December 31	**509,242**	**(147,400)**

20.4. Deferred tax assets and liabilities

20.4.1. Deferred tax assets and liabilities refer to:

In thousands of RSD

	2021			2020		
	Asset	Liability	Net	Asset	Liability	Net
Difference in the present value of fixed assets for tax and financial reporting purposes	-	(26,129)	(26,129)	36,037	-	36,037
Tax losses carried forward	29,732		29,732	-	-	-
Outcomes of change in values of debt and equity securities	127,073	(644,075)	(517,002)	1,779	(968,884)	(967,105)
Long-term provisions for retirement benefits	41,361	-	41,361	58,265	-	58,265
Impairment of assets	357,279	-	357,279	342,947	-	342,947
Employee benefits under Article 9 paragraph 2. CIT Law - calculated but not paid in the tax period	821	-	821	762	-	762
Accrued and unpaid public duties	229	-	229	112	-	112
First implementation of IFRS 9	34,851	-	34,851	69,702		69,702
Tax credit from loan conversion to CHF	76,119	-	76,119	76,119	-	76,119
Provisions for legal costs	390,567	-	390,567	256,095	-	256,095
Actuarial gains on provisions for employee severance payments	240	-	240	-	(20,334)	(20,334)
Accrued and unpaid severance pay	121.174		121,174	-	-	-
	1,179,446	**(670,204)**	**509,242**	**841,818**	**(989,218)**	**(147,400)**

Within the tax period from January 1 to December 31, 2021, incurred loss amounted to RSD 198,215 thousand and thus a deferred tax asset in the amount of RSD 29,732 thousand was established.

Tax losses carried forward that are not recorded in the books of the Bank and on basis of which deferred tax assets were not formed as of December 31, 2020 amounted to RSD 8,685,280 thousand. The tax credit expired in 2021.

Deferred tax assets were not formed for tax credits on the basis of fixed asset investments in the amount of RSD 10,724 thousand.

20. INCOME TAX – current tax and deferred tax (continued)

20.4.2. Overview of tax credits for which deferred tax assets were not recognized:

In thousands of RSD

Type of tax credit	Year	Amount as at December 31, 2021	Amount as at December 31, 2020	Expiration date for use
Tax losses carried forward	2016	-	8,685,280	2021
Total tax losses		**-**	**8,685,280**	
Impact of tax losses on future income tax (15%)		-	1,302,792	from 2019 -2021
Tax credit on the basis of investment in fixed assets	2013	10,724	11,766	2023
Total to reduce future income tax liabilities		**10,724**	**1,314,558**	

20.4.3. Movements in temporary differences during 2021 and 2020 are shown as follows:

In thousands of RSD

2021	As at January 1,	Through profit or loss account	Through Other comprehensive income	Directly through retained earnings	As at December, 31
Property, plant and equipment	36,037	(65,816)	5,513	(1,863)	(26,129)
Tax losses carried forward	-	29,732	-	-	29,732
Securities	(967,105)	-	450,103	-	(517,002)
Long term provisions for employee benefits	58,265	(16,904)	-	-	41,361
Actuarial gains	(20,334)	-	20,574	-	240
Impairment of assets	342,947	14,332	-	-	357,279
Remuneration of employees according to Article 9. p.2. ZPDPL	762	59	-	-	821
Accrued and unpaid public duties	112	117	-		229
First-time Adoption of IFRS 9	69,702	(34,851)	-	-	34,851
Tax credit based on conversion of CHF loans	76,119	-	-		76,119
Provisions for legal costs	256,095	134,472	-	-	390,567
Accrued and unpaid severance pay	-	121,174	-	-	121,174
Total	**(147,400)**	**182,315**	**476,190**	**(1,863)**	**509,242**

In thousands of RSD

2020	As at January 1,	Through profit or loss account	Through Other comprehensive income	Directly through retained earnings	As at December, 31
Property, plant and equipment	39,299	(5,764)	2,502	-	36,037
Tax losses carried forward	1,259,350	(1,259,350)	-	-	0
Securities	(1,007,684)	-	40,579	-	(967,105)
Long term provisions for employee benefits	53,838	4,427	-	-	58,265
Actuarial gains	(19,741)	-	(593)	-	(20,334)
Impairment of assets	324,857	18,090	-	-	342,947
Remuneration of employees according to Article 9. p.2. ZPDPL	1,213	(451)	-	-	762
Accrued and unpaid public duties	163	(51)	-	-	112
First-time Adoption of IFRS 9	104,552	(34,850)	-	-	69,702
Tax credit based on conversion of CHF loans	76,119	-	-	-	76,119
Provisions for legal costs	242,231	13,864	-	-	256,095
Total	**1,074,197**	**(1,264,085)**	**42,488**	**-**	**(147,400)**

20. INCOME TAX – current tax and deferred tax (continued)

20.5 Tax effects relating to Other comprehensive income

In thousands of RSD

	2021			2020		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to change in fair value of equity shares and security (increase in equity and debt securities)	(2,165,395)	324,809	(1,840,586)	(262,464)	39,369	(223,095)
Net decrease in actuarial loss / gain	(137,159)	20,574	(116,585)	3,954	(593)	3,361
Changes in properties value	-	5,513	5,513	7,894	2,502	10,396
Decrease due to change in fair value of equity shares and security (decrease in equity and debt securities)	(835,289)	125,294	(709,995)	(8,064)	1,210	(6,854)
Total	**(3,137,843)**	**476,190**	**(2,661,653)**	**(258,680)**	**42,488**	**(216,192)**

21. CASH AND ASSETS HELD WITH THE CENTRAL BANK

Cash and assets held with the central bank include:

In thousands of RSD

	December 31, 2021	December 31, 2020
In RSD		
Cash on hand	4,653,308	4,549,226
Gyro account	24,859,789	24,851,040
Surplus of liquidity assets deposited	-	7,500,000
Other RSD cash funds	99	99
	29,513,196	**36,900,365**
In foreign currency		
Cash on hand	11,906,740	10,206,878
Obligatory reserve held with the NBS	39,019,097	31,633,723
Other cash funds	1,616,448	1,304,141
	52,542,285	**43,144,742**
Total	**82,055,481**	**80,045,107**
Adjustment to cash and cash held with the central bank for the purpose of preparing statement of cash flows		
Foreign currency accounts held with foreign banks (Note 23.1)	17,601,652	10,725,914
Foreign currency obligatory reserves	(39,019,097)	(31,633,723)
Surplus of liquidity assets deposited	-	(7,500,000)
	(21,417,445)	**(28,407,809)**
Cash and cash equivalents reported in statement of cash flows	**60,638,036**	**51,637,298**

In the cash flow statement, the bank records cash on the NBS bank account, cash on accounts of foreign banks, funds in the account of the Central Securities Depository and cash at the cash register.

Within the giro account, the RSD mandatory reserve is presented, which represents the minimum reserve of the RSD funds allocated in accordance with the Decision on the obligatory reserve with the National Bank of Serbia. In accordance with the aforementioned Decision, the RSD mandatory reserve is calculated on the amount of the average daily book value of dinar deposits, loans and other RSD liabilities during one calendar month using the rate ranging from 0% to 5%, depending on the maturity of liabilities and their source, while the calculated RSD obligatory reserve makes the sum: calculated obligatory reserves in RSD, 38% of the RSD countervalue of the calculated obligatory reserve in EUR on deposits up to 730 days, and 30% of RSD countervalue calculated compulsory reserve in EUR on deposits over 730 days (Official Gazette of RS No. 76/2018).

National Bank of Serbia shall pay interest on allocated funds t of 0.10% p.a. applied from June 18, 2020.

21. CASH AND ASSETS HELD WITH THE CENTRAL BANK (continued)

The Bank shall calculate the foreign exchange required reserve on the 17th day of the month on the basis of the average foreign currency deposit balance during the previous calendar month. The Bank shall allocate foreign currency required reserves in foreign currency to a special account with the National Bank of Serbia and may withdraw these funds as necessary. The bank is obliged to maintain the average monthly balance of the allocated foreign currency reserve in the amount of the calculated foreign currency reserve requirement, while in order to achieve the average daily balance of the allocated reserve requirement, the daily balance on the foreign currency reserve requirement account may be less than or greater than the calculated foreign currency reserve requirement.

Pursuant to the Decision Required Reserve (Official Gazette of RS no. 76/2018), the rates applied in calculation of the obligatory foreign currency reserve were as follows:

- for foreign currency deposits placed up to 730 days the rate of 20% was applied;
- for foreign currency deposits placed for over 730 days the rate of 13% was applied; and
- for RSD deposits indexed with currency clause the rate of 100% was applied regardless of maturity.

The Bank does not earn interest on obligatory reserve in the currency of the foreign country. During 2021, in accordance with the Decision on Obligatory Reserves Held with NBS, the Bank allocated a part of the foreign currency reserve to its gyro account.

Other foreign currency cash in the amount of RSD 1,616,448 thousand (2020: RSD 1,304,141 thousand) relate to an accruals account at the Central Registry of securities for security trading.

22. SECURITIES

22.1. Securities consist of:

In thousands of RSD

	December 31, 2021	December 31, 2020
Securities measured at fair value through profit and loss (in RSD)	512,823	5,382,538
Securities measured at fair value through profit and loss in foreign currency	-	2,925,568
Total I	**512,823**	**8,308,106**
Securities measured at fair value through other comprehensive income (in RSD)	84,730,864	82,062,022
Securities measured at fair value through other comprehensive income in foreign currency	63,411,166	62,564,408
Impairment allowance	(582)	(453)
Total II	**148,141,448**	**144,625,977**
Securities measured at amortized cost – corporate bonds (in RSD)	846,000	846,000
Discount bill	96,144	-
Impairment allowance	(7,660)	(3,760)
Total III	**934,484**	**842,240**
Total I+II+III	**149,588,755**	**153,776,323**

22. SECURITIES (continued)

22.2. The structure of securities measured at fair value through profit and loss is provided below:

In thousands of RSD

	December 31, 2021	December 31, 2020
Republic of Serbia bonds (in RSD)	-	4,873,616
Investment units of OIF monetary fund (in RSD)	512,823	508,922
Republic of Serbia bonds (in foreign currency)	-	2,925,568
Total	**512,823**	**8,308,106**

Investment units as at December 31, 2021 in the total amount of RSD 512,823 thousand refer to investment units KomBank Monetary Fund, Belgrade.

22.3. The structure of the securities that are measured at fair value through other comprehensive income:

In thousands of RSD

	December 31, 2021	December 31, 2020
In RSD		
Republic of Serbia bonds	84,689,682	80,958,748
T-bills Government of Republic of Serbia	-	997,064
Bonds of local government (city of Sabac and municipality of Stara Pazova)	41,182	106,210
Total in RSD	84,730,864	82,062,022
In foreign currency		
Republic of Serbia bonds	45,794,353	59,359,112
Bonds of foreign banks (Raiffeisen Bank International)	1,760,642	1,739,077
Bonds of foreign States (Republika Srpska)	15,856,171	1,466,219
Total in foreign currency	63,411,166	62,564,408
Total	**148,142,030**	**144,626,430**

22. SECURITIES (continued)

Changes in impairment is presented as follows:

Impairment of securities at fair value through OCI

In thousands of RSD

	December 31, 2021	December 31, 2020
Individual impairment allowance		
Balance as at January 1	453	602
Increase (Note 13)	11,835	4,106
Effects of the changes in exchange rates (Note 13)	1	
Reversal (Note 13)	(11,707)	(4,255)
Total individual impairment allowance	**582**	**453**

Impairment of securities measured at amortized cost

In thousands of RSD

	December 31, 2021	December 31, 2020
Individual impairment allowance		
Balance as at January 1	3,760	-
Increase (Note 13)	3,900	3,760
Total individual impairment allowance	**7,660**	**3,760**
Total individual impairment	**8,242**	**4,213**

23. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

23.1 Loans and receivables due from banks include:

In thousands of RSD

	December 31, 2021	December 31, 2020
RSD loans and receivables		
REPO transactions	-	-
Loans for working capital	66,839	1,500
Overnight loans	-	-
Deposed money in RSD	8,150,000	-
Other loans and receivables	7,946	4,085
Prepayments	22,514	970
Accruals	(202)	(2)
Impairment allowance	(1,179)	(12)
Total in RSD	**8,245,918**	**6,541**
FX loans and receivables		
REPO transactions	-	1,165,461
Foreign currency accounts held with foreign banks (Note 21)	17,601,652	10,725,914
Overnight loans	-	1,175,802
Other loans and receivables due from foreign banks	1,186,428	1,018,991
Foreign currency deposits placed with other banks	1,063,616	2,299,612
Prepayments	115	1,700
Other receivables	2,744	4,360
Loans to foreign banks (subsidiaries)	-	797,865
Secured foreign currency warranties	1,033,630	949,980
Impairment allowance	(19,722)	(4,156)
Total in foreign currency	**20,868,463**	**18,135,529**
TOTAL	**29,114,381**	**18,142,070**

As at December 31, 2021, the Bank did not have securities acquired in reverse repo transactions with the National Bank of Serbia. During the year, placements to treasury bills purchased from the National Bank of Serbia, maturing up to 7 days with the annual interest rate of 0.11% to 0.43%.

Short-term time loans and deposits with banks in RSD are deposited for up to one year with an interest rate ranging from 0.11% to 1.30% per annum. Short term time deposits at banks in foreign currency are deposited for a period not exceeding one year, with interest rates ranging from 0.05% per annum for the EUR, from 0.03% to 0.12% for USD and from 0.02% to 0,03% for GBP.

Reverse repo with domestic banks was placed at an interest rate of 0.20%.

23. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

23.2 Movements on the account of impairment allowance of loans and receivables due from banks are provided in the table below:

In thousands of RSD

Impairment allowance	**December 31, 2021**	**December 31, 2020**
Balance as at January 1	4,168	218,351
Impairment allowance in current year		
Increase (Note 13)	50,262	42,256
Reclassification – transfer on clients	-	(195,504)
Effects of the changes in exchange rates (Note 13)	138	(18,956)
Reversal (Note 13)	(33,667)	(41,992)
Other	-	13
Balance as at December 31	**20,901**	**4,168**

24. LOANS AND RECEIVABLES DUE FROM CLIENTS

24.1 Loans and receivables due from customers:

In thousands of RSD

	December 31, 2021			December 31, 2020		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Corporate customers and registered farms						
Transaction account overdrafts	465,479	(9,563)	455,916	340,913	(24,140)	316,773
Working capital loans	51,627,619	(2,924,395)	48,703,224	42,389,327	(4,474,995)	37,914,332
Investment loans	49,808,508	(1,480,258)	48,328,250	41,686,558	(676,393)	41,010,165
Loans for payments of imported goods and services	998,631	(34,218)	964,413	2,928,241	(30,092)	2,898,149
Loans for discounted bills of exchange, acceptances and payments made for guarantees called on	4,552	(2,924)	1,628	306,114	(278,343)	27,771
Other loans and receivables	17,402,398	(3,167,773)	14,234,625	23,357,788	(4,859,265)	18,498,523
Prepayments	353,319	(23,381)	329,938	492,069	(29,138)	462,931
Accruals	(174,430)	-	(174,430)	(191,382)	-	(191,382)
	120,486,076	**(7,642,512)**	**112,843,564**	**111,309,628**	**(10,372,366)**	**100,937,262**
Retail customers – private individuals						
Transaction account overdrafts	2,540,761	(172,988)	2,367,773	2,674,284	(168,229)	2,506,055
Housing loans	52,578,106	(562,682)	52,015,424	46,434,157	(408,119)	46,026,038
Cash loans	40,128,468	(655,992)	39,472,476	37,233,498	(354,972)	36,878,526
Consumer loans	252,566	(4,804)	247,762	239,232	(781)	238,451
Other loans and receivables	1,473,636	(66,905)	1,406,731	1,741,027	(72,608)	1,668,419
Prepayments	988,007	(23,112)	964,895	1,475,339	(17,043)	1,458,296
Accruals	(273,683)	-	(273,683)	(416,958)	-	(416,958)
	97,687,861	**(1,486,483)**	**96,201,378**	**89,380,579**	**(1,021,752)**	**88,358,827**
Balance as of December 31	**218,173,937**	**(9,128,995)**	**209,044,942**	**200,690,207**	**(11,394,118)**	**189,296,089**

24. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

24.2 Movements on the account of impairment allowance of loans and receivables due from customers are presented in the table below:

In thousands of RSD

	December 31, 2021	December 31, 2020
Individual impairment allowance		
Balance at January 1	10,379,168	11,020,640
Increase (Note 13)	1,761,148	825,568
Reclassification from Group Impairment	898,221	450,519
Reclassification from Bank's impairment	-	195,504
Effects of the changes in foreign exchange rates (Note 13)	864	(1,261)
Released during the year (Note 13)	(1,004,891)	(1,019,998)
Permanent write-off	(4,907,081)	(1,143,788)
Other (Note 13)	119,580	51,984
Individual impairment allowance	**7,247,009**	**10,379,168**
Group impairment allowance		
Balance at January 1	1,014,950	999,693
Increase (Note 13)	6,161,609	3,367,791
Reclassification to Individual impairment allowance	(898,221)	(450,519)
Effects of the changes in foreign exchange rates (Note 13)	32,555	(23,613)
Reversal during the year (Note 13)	(3,832,687)	(2,192,478)
Permanent write-off (Note 13)	(601,800)	(736,499)
Other (Note 13)	5,580	50,575
Total Group impairment allowance	**1,881,986**	**1,014,950**
Balance as of December 31	**9,128,995**	**11,394,118**

Loans and receivables due from retail customers

During 2021, short-term and long-term loans to retail customers in RSD were approved for a period of 30 days to 120 months in RSD with nominal interest rates ranging from 2.00% to 14.95% per annum.

Short-term loans to retail customers in foreign currency are approved for a term up to twelve months with nominal interest rates ranging from 1.40% to 8.00% annually.

Long-term loans to retail customers in foreign currency are approved for the period from thirteen to ninety-five months with nominal interest rates ranging from 1.50% to 8.00% annually.

24. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

Loans and receivables due from legal entities

Short-term loans to legal entities in RSD were approved for a period of up to twelve months with a range of interest rates ranging from 2.30% to 7.95% annually. In foreign currency, short-term loans were granted for a period up to twelve months with an interest rate of EUR 1.50% to 5.70% annually.

Long-term loans in RSD were approved for a period over twelve months at an interest rate of 1.61% to 5.30% annually. Long-term loans in foreign currency were granted for a period over twelve months at an interest rate of EUR 1.06% to 3.95% annually.

Risks and Uncertainties

The management of the Bank calculates provision for possible loan losses by applying the concept of expected credit losses. Losses due to the impairment of financial assets held at amortised cost are measured as the difference between the carrying value of the financial asset and the present value of the estimated future cash flows discounted with the initial interest rate of the asset. Losses are recognized in the income statement and are measured at the position of impairment and of financial assets. When events after the balance sheet date is affected by a reduction in the amount of loss due to impairment, such a reduction is recognized as revenue of the abolition of impairment, through the income statement.

Loans and other receivables are shown in the amount less the Bank and the individual calculation of impairment. Individual and group provisions are deducted from the book value of loans that are identified as impairment to their value reduced to their recoverable value. In order to protect against the risk of default in dealings with customers, the Bank is undertaking the following measures for the regulation of claims: extension, restructuring, alignment, retrieval of assets for the purpose of securing payment of claims, the conclusion of contracts with interested third party, launch litigation and other measures. If measures regulating investments, or foreclosure and court proceedings have not produced the expected results, or when there is no possibility of the collection in its entirety, initiates the proposal for a permanent write-off of the remaining claims of the banks, or transfer from on-balance to off-balance records.

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

In thousands of RSD

	December 31, 2021	December 31, 2020
NLB banka a.d., Podgorica	2,366,273	-
Impairment allowance	(878,210)	-
Total	**1,488,063**	**-**

In November 2021, in conducted operation with NLB Group, the Bank acquired 23.97% of equity share of NLB banka a.d. Podgorica in respect of shares with Komercijalna banka Podgorica. (note 3 (a)).

The Bank engaged an independent appraiser to assess the equity share value as of November 30, 2021, after the legal change - merger of Komercijalna banka a.d. Podgorica to NLB banka a.d. Podgorica.

26. INVESTMENTS INTO SUBSIDIARIES

In thousands of RSD

	December 31, 2021	December 31, 2020
KomBank INVEST a.d., Beograd	140,000	140,000
Komercijalna banka a.d., Banja Luka	-	2,974,615
Komercijalna banka a.d., Podgorica	-	2,366,273
Impairment allowance	-	(2,047,191)
Total	**140,000**	**3,433,697**

During 2021, the Bank alienated its equity share in Komercijalna banka a.d. Banja Luka, while Komercijalna banka a.d. Podgorica was merged to NLB banka a.d. Podgorica (note 3 (a) and note 25).

27. INTANGIBLE ASSETS

27.1 Intangible assets comprise:

In thousands of RSD

	December 31, 2021	December 31, 2020
Intangible assets	361,707	495,533
Intangible assets in progress	220,394	15,136
Total	**582,101**	**510,669**

27.2 Movements on the account of intangible assets in 2021 and 2020 are presented below:

In thousands of RSD

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance as of January 1, 2020	**2,719,781**	**26,977**	**2,746,758**
Additions	-	66,004	66,004
Transfers	77,845	(77,845)	-
Balance as of December 31, 2020	**2,797,626**	**15,136**	**2,812,762**
Balance as of January 1, 2021	**2,797,626**	**15,136**	**2,812,762**
Additions	-	300,316	**300,316**
Transfers	95,059	(95,059)	**-**
Balance as of December 31, 2021	**2,892,685**	**220,393**	**3,113,078**
Impairment allowance			
Balance as of January 1, 2020	**2,081,023**	**-**	**2,081,023**
Amortization (Note 17)	221,070	-	221,070
Balance as of December 31, 2020	**2,302,093**	**-**	**2,302,093**
Balance as of January 1, 2021	**2,302,093**	**-**	**2,302,093**
Amortization (Note 17)	228,884	-	**228,884**
Balance as of December 31, 2021	**2,530,977**	**-**	**2,530,977**
Net carrying value			
Balance as of December 31, 2020	**495,533**	**15,136**	**510,669**
Balance as of December 31, 2021	**361,708**	**220,393**	**582,101**

28. PROPERTY, PLANT AND EQUIPMENT

28.1 Property, plant and equipment comprise:

In thousands of RSD

	December 31, 2021	December 31, 2020
Property	4,688,759	4,842,782
Equipment	421,160	382,842
Investments in progress	2,760,607	20,064
Leased assets	885,133	799,642
Total	**8,755,659**	**6,045,330**

28.2 Movements on the account of property and equipment in 2021 and 2020 are presented below:

In thousands of RSD

	Property	Equipment	ıvestments ı progress	Leased assets	Total
Cost					
Balance as at January 1, 2020	**7,116,041**	**3,604,856**	**43,224**	**1,339,640**	**12,103,761**
Additions and new lease contracts	-	-	109,024	230,429	339,453
Transfer from investments in progress	77,648	54,536	(132,184)		-
Write-off	(18,280)	(196,783)	-		(215,063)
Shortages by physical inventory count	-	(1,116)	-		(1,116)
Leasing - other	-	(6)	-	(41,453)	(41,459)
Balance as at December 31, 2020	**7,175,409**	**3,461,487**	**20,064**	**1,528,616**	**12,185,576**
Balance as at January 1, 2021	**7,175,409**	**3,461,487**	**20,064**	**1,528,616**	**12,185,576**
Additions and new lease contracts	-	-	2,977,047	464,365	3,441,412
Transfer from investments in progress	8,177	217,975	(226,152)	-	-
Write-off	(47,802)	(96,217)	(10,352)	-	(154,371)
Shortages by physical inventory count	-	(3,522)	-	-	(3,522)
Leasing - other	-	-	-	(100,249)	(100,249)
Balance as at December 31, 2021	**7,135,784**	**3,579,723**	**2,760,607**	**1,892,732**	**15,368,846**
Impairment allowance					
Balance as at January 1, 2020	**2,208,553**	**3,078,334**	**-**	**378,937**	**5,665,824**
Charges in the year (Note 17)	142,354	197,785	-	377,754	717,893
Write-off	(18,280)	(196,442)	-	-	(214,722)
Shortages by physical inventory count	-	(1,026)	-	-	(1,026)
Leasing - other	-	(6)	-	(27,717)	(27,723)
Balance as at December 31, 2020	**2,332,627**	**3,078,645**	**-**	**728,974**	**6,140,246**
Balance as at January 1, 2021	**2,332,627**	**3,078,645**	**-**	**728,974**	**6,140,246**
Charges in the year (Note 17)	134,122	177,734	-	372,085	683,941
Write-off	(19,724)	(94,452)	-	-	(114,176)
Shortages by physical inventory count	-	(3,364)	-	-	(3,364)
Leasing - other	-	-	-	(93,460)	(93,460)
Balance as at December 31, 2021	**2,447,025**	**3,158,563**	**-**	**1,007,599**	**6,613,187**
Net carrying value					
Balance as at December 31, 2020	**4,842,782**	**382,842**	**20,064**	**799,642**	**6,045,330**
Balance as at December 31, 2021	**4,688,759**	**421,160**	**2,760,607**	**885,133**	**8,755,659**

The investments in progress are mostly related to the purchase of an office building in December 2021 in the amount of RSD 2,734,933 thousand.

28. PROPERTY, PLANT AND EQUIPMENT (continued)

28.3 Leased assets

In thousands of RSD

	December 31, 2021	December 31, 2020
Business premises	839,886	792,639
Vehicles	2,141	1,016
Other equipment	43,106	5,987
Total	**885,133**	**799,642**

28.4 Movements on the account of leased assets in 2021 and 2020 are presented below:

In thousands of RSD

	Business premises	Vehicles	Other equipment	Total
Cost				
Balance as at January 1, 2020	**1,314,870**	**1,898**	**22,872**	**1,339,640**
New leases agreements	229,243	1,186		**230,429**
Derecognition	(40,094)	-	(1,359)	**(41,453)**
Balance as at December 31, 2020	**1,504,019**	**3,084**	**21,513**	**1,528,616**
				-
Balance as at January 1, 2021	**1,504,019**	**3,084**	**21,513**	**1,528,616**
New leases agreements	412,868	2,762	48,735	**464,365**
Derecognition	(84,746)	-	(15,503)	**(100,249)**
Balance as at December 31, 2021	**1,832,141**	**5,846**	**54,745**	**1,892,732**
Impairment allowance				
Balance as at January 1, 2020	**369,448**	**1,035**	**8,454**	**378,937**
Charges in the year (Note 17)	368,291	1,033	8,430	**377,754**
Derecognition	(26,358)	-	(1,359)	**(27,717)**
Balance as at December 31, 2020	**711,381**	**2,068**	**15,525**	**728,974**
Balance as at January 1, 2021	**711,381**	**2,068**	**15,525**	**728,974**
Charges in the year (Note 17)	359,757	1,637	10,691	**372,085**
Derecognition	(78,883)	-	(14,577)	**(93,460)**
Balance as at December 31, 2021	**992,255**	**3,705**	**11,639**	**1,007,599**
Net carrying value				
Balance as at December 31, 2020	**792,638**	**1,016**	**5,988**	**799,642**
Balance as at December 31, 2021	**839,886**	**2,141**	**43,106**	**885,133**

The Bank does not place any mortgages on buildings to secure loans repayment.

Due to incomplete cadastral books, on December 31, 2021 for 7 objects with the present value of RSD 89,262 thousand the Bank still does not have evidence of ownership. The Bank's management takes all necessary measures for the acquisition of ownership papers. Completion of this process depends on the conduct of the competent national authorities.

29. INVESTMENT PROPERTY

29.1. Movements on the account of investment property in 2021 and 2020 are presented below:

	In thousands of RSD Total
Cost	
Balance as at January 1, 2020	2,195,432
Adjustments of the opening balance due to changes in accounting policy (Note 2.5)	968,003
Abolition of accumulated depreciation	(337,505)
Adjustments of balance as at January 1, 2020	**2,825,930**
Positive effects of change in value (Note 18)	30,335
Negative effects of change in value (Note 19)	(463,082)
Balance as at December 31, 2020 (adjusted)	**2,393,183**
Balance as at January 1, 2021	**2,393,183**
Transfer from assets acquired by collection	150,431
Positive effects of change in value (Note 18)	107,537
Negative effects of change in value (Note 19)	(40,620)
Balance as at December 31, 2021	**2,610,531**
Impairment allowance	
Balance as at January 1, 2020	**337,505**
Abolition of accumulated depreciation	**(337,505)**
Adjustments of balance as at January 1, 2020	-
Charges in the year	38,420
Adjusted depreciation (Note 2.5)	(38,420)
Balance as at December 31, 2020	**-**
Balance as at January 1, 2021	**-**
Balance as at December 31, 2021	**-**
Net carrying value	
Balance as at December 31, 2020 (adjusted)	**2,393,183**
Balance as at December 31, 2021	**2,610,531**

As at December 31, 2021 the Bank has reported investment properties with the net book value of RSD 2,610,531 thousand, which comprise leased properties.

In 2021, the Bank voluntary changed of the accounting policy for the subsequent valuation of investment property and thus the fair value method is used instead of the previously cost method (Note 2.5).

Pursuant to Decision of the Bank's Management, seven properties given in long-term lease, were reclassified from the position of assets acquired through the collection of receivables to the position investment property with net carrying value of RSD 150,431 thousand.

As of December 31, 2021, the Bank has not yet registered property rights in the competent public registers for two investment properties with carrying value of RSD 54,193 thousand. In relation to these properties, all necessary activities have been undertaken which should result in the final registration in favor of the Bank.

29. INVESTMENT PROPERTY (continued)

29.2. Operating lease

The Bank leases out its investment properties. Leases are classified as operating because not all of the risks and rewards of ownership are transferred.

Investment properties are leased to tenants under operating lease agreement made with monthly rents. The bank has no variable annuity depending on the index or rate. Investment properties are usually leased for a period of 1 to 10 years.
Some contracts are for an indefinite period.

As of December 31, 2021, the net result from investment property is positive and amounts to RSD 64,132 thousand.

Unit	Area in sqm	Total Costs	Realised income from leases	Net result
Beograd, Trg politike 1	3,354	(16,213)	33,016	16,803
Niš, Vrtište nova d-zgrada	1,816	(7,981)	-	(7,981)
Niš, TPC Kalča	85	(238)	6,073	5,835
Beograd, Omladinskih brigada 19	15,218	(12,342)	8,958	(3,384)
Šabac, Majur, Obilazni put bb	1,263	(974)	-	(974)
Lovćenac, Maršala Tita bb,	46,971	(841)	7,054	6,213
Negotin, Save Dragovića 20-22	658	(274)	-	(274)
Niš, Bulevar 12. februar bb	2,878	(1,289)	6,913	5,624
Beograd, Radnička 22	7,190	(7,906)	37,740	29,834
Novi Sad, Vardarska 1/B,	291	(1,451)	3,557	2,106
Novi Sad, Bulevar Oslobođenja 88	44	(91)	469	378
Kotor, Stari Grad, Palata beskuća, poslovni prostor, zgr.br.1	207	(279)	6,431	6,152
Beograd, Luke Vojvodića 77a	80	(603)	796	193
Beograd, Baje Pivljanina 83	279	(748)	2,823	2,075
Subotica, Magn.polja 17	2,492	(1,508)	2,069	561
Čačak, S.polje, Kr.put bb	1,227	(999)	1,510	511
Niš, Čajnička bb	825	(1,406)	1,828	422
Valjevo, Vojvode Mišića 170	231	(20)	-	(20)
Mionica, Andre Savičića 8	106	(13)	71	58
Total		**(55,176)**	**119,308**	**64,132**

The following table shows an analysis of the maturity of lease receivables - undiscounted rents that the Bank will receive after the reporting date

In thousands of RSD

	December 31, 2021	December 31, 2020
Due:		
- up to year	77,868	103,027
- up to 2 years	2,271	77,867
- up to 3 years	2,271	2,271
- up to 4 years	2,271	2,271
- up to 5 years	2,271	2,271
- over 5 years	2,271	2,271
Total	**89,223**	**189,978**

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

In thousands of RSD

	December 31, 2021	December 31, 2020
Balance as at January 1, 2021	130,426	196,300
Net income / expenses from change in value (Notes 18 and 19)	17,002	(7,591)
Sale	(45,814)	-
Transfers to PPE	-	(58,283)
Total	**101,614**	**130,426**

Non-current assets held for sale:

Unit	Area in sqm	In thousands of RSD Carrying Value
Jasika, business premises	75.87	971
Vrbas, M. Tita 49, business premises	145.56	2,093
Kotor, business premises 1 and 2	690.00	98,550
Total	-	**101,614**

The Bank's management continues to pursue the sale process for all assets that have not been sold in the past year.

31. OTHER ASSETS

Other assets comprise:

In thousands of RSD

	December 31, 2021	December 31, 2020
In RSD		
Fee receivables per other assets	112,989	93,729
Inventories	98,303	105,924
Foreclosed assets	938,429	2,295,185
Prepaid expenses	162,428	137,454
Equity investments	2,663,302	2,516,622
Other RSD receivables	2,115,051	2,247,288
	6,090,502	**7,396,202**
Impairment allowance on:		
Fee receivables per other assets	(89,209)	(81,165)
Foreclosed assets	(1,940)	(1,064,325)
Equity investments	(446,350)	(446,661)
Other RSD receivables	(720,587)	(807,868)
	(1,258,086)	**(2,400,019)**
In foreign currency		
Fee receivables per other assets	17	8
Other receivables from operations	342,484	564,131
Receivables in settlement	81,828	294,261
Other foreign currency receivables	515,817	702,775
	940,146	**1,561,175**
Impairment allowance on:		
Other receivables from operations	(264,496)	(263,782)
Receivables in settlement	(77,341)	(77,308)
	(341,837)	**(341,090)**
Total	**5,430,725**	**6,216,268**

31. OTHER ASSETS (continued)

Movements of other assets and prepayments impairment allowance is shown in the following table:

In thousands of RSD

	December 31, 2021	December 31, 2020
Individual impairment allowance		
Balance at January 1	248,549	246,679
Increase (Note 13)	1	2,979
Reversal in the year (Note 13)	(72,430)	(1,109)
Permanent write offs	(1,526)	
Total Individual impairment allowance	**174,594**	**248,549**
Group impairment allowance		
Balance at January 1	1,977,071	1,911,622
Increase (Note 13)	165,820	215,494
Effects of the changes in foreign exchange rates (Note 13)	1,767	(1,493)
Reversal in the year (Note 13)	(150,280)	(141,366)
Permanent write-off	(14,796)	(6,812)
Other (Note 13)	(1,062,385)	(374)
Total Group impairment allowance	**917,197**	**1,977,071**
Balance as of December 31, exposed to credit risk	**1,091,791**	**2,225,620**
Impairment allowance of inventory (not exposed to credit risk)	61,782	68,828
Balance as at December 31, 2021 (without impairment of equity investments)	**1,153,573**	**2,294,448**
Impairment of equity investments	446,350	446,661
Total impairment of other assets	**1,599,923**	**2,741,109**

31. OTHER ASSETS (continued)

a) Equity shares

Other assets also comprise equity shares and are shown in the following table:

In thousands of RSD

	December 31, 2021	December 31, 2020
Equity investments in banks and other financial organizations	80,270	80,270
Equity investments in companies and other legal entities	431,327	458,725
Equity investments in non-resident entities abroad	2,151,705	1,977,627
	2,663,302	**2,516,622**
Impairment allowance of:		
Equity investments in banks and other financial organizations in bankruptcy	(80,270)	(80,270)
Equity investments in companies and other legal entities	(366,080)	(366,391)
	(446,350)	**(446,661)**

Equity shares in banks and other financial organizations relate to: Euroaxis banka a.d., Moskva in the amount of RSD 78,387 thousand, Union banka a.d., in the amount of RSD 1,874 thousand and Universal banka in bankruptcy in the amount of RSD 9 thousand.

Equity shares in companies mostly relate to: 14. Octobar a.d. Krusevac in the amount of RSD 324,874 thousand, Dunav osiguranje a.d.o. Belgrade in the amount of RSD 60,276 thousand, RTV Politika d.o.o. Belgrade in the amount of RSD 37,634 thousand, Belgrade Stock Exchange a.d. in the amount of RSD 2,246 thousand and Politika a.d. Belgrade RSD 2,244 thousand.

Equity shares in non-resident entities abroad relate to VISA INC Company in the amount of RSD 1,685,355 thousand and MASTER Card International in the amount of RSD 450,354 thousand.

Impairment allowance of equity shares totalling RSD 446,350 thousand relates to the impairment of cost of those equity shares that have no market value, out of which the major portion refers to: 14. October a.d., Krusevac in the amount of RSD 324,874 thousand, Euroaxis bank Moscow worth RSD 78,387 thousand, RTV Politika Belgrade in RSD 37,633 thousand and PPD Dobricevo d.o.o. Cuprija amounting to RSD 2,563 thousand.

b) Other receivables and receivables from operations

Other receivables stated in RSD mostly relate to operating receivables in the amount of RSD 223,059 thousand (impairment in the amount of RSD 76,968 thousand), receivables from material values received by collection of receivables in the amount of RSD 938,429 thousand (impairment in the amount of RSD 1,940 thousand), receivables from advances given for working capital in the amount of RSD 53,484 thousand (impairment in the amount of RSD 8,360 thousand), receivables from rent in RSD 371,984 thousand (impairment in the amount of RSD 233,682 thousand), receivables for default interest from other assets in the amount of RSD 200,766 thousand (impairment in the amount of RSD 126,775 thousand) and operating receivables according to the court judgment in the amount of RSD 209,085 thousand (impairment in entire 100%).

31. OTHER ASSETS (continued)

v) Foreclosed assets

Foreclosed assets totalling to RSD 938,429 thousand gross, less recorded impairment allowance of RSD 1,940 thousand, with the net carrying value of RSD 936,489 thousand relate to:

I Foreclosed properties classified in accordance with the classification decision that applied before December 30, 2013.

In thousands of RSD

Item	Area in sqm	Value	Date of acquisition
Novi Pazar, Kej skopskih žrtava 44, lokal	82.95	2,760	27.09.2006
Gnjilica, field VII class	2,638	75	15.04.2008
Čačak, Hotel „ Prezident“, Bulevar oslobođenja bb	2,278.92	68,762	21.01.2009
Buče, forest, IV class	8,292	299	12.10.2010
Budva, Crna Gora, forest, IV class	974	8,080	27.05.2011
Prijevor, forest, IV class	1,995	11,087	27.05.2011
Beograd, Mihajla Avramovića 14a, residential	925.35	166,849	21.11.2011
Kruševac, Koševi, production business facility I.C.P.	12,836	38,440	08.06.2012
Mladenovac, Sopot-Nemenikuće, field III class	16,633	274	25.06.2012
Obrenovac, Mislođin, , field III class	10,017	1,078	11.07.2012
Novi Pazar, Ejupa Kurtagića 13, house	139.90	4,755	24.07.2012
Majur, Tabanovačka, field	14,452	1,671	10.08.2012
Mali Požarevac, Veliko polje, fiels III and IV class	21,915	328	27.09.2012
Ćuprija, Alekse Šantića 2/24, apartment	72.40	924	15.01.2013
Niš, Ivana Milutinovića 30, business premises	438.39	4,919	23.04.2013
Niš, Triglavska 3/1, apartment	79.80	3,609	04.06.2013
Mladenovac, field-meadow III class	1,142	505	18.07.2013
Prijepolje, Karoševina, sawmill	450	1,126	08.11.2013
Total I		**315,541**	

31. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

II Foreclosed properties classified in accordance with the classification decision that is applied after December 30, 2013

In thousands of RSD

Description	Area in sqm	Value	Date of acquisition
Vukovac,, Milatovac, agricultural land	132,450	521	16.05.2014.
BOR, Nikole Pasica 21, commercial building, warehouse	3,823	39,437	08.05.2014.
Mokra Gora, land, forests, fields, houses	58,400	3,246	31.01.2014.
Kopaonik, House with land	337	5,865	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 6/3	29	3,944	31.01.2014.
Novi Sad, Bulevar oslobodjenja 30 and commercial property 7/3	44	5,984	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 8/3	35	4,760	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 9/3	34	4,624	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 10/3	39	5,304	31.01.2014.
Novi Sad, Bulevar oslobodjenja 88, commercial/23	253	31,340	31.01.2014.
Novi Sad, Tihomira Ostojica 4, office space 7	134	5,663	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, office space 8	81	4,075	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, office space 9	79	3,974	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, office space 10	408	21,387	31.01.2014.
Zrenjanin, Novosadski put 4, building, pump and land	9,144	38,110	14.08.2014.
Budva, Rezevici, Montenegro, rocks, forest	1,363.20	17,922	22.07.2014.
Budva, Rezevici, Montenegro, forest V class	5,638.54	74,126	22.07.2014.
NIS, Ivana Gorana Kovacica 31, residential building	434.58	9,572	17.04.2013.
Mladenovac, Americ, field IV class	7,768	260	03.10.2014.
Valjevo, Radjevo selo, warehouse	394	2,364	11.06.2014.
Bela Crkva, Kajtasovo, forest	4,187	85	03.10.2014.
Mladenovac, fields, orchards	25,136	551	03.10.2014.
NIS, Sjenicka 1, commercial buildings, warehouses, workshops	1,452.73	14,178	14.03.2013.
NIS, Sumadijska 1, Office space	504.60	1,939	04.12.2014.
Valjevo, Worker 6, place	69	2,981	28.05.2014.
Prokuplje, field III class	12,347	530	28.08.2015.
Prokuplje, Maloplanska 7, building with land	490	300	11.06.2012.
Sokobanja, agricultural land, Orchard, field IV class	417,908	7,394	31.07.2012.
Sokobanja, production hall with land	5,042	25,347	31.07.2012.
Sokobanja, space with land	2,005	728	31.07.2012.
Sokobanja, House with land	4,194	8,117	31.07.2012.
Lebane, Branka Radičevica 17, residential and commercial building	768.42	6,246	27.08.2015.
Sid, Jamene, field, krcevinai cerje IV and V class	29,515	1,354	11.03.2016.
Loznica, Lipnica, Karađorđeva, residential and commercial building with land	146	2,149	15.10.2015.
Vrhpolje, lodging hospitality	1,334	2,457	16.05.2013.
Zrenjanin, Bagljas, pasture II class	230	50	22.12.2015.
Svilajnac, Kodublje, Office building, halls and land	10,462	28,802	26.02.2016.
Aleksandrovo, Merosina, building with land	8,527	14,056	23.12.2015.
Bojnik, Mirosevce, fields, pasture, vineyard	29,550	232	31.03.2016.
Valjevo, Bobove, field VI and VII class	20,599	360	19.05.2016.
Kotor, Montenegro, Office space, building No. 1	106	24,117	22.12.2016.
Kotor, Montenegro, Office space, building No. 1	345	52,330	22.12.2016.
Kotor, Montenegro, Office space, building No. 1	345	34,887	22.12.2016.
Nis, Trg Ucitelja Tase br. 10/1, office space	79.40	6,114	13.03.2019.
Curug, Nikole Pasica bb, silos with additional facilities	910	61,577	07.10.2019.
Zabari, fileds III class	12,732	306	08.03.2017.
Novi Sad, Petra Drapsiina 29, apartment	154	14,230	14.10.2020.
Lazarevo, Complex of agricultural buildings	1,585	5,069	
Total II		**599,164**	

31. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

III Equipment foreclosed before December 30, 2013 – that do not meet requirements according to the NBS classification of on-balance and off-balance sheet items

In thousands of RSD

Description	Value	Date of acquisition
Krusevac, moveable assets (\machinery, furniture, equipment)	5,544	08.06.2012
Nis and Soko Banja Moveable assets (lines for processing coffee, transport devices and devices for maintaining hygiene)	4,916	31.07.2012
Paracin, lines for production for coffee	1,569	31.12.2012
Vranic, lines for production	1,810	09.07.2013
Total III	**13,839**	

IV Equipment acquired in periods after December 30, 2013 – which classify as balance and off-balances items in accordance with the relevant NBS decision

In thousands of RSD

Description	Value	Date of acquisition
Moveable property, agricultural equipment and tools	48	03.06.2015
Equipment supplies raw materials	1,242	18.07.2014
Muvables, installation material	388	13.05.2014
Other	6,267	07.10.2019
Total IV	**7,945**	

V Securities acquired through the collection of receivables

In thousands of RSD

Description	Value	Date of acquisition
Securities acquired through the collection of receivables	1,940	12.09.2019
Impairment of securities	(1,940)	
Total V	**-**	
Total (current value) I + II+ III+ IV+V	**936,489**	

31. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

The effect of the impairment of assets acquired through collecting receivables in 2021 is shown in the table:

In thousands of RSD

	Properties	Equipment	Total
Positive effect of change in value (Note 18)	112,014	-	112,014
Negative effect of change in value (Note 19)	(30,355)	(2,279)	(32,634)
Total	**81,659**	**(2,279)**	**79,380**

The positive effect of the value assessment of assets acquired through the collection of receivables is recognized as income for the period up to the amount of previously recognized impairment loss, while the negative effect of is recognized as expense for the period, as follows:

- change in value of property in the net amount of RSD 81,659 thousand under estimated lower market value of property and land (less haircut by 14% in accordance with the Group Methodology) compared to their initial value (acquisition value);
- impairment of equipment in the amount of RSD 2,279 thousand based on the estimated lower market value.

By engaging an authorized external appraiser, the Bank carried out a reassessment of fixed assets acquired through collecting receivables acquired prior to the twelve month period.

31. OTHER ASSETS (continued)

v) Foreclosed assets(continued)

G.1.1 Appraisal value of foreclosed properties

			Appraisal value		
Property	Area in sqm	Book value before the appraisal	In thousand of EUR	Net current value in thousand of RSD	The difference in value in thousands of RSD
Beograd, Mihajla Avramovića 14a, residential building	925.35	147,436	1,419	166,849	19,413
Budva, Reževići, Crna Gora, forest V class	5,638.54	74,111	630	74,126	15
Čačak, Hotel „ Prezident", Bulevar oslobođenja bb	2.278.92	68,748	585	68,762	14
Čurug, Nikole Pašića bb, silos with auxiliary facilities	910	55,280	524	61,577	6,297
Kotor, Crna Gora, office premises, building no. 1	345	60,135	445	52,330	(7,805)
Bor, Nikole Pašića 21, office building, warehouse	3,823	40,165	335	39,437	(728)
Kruševac, Koševi, production business facility I.C.P.	12.836	40,194	327	38,440	(1,754)
Zrenjanin, Novosadski put 4, building, pump and land	9,144	30,165	326	38,310	8,145
Kotor, Crna Gora, office premises, building no. 1	345	53,481	297	34,887	(18,594)
Novi Sad, Bulevar oslobođenja 88, office premises 23	253	17,473	267	31,340	13,867
Svilajnac, Kodublje, office building, hall and land	10,462	26,633	245	28,802	2,169
Sokobanja, production hall with land	5,042	20,491	216	25,347	4,856
Kotor, Crna Gora, office premises, building no. 1	106	18,513	205	24,117	5,604
Novi Sad, Polgar Andraša 40/a, business premises 10	408	22,177	182	21,387	(790)
Budva, Reževići, Crna Gora, rocky, forest	1,363.20	18,149	152	17,922	(227)
Niš, Sjenička 1, office building, warehouses, workshop	1,452.73	11,461	121	14,178	2,717
Novi Sad, Petra Drapšina 29, apartment	154	13,447	121	14,230	783
Aleksandrovo, Merošina, building with land	8,527	12,690	120	14,056	1,366
Prijevor, , forest IV class	1.995	4,179	94	11,087	6,908
Niš, Ivana Gorana Kovačića 31, residential building	434.58	3,914	81	9,572	5,658
Budva, Crna Gora, forest IV class	974	3,612	69	8,080	4,468
Sokobanja, building with land	4,194	3,185	69	8,117	4,932
Sokobanja, agricultural land, orchard, class IV field	417,908	4,932	63	7,394	2,462
Lebane, Branka Radičevića 17, residential and commercial building	768.42	4,944	53	6,246	1,302
Niš, Trg Učitelja Tase br. 10/1, shops	79.40	5,489	52	6,114	625
Novi Sad, Bulevar oslobođenja 30a business premises 7/3	44	4,045	51	5,984	1,939
Kopaonik, house with land	337	3,533	50	5,865	2,332
Novi Sad, Tihomira Ostojića 4, business premises 7	134	4,964	48	5,663	699
Novi Sad, Bulevar oslobođenja 30a, business premises 10/3	39	3,585	45	5,304	1,719
Lazarevo, Complex of agricultural facilities	1585	5,069	43	5,069	-
Niš, Ivana Milutinovića 30. business premises	438.39	4,420	42	4,919	499
Novi Pazar, Ejupa Kurtagića 13. house	139.90	3,184	40	4,755	1,571
Novi Sad, Bulevar oslobođenja 30a, business premises 8/3	35	3,218	40	4,760	1,542
Novi Sad, Bulevar oslobođenja 30a, business premises 9/3	34	3,126	39	4,624	1,498
Novi Sad, Polgar Andraša 40/a, business premises 8	81	4,281	35	4,075	(206)
Novi Sad, Bulevar oslobođenja 30a, business premises 6/3	29	2,666	34	3,944	1,278
Novi Sad, Polgar Andraša 40/a, business premises 9	79	4,176	34	3,974	(202)
Niš, Triglavska 3/1, apartments	79.80	2,842	31	3,609	767
Mokra Gora, land, forests, fields, houses	58,4	3,288	28	3,246	(42)
Valjevo, Radnička 6, apartment	69	2,410	25	2,981	571
Novi Pazar, Kej skopskih žrtava 44. shop	82.95	1,910	23	2,760	850
Vrhpolje, catering unit	1,334	2,049	21	2,457	408
Valjevo, Rađevo village, warehouse	394	380	20	2,364	1,984
Other (23 units)	-	12,896	133	15,645	2,749
TOTAL		**833,046**		**914,705**	**81,659**

31. OTHER ASSETS (continued)

v) Foreclosed assets(continued)

G.1.2 Appraisal value of foreclosed equipment

Equipment	Carrying amount before appraisal in thousand of RSD	Net book value in thousand of RSD	Difference in thousand of RSD
Movable assets	11,044	8,923	(2,121)
Equipment, supplies, secondary raw material	6,752	6,594	(158)
Other	6,267	6,267	-
Total	**24,063**	**21,784**	**(2,279)**

As of December 31, 2021, the Bank did not register property rights in the land public books for two units with a current value of RSD 1,176 thousand acquired through the collection of receivables. In relation, all necessary activities have been undertaken which should result in the final registration in favor of the Bank.

For three movables items with a total value of RSD 96 thousand, the Bank does not hold any book ownership (items are recorded in off-balance sheet records).

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

32. DEPOSITS AND OTHER LIABILITIES TO BANKS, OTHER FINANCIAL INSTITUTIONS AND CENTRAL BANK

Deposits and other liabilities due to banks and other financial institutions comprise:

In thousands of RSD

	December 31, 2021	December 31, 2020
Demand deposits	1,764,847	4,581,556
Term deposits	259,542	230,612
Overnight deposits	109,000	150,000
Other	1,580	27,147
Balance as at December 31	**2,134,969**	**4,989,315**

During 2021 deposits were 0.10% for RSD. Interest rates on deposits taken from subsidiary foreign banks amounted 0.25% for USD deposits.

33. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS

Deposits and other liabilities due to customers comprise:

In thousands of RSD

	December 31, 2021	December 31, 2020
Corporate customers and registered farms		
Demand deposits	87,826,768	77,792,263
Overnight and other deposits	9,347,332	16,109,013
Borrowings	615,954	977,225
Special-purpose deposits	2,769,430	2,329,833
Deposits for loans approved	368,651	648,554
Interest payable, accrued interest liabilities and other financial liabilities	487,686	694,654
Retail customers – private individuals		
Demand deposits	56,766,007	47,618,377
Savings deposits	233,332,560	216,205,003
Special-purpose deposits	7,911,007	6,691,310
Deposits for loans approved	2,526,247	2,481,075
Interest payable, accrued interest liabilities and other financial liabilities	1,136,322	987,685
Other deposits	198,454	164,409
Balance as of December 31	**403,286,418**	**372,699,401**

Corporate Customer's Deposits

RSD demand deposits of corporate customers mostly comprise balances of transaction deposits of companies and legal entities. In accordance with the Decision on Interest Rates for 2021, up to April 30,2021, these deposits were interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate is 0.10% per annum if average monthly balance is higher than RSD 50 thousand. From May 1, 2021, transaction deposits of legal entities are non-interest-bearing. Depending on the level of the average monthly balance, the interest rate on transaction deposits of entrepreneurs is 0.10% per annum if average monthly balance is higher than RSD 50 thousand. From October 1, 2021 entrepreneurial transaction deposits are non-interest-bearing.

Foreign currency demand deposits of non-resident customers are non-interest bearing.

For the period January 1 to December 31, 2021, short-term corporate deposits are interest bearing with rate ranging from: reference interest rates annually minus 0.85% percentage points for a period of 30 to 59 days, to interest rates equal to the reference interest rate annually minus 0.25% percentage points for a period of 180 to 364 days, with a limit of at least RSD 300 thousand, while long-term deposits are deposited at an interest rate determined by the reference interest rate of the National Bank of Serbia on an annual basis.

For the period January 1 to December 31, 2021, Short-term deposits of entrepreneurs in RSD are deposited with interest rate ranging from: 0.15% to 0.45% on deposits from 30 to 59 days to interest rate of 0.75% to 1.20% for a period of 184 to 364 days, with a limit of at least 300 thousand dinars , while long-term deposits are deposited at interest rate of 1.00% to 1.50%.

For the period January 1 to December 31, 2021, Short-term corporate and entrepreneurs deposits in foreign currency are deposited with an interest rate ranging from: 0.00% to 0.25% on deposits from 30 to 59 days to an interest rate of 0.40% for a period of 180 to 364 days for EUR and USD 0.50 % on deposits from 30 to 59 days to 1.00% for a period of 180 to 364 days, with a limit of at least 3 thousand EUR / USD.

For the period January 1 to December 31, 2021, Long-term corporate and entrepreneurs deposits in foreign currency are deposited with interest rates ranging from: 0.10% to 0.70% on deposits of 365 and more days for EUR, or for USD from 0.15% to 1.40% on deposits of 365 and more days , with a limit of at least 3 thousand EUR / USD

32. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS (continued)

Retail deposits

Domestic and foreign currency savings deposits of the private individuals during 2021 were non-interest bearing.

Short-term retail deposits in dinars were deposited at interest rates ranging from 1.00% to 2.50% annually, and in foreign currency from 0.05% to 0.35% for EUR, and for other currencies from 0.10% to 1.00% annually.

Long-term retail deposits in dinars are deposited at interest rates ranging from 2.00% to 3.00% annually, and in foreign currency from 0.15% to 0.80% for EUR, and for other currencies from 0.15% to 1.50% annually.

Within the liabilities arising from loans, the total liabilities on foreign credit lines to foreign legal entities that are defined as customers for the balance sheet purposes are recognized.

The structure of long-term and short-term loans that are stated in the position of liabilities to customers is as follows:

In thousands of RSD

	December 31, 2021	December 31, 2020
Long-term loans		
Government of the Republic of Italy	2,744	5,487
European Investment Bank (EIB)	613,210	970,366
European Agency for Reconstruction and Development (EAR)	-	1,372
Total	**615,954**	**977,225**

The maturity of the loans presented is between 2022 and 2030.

For credit lines (tripartite), the Bank has no contractual obligations with creditors related to financial indicators (monitoring/reporting).

33. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS (continued)

33.1. Structure and movement of deposits and other financial liabilities to banks, other financial organizations, central bank and customers are shown below

In thousands of RSD

	December 31, 2021	December 31, 2020
Balance, January 1		
Deposits and other financial liabilities to banks, other financial institutions and the central bank (Note 32)	4,989,315	5,021,756
Deposits and other financial liabilities to other customers (note 33)	372,699,401	335,317,154
Balance, January 1	**377,688,716**	**340,338,910**
Net inflows / outflows - deposits	27,239,107	37,092,014
Net inflows / outflows - loans	(1,259,627)	919,055
Net inflows / outflows - interest	(911,886)	(953,415)
Net inflows / outflows - fees	(2,753)	(4,165)
Foreign exchange differences	1,727,979	(824,495)
Accrued interest and other non-cash transactions	939,851	1,120,812
Balance at December 31	**405,421,387**	**377,688,716**

In thousands of RSD

	December 31, 2021	December 31, 2020
Deposits and other financial liabilities to banks, other financial institutions and the central bank (Note 32)	2,134,969	4,989,315
Deposits and other financial liabilities to other customers (note 33)	403,286,418	372,699,401
Total banks and customers	**405,421,387**	**377,688,716**

34. PROVISIONS

Provisions relate to:

In thousands of RSD

	December 31, 2021	December 31, 2020
Provisions for off-balance sheet items (Note 13)	208,819	224,463
Provisions for litigations (Note 38.4)	2,603,783	1,707,301
Provisions for employee benefits in accordance with IAS 19	613,425	597,504
Other provisions (Note 19)	807,826	-
Balance at December 31	**4,233,853**	**2,529,268**

34. PROVISIONS (continued)

Movements on the accounts of provisions are provided below:

In thousands of RSD

	December 31, 2021					December 31, 2020			
	Off-balance sheet provisions (Note 13)	**Provisions for litigation (Note 38.4)**	**Provisions for employee benefits (IAS 19)**	**Other provisions (Note 19)**	**Total**	**Off-balance sheet provisions (Note 13)**	**Provisions for litigation (Note 38.4)**	**Provisions for employee benefits (IAS 19)**	**Total**
Balance at January 1	**224,463**	**1,707,301**	**597,504**	**-**	**2,529,268**	**190,977**	**1,614,874**	**522,279**	**2,328,130**
Payments	367,549	1,492,830	-	1,610,928	3,471,307	235,337	1,007,519	79,181	1,322,037
Provisions against actuarial gains within equity	-	-	137,159		137,159	-	-	(3,956)	(3,956)
Release of provisions	-	(521,889)	(18,170)	(803,102)	(1,343,161)	-	(139,763)	-	(139,763)
Reversal of provisions	(383,192)	(74,459)	(112,669)	-	(570,320)	(201,851)	(775,329)	-	(977,180)
Interest costs			9,601		9,601				
Other	(1)	-	-	-	(1)				
Balance at December 31	**208,819**	**2,603,783**	**613,425**	**807,826**	**4,233,853**	**224,463**	**1,707,301**	**597,504**	**2,529,268**

a) Provisions for litigations

A provision was done on the basis of estimates of future outflows in the amount of claims, including interest and costs. Total provisions for all litigations as of December 31, 2021 amounted to RSD 2,603,783 thousand.

In comparison with December 31, 2020 there was a change in the overall level of provision in the net amount RSD 896,482 thousand. Of that, a change that relates to the additional provisions for litigations is RSD 1,418,371 thousand, recognized in the income statement, while the reduction of provisions totalling to RSD 521,889 thousand refers to the use of the provisions for payments and for passed court verdicts.

The largest number of disputes concerns claims for payment of credit processing fees, damages and determination.

At the session of the Civil Department of the Supreme Court of Cassation held on September 16, 2021, the Legal Position on the Admissibility of Contracting Loan Costs (adopted on May 22, 2018) was amended by stipulating that the Bank is not obliged to prove the structure and amount of costs covered by the total loan costs specified in the offer accepted by the borrower by concluding the loan agreement.

At the same session on September 16, 2021, the position on the admissibility of contracting insurance premiums, as an obligation of the borrower with NMIC, was taken by stating that the provision of the loan agreement which legally obliges the borrower to pay the insurance premium to the bank with NMIC is legally valid, provided that this obligation is clearly stated. to the borrower in the pre-contractual phase by stating this type of loan costs and its percentage and nominal amount in the offer. The bank is not obliged to acquaint the borrower with the structure and method of calculating the loan insurance premium.

In the financial statements, the estimate of provisions for litigation on the basis of lawsuits filed against the Bank until September 20, 2021 relating to the fees charged by the Bank to borrowers was made without taking into account the position of the Supreme Court of Cassation of September 16, 2021 due to the Bank's determination to wait for the unification of case law based on the position of the Supreme Court of Cassation.

34. PROVISIONS (continued)

b) Provisions for retirement benefits

Provisions for retirement benefits are formed on the basis of an independent actuary's report at the balance sheet date, and are stated in the amount of the present value of expected future payments.

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

	31 December 2021	31 December 2020
Discount rate	4.20%	4.00%
Salary growth rate within the Bank	3.80%	3.00%
Salary growth rate at the national level	3.80%	6.00%
Employee turnover	2.90%	5.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Serbia was used to determine the discount rate.

Sensitivity analysis of changes in significant actuarial assumptions:

		December 31, 2021 In thousands of RSD
Actuarial assumptions	Change of assumptions in p.p.	Change in the present value of provisions for employees
Discount rate	+0,5	-22.891
	-0,5	24.899
Earnings growth	+0,5	21.066
	-0,5	-19.508
Fluctuation	+0,5	-24.088
	-0,5	12.569

c) Other provision

Other provisions relate to the recognition of provisions for reorganization costs made on the basis of the Bank's voluntary severance package, the estimated number of employees who would be interested in leaving the Bank voluntarily, and the estimated indicative cost to reduce the number of permanent employees. and optimizing the Bank's operations.

In 2021, a provision in the amount of RSD 1,610,928 thousand was formed, while according to the voluntary severance package from March 12 to December 31, 2021, an amount of RSD 803,102 thousand was paid off.

35. OTHER LIABILITIES

Other liabilities include:

In thousands of RSD

	December 31, 2021	December 31, 2020
Payables	240,655	127,031
Liabilities to employees (salaries, taxes, contributions and other liabilities to employees)	67,368	26,196
Advances received	27,356	27,473
Leasing liabilities	910,609	821,322
Deferred income from interest and fees and other income	238,274	306,737
Accrued liabilities and other accruals	1,385,642	1,339,692
Liabilities on transitional accounts	770,418	1,866,452
Liabilities from profit	177,656	183,667
Liabilities for taxes and contributions	13,638	7,461
Other liabilities	310,827	269,445
Balance at December 31	**4,142,443**	**4,975,476**

Liabilities on transitional accounts in the amount of RSD 770,418 thousand mainly relate to liabilities in the account for liquidated foreign currency accounts of domestic legal entities in the amount of RSD 114,870 thousand, liabilities for unpaid dividends to legal entities in the amount of RSD 93,414 thousand, liabilities based on closed customer accounts in RSD in the amount of RSD 142,076 thousand, liabilities in settlement based on liquidated foreign currency accounts of foreign legal entities in the amount of RSD 59,291 thousand and liabilities in settlement on other bases in RSD in the amount of RSD 105,494 thousand.

35.1 Liabilities from profit in the total amount of RSD 177,656 thousand consist of:

- dividend payable on preference shares in the amount of RSD 4,251 thousand,
- liabilities from profit to employees in the amount of RSD 173,405 thousand

The remaining amount of liabilities based on dividends in the amount of RSD 4,251 thousand refers to liabilities from the period before 2014 and liabilities to shareholders who did not submit instructions for the payment of dividends.

35. OTHER LIABILITIES (continued)

35.2 Lease liabilities

The maturity breakdown of lease liabilities is shown in the following table:

	2021		2020	*In thousands of RSD*
	Net book value	Non-discounted cash flows	Net book value	Non-discounted cash flows
Mature:				
- up to a year	340,163	353,375	323,006	334,983
- up to 2 years	230,204	238,828	214,032	221,561
- up to 3 years	158,435	163,786	142,359	146,686
- up to 4 years	115,005	117,987	72,980	75,449
- up to 5 years	44,745	46,130	40,894	42,284
- over 5 years	22,058	25,931	28,050	31,551
Total	**910,610**	**946,037**	**821,321**	**852,514**

Breakdown of total payments or outflows for lease liabilities in 2021 and 2020 are shown in the following table:

In thousands of RSD

	December 31, 2021	December 31, 2020
Fixed payments	373,915	381,660
Variable payments	8,580	7,455
Total	**382,495**	**389,115**

Variable payments included in the lease liability depend on the index. Of the total outflows of RSD 382,495 thousand, RSD 367,957 thousand relates to principal shown within cash flows from financing activities, while interest amounts to RSD 14,538 thousand shown within cash flows from operating activities within CF Statement.

Breakdown of expenditures and revenues from lease activities incurred in 2021 and 2020 is shown in the following table:

In thousands of RSD

	December 31, 2021	December 31, 2020
Depreciation costs of rights to use (Note 17)	(372,085)	(377,754)
Interest for lease liabilities (Note 8)	(14,538)	(15,774)
Lease costs (excluded from IFRS 16 note 19)	(46,220)	(31,787)
Tax duty IFRS 16 (Note 19)	(67,238)	(65,222)
Net effects of expenditure / (income) from variable payments and expenditure of funds with the right of use (Notes 15 and 19)	475	629
Exchange differences (Note 12)	(79)	95
Total	**(499,685)**	**(489,813)**

The Bank leases business premises, vehicles and other equipment used in its business. Lease agreements for business premises are usually concluded for a period of 5 years, while some leases are for a longer period of time, or for an indefinite period.

35. OTHER LIABILITIES (continued)

35.2 Lease liabilities

Indefinite contracts are included in the recognition of lease liabilities in accordance with planned estimates. A lease period of 5 years is usually provided, except for business premises in strategic locations for which management estimates a different (longer) lease term. Lease of vehicles and other equipment is usually made for a period of 1 to 5 years. Some lease agreements include the possibility of automatic renewal, while the vast majority include the right of unilateral termination for the Bank. These options are agreed by the management in accordance with the business needs. Leases for renewable periods are included in the measurement of the lease liability if it is highly probable that the lessee will exercise this option.

The terms of each lease are agreed on an individual basis and contain different terms. Apart from the obligations assumed in connection with the leased property, the leases do not include other obligations, except for participation in the costs of security, maintenance, marketing, etc., depending on the location or the lessor. The leased property cannot be used as collateral for the loans taken.

The Bank also leases certain equipment with a lease period of 12 months or less and low value equipment. For these leases, the Bank applies an exemption from the obligation to recognize short-term leases and low-value leases. Lease for short-term and small leases is recognized as an expense on a straight-line basis over the lease period.

To calculate the net present value of future leases, the Bank uses its incremental borrowing rate as the discount rate prevailing on the lease date.

In 2021, the Bank has no gains or losses from reverse lease transactions.

36. EQUITY

36.1 Equity is comprised of:

In thousands of RSD

	December 31, 2021	December 31, 2020
Share capital	17,191,466	17,191,466
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	22,147,207	22,147,207
Revaluation reserves	3,887,345	6,585,755
Retained earnings	5,927,921	3,358,593
Profit / (Loss) for the period	3,645,699	2,534,434
Balance as at December 31	**75,642,722**	**74,660,539**

The Bank's issued (share) capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Bank (owners of the ordinary shares) as well as to shares in profit distribution (owners of the preference and ordinary shares). As of December 31, 2021 the Bank's share capital totalled RSD 17,191,466 thousand and comprised 17,191,466 shares with the individual par value of RSD 1 thousand.

36. EQUITY (continued)

36.1 Equity is comprised of (continued)

Breakdown of the Bank's shares is provided in the table below:

Share type	Share count December 31, 2021	Share count December 31, 2020
Ordinary shares	16,817,956	16,817,956
Preferred shares	373,510	373,510
Balance as at December 31	**17,191,466**	**17,191,466**

The structure of the Bank's shareholders with ordinary (common stock) shares at December 31, 2021 was as follows:

Shareholder	Number of shares	% of participation
NLB d.d. Ljubljana	14,847,047	88.28
OTP BANKA SRBIJA (custody account)	460,560	2.74
BDD M&V INVESTMENTS AD BEOGRAD	382,590	2.27
Jugobanka a.d., Beograd – in bankruptcy	321,600	1.91
Company Dunav osiguranje a.d., Beograd	290,214	1.73
OTP BANKA SRBIJA (custody account)	85,664	0.51
TEZORO BROKER AD	58,952	0.35
BDD M&V INVESTMENTS AD BEOGRAD (cumulative account)	51,117	0.30
CRIMINAL-POLICE ACADEMY	34,320	0.20
TANDEM FINANCILA a.d. Novi Sad	22,235	0.13
DUNAV RE AD	17,220	0.10
MERA INVEST DOO BEOGRAD	16,900	0.10
TEZORO BROKER AD	12,160	0.07
ERSTE BANK CUSTODY	11,379	0.07
PHYSICAL BODY	11,170	0.07
KRUNA KOMERC D.O.O.	10,000	0.06
ELEKTRODISTRIBUCIJA SRBIJE DOO	8,990	0.05
Other (729 of shareholders)	175,838	1.06
	16,817,956	**100.00**

The structure of the Bank's shareholders with preferred shares at December 31, 2021 was as follows:

Shareholder	Number of shares	% of participation
Physical body	73,140	19.58
NLB d.d. Ljubljana	57,250	15.33
Tezoro broker a.d	28,389	7.60
OTP banka Srbija (custody account)	18,447	4.94
Jugobanka a.d., Beograd (in bankruptcy)	18,090	4.84
Physical body	17,440	4.62
BDD M&V Investments a.d Beograd	10,768	2.88
Others (490 of shareholders)	149,986	40.16
	373,510	**100.00**

36. EQUITY (continued)

36.1 Equity is comprised of (continued)

On June 26, 2019 the Ministry of Finance of the Republic of Serbia repurchased shares which were held by the shareholders DEG-DEUTSHE INVESTITIONS and SVEDFUND INTERNATIONAL in the total percentage of 6.90%, and on November 26, 2019 repurchased EBRD shares 24.43%, IFC CAPITALIZATION FUND LP shares 10.15%, which increased percentage of ownership of Serbian Government to 83.23%.

On February 26, 2020 the Ministry of Finance of the Republic of Serbia announced that the representatives of Nova Ljubljanska banka d.d. (NLB) and the Minister of Finance of the Republic of Serbia, signed an Agreement on the purchase and sale of 83.23% of ordinary shares of Komercijalna banka AD Belgrade.
By signing this agreement, the Bank acquired a new strategic partner, who took over the management of the Bank after the completion of the transaction.

By signing the Agreement on the transfer of shares on December 30, 2020 between the Republic of Serbia and NLB d.d. Ljubljana, Slovenia, the process of selling Komercijalna banka a.d. was completed. The subject of the agreement was 83.23% of ordinary shares of Komercijalna banka, which made NLB d.d. Ljubljana the owner of shares held by the Republic of Serbia and the largest individual owner of the Bank with the right to manage.

On March 11, 2021, the NLB d.d. Ljubljana published an Offer to take over the remaining ordinary and the entire issue of preferred shares of Komercijalna banka a.d. Beograd. By additional acquisition of ordinary shares until Dece,ber 31, 2021, , the NLB d.d. Ljubljana increased its participation in the management shares of Komercijalna banka a.d. Beograd at 88.28%.

Revaluation reserves amounting to RSD 3,887,345 thousand (2020: RSD 6,585,755 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 959,025 thousand, revaluation reserves from valuation of equity instruments in the amount of RSD 1,856,965 thousand, revaluation reserves arising from the valuation of debt securities amounting to RSD 1,072,717 thousand and actuarial loss of RSD 1,362 thousand. Presented values include deferred tax effects.

36.2. Earnings per share

Basic earnings per share is calculated by dividing the profit (loss) attributable to shareholders (of a parent company) by weighted average number of ordinary shares outstanding for the period.

	December 31, 2021	December 31, 2020
Earnings minus preferred dividend (In RSD thousand)	3,638,602	2,522,631
Weighted average number of shares outstanding	16,817,956	16,817,956
Earnings per share (in RSD)	**216**	**150**

Basic earnings per share for the year 2021 amounts to RSD 216 or 21.64% of the nominal value of ordinary shares, while for 2020 adjusted earnings per share was RSD 150, or 15% of the nominal value of the ordinary shares.

37. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

An analysis of assets and liabilities according to when they are expected to be due or settled is shown in the table below:

In thousands of RSD

December 31, 2021	Up to 12 months	Over 12 months	Total
Cash and assets held with the central bank	82,055,481	-	**82,055,481**
Securities	40,921,310	108,667,445	**149,588,755**
Loans and receivables from banks and other financial organisations		2,943,702	**29,114,381**
Loans and receivables from clients	64,544,306	144,500,636	**209,044,942**
Investments in associates and joint ventures	-	1,488,063	**1,488,063**
Investments into subsidiaries	-	140,000	**140,000**
Intangible assets	-	582,101	**582,101**
Property, plant and equipment	-	8,755,659	**8,755,659**
Investment property	-	2,610,531	**2,610,531**
Current tax assets	18,911	-	**18,911**
Deferred tax assets	509,242	-	**509,242**
Non-current assets held for sale and discontinued operations	101,614	-	**101,614**
Other assets	3,193,527	2,237,198	**5,430,725**
TOTAL ASSETS	**217,515,070**	**271,925,335**	**489,440,405**
Deposits and other liabilities to banks, other financial organisations and central bank	2,134,634	335	**2,134,969**
Deposits and other financial liabilities to clients	378,932,095	24,354,323	**403,286,418**
Provisions	-	4,233,853	**4,233,853**
Current tax liabilities	-	-	**-**
Deferred tax liabilities	-	-	**-**
Other liabilities	3,454,254	688,189	**4,142,443**
TOTAL LIABILITIES	**384,520,983**	**29,276,700**	**413,797,683**
Net	**(167,005,913)**	**242,648,635**	**75,642,722**

37. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

In thousands of RSD

December 31, 2020 - adjusted	Up to 12 months	Over 12 months	Total
Cash and assets held with the central bank	80,045,107	-	**80,045,107**
Securities	19,023,527	134,752,796	**153,776,323**
Loans and receivables from banks and other financial organisations	14,749,418	3,392,652	**18,142,070**
Loans and receivables from clients	53,080,564	136,215,525	**189,296,089**
Investments into subsidiaries		3,433,697	**3,433,697**
Intangible assets	-	510,669	**510,669**
Property, plant and equipment	-	6,045,330	**6,045,330**
Investment property	-	2,393,183	**2,393,183**
Current tax assets	12,237	-	**12,237**
Deferred tax assets	-	-	**-**
Non-current assets held for sale and discontinued operations	130,426	-	**130,426**
Other assets	4,134,132	2,082,136	**6,216,268**
TOTAL ASSETS	**171,175,411**	**288,825,988**	**460,001,399**
Deposits and other liabilities to banks, other financial organisations and central bank	4,968,751	20,564	**4,989,315**
Deposits and other financial liabilities to clients	345,535,991	27,163,410	**372,699,401**
Provisions	-	2,529,268	**2,529,268**
Current tax liabilities	-	-	**-**
Deferred tax liabilities	-	147,400	**147,400**
Other liabilities	4,453,086	522,390	**4,975,476**
TOTAL LIABILITIES	**354,957,828**	**30,383,032**	**385,340,860**
Net	**(183,782,417)**	**258,442,956**	**74,660,539**

38. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

In thousands of RSD

	December 31, 2021	December 31, 2020
Operations on behalf and for the account of third parties	4,047,859	4,097,143
Commitments	**62,616,254**	**42,879,760**
Receivables under repurchase agreements	-	1,175,802
Other off-balance sheet items	465,420,201	441,152,366
Total	**532,084,314**	**489,305,071**

Commitments

38.1 Guarantees and letters of credit

The Bank issues guarantees and letters of credit to vouch to third parties for the liability settlement by its clients. Such contracts have defined validity terms, which most commonly last up to a year. The contractual values of contingent liabilities are presented in the table below:

In thousands of RSD

	December 31, 2021	December 31, 2020
Payment guarantees (note 4.1.1.)	7,400,757	4,014,943
Performance guarantees (note 4.1.1.)	10,882,641	6,116,729
Letters of credit	-	169,229
Balance as at December 31	**18,283,398**	**10,300,901**

The above listed amounts represent the maximum amount of loss that the Bank would incur as at reporting date in the event that none of the Bank's clients were able to settle their contractual obligations (Note 4).

38.2 Commitments

The breakdown of commitments is provided below:

In thousands of RSD

	December 31, 2021	December 31, 2020
Unused portion of approved payment and credit card loan facilities and overdrafts	8,673,457	11,058,537
Irrevocable commitments for undrawn loans	29,867,267	21,252,952
Other irrevocable commitments	5,792,132	267,370
Balance as at December 31	**44,332,856**	**32,578,859**

38. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

38.3 Other off-balance sheet items comprise managed funds and other off-balance sheet assets

Funds managed on behalf and for the account of third parties amount to RSD 4,047,859 thousand and are mostly comprised of assets for consignment loans of the Republic of Serbia in the amount of RSD 3,265,543 thousand and relate to the long-term housing loans extended to retail customers, loans on the basis of the purchase of social apartments of budget institutions in the amount of RSD 397,693 thousand (loans taken from Beobanka in bankruptcy). Other assets mainly relate to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets which amount to RSD 465,420,201 thousand, the Bank,among other things, records nominal value of securities per custody operations performed for the account of its clients RSD 62,264,803 thousand, the nominal value of the securities in the portfolio of the Bank RSD 143,207,644 thousand, the amount written-off of funds in RSD in the amount of 26,945,546 thousand, and the amount written-off of financial assets in foreign currency in the amount of 3,786,814 thousand dinars, according to the NBS of the accounting write off balancing assets. The Bank according to the issued permission to perform custody jobs saved and financial instruments in the accounts of clients' securities, what is off-balance evidence. The Bank takes no credit risk in respect of managed funds.

Moreover, in accordance with the regulations, other off-balance sheet assets include the value of the tangible assets received as collaterals securitizing loan repayment: residential and commercial real estate properties and other collaterals that amount to RSD 179,824,410 thousand.

38.4 Litigation

Based on the expert judgment of the Bank's Legal Department and the lawyers representing the Bank, in disputes against the Bank up to December 31,2021, the Bank's management made provisions for potential losses in litigation in the amount of RSD 2,603,783 thousand (2020: RSD 1,707,301 thousand) (Note 34).

As at December 31, 2021 the Bank has 46,782 registered proceedings against the Bank, the total value of RSD 5,944,758 thousand.

This amount includes both binding claims for payment and the values of the subject matter of the dispute indicated in the lawsuits with the determining claim. The stated amount does not include the amounts of interest and court expenses.

In addition, as at December 31, 2021, the Bank has 13,674 registered proceedings against third parties, whose total value of the subject matter of the dispute is RSD 45,626,213 thousand.

38.5 Tax Risks

Tax systems in the Republic of Serbia is undergoing continuous amendments. In different circumstances, tax authorities could have different approach to some problems, and could establish additional tax liabilities together with related penalty interest and fines. The Bank's management believes that tax liabilities recognized in the financial statements are fairly presented.

39. RELATED PARTY DISCLOSURES

Related parties of the Bank are: parent bank, subsidiaries and associates, entities that are members of the same group or are under joint control, members of the Board of Directors and the Audit Committee, the Executive Board and managers who as members of other committees have planning powers and responsibilities , directing and controlling the activities of the bank ("key management"), close members of their families, as well as legal entities that are under the control or significant influence of key management and members of their families, in accordance with IAS 24.

In the normal course of business, a number of banking transactions are performed with subsidiaries. These include loans, deposits, investments in equity securities, derivative instruments, payment transactions and other banking operations.

39.1 Parent company and subsidiaries

NLB d.d. Ljubljana, which owns 88.28% of the Bank's ordinary shares, has the largest share in the management rights of the Parent Bank. The Parent bank has one subsidiary: KomBank INVEST a.d., Belgrade. During 2021, Komercijalna banka a.d., Podgorica and Komercijalna banka a.d., Banja Luka ceased to be the subsidiary of the Bank (Note 3 (a)).

39. RELATED PARTY DISCLOSURES (continued)

39.1 Parent Bank and subsidiaries (continued)

Transactions with subsidiary are shown in the following tables:

A. Balance as at December 31, 2021

RECEIVABLES *In thousands of RSD*

Subsidiary	Loans and receivable	Interest and fees	Other assets	Impairment for allowances	Net	Off-balance items	Total
KomBank INVEST	-	311	-	-	311	-	311
Total:	**-**	**311**	**-**	**-**	**311**	**-**	**311**

LIABILITIES *In thousands of RSD*

Subsidiary	Loans and deposits	Interest and fees	Other liabilities	Total
KomBank INVEST	53	-	-	53
Total:	**53**	**-**	**-**	**53**

INCOME AND EXPENSES *In thousands of RSD*

Subsidiary	Interest income	Fee and commission income and other income	Interest expenses	Fee and commission expenses	Net income / expenses
Kom. banka AD Podgorica*	4,716	7,414	(280)	(74)	11,776
Kom.banka AD Banja Luka*	4,262	5,122		(983)	8,401
KomBank INVEST	-	2,798	-	-	2,798
Total:	**8,978**	**15,334**	**(280)**	**(1,057)**	**22,975**

** For Komercijalna banka a.d. Podgorica and Komercijalna banka a.d. Banja Luka includes revenues and expenses until the day of the merger, ie until the day of sale*

Komercijalna Banka AD Beograd realized net negative exchange rate differences in the amount of RSD 32,779 thousand on the basis of transactions with its subsidiaries.

39. RELATED PARTY DISCLOSURES (continued)

39.1 Parent Bank and subsidiaries (continued)

B. Balance as at December 31, 2020

RECEIVABLES *In thousands of RSD*

Subsidiary	Loans and receivable	Interest and fees	Other assets	Impairment for allowances	Net	Off-balance items	Total
Kom. banka AD Podgorica	535,833	871	960	379	537,285	1,763,703	2,300,988
Kom.banka AD Banja Luka	305,569	25	284	208	305,670	2,939,505	3,245,175
KomBank INVEST	-	251	-	-	251	200	451
Total:	**841,402**	**1,147**	**1,244**	**587**	**843,206**	**4,703,408**	**5,546,614**

LIABILITIES *In thousands of RSD*

Subsidiary	Loans and deposits	Interest and fees	Other liabilities	Total
Kom. banka AD Podgorica	1,031,864	-	-	1,031,864
Kom.banka AD Banja Luka	223,493	-	-	223,493
KomBank INVEST	228	-	-	228
Total:	**1,255,585**	**-**	**-**	**1,255,585**

INCOME AND EXPENSES *In thousands of RSD*

Subsidiary	Interest income	Fee and commission income and other income	Interest expenses	Fee and commission expenses	Net income / expenses
Kom. banka AD Podgorica	11,343	3,868	(1,569)	(6)	13,636
Kom.banka AD Banja Luka	4,042	2,316	-	(758)	5,600
KomBank INVEST	-	2,344	-	-	2,344
Total:	**15,385**	**8,528**	**(1,569)**	**(764)**	**21,580**

Komercijalna Banka AD Beograd realized net positive exchange rate differences in the amount of RSD 65,875 thousand on the basis of transactions with its subsidiaries.

39. RELATED PARTY DISCLOSURES (continued)

39.2 Other related parties

Loans and receivables from related parties

In thousands of RSD

	December 31, 2021			December 31, 2020		
Loans and Receivables:	**Balance**	**Off balance**	**Total**	**Balance**	**Off balance**	**Total**
NLB a.d.Beograd	8,408,902	-	8,408,902	5	-	5
NLB d.d. Ljubljana	593,929	-	593,929	6,085	-	6,085
NLB a.d. Banja Luka	17,291	-	17,291	-	-	-
NLB a.d. Podgorica	1,489,560	-	1,489,560	-	-	-
NLB Srbija d.o.o.	605	-	605	-	-	-
Prvi faktor d.o.o. Beograd	1	-	1	-	-	-
REAM d.o.o Beograd	137	1	138	-	-	-
Beomox doo	17,130	-	17,130	19,968	122	20,090
PMC Inženjering	-	-	-	844,093	-	844,093
Physical bodies	54,543	2,637	57,180	166,700	16,989	183,689
Emi house	-	-	-	1	-	1
Total	**10,582,098**	**2,638**	**10,584,736**	**1,036,852**	**17,111**	**1,053,963**

Liabilities	**Deposits**	**Borrowings**	**Total**	**Deposits**	**Borrowings**	**Total**
NLB a.d. Beograd	59,460	-	59,460	-	-	-
NLB d.d. Ljubljana	18,776	-	18,776	-	-	-
NLB a.d. Podgorica	8,212	-	8,212	-	-	-
NLB Interfinanz d.o.o Beograd	5	-	5	-	-	-
NLB Leasing d.o.o	40	-	40	-	-	-
Prvi faktor d.o.o. Beograd	22	-	22	-	-	-
REAM d.o.o Beograd	115	-	115	-	-	-
Beomox doo	5,318	-	5,318	7,344	-	7,344
Arhitektonski biro STUDIO 3	-	-	-	389	-	389
Reprezent d.o.o.	-	-	-	12	-	12
Bolero ZR	-	-	-	64	-	64
Physical bodies	141,752		141,752	363,582	-	363,582
Total	**233,700**	**-**	**233,700**	**371,391**	**-**	**371,391**

39. RELATED PARTY DISCLOSURES (continued)

39.2 Other related parties (continued)

Income and expenses from related parties

In thousands of RSD

	2021		
	Interest	Fees	Total
Revenues			
NLB a.d. Beograd	38,806	4,391	43,197
NLB d.d. Ljubljana	1	2,639	2,640
NLB a.d. Banja Luka	-	595	595
NLB a.d. Podgorica	-	20,409	20,409
Beomox doo	420	1,331	1,751
Physica bodies	1,006	386	1,392
Total revenues	**40,233**	**29,751**	**69,984**
Expenses			
NLB a.d. Beograd	(35)	(5,036)	(5,071)
NLB d.d. Ljubljana	(839)	(3,940)	(4,779)
NLB a.d. Banja Luka	-	(293)	(293)
NLB a.d. Podgorica	-	(200)	(200)
NLB Interfinanz d.o.o Beograd	-	(5)	(5)
NLB Srbija d.o.o.	-	(5)	(5)
Prvi faktor d.o.o. Beograd	-	(26)	(26)
Beomox doo	(1)	(797)	(798)
Physica bodies	(455)	(62)	(517)
Total expenses	**(1,330)**	**(10,364)**	**(11,694)**
Net revenues / (expenses)	**38,903**	**19,387**	**58,290**

Income and expenses from related parties

In thousands of RSD

	2020		
	Interest	Fees	Total
Revenues			
PMC Iženjering	9,475	29	9,504
Arhitektonski biro STUDIO 3	-	8	8
Beomox doo	551	318	869
NLB Beograd	40	864	904
NLB Ljubljana	1	1,357	1,358
Bolero ZR	-	19	19
Emi house	-	63	63
Win Win Retail	-	416	416
WinWin Shop	-	242	242
Physica bodies	6,985	746	7,731
Total revenues	**17,052**	**4,062**	**21,144**
Expenses			
NLB Beograd	-	(642)	(642)
NLB Ljubljana	(67)	(1,385)	(1,452)
Beomox doo	(7)	-	(7)
Physica bodies	(1,262)	(25)	(1,287)
Total expenses	**(1,336)**	**(2,052)**	**(3,388)**
Net revenues	**15,716**	**2,010**	**17,726**

39. RELATED PARTY DISCLOSURES (continued)

39.3 Gross and net remunerations paid to the members of the Bank's Executive Board, Board of Directors and Audit Committee were as follows:

In thousands of RSD

	December 31, 2021	December 31, 2020
Gross remunerations		
Executive Board	81,507	96,547
Net remunerations		
Executive Board	69,514	82,553
Gross remunerations		
Board of Directors and Audit Committee	8,417	21,980
Net remunerations		
Board of Directors and Audit Committee	5,684	13,979

40. UNRECONCILED OUTSTANDING ITEM STATEMENTS

Based on the obligation to reconcile the situation with the debtors on 31.12.2021. year, the Bank forwarded 5,487 statements of open items.

Based on the analysis of the conducted regular Annual Census as of December 31, 2021, the Bank has non-compliant statements of open items for 36 clients.

Non-compliant statements for 23 clients refer to clients who dispute the amount of receivables for given advances, receivables based on issued invoices and receivables based on rent in the total amount of 4,614 thousand dinars.

Five clients dispute receivable for domestic payment charge and the issue agent's fee in RSD in the total amount of RSD 138 thousand. Seven clients dispute receivables from loans in the total amount of RSD 1,435 thousand and one client disputes the balance in the off-balance sheet item in RSD 108 thousand. The amount of allowances for impairment for disputed receivables (and the amount of provisions for balance sheet items) is determined by the Parent Bank's credit risk policy.

The Parent Bank is in a continuous process of reconciliation of disputed items.

41. EVENTS AFTER THE REPORTING PERIOD

An extraordinary session of the Bank's Assembly was held on February 2, 2022, at which the following decisions were made:
• Decision on amendments to the Memorandum of Association
• Decision on the adoption of the Statute
• Decision on supplementing the Decision on accepting the merger of NLB Banka a.d. Belgrade Komercijalna banka a.d. Belgrade

On February 25, 2022, an extraordinary session of the Bank's Assembly was held, at which the following was adopted:
• Decision on Amendments to the Decision on Acquisition of the Bank's Own Shares by Dissenting Shareholders

With the mentioned Decision, the Bank accepted the requests of dissenting shareholders for the purchase of 574,693 pieces of its own ordinary shares.

The bank is obliged to no later than March 8, 2022. year, ie within 60 days from the expiration of 15 days from the day of the conclusion of the session of the Bank's Assembly at which the decision on status change was made, after receiving the prior consent of the NBS to acquire own shares, pay dissenting shareholders who submitted a request to repurchase their shares.
Apart from the events described in the previous paragraphs, there were no significant events after the balance sheet date that would need to be disclosed in the Notes to the financial statements as at 31 December 2021.

42. EXCHANGE RATES

Foreign exchange rates determined at the interbank foreign exchange market applied for the reconciliation of balance sheet items in RSD on December 31, 2021 and 2020 for certain major currencies are:

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

In Belgrade, March 03, 2022

Signed on behalf of Komercijalna banka a.d. Beograd by:

Dejan Janjatović Deputy of the Chief of the Executive Board	Vlastimir Vuković Chief Executive Officer

KOMERCIJALNA BANKA A.D. BEOGRAD
INDEPENDENT AUDITORS’ REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2021

CONTENTS

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

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF KOMERCIJALNA BANKA A.D. BEOGRAD

Opinion

We have audited the financial statements of KOMERCIJALNA BANKA a.d. Beograd (the Bank), which comprise the balance sheet as at December 31, 2021, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the to the standalone financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying standalone financial statements give a true and fair view of the financial position of the Bank as at December 31, 2021 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with Standards on Auditing. 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 *Code of Ethics for Professional Accountants (including International Independence Standards) (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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

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Key audit matters (continued)

Key audit matters	How our audit addressed the key audit matter
Adequacy of the loan loss provisions	
This is a key audit matter as significant judgement is involved to determine the loan loss provisions. The use of different modelling techniques and assumptions could produce significantly different estimates of impairment of loans to customers. The carrying amount of loans to customers amounts to RSD 209,044,942 thousand (or 42.71% of total assets) as at December 31, 2021. Key areas of judgement include the interpretation of requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model, the identification of exposures with a significant increase in credit risk, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors (e.g. industrial production index, EURIBOR rate, BELIBOR rate, unemployment) as disclosed in Note 4.1 Risk management - Credit risk, and evaluation and assumptions used in the possible outcomes of individually assessed loans for impairment as well as any judgements around economic effects. The possible outcomes are based on discounted cash flows for individually assessed loans and include judgement and complexity areas such as, impairment triggers, probabilities of relevant scenarios for cash flow forecasts and the cash flow forecasts themselves, including collateral realization. For further information, refer to Note 3(j) - Summary of significant accounting policies, "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 and Note 4.1 - Risk management - Credit risk of the accompanying financial statements.	We assessed the design and tested the operating effectiveness of internal controls over collective impairments within the loan portfolios, as well as the impairment assessment processes for individually assessed loans. We involved experts in the field of credit risk modelling for the review of IFRS 9 methodology and impairment models, as well as for the review of forward-looking information models, and information systems experts for the test of effectiveness of the IT general controls on the core system applications which support impairment calculations. We assessed the modelling techniques and methodology against the requirements of IFRS 9. We also assessed the appropriateness of significant assumptions used in models for calculating the loan loss provision. We examined a sample of exposures and performed procedures to evaluate the timely identification of exposures with a significant increase in credit risk and classification of instruments in stages according to IFRS 9. Our procedures included reassessment of the creditworthiness of clients and review of input parameters such as probability of default, days past due, watch-list triggers, or reprograms. We also re-performed management's impairment calculation on a sample of collectively impaired loans for mathematical accuracy. For individually impaired loans, our procedures included assessing the identification of loss events and testing of assumptions used in the models, including the forecasted future cash flows and the estimated value of underlying collaterals. For a sample of individually impaired loans, we understood the latest developments at the borrower and considered whether key judgments were appropriate given the borrowers' circumstances. We also re-performed management's impairment calculation for mathematical accuracy. In addition, we tested key inputs to the impairment calculation including the expected future cash flows, their timing and valuation of collateral held, and discussed with management as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower. We assessed the adequacy of the disclosures included in Note 3(j) - Summary of significant accounting policies, "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 and Note 4.1 - Risk management - Credit risk of the accompanying financial statements.

Other matters

The financial statements of the Bank as of and for the year ended December 31, 2020 were audited by another auditor, who expressed an unmodified opinion on the financial statements in its Report dated March 15, 2021.

Other information included in the Bank's Annual Business Report

Other information consists of the information included in the Annual business report other than the financial statements and our auditor's report thereon. Management is responsible for the preparation of other information in accordance with the legal requirements of the Republic of Serbia.

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 our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assessed whether the other information has been prepared, in all material respects, in accordance with Law on Accounting of Republic of Serbia, in particular, whether the other information complies with the Law on Accounting of Republic of Serbia in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures undertaken, to the extent we are able to assess it, we report that the other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and the other information is prepared in accordance with requirements of the Law on Accounting of Republic of Serbia.

In addition, our responsibility is to report, based on the knowledge and understanding of the Bank obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

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Responsibilities of management and Audit Committee for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 Auditing Standards 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 Auditing Standards applicable in Republic of 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.
- 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.

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Auditor's responsibilities for the audit of the financial statements (continued)

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 4, 2022

Petar Grubor

Certified Auditor

for „PKF" d.o.o., Beograd
Palmira Toljatija 5/III
11070 Novi Beograd

STATEMENT OF PROFIT OR LOSS
In the period from January 1 to December 31, 2021
(Thousands of RSD)

	Note	2021	2020 adjusted
Interest income	3c; 8.	13,103,701	13,201,267
Interest expenses	3c; 8.	(958,592)	(1,131,977)
Net interest gains		**12,145,109**	**12,069,290**
Income from fees and commissions	3d; 9	7,647,524	6,696,915
Expenses on fees and commissions	3d; 9	(1,910,160)	(1,821,507)
Net gains from fees and commissions		**5,737,364**	**4,875,408**
Net gains from changes in fair value of financial instruments	3e; 10.	4,823	95,629
Net gains from derecognition of the financial instruments measured at fair value	3f; 11.	197,243	157,796
Net exchange rate gains / (losses) and gains / (losses) from agreed currency clause	3b; 12.	53,070	4,404
Net income / (expenses) from impairment of financial assets not measured at fair value through profit or loss	3j; 13.	15,772	(1,072,032)
Net gains / (losses) from derecognition of the financial instruments measured at amortised cost	14	563	-
Other operating income	3g; 15.	211,190	211,389
TOTAL NET OPERATING INCOME		**18,365,134**	**16,341,884**
Salaries, salary compensations and other personal expenses	3r; 16	(4,961,166)	(5,819,946)
Depreciation costs	3h; 3l; 3lj; 2.5.1; 17	(912,825)	(938,963)
Other income	2.5.1; 18	587,010	889,752
Other expenses	2.5.1; 19	(9,614,769)	(6,674,208)
PROFIT BEFORE TAX		**3,463,384**	**3,798,519**
Gains from deferred taxes	3i; 20.1	348,040	120,049
Losses on deferred taxes	3i; 20.1	(165,725)	(1,384,134)
PROFIT AFTER TAX		**3,645,699**	**2,534,434**
RESULT FOR PERIOD – PROFIT		**3,645,699**	**2,534,434**
EARNINGS PER SHARE			
Basic earnings per share (in dinars, without paras)	3u; 2.5.1; 36.2	216	150
Diluted earnings per share (in dinars, without paras)	3u; 2.5.1; 36.2	216	150

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

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 03, 2022.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Dejan Janjatović	Vlastimir Vuković
Deputy Chairman of the Executive Board	Chief Executive Officer

STATEMENT OF OTHER COMPREHENSIVE INCOME
In the period from January 1 to December 31, 2021
(Thousands of RSD)

	Note	2021	2020 adjusted
PROFIT FOR THE PERIOD		**3,645,699**	**2,534,434**
Other comprehensive income for the period			
Components of other comprehensive income which cannot be reclassified to profit or loss:			
Increase in revaluation reserves based on intangible assets and fixed assets	20.5	-	7,894
Actuarial gains / (losses)	20.5; 34	(137,159)	3,954
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	20.5	146,991	118,902
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income		-	(863)
Components of other comprehensive income that may be reclassified to profit or loss:			
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	20.5	(3,147,675)	(388,567)
Tax gains relating to other comprehensive income for the period	20.5	498,239	60,916
Tax losses relating to other comprehensive income for the period	20.5	(22,049)	(18,428)
Total positive / (negative) other comprehensive income		**(2,661,653)**	**(216,192)**
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD		**984,046**	**2,318,242**

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

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 03, 2022.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Dejan Janjatović
Deputy Chairman of the Executive Board

Vlastimir Vuković
Chief Executive Officer

BALANCE SHEET
As at December 31, 2021

(Thousands of RSD)	Note	December 31, 2021	December 31, 2020	January 1, 2020
ASSETS			*(adjusted)*	*(adjusted)*
Cash and assets held with the central bank	3k; 21	82,055,481	80,045,107	67,558,219
Securities	3j; 22	149,588,755	153,776,323	138,469,551
Loans and receivables from banks and other financial organisations	3j; 23	29,114,381	18,142,070	24,733,958
Loans and receivables from clients	3j; 24	209,044,942	189,296,089	180,852,563
Investments in associates and joint ventures	3j; 25	1,488,063	-	-
Investments in subsidiaries	3j; 26	140,000	3,433,697	3,433,697
Intangible assets	3lj; 27	582,101	510,669	665,735
Property, plant and equipment	3l; 28	8,755,659	6,045,330	6,437,937
Investment property	3m; 2.5.1; 29	2,610,531	2,393,183	2,825,930
Current tax assets	20.1	18,911	12,237	-
Deferred tax assets	20.4.3.	509,242	-	1,074,197
Non-current assets held for sale and discontinued operations	30	101,614	130,426	196,300
Other assets	3j; 31	5,430,725	6,216,268	7,100,359
TOTAL ASSETS		**489,440,405**	**460,001,399**	**433,348,446**
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits and other liabilities to banks, other financial organisations and central bank	3o; 32	2,134,969	4,989,315	5,021,756
Deposits and other financial liabilities to clients	3o; 33	403,286,418	372,699,401	335,317,154
Provisions	3p; 34	4,233,853	2,529,268	2,328,130
Deferred tax liabilities	20.4.3.	-	147,400	-
Other liabilities	3o; 35	4,142,443	4,975,476	13,861,230
TOTAL LIABILITIES		**413,797,683**	**385,340,860**	**356,528,270**
EQUITY				
Share capital	3t; 36.1	40,034,550	40,034,550	40,034,550
Profit	3t; 2.5.1; 36.1	9,573,620	5,893,027	11,393,901
Reserves	3t; 36.1	26,034,552	28,732,962	25,391,725
TOTAL EQUITY		**75,642,722**	**74,660,539**	**76,820,176**
TOTAL LIABILITIES AND EQUITY		**489,440,405**	**460,001,399**	**433,348,446**

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

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 03, 2022.

Signed on behalf of Komercijalna banka a.d., Beograd by:

БАНКА АД БЕОГРАД

Dejan Janjatović
Deputy Chairman of the Executive Board

Vlastimir Vuković
Chief Executive Officer

Translation disclaimer: The English version is a translation of the original in Serbian for information purposes only. In case of discrepancy, the Serbian version will prevail

STATEMENT OF CHANGES IN EQUITY
For period from January 1, 2021 to December 31, 2021
(Thousands of RSD)

DESCRIPTION	Share capital and other equity	Premium on issue of shares	Reserves from profit and other reserves	Revaluation reserves (credit balance)	Profit	Total
Opening balance as at January 1, 2020	**17,191,466**	**22,843,084**	**18,565,207**	**6,826,518**	**10,425,898**	**75,852,173**
Changes in accounting policies and prior periods error correction -increases	-	-	-	-	1,056,880	1,056,880
Changes in accounting policies and prior periods error correction -decreases	-	-	-	-	(88,877)	(88,877)
The adjusted opening balance as at January 1, 2020	**17,191,466**	**22,843,084**	**18,565,207**	**6,826,518**	**11,393,901**	**76,820,176**
Total negative other comprehensive income for the period	-	-	-	(240,763)	-	**(240,763)**
Profit for the current year	-	-	-	-	2,534,434	**2,534,434**
Distribution of profit – increase	-	-	3,582,000	-	-	**3,582,000**
Distribution of profit and/or coverage of losses – decrease	-	-		-	(3,582,000)	**(3,582,000)**
Dividend payments	-	-	-	-	(4,477,879)	**(4,477,879)**
Other – increase	-	-	-	-	24,571	**24,571**
Total transactions with owners	**-**	**-**	**3,582,000**	**-**	**(8,035,308)**	**(4,453,308)**
Balance as at December 31, 2020	**17,191,466**	**22,843,084**	**22,147,207**	**6,585,755**	**5,893,027**	**74,660,539**

Translation disclaimer: The English version is a translation of the original in Serbian for information purposes only. In case of discrepancy, the Serbian version will prevail

STATEMENT OF CHANGES IN EQUITY (continued)
For period from January 1, 2021 to December 31, 2021
(Thousands of RSD)

DESCRIPTION	Share capital and other equity	Premium on issue of shares	Reserves from profit and other reserves	Revaluation reserves (credit balance)	Profit	Total
Opening balance as at January 1, 2021	**17,191,466**	**22,843,084**	**22,147,207**	**6,585,755**	**5,893,027**	**74,660,539**
The adjusted opening balance as at January 1, 2021	**17,191,466**	**22,843,084**	**22,147,207**	**6,585,755**	**5,893,027**	**74,660,539**
Total negative other comprehensive income for the period	-	-	-	(2,698,410)	-	**(2,698,410)**
Profit for the current year	-	-	-	-	3,645,699	**3,645,699**
Distribution of profit – increase	-	-	-	-	-	-
Distribution of profit and/or coverage of losses – decrease	-	-	-	-	-	-
Dividend payments	-	-	-	-	-	-
Other – increase	-	-	-	-	34,894	**34,894**
Total transactions with owners	-	-	-	-	**34,894**	**34,894**
Balance as at December 31, 2021	**17,191,466**	**22,843,084**	**22,147,207**	**3,887,345**	**9,573,620**	**75,642,722**

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

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 03, 2022.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Dejan Janjatović
Deputy Chairman of the Executive Board

КОМЕРЦИЈАЛНА БАНКА А.Д. БЕОГРАД
БЕОГРАД

Vlastimir Vuković
Chief Executive Officer

STATEMENT OF CASH FLOWS
For period from January 1, 2021 to December 31, 2021
(Thousands of RSD)

	2021	2020
A. CASH FLOW FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	**25,421,639**	**19,453,387**
Interest	14,888,804	12,039,482
Fees	7,728,413	6,777,100
Other operating income	2,788,527	627,413
Dividends and profit sharing	15,895	9,392
Cash outflow from operating activities	**(15,843,705)**	**(12,333,889)**
Interest	(911,886)	(953,415)
Fees	(1,911,192)	(1,861,331)
Gross salaries, salary compensations and other personal expenses	(5,001,342)	(4,452,983)
Taxes, contributions and other duties charged to income	(991,483)	(913,879)
Other operating expenses	(7,027,802)	(4,152,281)
Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities	**9,577,934**	**7,119,498**
Decrease in financial assets and increase in financial liabilities	**35,222,874**	**39,996,398**
Decrease in receivables under securities and other financial assets not intended for investment	**7,865,437**	2,164,218
Increase in deposits and other financial liabilities to banks, other financial organisations, central bank and clients	27,357,437	37,832,180
Increase in financial assets and decrease in financial liabilities	**(26,994,912)**	**(3,244,706)**
Increase in loans and receivables from banks, other financial organisations, central bank and clients	(26,994,912)	(3,244,706)
Net cash inflow / (outflow) from operating activities before profit tax	**17,805,896**	**43,871,190**
Profit tax paid	(6,674)	(12,237)
Dividend payment	(94,154)	(14,223,065)
Net cash inflow / (outflow) from operating activities	**17,705,068**	**29,635,888**

STATEMENT OF CASH FLOWS (continued)
For period from January 1, 2021 to December 31, 2021
(Thousands of RSD)

	2021	2020
B. CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	**35,172,283**	**19,211,692**
Investment in investment securities	32,585,411	19,211,692
Investments in subsidiaries, associates and joint ventures	2,586,872	-
Cash outflow from investing activities	**(42,979,990)**	**(38,540,938)**
Investment into investment securities	(39,769,940)	(38,394,476)
Investments into subsidiaries, associates and joint ventures	(71)	-
Purchase of intangible investments, property, plant and equipment	(3,209,979)	(146,462)
Net cash inflow / (outflow) from investing activities	**(7,807,707)**	**(19,329,246)**
C. CASH FLOW FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	**329,732,785**	**330,334,960**
Loans taken	329,732,785	330,334,960
Cash outflow from financing activities	**(331,360,368)**	**(329,862,375)**
Loans taken	(330,992,412)	(329,415,905)
Other outflow from financing activities	(367,956)	(446,470)
Net cash inflow / (outflow) from financing activities	**(1,627,583)**	**472,585**
TOTAL CASH INFLOW	425,549,581	408,996,437
TOTAL CASH OUTFLOW	(417,279,803)	(398,217,210)
NET INCREASE IN CASH	**8,269,778**	**10,779,227**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**51,637,298**	**40,866,651**
EXCHANGE RATE GAINS	1,329,954	551,911
EXCHANGE RATE LOSSES	(598,993)	(560,491)
CASH AND CASH EQUIVALENTS AT END-PERIOD	**60,638,037**	**51,637,298**

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

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 03, 2022.

Signed on behalf of Komercijalna banka a.d., Beograd by:

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД

Dejan Janjatović
Deputy Chairman of the Executive Board

Vlastimir Vuković
Chief Executive Officer

1. ESTABLISHMENT AND OPERATIONS OF THE BANKING GROUP

Komercijalna banka a.d. Beograd (hereinafter "The Bank") was established on December 1, 1970, and was transformed into a joint stock company on May 6, 1992. The Bank was registered with the Commercial Court in Belgrade on July 10, 1991, and was legally re-registered in the Business Registers Agency on April 14, 2006. The Bank was granted a banking license from the National Bank of Yugoslavia on July 3, 1991.

The largest share in the controlling activities of the Bank is:

NLB d.d. Ljubljana	88.28%

By signing the Agreement on the transfer of shares on December 30, 2020 between the Republic of Serbia and NLB d.d. Ljubljana, Slovenia, the sale process of Komercijalna banka ad Belgrade was concluded. The subject of the agreement was 83.23% of ordinary shares of Komercijalna banka, which made NLB d.d. Ljubljana the owner of shares held by the Republic of Serbia and the largest individual owner of the Bank with the right to manage.

On March 11, 2021, the NLB d.d. Ljubljana published an Offer to take over the remaining ordinary and the entire issue of prefernce shares of Komercijalna banka a.d. Beograd. By additional acquiring of ordinary shares until December 30, 2021, the NLB d.d. Ljubljana increased its shares in the management shares of Komercijalna banka a.d. Beograd at the level of 88.28%.

The Bank is registered for performing crediting, depositary and guarantee operations, as well as for payment transfer operations within the country and abroad.

As of December 31, 2021, the Bank was comprised of the Head Office located in Belgrade in Svetog Save Street no. 14, 6 business centers, 3 divisions for corporate banking related to small&medium sized enterprises, 1 branch and 190 sub-branches in the territory of the Republic of Serbia (December 31, 2020: 6 business centres, 3 divisions for corporate banking related to small&medium sized enterprises, 1 branch and 203 sub-branches in the territory of the Republic of Serbia).

As of December 31, 2021, the Bank had 2,372 employees (December 31, 2020: 2,669 employees). The Bank’s tax identification number is 100001931.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of Financial Statements

The Bank’s standalone financial statements (the “financial statements”) for 2021 have been prepared in accordance with the International Financial Reporting Standards (“IFRS“).

The accompanying financial statements represent the Bank’s standalone financial statement. The Bank separately prepares and presents its consolidated financial statements in accordance with the International Financial Reporting Standards.

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

The accompanying financial statements are presented in the format prescribed under the Decision on the Forms and Contents of the Items in the Forms of Financial Statements of Banks (Official Gazette of RS nos. 93/2020).

These financial statements were prepared at historical cost principle unless otherwise stipulated in the accounting policies presented hereunder.

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

The Banks financial statements are presented in thousands of RSD („Serbian Dinars“). Dinar represents the official reporting currency in the Republic of Serbia.

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

2.2. Changes and additions to IFRSs whose implementation is mandatory in the current year

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

- **IFRS 16: Leases and IFRIC 23: Uncertainty over Income Tax Treatment**

Pursuant to the Decision on Determining the Translation of International Financial Reporting Standards (Official Gazette of the RS, Nos. 123/2020 and 125/2020) a translation of all IFRS, including IFRS 16 Leases, was published. furthermore, the basic texts of IAS or IFRS are applied starting from the financial statements prepared as of December 31, 2021, while the earlier application to the financial statements prepared as of December 31, 2020 is possible with disclosure. relevant information in the Notes to the financial statements. Therefore, under the Decision translation of the new IFRS 16 - Leases and IFRIC 23 - Uncertainty over Income Tax Treatment was published, while other standards are disclosed under repeated translation published in previous decision which is repealed except in the case of its application when preparing financial statements on 31 December 2020, with mandatory application of all standards starting from the financial statements as of December 31, 2021.

2.3. Standards that are issued but not yet effective and were not adopted in the past

- **IAS 12 Income Taxes: Amendments Related to Deferred Taxes**

On May 7, 2021, the IASB issued “Deferred Tax on Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)” clarifying how entities compute deferred tax on transactions such as leasing and decommissioning obligations. The changes are effective for annual periods beginning on or after January 1, 2023.

- **IFRS 17 Insurance Contracts (Amendments)**

On June 25, 2020, the IASB issued "Amendments to IFRS 17" in order to overcome the implementation challenges identified after the publication of IFRS 17 "Insurance Contracts" in 2017. The changes are effective for annual periods beginning on or after January 1, 2023.

- **IAS 1 and IFRS 2 - Changes in Disclosure of Accounting Policies**

On February 12, 2021, the IASB issued “Accounting Disclosures (Amendments to IAS 1 and the IFRS Statement of Practice 2)” with amendments aimed at assisting preparers in deciding which accounting policies to disclose in their financial statements. The changes are effective for annual periods beginning on or after January 1, 2023.

- **IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors - Changes in Disclosure of Accounting Policies**

The standard requires compliance with any specific IFRSs that apply to a transaction, event or condition, and provides guidance on the development of accounting policies for other items that result in relevant and reliable information. Changes in accounting policies and corrections of errors are generally considered retrospectively, while changes in accounting estimates are generally calculated on a prospective basis. On February 12, 2021, the IASB issued a “Definition of Accounting Estimates (Amendments to IAS 8)” to help entities differentiate between accounting policies and accounting estimates. The changes are effective for annual periods beginning on or after January 1, 2023.

- **Amendment to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale of Assets between Investors and Subsidiaries**

The amendments indicate a known discrepancy between the requirements in IFRS 10 and those in IAS 28, related to the sale or transfer of assets between an investor and its subsidiaries and joint ventures. The main consequence of the changes relates to the fact that the total loss or gain is recognized when the transaction affects the business (regardless of whether it is a subsidiary or not). Partial gain or loss is recognized when the transaction affects a non-business asset, even when the asset is part of a subsidiary. In December 2015, the International Accounting Standards Board postponed the date of application of this standard indefinitely pending the outcome of the research related to the application of participation methods. The amendments have not yet been endorsed by the EU. It is not expected that the requirements of this standard will have significant effect on Bank’s financial statements.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.3. Standards that are issued but not yet effective and were not adopted in the past (continued)

- **IAS 1 Presentation of Financial Statements: Classification of Short-Term and Long-Term Liabilities (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2022, and earlier application is permitted. The International Accounting Standards Board has issued an exposure proposal to postpone the entry into force of these amendments until January 1, 2023. The purpose of the amendments is to promote consistency in the application of requirements by helping companies determine whether the statement of financial position, debts and other liabilities uncertain maturity dates need to be classified as short-term or long-term. The amendments affect the presentation of liabilities in the statement of financial position and do not change the existing requirements regarding the measurement or timing of recognition of any assets, liabilities, income or expenses, or the information that the company discloses about these items. Also, the amendments clarify the requirements for the classification of debt that a company can settle by issuing its own equity instruments. The amendments have not yet been endorsed by the EU. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Annual Improvements (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2022, with earlier application permitted. The International Accounting Standards Board has issued amendments to IFRS of narrow scope as follows:

- **IFRS 3 Business Combinations (Amendments)** updates the reference in IFRS 3 Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (Amendments)** prohibits an entity from deducting from the cost of property, plant and equipment amounts received from the sale of manufactured items while the company is preparing an asset for its use. Instead, the company will recognize such sales revenue and related costs in the income statement.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** what costs an entity includes in determining the cost of performing a contract to assess whether the contract is onerous.
- **Annual improvements** lead to minor changes to IFRS 1, the first-time adoption of International Financial Reporting Standards, if IFRS 9 Financial Instruments, IAS 41 Agriculture and Illustrative Examples accompany IFRS 16 Leases.

The amendments have not yet been endorsed by the EU. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

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

In August 2020, the International Accounting Standards Board (IASB) has published 'Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)' with amendments that address issues that might affect financial reporting after the reform of an interest rate benchmark, including its replacement with alternative benchmark rates. The amendments provide temporary relief to address the effects of financial reporting when the interbank offered rate (IBOR) is replaced by an alternative close to risk-free rate (RFR). In particular, the amendments provide for a practical exception when calculating changes in the basis for determining the contractual cash flows of financial assets and liabilities, in order to require an adjustment to the effective interest rate, equivalent to market interest rate movements. The amendments also introduce facilities for termination of a hedging relationship, including a temporary exemption from the need to meet a separately identifiable requirement when an RFR instrument is designated for a hedging risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurance companies that continue to apply IAS 39 to receive the same benefits as those provided for in the amendments to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures that enable users of financial statements to understand the effects of reference interest rate reform on financial instruments and entity risk management strategy. The amendments are effective for annual periods beginning on or after January 1, 2021, with the possibility of earlier application. When the application is retrospective, the entity is not required to modify data from prior periods. The amendments have not yet been endorsed by the EU. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

2. BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS (continued)

2.4. Comparative data

For all amounts disclosed in the financial statements under the items of the current period, comparative data in respect of previous year is also presented, unless standards or interpretations allow or require otherwise. For amounts disclosed under application of IAS 8, comparative data is adjusted to the current year's ones.

In 2021, the Bank changed its accounting policy in the matter subsequent evaluation of investment property and accordingly made appropriate adjustments to the previously stated Balance Sheet as of December 31, 2020, as well as the Income Statement for the year 2020. The adjustments were made in accordance with the requirements of IAS 8 - Accounting Policies, Changes in Accounting Policies and Errors, as explained in detail in Note 2.5.

2.5. Changes in accounting policies

Pursuant to the Decision made by Board of Directors dated December 17, 2021, the Bank's management changed the accounting policy for subsequent evaluation of investment property and thus previously used cost method after initial recognition was replaced with the fair value method. The new policy applies to all investment properties of the Bank.

The Bank's management has voluntarily changed the accounting policy in order to comply it with the accounting policies of the NLB Group, as well as compiling financial statements that will result in providing more reliable and relevant information on the effects of transactions on the financial position and financial performance of the Bank.

2.5.1 Effects of changes in accounting policies

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, requires that changes in accounting policies be made retrospectively, unless the amount of resulting adjustments relating to relevant prior periods or the cumulative effect of accounting policies cannot be determined with sufficient reliability. Accordingly, on this basis, changes in the fair value of investment property, based on estimates of the value of individual properties from 2019, are recorded as an adjustment to the opening balance of retained earnings on January 1, 2020, while changes in fair value relative to estimates on December 31, 2020, recorded against income statement for 2020.

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

2.5. Changes in accounting policies (continued)

2.5.1 Effects of changes in accounting policies (continued)

a) Outcome of balance sheet adjustments on January 1, 2020

	2019	Adjustments +/-	January 1, 2020
ASSETS	*previous*		*adjusted*
Cash and assets held with the central bank	67,558,219	-	67,558,219
Securities	138,469,551	-	138,469,551
Loans and receivables from banks and other financial organisations	24,733,958	-	24,733,958
Loans and receivables from clients	180,852,563	-	180,852,563
Investments in subsidiaries	3,433,697	-	3,433,697
Intangible assets	665,735	-	665,735
Property, plant and equipment	6,437,937	-	6,437,937
Investment property	1,857,927	968,003	2,825,930
Deferred tax assets	1,074,197	-	1,074,197
Non-current assets held for sale and discontinued operations	196,300	-	196,300
Other assets	7,100,359	-	7,100,359
TOTAL ASSETS	**432,380,443**	**968,003**	**433,348,446**
	-	-	-
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and other liabilities to banks, other financial organisations and central bank	5,021,756	-	5,021,756
Deposits and other financial liabilities to clients	335,317,154	-	335,317,154
Provisions	2,328,130	-	2,328,130
Other liabilities	13,861,230	-	13,861,230
TOTAL LIABILITIES	**356,528,270**	**-**	**356,528,270**
EQUITY			
Share capital	40,034,550	-	40,034,550
Profit	10,425,898	968,003	11,393,901
Reserves	25,391,725	-	25,391,725
TOTAL EQUITY	**75,852,173**	**968,003**	**76,820,176**
TOTAL LIABILITIES AND EQUITY	**432,380,443**	**968,003**	**433,348,446**

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

2.5. Changes in accounting policies (continued)

2.5.1 Effects of changes in accounting policies (continued)

b) Outcome of balance sheet adjustments on December 31, 2021

	2020	Adjustments +/-	2020
ASSETS	***previous***		***adjusted***
Cash and assets held with the central bank	80,045,107	-	80,045,107
Securities	153,776,323	-	153,776,323
Loans and receivables from banks and other financial organisations	18,142,070	-	18,142,070
Loans and receivables from clients	189,296,089	-	189,296,089
Investments in subsidiaries	3,433,697	-	3,433,697
Intangible assets	510,669	-	510,669
Property, plant and equipment	6,045,330	-	6,045,330
Investment property	1,819,507	573,676	2,393,183
Deferred tax assets	12,237	-	12,237
Non-current assets held for sale and discontinued operations	130,426	-	130,426
Other assets	6,216,268	-	6,216,268
TOTAL ASSETS	**459,427,723**	**573,676**	**460,001,399**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and other liabilities to banks, other financial organisations and central bank	4,989,315	-	4,989,315
Deposits and other financial liabilities to clients	372,699,401	-	372,699,401
Provisions	2,529,268	-	2,529,268
Deferred tax liabilities	147,400	-	147,400
Other liabilities	4,975,476	-	4,975,476
TOTAL LIABILITIES	**385,340,860**	**-**	**385,340,860**
EQUITY			
Share capital	40,034,550	-	40,034,550
Profit	5,319,351	573,676	5,893,027
Reserves	28,732,962	-	28,732,962
TOTAL EQUITY	**74,086,863**	**573,676**	**74,660,539**
TOTAL LIABILITIES AND EQUITY	**459,427,723**	**573,676**	**460,001,399**

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

2.5. Changes in accounting policies (continued)

2.5.1 Effects of changes in accounting policies (continued)

c) Outcome of income statement adjustments on January 1, 2020

	December 31, 2020 *previous*	Adjustments +/-	December 31, 2020 *adjusted*
Interest income	13,201,267	-	13,201,267
Interest expenses	(1,131,977)	-	(1,131,977)
Net interest gains	**12,069,290**	**-**	**12,069,290**
Income from fees and commissions	6,696,915	-	6,696,915
Expenses on fees and commissions	(1,821,507)	-	(1,821,507)
Net gains from fees and commissions	**4,875,408**	**-**	**4,875,408**
Net gains from changes in fair value of financial instruments	95,629	-	95,629
Net gains from derecognition of the financial instruments measured at fair value	157,796	-	157,796
Net exchange rate gains / (losses) and gains / (losses) from agreed currency clause	4,404	-	4,404
Net income / (expenses) from reduction in impairment of financial assets not measured at fair value through income statement	(1,072,032)	-	(1,072,032)
Other operating income	211,389	-	211,389
TOTAL NET OPERATING INCOME	**16,341,884**	**-**	**16,341,884**
Salaries, salary compensations and other personal expenses	(5,819,946)	-	(5,819,946)
Depreciation costs	(977,383)	38,420	(938,963)
Other income	859,417	30,335	889,752
Other expenses	(6,211,126)	(463,082)	(6,674,208)
PROFIT BEFORE TAX	**4,192,846**	**(394,327)**	**3,798,519**
		-	
Gains from deferred taxes	120,049	-	120,049
Loss on deferred taxes	(1,384,134)	-	(1,384,134)
PROFIT AFTER TAX	**2,928,761**	**(394,327)**	**2,534,434**
		-	
RESULT FOR PERIOD - PROFIT	**2,928,761**	**(394,327)**	**2,534,434**

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

2.5. Changes in accounting policies (continued)

2.5.1. Effects of changes in accounting policies (continued)

d) Outcome of changes in equity adjustments for the year 2020

	Share capital and other equity	Premium on issue of shares	Reserves from profit and other reserves	Revaluation reserves (credit balance)	Profit	Total
Opening balance as at January 1, 2020	**17,191,466**	**22,843,084**	**18,565,207**	**6,826,518**	**10,425,898**	**75,852,173**
Changes in accounting policy					968,003	**968,003**
The adjusted opening balance as at January 1, 2020	**17,191,466**	**22,843,084**	**18,565,207**	**6,826,518**	**11,393,901**	**76,820,176**
Total negative other comprehensive income for the period	-	-	-	(240,763)	-	**(240,763)**
Profit for the current year	-	-	-	-	2,928,761	**2,928,761**
Adjusted profit of the current year +/-					(394,327)	**(394,327)**
Distribution of profit – increase			3,582,000	-	-	**3,582,000**
Distribution of profit and/or coverage of losses – decrease	-	-	-	-	(3,582,000)	**(3,582,000)**
Dividend payments	-	-	-	-	(4,477,879)	**(4,477,879)**
Other – increase	-	-	-	-	24,571	**24,571**
Total transactions with owners	**-**	**-**	**3,582,000**	**-**	**(8,035,308)**	**(4,453,308)**
Balance as at December 31, 2020	**17,191,466**	**22,843,084**	**22,147,207**	**6,585,755**	**5,893,027**	**74,660,539**

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

2.5. Changes in accounting policies (continued)

2.5.1 Effects of changes in accounting policies (continued)

e) Outcome of earning per share adjustments

	In thousands of RSD	*In RSD*
	Increase / decrease the results attributable to shareholders	Increase / decrease in basic earnings per share
Effects of changes in accounting policies	(394,327)	(23)

	2020	**2020**
	previous	***adjusted***
Basic earnings per shares (in RSD without cents)	173	150

Translation disclaimer: The English version is a translation of the original in Serbian for information purposes only. In case of discrepancy, the Serbian version will prevail

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES

When compiling and presenting the financial statements for the period January - December 2021, the legal regulations of the NBS were applied, according to which banks were obliged to apply the forms of financial statements valid from December 31, 2021.

(a) Consolidation

The Bank has control over the following legal entities as of December 31, 2021, which are not consolidated into these financial statements:

Legal Entity	Equity Interest
UCITS Fund Management Company KomBank INVEST a.d. Beograd, Serbia	100%

During 2021, the Bank lost control over:

- Komercijalna banka a.d. Podgorica, Montenegro due to the legal status change - merger to NLB banka a.d. Podgorica occurred in November 2021. The Bank's equity share in NLB banka a.d. Podgorica after the merger amounts to 23.97% and in this regard the legal status became associate;
- Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina by selling 100% of shares occurred in December 2021.

The Bank’s consolidated financial statements are prepared and disclosed separately.

In Bank’s standalone financial statements, investments in subsidiaries are measured at cost, reduced for impairment losses.

(b) Foreign Exchange Translation

Business transactions in foreign currency are translated into RSD at the middle exchange rate of the currency that was valid on the day of the business transaction.

Monetary positions in foreign currency assets and liabilities, which are measured at cost, are translated into RSD according to the middle exchange rate prevailing at the balance sheet date. Foreign exchange differences arising from the translation of foreign exchange positions are presented in the profit and loss statement. Non-monetary positions of assets that are measured at cost in foreign currency are translated into RSD according to the average exchange rate of the currency that was valid on the day of the business transaction.

The most important currencies used in the conversion of balance sheet items denominated in foreign currency, as determined by the National Bank of Serbia, are disclosed in Note 42

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3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(c) Interest

Interest income and expense are recognized in the profit and loss statement using the effective interest method. An effective interest rate is the rate at which future cash flows are discounted over the expected period of financial assets or liabilities (or, if necessary, for a shorter period) to its present value.

When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses that might arise.

The calculation of the effective interest rate includes all paid or received fees and charges, which are an integral part of the effective interest rate - loan approval fees as well as annexation fees.

Transaction costs are costs directly attributable to the acquisition or the issuance of a financial asset or liability.

Recognition of interest income on impaired loans is done by net principle, by reducing the gross accrued interest for the amount of the impairment, or for the amount that is certain that it will not be charged.

Recognition of interest income on credit-impaired placements that are classified as Stage 3, by net principle, is carried out using an alternative unwinding concept. When a financial asset becomes credit-impaired as compared to the moment of initial recognition and is therefore regarded as Stage 3, the Bank calculates interest income by using an alternative concept of unwinding - IRC method, by reducing the accrued interest income with associated impairment recognized in the current year, whereby interest receivable is recognized at gross principle.

(d) Fees and Commissions

Fee and commission income and expenses, which are an integral part of the effective interest rate of a financial asset or liability, are included in the determination of the effective interest rate. Other fees are accrued and a proportional part is recorded as income for the current period.

Income from fees and commissions is recorded at the moment of services provided. Income from fees and commissions includes revenues from international and domestic payment services, issuance and use of payment cards, issuance of guarantees, letters of credit and other banking services.

Fee and commission expenses are mainly related to fees based on transaction and service performed and are recorded at the moment of receiving the service.

(e) Net gains arising on the fair value measurement of financial instruments

Net gains based on the fair value of financial instruments includes gains less losses due to changes in value: derivatives, changes in the value of financial assets that are measured at fair value through profit and loss and gains less losses arising from changes in the value of financial liabilities valued at fair value through the profit and loss account.

(f) Net gain on the derecognition of financial instruments at fair value

Net gain on derecognition of financial instruments at fair value refers to financial assets and liabilities at fair value through profit and loss and fair value through other comprehensive income.

g) Dividends

Dividend income is recognized at the moment of inflow of economic benefits from dividends. Dividends are presented under position of Other operating income.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(h) Leasing

At the beginning of the contract, the Bank assesses whether the contract contains a leasing component or represents a lease. More specifically, it analyzes whether the contract transfers the right to control the use of separable assets over a defined period of time in exchange for a fee.

Bank as leasee

The Bank applies a uniform recognition and measurement approach for all leases except for short-term leases and leases of low value assets. The Bank recognizes the leasing obligation to pay the lease and the right to use, which represents the right to use the fixed assets.

(i) Right of use assets

The Bank recognizes right of use assets on the day the lease begins (i.e. the date the asset is available for use). Right of use assets are measured at cost less accumulated depreciation and impairment losses, and adjusted for any subsequent measurement of the lease liabilities. The cost of right of use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date, less any lease incentives received.

Right of use assets are depreciated on a straight-line basis over a period shorter than the lease term or the estimated useful life of the asset.

Right of use assets are depreciated at a rate ranging from 92.31% to 6.70% annually, depending on the contractual right to use the asset.

(ii) Leasing liabilities

At the commencement of the lease, the Bank recognizes the lease liability, measured at the present value of the lease payment to be made during the lease term. Leasing payments include fixed payments less all lease incentive receivables, variable lease payments that depend on an index or a rate, and amounts to be paid under residual value guarantees. The Lease payments also include the exercise price of the purchase option reasonably expected to be made by the Bank and the payment of penalties for termination of the contract if the termination option is available to the Bank for the duration of the contract.

Variable lease payments that do not depend on an index or rate are recognized as an expense (unless incurred to produce inventories) in the period in which the events or conditions that give rise to the payment occur.

In calculating the present value of a lease payment, the Bank uses its incremental borrowing rate at the date of commencement of the lease because the implicit leasing interest rate cannot be easily determined. After the commencement date, the amount of the lease liability increases by the accrued interest for the previous period and decreases for the lease payments made. In addition, the carrying amount of a lease liability is remeasured if there is a modification of the contract, a change in the lease term, a change in the lease payment (e.g., changes in future payments resulting from a change in the index or rate used to determine such lease payments), or a change in the valuation of the purchase option where the underlying asset is the subject of the lease.

During 2021, the incremental indebtedness rate did not have large variations and rates ranged from 0.4748% to 2.4310% for EUR and 1.4690% to 4.7848% for RSD (2020: 0.2305% to 3.1000% for EUR i.e. 0.47950% to 4.95119% for RSD)

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(h) Leasing (continued)

(iii) Short-term leases and leases of low value assets

The Bank applies an exemption from the recognition of short-term leases for its short-term leases of machinery and equipment (i.e. those leases that have a term of less than 12 months from the commencement date and do not include an option to purchase). The exemption from recognition for the lease of low value assets on the lease of office equipment also applies. Lease payments for short-term leases and leases of low value assets are recognized as an expense, pro rata over the lease term.

Bank as a leaser

Leases in which the Bank does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Lease income is calculated on a pro rata basis over the life of the contract and is recorded as income in the income statement because of its operational nature. The initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as income in the period in which they are earned.

(i) Tax Expenses

Tax expenses incurred current taxes and deferred taxes. Current taxes and deferred taxes are shown in the profit and loss statement except to the extent that they relate to items that are recognized directly within the capital or within the other comprehensive income.

(i) Current Income Tax

Current tax represents the expected liability or profit tax receivable for the accounting period, using tax rates applicable or effective at the reporting date, with appropriate tax adjustments from the previous year.

(ii) Deferred Income Tax

Deferred taxes are determined in relation to temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the value of assets and liabilities for tax purposes. When defining deferred taxes, the tax rates that are expected to be applied at the time of occurrence of temporary differences are used and based on the legal regulations that were applied at the reporting date.

Deferred tax assets and deferred tax liabilities are netted if there is a legal right to net current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities relate to the income tax imposed by the same tax authority on the same taxpayer or different taxpayers who intend to either settle current tax liabilities and assets on a net basis or to simultaneously realize assets and settle liabilities in each future period in which a significant repayment or refund of deferred tax liabilities or assets is expected.

Deferred tax assets are recognized for all deductible temporary differences and the tax effects of income tax losses available for carry forward and tax credits, to the extent that it is probable that the future taxable profits will be available against which the deductible temporary differences and tax losses carry forward can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax liabilities are recognized on all taxable temporary differences.

(iii) Other Taxes and Contributions

In accordance with the applicable regulations in the Republic of Serbia, the Bank pays various taxes and contributions, such as service tax, tax on investments in equity and contributions on salaries and wages. These expenditures are included in “Other expenses”.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

A financial asset is any asset that is:

- cash,
- an equity instrument of another legal entity,
- a contractual right to receive cash or another financial asset from another legal entity,
- a contractual right to exchange financial assets or financial liabilities with another legal entity under conditions that are potentially favourable to the entity,
- a contract that will or may be settled in the entity's own equity instruments and is and which is non-derivative and for which the Bank is or may be required to receive a variable number of equity instruments,
- a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments

Financial liabilities

A financial liability is any liability that is:

- a contractual obligation to deliver cash or another financial asset to another legal entity,
- a contractual obligation to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity.

Principles of measurement of financial instruments

From the aspect of classification and measurement, IFRS 9 prescribes criteria for the classification of financial assets, other than equity instruments and derivatives, based on an assessment of the business model of managing specific financial assets and contractual characteristics of cash flows of financial instruments.

Financial assets

The classification of financial assets is based on the application of an appropriate business model for the management of financial assets and the fulfilment of the test of characteristics of contracted cash flows.

The business model determines whether cash flows arise from the collection of contracted cash flows, the sale of financial assets or both. The business model for the classification of financial assets is determined at the appropriate level of aggregation.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Fulfilment of the test of characteristics of contracted cash flows means that cash flows consist solely of principal and interest payments on the remaining principal (SPPI criterion).

Financial assets can be classified into the following categories:

- financial assets measured at amortized cost (AC)
- financial assets measured at fair value through profit and loss (FVTPL)
- financial assets measured at fair value through other comprehensive income with recognition through profit and loss - "recycling" (FVOCI) on derecognition
- financial assets valued at fair value through other comprehensive income without recognition through profit and loss account (FVOCI)

In accordance with the classification of assets from the previous paragraph, the Bank categorizes all placements from its portfolio relating to:

- Loans and receivables as non-derivative financial assets with fixed or determinable payments that are not quoted in the active market and which the Bank does not intend to sell in the short term,
- Securities that are measured at fair value through profit and loss statement that are instruments acquired for the purpose of generating profit from the fluctuation of prices and margins
- Securities, which include debt securities and equity securities (capital instruments):

    - Debt securities include bonds and transferable securitized debt instruments, government records, treasury bills, commercial records, deposit certificates, bank notes, subordinated bonds and other similar debt securities traded on financial markets.

    - Equity securities include shares representing a share in the equity of a joint stock company and convertible bonds which, under the conditions set out in the issuing decision, give the right to a replacement for ordinary shares of the company. Equity securities (equity instruments) are all forms of participation in the capital of legal entities for which there is an intention to hold for an indefinite period of time, which can be sold due to the need for liquidity or due to changes in interest rates, foreign exchange rates or market prices.

    - Investments in subsidiaries that provide control, that is, over 50% of management rights and investments in associated legal entities that provide from 20% to 50% of management rights and

- Financial derivatives that include forward and swap transactions.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Classification and measurement

From a classification and measurement perspective, standard required all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

According to IFRS 9, financial assets are being measured in one of the following methods: amortised cost, fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI). Equity instruments that are not held for trading, can be classified as assets that are valued at fair value through other comprehensive income, without any subsequent reclassification of gains and losses through the Profit and loss statement.

Initially, the financial asset is measured at fair value plus the transaction costs, except in the case of financial assets that are measured at fair value through the Profit and loss statement (FVtPL) in which these costs are recognized as cost in the Profit and loss statement.

A financial asset is measured at amortized cost unless it is designated as FVTPL and meets the following criteria:

- the goal of a business model of holding a financial asset is the collection of contracted cash flows and
- contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Debt instruments are valued as FVOCI only if the following criteria are met and FVtPL option is not chosen:

- the goal of the business model of holding a financial asset is the collection of contracted cash flows and sales, and
- contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Subsequently, gains or losses on the financial assets of the FVOCI will be recognized through the other comprehensive income, except for income or expense on impairment of financial assets and exchange rate differences, until the moment when the recognition of a financial asset ceases or when it is reclassified.

When the recognition of a financial asset ceases, the cumulative gain or loss previously recognized in the other comprehensive income will be reclassified from equity to the profit and loss statement. Interest calculated using the effective interest rate is recognized in the profit and loss statement.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Classification and measurement (continued)

Financial liabilities

After initial measurement, financial liabilities are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on financial liabilities, and costs that are an integral part of the EIR.

The Bank does not have financial liabilities designated as FVTPL.

Impairment of financial assets

IFRS 9 has changed IAS 9's incurred loss approach with a forward-looking expected credit loss (ECL) approach, through the inclusion of the impact of the expected movement of macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies. The Bank will be required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

The Bank defined the criteria for classifying financial instruments into stages 1, 2 and 3, depending on the degree of increase in credit risk from the moment of initial recognition. The subject of the classification are financial instruments that are measured at amortized cost, as well as debt financial instruments that are valued at fair value through other comprehensive income.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Classification and measurement (continued)

Stage 1

Impairment allowance of financial instruments that are not deemed to have a significant deterioration in credit risk are calculated on the basis of 12-month expected losses (ECL) in accordance with IFRS 9. Stage 1 also includes exposures to the Republic of Serbia, the National Bank of Serbia and other low credit risk exposures, except for the exposure on the basis of mandatory reserve and similar exposures.

Stage 2

All financial instruments for which significant increase in credit risk since initial recognition has been identified are classified in stage 2, and impairment allowance are calculated on the basis of expected credit losses for the entire lifetime of the instrument.

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. According to the internal policy of the Bank, a significant increase in credit risk is considered to be days past due of 31 to 90 days, restructuring, Watch-list clients etc.

Stage 3

Financial instruments are included in stage 3 if there is objective evidence of impairment. There is no change in the treatment of loans classified in that stage, apart from the fact that multiple collection scenarios were introduced. The impairment calculation on an individual basis will continue on the same principle.

In the assessment of expected credit losses (ECL), the Bank also included information on the expected trends in macroeconomic parameters for the next three years, for which a statistically significant dependence was established.

As different levels of impairment result in different ways of calculating the expected credit losses, the Bank has developed a methodology and accounted for risk parameters in accordance with the requirements of IFRS 9.

POCI

Purchased or originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. The ECL allowance is only recognised or released to the extent that there is a subsequent change in the expected credit losses.

Wite-offs

The subject of write-offs are receivables that the Bank failed to collect despite the implementation of all collection activities defined by its policies and procedures: extension, restructuring, settlement, taking over collateral to collect receivables, concluding contracts with interested third parties, litigation and other.

If the measures taken to regulate placements, ie forced collection and court proceedings did not give the expected results, ie when there is no possibility of collecting receivables in full, a proposal for permanent write-off of the Bank's remaining receivables or transfer from on-balance sheet to off-balance sheet records is initiated.

Pursuant to the Decision of the National Bank of Serbia on the accounting write-off of the balance sheet assets "Official Gazette of RS", no. 77/2017 dated August 10, 2017, the Bank write-off non-performing receivables in the case when impairment recorded in favor of allowance for impairment amounts 100% of its gross book value.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Classification and measurement (continued)

(iii) Derecognition

The Bank ceases to recognize a financial asset when the contractual rights over cash flows associated with an asset expire, or when the Bank transfers the transaction with all essential rights and benefits related to the ownership of a financial asset or if it does not transfer or retain all substantive property rights, but does not retain control over a financial asset. All ownership of a transferred financial asset that meets the criteria for termination of recognition that Bank has created or retained is recognized as a separate asset or liability in the balance sheet. Upon derecognition of a financial asset, the difference between the carrying amount (or the carrying amount of the part of the asset transferred), and collection of received remuneration (including new assets acquired less for new assumed liabilities), as well as the aggregate gains or losses previously recognized in the report on the total result are recognized in the profit and loss statement.

The Bank carries out transactions by which it transfers the assets recognized in his balance sheet, although he reserves all or substantially, all the risks and benefits or part of the transferred assets. If all or substantially all risks and benefits are retained, then there is no cessation of recognition of the asset. The transfer of funds by retaining all or substantially all risks and benefits includes, for example, re-purchase transactions.

In the case of transactions in which the Bank neither holds, nor transfers substantially all the risks and rewards of ownership of a financial asset and retains control over the asset, the Bank continues to recognize the asset to the extent that its relationship with the asset continues, which is determined on based on its exposure to changes in the value of the transferred asset. The Bank shall execute the obligation when the obligation is settled, terminated or transferred to another.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.

(ibi) Modifications

Modifications to financial assets that do not result in derecognition.

Amendments to the contract due to the financial difficulties of the debtor are not considered a significant modification that leads to the cessation of recognition of the financial asset.

In accordance with IFRS 9, the Bank determines the new gross carrying amount of a financial asset and recognizes income or expense based on a modification in the income statement. The effect is recognized in the Income statement, under position Net gains/lossess from decrease/increase in impairment of financial assets that are not measured at fair value through profit or loss. The gross carrying amount of a financial asset is determined as the present value of the modified cash flows discounted using the original effective interest rate. Any transaction costs incurred adjust the carrying amount of the modified financial asset and are amortized over its useful life.

(iv) Netting

Financial assets and liabilities are netted and the net amount is disclosed in the statement of financial position only when the Bank has the legal right to net recognized amounts and when it intends to settle liabilities on a net basis or at the same time realize the asset and settle the obligation.

Income and expense is disclosed by net principle only when permitted by IFRS or for income and expenses arising from a Bank of similar transactions, such as transactions held by the Bank in trading.

Accounting policies for calculation of Expected Credit Losses are described in Note 4. Risk Management, 4.1. Credit risk - IFRS 9 Financial Instruments.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, assets with central banks that can be unrestrictedly disposed of and highly liquid financial assets with an original maturity shorter than 3 months, low risk of change in value, which are used by the Bank for short-term liquidity management.

Cash is carried at amortized cost in the balance sheet.

(l) Property and Equipment

(i) Recognition and Measurement

Initial measurement of property and equipment is done at cost.

The cost includes expenses directly attributable to the acquisition of the asset. Purchased software, which is an integral part of the software necessary for the functional usability of the equipment, is capitalized as part of this equipment.

After initial recognition the property is measured at cost less accumulated depreciation and subsequent accumulated impairment losses.

Following initial recognition, property is measured at revaluation amount which represents its fair value at valuation date less subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluation is carried out on a regular basis in order to ensure that the carrying amount does not differ significantly from the value that would have been achieved using fair value at the end of the reporting period.

Recording the effects of revaluation depends on whether the difference between the carrying amount of the asset and its fair value at the date of revaluation is positive or negative. Positive effects are recognized as an increase in the revaluation reserve and / or as income from changes in the value of fixed assets to the level of previously recognized expenses on the same basis for the same asset. Negative effects are recognized as a reduction in the previously formed revaluation reserve and / or as an expense based on changes in the value of fixed assets. The revaluation reserve arising on this basis is transferred in full to retained earnings upon derecognition of the property. The revaluation reserve can be transferred to retained earnings while the asset is used in the amount of the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the original cost of the asset. The transfer of revaluation reserves to retained earnings is not made through profit or loss statement.

When parts of property or equipment have different useful lives, they are kept as separate items (main components) of equipment.

Gains or losses arising from the disposal of property and equipment are determined as the difference between the value of their sale and their carrying amount and are recorded in other income or expenses.

(ii) Subsequent Costs

Replacement cost for an item of property, plant and equipment is recognized as part of the carrying amount of that fixed asset if it is probable that future economic benefits associated with that component will accrue to the Bank and if the cost of the cost of that part can be reliably measured. The carrying amount of the replaced part is written off. Maintenance costs for property and equipment are recognized in the Profit and loss statement when they arise.

(iii) Depreciation

Depreciation is recognized in the profit and loss statement in equal annual amounts over the estimated useful lives of a given item of property, plant and equipment, since this way best reflects the expected consumption of the useful economic value contained in the asset. Leased assets are depreciated during the lease period or useful life of the asset, depending on the period of time it is shorter.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(l) Property and Equipment (continued)

(iii) Depreciation (continued)

The applied depreciation rates in the current and previous accounting period are:

Asset	Estimated useful life (in years)	Rate %
Buildings	40	2.50%
Computer equipment	4	25.00%
Furniture and other equipment	5 - 10	10 - 20%
Investments in other fixed assets	4,58 -20	5 - 21.83%
Leased fixed assets	1.1 -14.11	6.70 – 92.31%

The method of depreciation, useful life and residual value are estimated at the end of each reporting period and, when necessary, their reassessment is made.

Maintenance costs are recognized in the Profit and loss statement for the period in which they are incurred.

(lj) Intangible Assets

Intangible assets are valued at cost less amortization and impairment losses.

Subsequent costs from investing in intangible assets can only be capitalized in the event of increased future economic benefits from the assets to which they relate. All other costs represent the expense of the period in which they were incurred.

Amortization is presented in the profit and loss statement in equal annual amounts during the estimated useful lives of the item of intangible assets, since it thus best reflects the expected consumption of the useful economic value contained in the asset. Estimated useful lives of intangible assets is 3 to 10 years, i.e. amortization rates range from 10.00% to 33.34%.

The method of amortization, useful life and residual value are estimated at the end of each reporting period and, when necessary, their reassessment is made.

(m) Investment Property

Investment properties represent real estate held to earn rental income or capital appreciation for both purposes and not for sale in a regular course of business or for use in the production or purchase of goods or services or for administrative purposes.

Initial valuation of investment property is carried out at cost. The cost of the purchased investment property includes its purchase price and all expenses directly attributable to the acquisition of the asset.

After initial recognition, subsequent measurement of investment property is done at fair value method. Fair value is the price that would be charged to sell an asset or paid to transfer a liability in a regular transaction between market participants at the measurement date.

Gains or losses arising from changes in the fair value of investment property are recognized as income or expense in the period they arise.

In 2021, the Bank voluntary changed its accounting policy for the subsequent valuation of investment property and thus previously used cost method was changed by fair value method (Note 2.5).

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(n) Impairment of Non-Financial Assets

The carrying amount of non-financial assets is analysed at the end of each reporting period in order to determine whether there are impairment indicators. In case it is determined that there are certain indicators of impairment, the recoverable amount of the assets is determined. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is determined as a value that is greater than the asset's fair value and fair value.
For the purposes of determining the use value, estimated future cash inflows from the asset are discounted to their present value, using a pre-tax discount rate, reflecting the current market estimate of the time value of money as well as asset-specific risks.

An impairment loss is recognized in the case where the carrying amount of an asset is greater than its recoverable amount. An impairment loss is recognized within the results of the period..

Impairment losses from previous periods are estimated at the end of each reporting period in order to determine whether loss reductions have occurred or that they no longer exist. An impairment loss is reversed if there has been a change in the assumptions used to determine the recoverable amount of the asset. Impairment losses are reversed only to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, less amortization, in the event that there was no recognition of the impairment loss.

(o) Deposits, Borrowings and Subordinated Liabilities

Deposits, debt securities, loans and subordinated liabilities are the Bank’s main sources of financing.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms for a specific instruments.

Deposits, debt securities, loans and subordinated liabilities are initially valued at fair value plus all direct transaction costs, while their subsequent valuation is carried at amortized cost using the effective interest rate method.

(p) Provisions

Provision is recognized when a Bank expects, as a result of past events, to have a present legal or enforceable obligation that can be reliably identified and whose settlement is expected to result in an outflow of resources representing economic benefits to the Bank. The provision is determined by discounting the expected future cash outflows using a pre-tax discount rate that reflects the current market estimate of the time value of money and, where appropriate, the risks specific to the obligation.

(r) Employee benefits

In accordance with regulations, the Bank is obliged to pay liabilities to state funds to ensure the social security of employees. These obligations include employee contributions at the expense of the employer in amounts calculated according to the rates laid down by relevant legal regulations. The Bank is also obliged to suspend contributions from employees' gross salaries and to pay them on behalf of employees. Contributions made at the expense of the employer and contributions made at the expense of the employee shall be credited to the expense of the period to which they relate.

In accordance with the Labour Law, the Bank is obliged to pay compensation to employees when retiring. Long-term liabilities arising from retirement benefits after meeting the requirements, as at December 31, 2021, represent the present value of expected future payments to employees determined by actuarial valuation using the assumptions disclosed in Note 34(b).

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(s) Financial Guarantees

Financial guarantees are contracts that a Bank is obligated to make to their customers for losses incurred due to default of a particular debtor by default, and in accordance with the terms of the debt instrument.

Liabilities for financial guarantees are initially recognized at fair value, and the initial fair value is amortized over the term of the financial guarantee. The liability under the guarantee is subsequently measured in the amount that is greater than the amortized value and the present value of the expected future payment (when the payment on the basis of the guarantee is likely).Financial guarantees are recorded under off-balance sheet items.

(t) Capital and Reserves

The Bank's capital includes founding shares, future issuance shares, emission premium, reserves, fair value reserves, accumulated results and the result of the current year.

The Bank's capital is comprised of funds invested by the Bank's founders in monetary form and non-monetary form. A founder cannot withdraw funds invested in the Bank's equity.

(u) Earnings per Share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. The basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

The diluted earnings per share is calculated by dividing the adjusted gain or loss attributable to ordinary shareholders for the effects of preferential, convertible shares, weighted average of the number of ordinary shares in circulation during the period.

(v) Segment Reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by Bank management (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which separate financial information is available.

In accordance with IFRS 8 "Operating Segments", the Bank discloses information on performance of segments, thus providing the users of the financial statements with additional information on income and expenses arising from its key business activities.

When determining the operational segments, the following were used:

a) Different products and services that segments offer;
b) Separate Segment Management and
c) Structure of internal reporting.

4. RISK MANAGEMENT

The Bank has recognized risk management process as the key element of business since exposure to risks stems from all business activities, as an inseparable part of banking operations, managed through identification, measurement, evaluation, monitoring, control and mitigation, or the establishment of risk limits, as well as reporting in accordance with strategies and policies.

The Bank has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, individual risk management methodologies, appropriate organizational structure, effective and efficient process of managing all risks to which the Bank is exposed, or may be exposed in its operations, adequate internal control system, adequate information system and adequate process of internal capital adequacy assessment. Since the Bank became a member of the NLB Group at the end of the year, in the following period, additional adjustments will be made to the risk management system with the risk management system of the banking Group. During 2021, the strategic acts in the field of risk management were harmonized with the relevant acts of the NLB Group (risk appetite - statement, system of internal limits, fair valuation methodology, risk management strategy and individual risk management policy, internal rating system, Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP), etc.).

The risk management process includes clearly defining and documenting the risk profile, as well as its alignment with the Bank's preference for risk and risk tolerance, in accordance with adopted strategies and policies.

With the risk management strategy, the Bank has set the following key objectives in risk management: regular identification, assessment and review of risks within the ICAAP and ILAAP processes; managing, monitoring, controlling and reporting on the risks to which it is exposed; defining limits in the Bank's risk appetite and their inclusion in the risk management strategy, ICAAP, ILAAP, Recovery Plan and business strategy; continuous development and improvement of risk management models and methodologies, including stress testing and early warning system (EWS system); assessing and measuring individual risks; establishing an appropriate decision-making system; managing the activities of restructuring and resolving disputed claims in a professional, efficient manner.

Recognizing the need to harmonize processes and risk management system of the Bank with the appropriate systems, processes and practices of the parent bank NLB dd, and the need for continuous improvement of risk management recommendations of the external auditor, the Bank has made appropriate changes of internal acts regulating risk management in 2021.

Risk Management System

The risk management system is defined by the following acts:

- Risk Management Framework
- Risk Management Strategy and Capital Management Strategy;
- Risk Management Policies;
- Risk Management Procedures;
- Methodologies for Managing Individual Risks; and
- Other acts.

With it’s Risk Management Framework, the Bank defines the basic principles of the risk management, as well as a set of indicators that best represent the Bank's exposure to material risks (credit risk, liquidity risk, interest rate risk, foreign exchange risk, operational risk and adequacy capital). The Risk Management Framework defines a set of limits and targets for the listed risk exposure indicators. The Bank's risk management is harmonized with the Risk Management of NLB dd, and in accordance with the defined plan.

The risk management strategy defines the basic risks to which the Bank is exposed or may be exposed, as well as the basic principles of identification, monitoring, measurement, control and management of these risks, as well as the tendency to take a risk (Risk appetite). The Strategy establishes a comprehensive and reliable risk management system, which is included in all activities of the Bank and which ensures that the risk appetite and profile are always in line with the already established risk appetite. The risk management system is proportional to the nature, scope and complexity of the Bank's operations, ie its risk profile.

4. RISK MANAGEMENT (continued)

Also, the Risk Management Strategy defines the criteria for determining, as well as the basic principles of bas asset management and the highest acceptable level of bad assets for the Bank, as well as the basic principles of risk management arising from exposure in dinars with foreign currency clause and exposure in foreign currency.

The key principles related to risk-taking, which are an integral part of business decision-making, are expressed using the following criteria:

- determination of target business activities and activities that are not acceptable for the Bank, in terms of assumed risks,
- determining the maximum amount of risk taken,
- monitoring the profitability of individual transactions in relation to the risks taken.

The Bank's risk management strategy is based on:

- strategic goals defined in the Business Strategy of Komercijalna banka AD Belgrade,
- guidelines on risk readiness to be defined in the Risk Appetite of Komercijalna banka AD Belgrade,
- regular annual review of strategic goals, business planning and capital planning process,
- Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP),
- activities and measures in case of activation of the Recovery Plan,
- other internal stress tests and risk analyzes,
- regulatory and internal reports,
- Risk appetite and Risk Management Strategy at the level of the NLB Group.

The Bank is guided by the main principles of risk management by:

- takes into account the main concept of risk appetite and the limits defined in the risk appetite of the Bank;
- includes risk analyzes in the decision-making process at the strategic and operational level in order to prevent risks posed by volatile exposures with a potentially negative outcome;
- applies diversification to avoid concentration at the portfolio level;
- includes and optimally uses capital and manages its allocation through business segments;
- creates an adequately balanced risk-weighted (adjusted) price;
- ensures overall compliance of operations through internal acts / documents;
- provides an adequate system of internal controls based on the "three lines of defense" model.

The Bank has established basic principles of risk management in order to meet its long-term goals:

- Taking over and managing risks is adjusted to the realization of the Bank's business strategy and plans;
- Risk assumption and management is based on a risk management system that is in accordance with the legislation in the Republic of Serbia, standards in the NLB Group and good business practice in this area;
- Taking over and managing risks is one of the key management functions in the Bank. This function is integrated into all business activities of the Bank, so that the phases of identifying, measuring and monitoring risks, on the one hand, and taking and managing risks, on the other hand, are clearly separated, while respecting the principle of independence;
- Risk assumption and management is based on the Risk Management Strategy and Policies. It is a documented process with clearly defined goals, activities, powers and responsibilities;
- Assumption and management of risks is determined according to the set legal and internally prescribed limits by risk categories, with clearly defined procedures in case of exceeding the limits;
- Taking and managing risks implies the establishment and implementation of an appropriate system of internal controls. These controls are a set of processes and procedures that include continuous verification, reporting and changes in order to develop or improve risk management systems.

4. RISK MANAGEMENT (continued)

Within the management of exposure to default, depending on the assessment of the potential repayment capacity and business viability of clients, the Bank has the following options:

- agreement with the client on voluntary (out-of-court and court) payment of obligations;
- centralized collection before the court by telephone;
- debt restructuring without discounts;
- debt restructuring at a discount;
- debt collection (liquidation of collateral - sale of real estate, movable property, securities, shares, receivables, etc.);
- taking over adequate assets (especially real estate - a solution based on the foundations of special purpose entities, whose goal is comprehensive management of real estate under mortgage);
- write-off of remaining receivables in case all legal possibilities have been exhausted;
- sale of receivables, if possible, in a package;
- active management of issued guarantees for bankrupt construction companies in cooperation with contractual partners;
- application of other measures to achieve maximum debt repayment.

The principles of risk management arising from RSD exposures with a foreign currency clause and foreign currency exposures include:

- The Bank manages FX exposures by setting limits,
- As a long-term goal, the Bank strives to reduce the share of FX exposures,
- The Bank establishes a limit in a way that optimizes the risk that may arise from the level of FX exposure and the realization of business strategy,
- Risk assessment of FX exposure is included in the credit process and clients are presented with the risks that may arise from changes in foreign exchange rates as well as proposed measures to mitigate the risk,
- When assessing the creditworthiness of the debtor, the Bank takes into account the risk of exchange rate changes in accordance with the defined rules,
- The level of risk arising from FX exposure is subject to regular reporting to the competent committees of the Bank,
- The Bank calculates the internal capital requirement for FX exposures.

Management policies for certain types of risk define in more detail:

- The way of organizing the Bank's risk management process and clear delineation of the responsibilities of employees at all stages of the process, including the process of managing bad assets or risk placements;
- The method of assessing the risk profile of the Bank and the methodology for identification and measurement, or risk assessment;
- Ways of monitoring and controlling risks and establishing a system of limits, that is, the type of limits that the Bank uses and their structure;
- The manner of deciding and acting in case of exceeding established limits, while defining exceptional circumstances in which the approval of overdraft is possible within the legal framework;
- Measures to mitigate risks and rules for the implementation of these measures;
- Method and methodology for implementing the process of internal capital adequacy assessment of the Bank;
- Principles of functioning of the internal control system;
- The framework and frequency of stress testing, as well as treatment in cases of adverse stress test results.

With the Risk Management Procedures the Bank defines the risk management process and the responsibilities and responsibilities of all organizational parts of the Bank in the risk management system.

The individual methodologies of the Bank set out in more detail the methods and approaches used in the risk management system.

4. RISK MANAGEMENT (continued)

Jurisdiction

The Board of Directors is in charge and responsible for the adoption of risk management strategy and strategy and capital management strategy, establishing a system of internal controls in the Bank and supervising its effectiveness, overseeing the work of the Executive Board, adopting quarterly reports on risk management, adopting the Recovery Plan, and implementation of the process of internal capital adequacy assessment, and others.

The Executive Board is responsible and accountable for the implementation of risk management strategy and policies and capital management strategies by adopting risk management procedures, ie identifying, measuring and assessing risks, and ensuring their implementation and reporting to the Governing Board in relation to those activities. Also, the Executive Board analyzes the risk management system and at least quarterly reports the Board of Directors on the level of risk exposure and risk management and decides, with the prior approval of the Board of Directors, of any increase in the Bank's exposure to a person related to the Bank, and shall inform the Management Board thereof.

The Audit Committee (the Banking Supervision Committee) is responsible and accountable for the analysis and supervision of the application and adequate implementation of adopted strategies and policies for risk management and internal control systems of the Bank. At least once a month, the Board of Directors reports on its activities and irregularities and proposes the way in which they will be removed, proposes improvement of policies and procedures for risk management and implementation of the internal control system.

The Assets and Liabilities Management Committee is competent and responsible for monitoring the Bank's exposure to risks arising from the structure of its balance sheet receivables, liabilities and off-balance sheet items, as well as proposing measures for managing interest rate risk and liquidity risk.

The Credit Committee decides on credit requirements within the framework of the Bank's regulations, analyzes the Bank's exposure to credit, interest and currency risk, analyzes the loan portfolio, and also proposes measures to the Executive Board of the Bank.

The risk management function defines and proposes to adopt the strategy, policies, procedures and risk management methodologies, identify, measure, mitigate, monitor and control and report on the risks to which the Bank is exposed in its operations. It is also responsible for developing models and methodologies for identifying, measuring, mitigating, monitoring and controlling risks, as well as for reporting to the competent authorities of the Bank.

The asset management sector is responsible for managing assets and liquidity, as well as in managing the assets and liabilities of the Bank. It also participates in the management of liquidity risk, interest rate risk and foreign exchange risk.

The internal audit function is responsible for the continuous implementation of an independent evaluation of the risk management system, as well as for the regular assessment of the adequacy, reliability and efficiency of the internal control system. The Internal Audit reports the Audit Committe and the Board of Directors on its findings and recommendations.

The business compliance control function is obliged to identify and evaluate the risks of such compliance at least annually and to submit risk management plans, on which it draws up a report to the Executive Board and the Board for monitoring the operations of the Bank.

4. RISK MANAGEMENT (continued)

Risk Management Process

The Bank regularly measures, or estimates, the risks it identifies in its business. Measurement implies the application of qualitative and quantitative methods and measurement models that enable the detection of changes in the risk profile and the assessment of new risks.

For all identified risks, the Bank determines their significance based on a comprehensive risk assessment inherent in certain Bank's products, products, activities and processes.

Risk mitigation involves diversification, transfer, reduction and / or avoidance of risks, and the Bank implements it in accordance with risk profile, risk aversion and risk tolerance.

Monitoring and control of risk is carried out through continuous monitoring of exposure according to different criteria, as well as through monitoring and control of the limits established by the Bank, which depend on the business strategy and market environment, as well as on the level of risk that the Bank is willing to accept.

The Bank has established a system of regular reporting on risk exposure and risk profile that enables relevant employees at all levels in the Bank to provide timely, accurate and sufficiently detailed information that is necessary for making business decisions and efficient risk management, ie safe and stable operation.

Risk management reports are regularly submitted to: the Board of Directors, the Executive Board, the Audit Committee, the Assets and Liabilities Management Committee and the Credit Committee, which contain all the information necessary for the risk assessment and risk conclusions of the Bank.

In its regular course of business, the Bank is particularly exposed to the following risks: credit risk and risks associated with the credit risk, liquidity risk, market risk, operational risks, investment risk, exposure risk and country risk as well as to all other risks that may arise from the Bank’s regular operations.

4.1. Credit risk

Credit risk is the risk of possible negative effects on the financial result and capital of the Bank due to non-fulfillment of obligations of debtors to members of the Bank.

During 2020 and 2021, a special challenge from the aspect of credit risk management is the conditions caused by the COVID-19 virus pandemic, which are completely different in relation to the previous business circumstances faced by the real and financial sector. The pandemic certainly affected a significant number of clients, primarily activities related to tourism and catering, transport, bus transport, certain segments in the automotive industry, etc. were most affected. With the reaction of the state, primarily the National Bank of Serbia through moratoriums, the Ministry of Finance and the Ministry of Agriculture through various programs, guarantee scheme and subsidies, the situation is significantly facilitated for all affected clients to bridge or mitigate the later effects of the COVID-19 pandemic on their business. It was noticed that most clients achieved revenue growth and their activities in the first 6 months of this year compared to the same period last year.

The Bank has defined criteria for granting loans, changing conditions, extending the deadline and restructuring the receivables, which are prescribed by procedures and methodologies for placement approval and risk management.

Prior to the approval of placements, the Bank assesses the creditworthiness of the debtor as the primary source of repayment of loans based on internally defined criteria and the collateral offered as a secondary source of collection. Based on the identified and measured level of credit risk (assessment of the financial condition and creditworthiness of the debtor, as well as the value and legal security of credit protection and other relevant factors) and independent risk assessment, competent persons, committees and bodies of the Bank, make a decision on approval / changes of placements, in accordance with the defined decision system.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The Bank defined the decision on the exposure to credit risk through the decision-making system, depending on the type of clients and the level of exposure. Credit decision makers are: persons with special powers from the Risk Management function, the Credit Committee, the Executive Board and the Board of Directors.

When making decisions, the principle of double control (the so-called "four-eye principle") is respected, which ensures that there is always a side which proposes and a side which approves a particular placement.

For placements contracted in foreign currency or in dinars with a currency clause, the Bank assesses the impact of changes in the dinar exchange rate on the financial condition and creditworthiness of the debtor, and in particular analyzes the adequacy of the debtor's cash flows in relation to the changed level of credit obligations due to changes in exchange rates.

Since the Bank became a member of the NLB Group at the end of 2020, in the upcoming period, loan origination and approval process will be additionally aligned with the established system at the level of the Banking Group.

The organizational model of the Bank's credit risk management system ensures adequate communication, information exchange and cooperation at all organizational levels, and also provides a clear, operational and organizational separation of the function of independent risk management and support activities on the one hand, from risk-taking activities, competencies and responsibilities on the other hand. The Bank has established an adequate information system that includes full information of persons involved in the credit risk management system.

Credit risk management

In accordance with the scope, type and complexity of the operations it performs, the Bank has organized a credit risk management process and clearly delineates the responsibilities of employees at all stages of the process.

The acceptable level of exposure to the Bank's credit risk is in line with the defined risk management strategy and depends on the structure of the Bank's portfolio, which limits the potential impact of negative effects on the financial result and capital adequacy.

The basic principles of credit risk management are:

- Credit risk management at the level of individual placements and at the level of the Bank's entire portfolio;
- Maintaining the level of credit risk that minimizes the negative impact on the financial result and equity;
- Ranking of placements according to their risk;
- Performance in accordance with good practices for approving loans;
- Providing adequate controls for credit risk management.

With the aim of credit risk management, the Bank strives to deal with clients with good creditworthiness and obtain appropriate collaterals. The Bank assess the creditworthiness of each client at the time of filing the application and monitor debtors, placements and collaterals in order to be able to undertake appropriate activities for the purpose of collecting receivables.

The Bank perform quantitative and / or qualitative measurement, i.e. an assessment of the identified credit risk. The process of measuring credit risk is based on measuring the risk level of individual placements based on the internal rating system.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

A rating system is an instrument for making individual decisions and assessing the level of risk of individual placements. In addition, the rating system serves to assess the level of risk of the total portfolio, and is also used in the process of impairment of placements in order to rank the level of risk and to show the real value of the receivables. Internal rating system is subject to regular audit and improvement. As part of the process of harmonization of the Bank's risk management system with the appropriate system at the level of the NLB Group, during 2021 the process of harmonization of the internal rating system began, which will be subject to additional improvements in the future.

In the credit risk analysis, in addition to the internal rating system, the Bank uses the principles prescribed by the regulations of the National Bank of Serbia, which require the classification of each placement based on the prescribed criteria and the calculation of the reserve for estimated losses. In December 2018, the National Bank of Serbia adopted an amendment to the regulations which, as of January 1, 2019 confirms the abolition of the calculation of reserves for estimated losses and required reserves.

Credit risk mitigation involves maintaining the risk at an acceptable level for the Bank's risk profile, or maintaining an acceptable level of quality of the Bank's loan portfolio.

The basic techniques of credit risk mitigation are:
- Exposure Limits - concentration risk,
- Diversification of investments,
- Security instruments.

Exposure limits based on a single debtor are based on an assessment of the debtor's creditworthiness, and exposure limits at the portfolio level are focused on the concentration limit of exposure in the portfolio. The Bank continuously control the credit risk changes within a defined risk profile.

The concentration risk includes: large exposures (exposure to one person or Bank of related persons and persons associated with the Bank), exposure Banks with the same or similar risk factors such as economic sectors, product types, geographical areas and similar, and collaterals.

The Bank monitors exposure to defined limits with the same or similar risk factors and, depending on the general economic trends, trends in particular activities and geographical areas, the values set forth in the Business Plan of the Bank, regularly reviews the defined limits and proposes redefinition of these in the event of a change in risk factors.

By the Decision on risk concentration management based on the exposure of the bank to certain types of products, the National Bank of Serbia, from January 1, 2019 banks were obliged to monitor the risk of concentration or exposure of the bank towards group of products, primarily exposure to cash, consumer and other loans granted to retail sector of agreed maturity over 8 years in 2019, over 7 years in 2020 and 6 years from 2021.

Monitoring of quality of placements at the individual debtor level is primarily based on providing up-to-date information on financial condition and creditworthiness of the debtor and the market value of collateral, while monitoring credit risk at the portfolio level is done by identifying changes at the level of client Banks of a certain level of risk, required reserves for expected and unexpected losses, in order to determine and manage the condition and quality of assets.

Credit risk control implies the process of continuous monitoring of operations with a defined system of limits, especially when exposure to credit risk tends to the upper limit of the defined risk profile, especially when introducing new business products and activities.

In order to protect against the risk of non-fulfilment of liabilities in dealing with clients, the Bank members take the following measures for regulating receivables: extension of the deadline, restructuring, settlement, takeover of collateral for the collection of receivables, conclusion of a contract with the interested third party, initiation of court proceedings and other measures.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

If the measures taken to regulate the placements, i.e. the forced collection and the court procedure did not give the expected results or when there is no possibility of collecting the receivables in full, a proposal for the permanent write-off of the remaining receivables or transfer from the balance sheet to the off-balance sheet is initiated.

A Bank, besides balance sheet exposure, also has an off-balance sheet exposure (payable and performance guarantees, guarantees, letters of credit) on the basis of which it has a potential obligation to make payments on behalf of third parties. For off-balance sheet exposure, the Bank members use the same control processes and procedures that are used for credit risk.

The credit risk reporting includes the internal and external reporting system, which is implemented according to the established dynamics in accordance with the defined reporting system.

IFRS 9 Financial instruments

The Bank continuously applies IFRS 9. In accordance with IFRS 9, the financial assets can be classified and measured as:

- Financial instruments at amortized cost (AC), a business model for collecting contractual cash flows of principal and interest, and fulfilled SPPI criterion;
- Financial instruments at fair value through other comprehensive income (FVOCI), SPPI fulfilled, but the business model is the collection of contractual cash flows and sales;
- Financial instruments at fair value through profit and loss account (FVTPL).

Considering that the Bank became a member of the NLB Group at the end of the year, during the 2021, the process of harmonizing impairment methodologies with the established rules at the level of the Banking Group began. In the 2021, the values of the hair cut for individual impairment of placements were adjusted, the material significance threshold for the impairment of NPE clients of individuals was changed (the threshold was increased from RSD 2.5 million to EUR 50,000), the calculation of impairment for placements that have a guarantee of the Republic of Serbia has been changed, and the PD for the calculation of impairment of securities of the Republic of Serbia has also been changed and the formula for the application of LGD has been changed. Also, the use of monthly PD instead of annual, using exposure to monthly amortization plans, included the effects of macroeconomic variables on the value of LGD secured and LGD unsecured, tested the value of hair cut with the historical realization of Bank collateral and adjusted hair cut these where there were deviations.

The Bank's business model, in the part of lending to the corporate and retail clients, as well as corporate bonds, is defined as holding for the purpose of collecting cash on the basis of principal and interest, which is supported by an analysis that indicates that there are no facts that the Bank has defined a different business model. From the aspect of classification and measurement, IFRS 9 requires that all financial assets, other than equity instruments and derivatives, are estimated on the basis of the business model of managing specific financial assets and contractual characteristics of cash flows of the instruments themselves (based on the SPPI criteria test). Cash flows of financial instruments that are measured by amortized cost consist of principal and interest payments whose components are fees for the time value of money, credit risk, administrative costs and profit margin.

Equity instruments, in entities other than subsidiaries that are not held for trading, are classified as assets whose value is measured at fair value through other comprehensive income.

Also, by applying IFRS 9, the Bank calculates impairment for credit placements given to the countries and Central Banks of the Bank's members (for assets not available on demand) recorded at the expense of the income statement, as well as impairment based on the securities recorded through other comprehensive result.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Identification of NPL and restructured receivables

The Bank monitor the quality of the portfolio based on identifying and analysing early warning signals from clients. Warning signals are monitored on a regular basis and on the basis of their analysis, clients are classified as Standard, Potentially risky (Watch List) and NPL clients (clients with problematic receivables).

In accordance with the application of IFRS 9, starting from January 1, 2018, the Bank also introduced impairment stages (Stage 1, Stage 2 and Stage 3) that monitor the status of the client. Standard clients ranked as stage 1, clients identifying credit risk increase (Watch List clients, days past due from 31 days to 90 days) are ranked as stage 2, and NPL clients rank as stage 3. Impairment allowances for Stage 1 and Stage 2 clients are calculated on collective basis, while for Stage 3 clients, with the fulfilment of the criteria of material significance, impairment is calculated on individual basis. NPL clients at stage 3, with less material exposure, are impaired on a Bank basis, while respecting the requirements of IFRS 9 for at least two collection scenarios.

Restructured unproblematic clients are classified as potentially risky clients, that is, to Stage 2 category, while restructured problematic are classified as problematic clients, and are categorized into Stage 3.

The purpose of monitoring the quality of the portfolio is to prevent the direct transfer of Standard clients into the category of clients with problematic receivables without prior identification of clients as potentially risky and without implementing measures to prevent the occurrence of risky placements, i.e. mitigating and reducing credit risk through the implementation of an adequate strategy and action plans. Potentially risky clients are more closely monitored than Standard clients, and if further credit risk is identified, clients are reclassified to category of problematic receivables.

Problematic receivables include all receivables that have more than 90 past due days, for any material liability to the Bank, its parent or subordinated companies, receivables in which it is estimated on the basis of the financial condition that the debtor will not be able to settle its obligations in full without taking into account the possibility of the realization of credit protection instruments (regardless of whether they are late in settling liabilities), receivables for which the amount of the impairment was determined on an individual basis. Problems are also deemed to arise from: the cessation of the recording of interest income, fees and charges in the income statement, specific adjustments for credit risk that are calculated due to significant deterioration of credit quality following the occurrence of exposure, significant loss effected by the transfer of receivables, restructuring receivables made due to the financial difficulties of the debtor, as well as filing a motion for initiating bankruptcy proceedings against the debtor. In the last quarter of 2021, the Bank introduced two new criteria for individuals (deceased and lost their jobs) for default status (stage 3 and NPL status), for placements that are not over 90 days late. Problematic receivables are all receivables from the debtor, if one receivable is classified as problematic receivable.

Restructuring of receivable is the approval, due to the financial difficulties of the debtor, the concessions in connection with the repayment of individual receivable that would not be approved to the debtor if he were not in such difficulties, irrespective of whether there are any due liabilities, whether the receivable was impaired and whether it was in the status of default. Restructuring is carried out in one of the following ways: by changing the conditions under which the receivable was originated, especially if the subsequent contractual terms of repayment are more favourable than originally agreed (interest rate reduction, write-off of principal and / or interest, change in maturity dates, etc.) as well as refinancing of receivables. Such circumstances are often called in practice ‘forbearance’. In addition, the category of restructured receivables also includes receivables in which:

- changes in the contractual conditions for repayment of problematic receivables or which, in the absence of the above mentioned changes, would be classified as problematic receivables,
- a change in the contractual conditions for the repayment of receivables leading to total or partial write-off in a material amount,
- the Bank members activated the contractual restructuring clauses on the basis of which the terms of repayment change due to occurrence of certain events (embedded clauses) against the debtor from which the receivable has already been classified into a Bank of problematic receivables or would have been so classified if those clauses were not activated,
- if the debtor, at the same time as the new receivable was approved (or in the short period before or after that approval), paid on the basis of another receivable of the Bank (or other legal entity under which the receivable was transferred to that debtor), which has been classified or fulfilled conditions to be classified in a Bank of problematic ones or, in the absence of a new receivable, would be classified in the said Bank, that is, fulfil those conditions.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

In accordance with the IFRS 9 requirements, any restructuring of receivables due to financial difficulties is considered as a modified financial asset.

Modifications that result in the derecognition of the old financial asset and recognition of the new one, which were motivated by a decline in creditworthiness and repayment capacity, lead to the initial recognition of financial assets that the standard defines as "POCI" purchased or originated credit-impaired, initially valued at fair value. At the time of initial recognition, they have no impairment, but it is necessary to include the expected credit losses over the life of the asset in the calculation of the effective interest rate.

Consequently, the Bank includes initial expected credit losses in the assessment of cash flows when calculating the credit-adjusted effective interest rate of a financial asset that is deemed to have been impaired at the time of initial recognition. Also, for the purpose of calculating impairment, these assets will remain at stage 3 for the entire period of time.

IFRS 9 indicates that in the event of a significant modification of a financial instrument, derecognition of old financial asset and recognition of the new one should be made at fair value at the date of recognition.

Derecognition leads to a permanent gain or loss recognized in the income statement and is equal to the difference between the amortized cost of an old financial asset and the fair value of a new financial asset.

In each change of credit conditions, in placements that are not in the status of problematic (PL) clients, as with bad (NPL) clients, the Bank calculates 10% test in order to determine whether it is a significant or less significant modification.

The Bank in its system logs every modification of the asset, regardless of whether it is a less or more significant modification, and whether the modification is caused by the change of market conditions in good (PL) clients or caused by problems in the (NPL) clients.

The Bank regularly follows the measures taken to restructure risky placements and control the timeliness of undertaking these measures. Monitoring of the measures taken, ie realization of them, such as, for example, settlement of matured liabilities is done on a daily basis. The monitoring of the operations of the restructured clients is done regularly every 6 months, or more often, if necessary. The analysis of the financial statements, the analysis of indebtedness, the checking of the adequacy of the provision of monitoring the overall performance of strategies towards debtors are the key points of the mentioned monitoring.

Restructured receivable classified in the Bank of problematic receivable of a member of the Bank after one year from the date of its restructuring are classified into a Bank of receivables that are not considered problematic if the following conditions are met:

- the amount of impairment for restructured receivable has not been determined and the status of default has not occurred;
- in the last 12 months, payments were made in due time or with a delay not exceeding 30 days, in accordance with the changed terms of repayment;
- Based on the analysis of the financial condition, ie the creditworthiness of the debtor, it was estimated that the debtor will be able to settle the liabilities in full in accordance with the changed terms of repayment.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Risk of asset quality change

During the 2021, the process of harmonizing the internal rating system with the appropriate system at the level of the NLB Group began, which will be subject to additional improvements in the coming period. The quality of the Bank's assets is measured by the degree of exposure to particular risk categories according to the criteria defined by the internal rating system. The internal rating system is based on quantitative and qualitative parameters for determining the rating of the debtor. The rating scale contains five risk categories, divided into 19 sub-categories. Different exposures to the same debtor define the same rating category, regardless of the specificity of the different types of loans.

The Bank uses different rating models for credit risk depending on the type of clients. The calculation of the rating is done on a monthly basis based on qualitative and quantitative parameters and timely settlement of liabilities. A low level of risk involves dealing with clients with good creditworthiness and is acceptable to the Bank (rating categories 1 and 2), a higher level of risk is the business with clients who have certain business problems and which can negatively affect the settlement of liabilities and whose business is intensively monitored (rating category 3 and 4) and a high level of risk denotes clients with negative business results and bad credit history (risk categories 4D, 4DD, and 5). Risk Category 4 is divided into three sub-categories: 4+, 4 and 4- - Non-risk clients (PE), 4D risk clients (NPE) with delay of up to 90 days and 4DD risky clients (NPE) with a delay of 91 to 180 days.

The Bank protects itself against the risk of asset quality changes through continuous monitoring of client's operations, identifying changes that may result from deterioration of the debtor's balance, delay in repayments or changes in the environment, and the provision of appropriate collateral.

Risk of asset quality change – impairment of assets

The impairment of the placement is aimed at ensuring a reasonable, careful and timely determination of losses in order to protect the Bank's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the potential liabilities.

Impairment of placements and provisions are made only when there is a reasonable basis, ie when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, difficulties in the cash flows of the debtor (financial difficulties), decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that, realistically, the loan will be settled from these assets. The Bank assesses the impairment of receivables on a group and individual basis.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Individual and Group Assessment at Stage 3

The Bank estimates impairment allowance for each individually significant placement with default status (risky placement, under a risk category 4D, 4DD and 5 according to the internal rating system), i.e. placements that are classified in stage 3 in accordance with IFRS 9. For this purpose, financial position of the loan beneficiary is taken into account, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the creditworthiness of the client, the value of the collaterals and the certainty of fulfilment of the client's obligations towards the Bank, a new assessment of the impairment of the placements is made.

The materiality threshold of the Bank is determined on the basis of an analysis of the value structure of the portfolio by types of clients and products.

An impairment allowance on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

Individual assessment

Objective evidence that indicates the need for impairment of placements is considered to be:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfilment of other contractual provisions;
- when the Bank , due to the financial difficulties of the debtor, substantially change the terms of receivables repayment in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) etc.

Evidence can be documented by analysis in the Watch process, information on the increased level of risk of the debtor.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the planned future cash flows of the debtor.

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Bank recognizes the existence of multiple collection scenarios when estimating the expected future cash flows in accordance with IFRS 9. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Bank on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

For a group of smaller material receivables in stage 3, when calculating the impairment, there are also several collection scenarios that are applied with certain probabilities, where these probabilities are calculated on the basis of statistical models using historical collection information.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Group assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and are stage 1 - standard clients and stage 2 - clients with identified credit risk increase, as well as receivables based on commissions and other receivables that are not reduced to the present value.

Group estimates are carried out by the Bank according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the corporate sector and by rating by type of placements in the retail sector), based on the internal rating system at the monthly level. The impairment methodology has significantly changed and instead of the approach to the incurred credit loss in accordance with IAS 39, the principle of future expected credit loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of statistically proven interdependencies.

In accordance with IFRS 9, the impairment is measured as follows:

- Stage 1 - Loans in which no deterioration in credit risk has been identified in relation to the moment of initial recognition. The Bank calculates the impairment charge based on the 12-month expected credit losses;
- Stage 2 - Loans in which a significant deterioration in credit risk has been identified in relation to the moment of initial recognition. The Bank calculates the impairment charge based on the expected credit losses for the lifetime of the instrument.

The cost of impairment of financial instruments that are not considered to have significant credit risk deterioration are calculated on the basis of 12-month expected losses (ECL). Stage 1 includes exposures to the State and Central Banks of the Bank's members and other exposures with a credit risk weight of zero, in accordance with the Bank's Capital Adequacy Resolution, except for the exposure on the reserve requirement and similar exposures, on the basis of which the expected credit losses tend to zero.

All financial instruments in which significant increase in credit risk has been carried out are classified into Stage 2 and impairment costs are calculated on the basis of expected losses for the lifetime of the instrument. In addition to qualitative and quantitative criteria for the classification to Stage 2, due to the conditions caused by the COVID-19 pandemic, the Bank has transferred a significant number of clients from industries which are affected by the COVID-19 virus pandemic the most (catering, tourism, transport ...) to Stage 2 for the purpose of preventive action and a realistic view of impairment, given the possible negative consequences of the COVID-19 pandemic on the mentioned clients' operations. This was conducted through an structural analysis of portfolio per industry, as well as by the analysis of individual clients.

An analysis was carried out for all clients with the exposure above the defined threshold which are operating in industries exposed the most to negative effects caused by the COVID-19 pandemic. All clients that are deemed to be exposed to, or may be exposed to the effects of the COVID-19 virus pandemic, although they do not have previously defined criteria for transfer to Stage 2, in accordance with the IFRS 9, are immediately classified as Stage 2. Also, an analysis was conducted for clients in the retail segment who are employed in non-state-owned companies and non-public sectors and who are not pensioners. If the absence of earnings has been identified for these clients, or is reduced by an amount above the defined threshold, such clients have been transferred to Stage 2. Consequently, lifetime expected credit losses have been calculated for the specified clients.

During the 2021, the Bank continued to grant benefits to clients affected by the COVID 19 pandemic in accordance with the NBS Decision (moratorium 3) and in accordance with the Decision of the Government of the Republic of Serbia (Guarantee Schemes 1 and 2).

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Group assessment (continued)

The Bank considers whether there is a significant increase in credit risk from initial recognition of the asset in relation to the default risk at the end of each reporting period. The identification of a significant deterioration in credit risk is based on defined quantitative and qualitative criteria (such as early warning signals, more than 30 days pas due, etc.).

The Bank calculates the impairment of debt securities that are valued at fair value through other comprehensive income (FVOCI), as the accumulated amount of impairment that also affects the Income Statement. However, the expected credit losses do not reduce the amount of gross financial assets in the balance sheet.

For retail and corporate sector, the Bank calculates the expected credit losses (impairment) in the following way:

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

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

This formula is used to calculate the expected credit losses (impairments) at stages 1 and 2, along with respect to the time horizon.

EAD, that is, the exposure at default, represents an estimate of the carrying amount in accordance with IFRS 9 at the time of default, taking into account the profile of contracted cash flows and the possible use of funds from approved credit lines before the default moment.

Exposure at default (EAD) represents the gross carrying amount of financial instruments is subject to impairment calculation, taking into account the ability of the client to increase its exposure at default.

For the calculation of EAD for stage 1, the Bank assesses the possibility of default within 12 months for the calculation of a twelve month expected credit loss (ECL), that is, the impairment for a loan in the stage 1 is calculated, which is expected to result in payment inability of obligations in the period of 12 months from the balance sheet date. For stage 2, exposure to non-fulfilment of payment liabilities is required to be considered over the life of instrument.

PD represents an estimation of the probability of default in a given period of time. Failure to fulfil obligations may occur only at a specified time during the estimated period, unless it has previously ceased to recognize the instrument, and the Bank is still exposed. Based on historical data, the Bank calculates the PD parameter, especially in the corporate and retail sectors. In the corporate sector, PD is calculated by type of entity (large enterprises, medium-sized enterprises, small enterprises ...), and in the retail sector by type of product (housing loans, cash loans, agricultural loans ...).

After calculating historical PDs, the Bank includes forward looking component through a Beta factor that predisposes the impact of the movement of macroeconomic variables (the movement of the GDP, unemployment, inflation rate, industrial production ...) to the future PD. The beta factor is calculated using statistical and econometric models.

For the purpose of including the forward looking component, the Bank includes three scenarios of the movement of macroeconomic variables (optimistic, realistic and pessimistic) when calculating the Beta factor value, after which the annulment is performed with the probability of the anticipated realization of the above scenarios, in order to obtain the final Beta Factor that contains all three scenarios (optimistic, realistic, pessimistic).

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Macroeconomic factors used in the impairment process

In defining macroeconomic assumptions, the Bank uses a set of different relevant external sources, as well as internal estimates. In order to determine the share of each of the scenarios for the purposes of calculating impairment, the positive and negative trends in the previous period (quarterly) of each of the variables that were found to be statistically significant were considered.

In 2021, the recovery of the economy is noticeable. Real growth of gross domestic product, according to preliminary estimates of the Republic Bureau of Statistics in 2021 was 7.5%. Observed by activities, compared to the previous year, the highest real growth and significant recovery was recorded in the sectors most affected in 2020 due to the Covid virus pandemic:

- tourist nights (29.7% compared to minus 38.4% in 2020)
- wholesale (22.0% compared to minus 4.9% in 2020)
- traffic (39.9% compared to minus 36.0% in 2020)
- catering (74.2% compared to minus 25.8% in 2020)

Industrial production in the Republic of Serbia in 2021 is higher by 6.3% compared to 2020, with:

- growth in 22 sectors (participation in the structure of industrial production - 89%),
- decline in 7 sectors (participation in the structure of industrial production - 11%).

Observed by sectors, the biggest impact on the increase in industrial production in 2021, compared to 2020, had the manufacturing industry - growth of 5.5%, thanks to growth in the branches: Production of coke and petroleum products, Manufacture of other transport equipment, Electricity equipment and Manufacture of other machinery and equipment nec. In addition to the mentioned branches of the processing industry, the largest contribution to the growth of total industrial production was made in the mining sector - growth of 27.6% in the branch of metal ore exploitation.

Based on the projection of the National Bank of Serbia, in 2022, economic activity is expected to grow by 4-5% according to the latest available data, which will be significantly driven by economic recovery, ie. private sector investment, government investment, but also private consumption growth, which is in line with the projections of real GDP growth used by the Bank.

According to the data of the National Employment Service, the number of unemployed persons during the first two quarters of 2021 increased compared to the same period last year, unlike the second half of the year when unemployment began to decline. In December 2021, compared to December 2020, the number of unemployed persons decreased by 13,783, or 2.8%. The unemployment rate, according to the Labor Force Survey, was 10.5% in the third quarter of 2021, which is 0.7 percentage points. more compared to the same period last year. During 2022, a recovery in the labor market is expected.

Year-on-year inflation in December 2021 was 7.9% compared to the same month last year, while average annual inflation was 4%. Stronger growth of year-on-year inflation during 2021 is the result of the dominantly low base from the previous year and a significant increase in oil prices due to the recovery from the pandemic, but also partly due to the growth of the price of primary agricultural products. By the end of 2022, it is expected to return to the target limits.

BELIBOR (BELIBOR - Belgrade Interbank Offered Rate) is the reference interest rate determined on the Panel of Banks, on the Serbian interbank market. The National Bank of Serbia did not change the reference interest rate during 2021. On the other hand, the National Bank of Serbia reduces the degree of expansion of monetary policy from October 2021, by increasing the weighted average interest rate on reverse repo auctions which withdraw excess liquidity from the banking system for a week, as well as the percentage of dinar excess liquidity withdrawn by banks. .

More restrictive monetary policy has had an impact on the movement of the BELIBOR rate, which has been showing continuous growth since October. Further tightening of monetary conditions is expected, ie continued growth of BELIBOR rates.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Macroeconomic factors used in the impairment process (continued)

The EURIBOR (EuroIBOR - Euro Interbank Offered Rate) rate in 2021 recorded significantly lower volatility compared to 2020. In 2021, the European Central Bank did not change the reference interest rate (0.00%), as well as the rates on credit (0.25%) and deposit facilities (-0.50%). The future movement of EURIBOR will largely depend on the policy of the European Central Bank in the coming period, ie the extent to which an expansionary monetary policy will be pursued.

In December 2021, the European Central Bank decided to complete the Net Bond Purchase Program (PEPP) by the end of March 2022, with the reinvestment period continuing at least until the end of 2024. from the zone of negative rates is not expected before 2024.

Macroeconomic factors that showed statistically based relationships with default rates, and consequently with expected credit losses with projected values used in each of the three scenarios (realistic, pessimistic and optimistic), are presented in detail.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Projection of macroeconomic factors as at December 31, 2021

Macroeconomic factor	ECL scenario	2022	2023	2024
Industrial production index				
	Optimistic scenario	110	112	113
	Realistic scenario	106	108	109
	Pessimistic scenario	98	100	101
6M Euribor (%)				
	Optimistic scenario	(0.25)	(0.24)	(0.23)
	Realistic scenario	(0.15)	(0.14)	(0.13)
	Pessimistic scenario	0.06	0.07	0.08
3M Belibor (%)				
	Optimistic scenario	0.69	0.84	0.99
	Realistic scenario	1.73	1.88	2.03
	Pessimistic scenario	3.80	3.95	4.10
Number of unemployed persons (in thousands)				
	Optimistic scenario	463	442	421
	Realistic scenario	530	509	489
	Pessimistic scenario	665	644	623

Projection of macroeconomic factors as at December 31, 2021 – for LGD scenarios

Macroeconomic factor	LGD scenario	2022	2023	2024
GDP (%)				
	Optimistic scenario	5.6	5.9	5.9
	Realistic scenario	4.7	4.5	3.9
	Pessimistic scenario	3.0	1.9	1.0
Year-to-year inflation (%)				
	Optimistic scenario	3.6	3.7	4.0
	Realistic scenario	2.7	2.6	2.6
	Pessimistic scenario	1.5	1.0	0.6
Unemployment rate (%)				
	Optimistic scenario	9.4	6.8	5.1
	Realistic scenario	9.5	7.4	6.0
	Pessimistic scenario	9.9	8.5	8.1

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Macroeconomic factors used in the impairment process (continued)

Calculation of credit risk impairment for stages 1 and 2

For impairment calculation for Stage 1 clients the Bank uses one-year PDs recalculated on a monthly basis for the first 12 months, which are the product of the historical PD and Beta factor calculated for the first year.

When calculating impairment for Stage 2, where the impairment is calculated for each year of a financial asset, the Bank uses a marginal PD that represents the difference between two cumulative PD, between t + 1 and t, where t represents a time period of one year which are reduced to a monthly level. The cumulative PD refers to the default probability that will occur with the period t. The probability that the default will be realized before or at the end of maturity T corresponds to the lifetime PD, i.e. the probability of default for the entire life of the financial instrument, with the addition of a protective impairment layer for credit risk with the aim of including the effects caused by the COVID-19 pandemic.

PD parameters are updated semi-annually once a year 31.05. and more often if necessary.

LGD represents Loss given default and is an estimate of losses that arise in the event of default at a specified time. It is calculated as the difference between the contracted cash flows and the cash flows the creditor expects to receive, including the realization of any collateral. This is usually expressed as a percentage of EAD. The Bank, in its assessment of credit losses assessed in accordance with the Impairment Assessment Methodology and IFRS 9, wishes to reflect the possibility of collecting cash flows from regular cash flows, but also from the realization of collateral and other collateral, which are directly related to a financial instrument.
In that sense, the Bank applies the general concept of a separate LGD secured and LGD unsecured parameter, depending on the degree of securing individual placements. For the purpose of calculating the LGD Secured, or the expected loss rate after collateral, the Bank takes into account all internally available collaterals where there is an estimate of the probability of collectability.

Starting from 31.12.2021. In the calculation of LGD unsecured and LGD secured, the Bank included the influence of macroeconomic factors in the next three years, inventing three scenarios (optimistic, realistic and pessimistic).

The final step in calculating the impairment is the discount factor - **DF** for the purpose of reducing to the present value. For discounting, the initial effective interest rate is used, which includes only those interest and fees that can be identified as direct income of the Bank. At stage 2, the period of discounting depends on the duration of the financial asset, while at stage 1, the time factor is always equal to one year (12 months).

For the purpose of calculating impairment for exposures to countries, financial institutions and impairment of securities, the Bank uses a different method of calculating impairment. The Bank does not have an adequate history in terms of migration and default exposure to countries and financial institutions.

When assessing the impairment and default risk exposure of financial instruments of the state, its bodies, central banks and financial institutions, it relies on surveys and external rating data of Moody's agency.

It then uses all available resources that can be obtained with undue cost and effort, in order to adequately determine the probability of default for the purposes of impairment calculation. The probability of default for a period of one year is determined as the probability of migration from the specified external rating of the counterparty (or a rating of the related counterparty if no external rating is available) in the default status. The cumulative PD is determined simply by exponential elevation to the degree of one-year defaults, in the following way:

$$CPD_t = 1 - e^{-(default\ rate*t)}$$

The values of the annual rate of PD used in the calculation of the impairment of securities and financial institutions are reduced to monthly level.

For LGD unsecured the parameter used is prescribed for exposures to countries and financial organizations, in accordance with Basel standards. LGD secured (if there is a collateral) is used in the same way as in the corporate and retail sector.

Impairment of placements to the corporate and retail, countries and financial institutions reduces the value of placements and is recognized as an expense within the income statement, and impairment of securities is recorded through other comprehensive income.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Determining the probable loss on off-balance sheet items

Determining the individual probable loss on off-balance sheet items (contingent liabilities - payable and performance guarantees, letters of credit, and other off-balance sheet items) is carried out when there is estimated that there is a sufficient certainty that an outflow of funds will be made to settle the contingent liability and the debtor is classified at stage 3. Also, for stages 1 and 2, the Bank establishes an estimate of the probable loss on off-balance sheet items for all off-balance sheet items, including unused commitments. The method of impairment of off-balance sheet items for stage 1 and stage 2 is the same as the impairment of balance sheet receivables other than in the part of recognition of EAD. When estimating the probable loss on off-balance items, the Bank reduces exposure for the Conversion Factor (CCF). In accordance with IFRS 9, the Bank calculated credit conversion factors (CCFs) based on experience that represent the likelihood of conversion of off-balance sheet exposures into balance sheet exposures and concluded that it does not have sufficient historical data to define CCF. Therefore, the Bank uses the best approximation of CCF, and these are the conversion factors defined by the regulations of the Central Banks of the Bank's members. For unused commitments for which the Bank has contracted an unconditional cancellation of a contract or the possibility of terminating a contractual obligation if the client violates the contractual obligations, the Bank does not account for provisions based on unused commitments.

The probable loss on off-balance sheet items is recognized as an expense in the income statement.

Means of protection against credit risk (collateral)

In order to protect against exposure to credit risk, the most common practice that the Bank uses, in addition to regular monitoring of clients' operations, is to obtain security instruments (collaterals), which secure the collection of receivables and minimizes credit risk. The amount and type of collateral required depends on the credit risk assessment of the other counterparty.

As standard security instruments, the Bank provides contracting authorities and bills of exchange to clients, while as additional instruments, depending on the assessment of credit risk, and types of placements, other collaterals can be contracted:

- For commercial loans or corporate loans and loans for small businesses - mortgages on movable and immovable items (mortgages), deposits, banking, corporate and government guarantees, guarantees, stocks on securities, shares and receivables;
- For retail loans - mortgages on real estate, deposits, guarantees of a solidary debtor, insurance of the National Corporation for securing housing loans at the Parent bank, and others;
- For borrowed securities and repurchase agreements - money or securities.

When assessing real estate or mortgages on movable property, the Bank requires a professional and independent assessment of the value of immovable property by authorized appraisers in order to minimize the potential risk of unrealistic valuation. Property, goods, equipment and other movable items that are the subject of inventory must be and are insured by an insurance company acceptable to the Bank, and the policies are vinculated for the benefit of the Bank.

In order to protect against the change in market values of collateral (mortgages, pledges, securities, etc.), the estimated collateral value is corrected for a defined percentage (haircut) depending on the type of collateral and location, which are regularly reviewed and revised. In this way, the Bank protects against potential losses due to inability to collect collateral.

The correction factor (haircut) represents the difference between the estimated value of the collateral and the cash inflow that can be realized by selling collateral in the collection process. Haircut brings down the estimated market value of each collateral instrument to the expected value that will be collected by its realization in the future, taking into account the volatility of market value, the possibility of realization and cash outflows based on activation and sales costs (court fees, tax costs that fall under the burden of the seller, costs of consultants and advertising and other costs), the expected decline in market value from the moment of estimation to the moment of the planned realization, as well as the inherent uncertainty in determining the value.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

The Bank pays attention to the regular valuation of collaterals. For non-risk placements (standard clients) - stage 1 and clients on the Watch list - stage 2, mortgages on residential and business properties are assessed at least once in three years by an authorized appraiser. For risky placements (NPE) - stage 3, mortgages on residential buildings are estimated at least once in three years, mortgages on business premises (business premises, premises, warehouses, construction land with and without building permit, agricultural land, other) at least once in 18 months, and mortgages on industrial facilities are estimated at least once a year (12 months) by an authorized appraiser. Securities are assessed on a monthly basis for all placements.

Regular monitoring of the value of real estate implies checking the value of the real estate based on available data and information, comparing the values of the real estate with the values on the market of the member countries of the Bank (realized sales, supply and demand) by the regions specified in the collateral catalogue, using the statistical model, etc. For all business real estate, the Bank conducts a check of value at least once a year, and for residential and other real estate at least once in three years.

The value of collateral and the trend of movement is monitored and updated by the Bank in order to minimize the potential risk of unrealistic estimation and, if necessary, may require additional collateral in accordance with the concluded contract. Collaterals represent a secondary source of collection of receivables.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk

The total exposure to credit risk as at December 31, 2021 and December 31, 2020 is shown in the table below, without taking into account any collateral or other credit protection. The stated values are expressed in gross and net book value (after impairment effects).

Total credit risk exposure

In thousands of RSD

	December 31, 2021		December 31, 2020	
	Gross	Net	Gross	Net
I. Assets	**509,774,490**	**489,440,405**	**484,187,876**	**460,001,399**
Cash and balances with the central bank	82,055,481	82,055,481	80,045,107	80,045,107
Loans and advances to banks and other financial institutions	29,135,282	29,114,381	18,146,238	18,142,070
Loans and receivables from customers	218,173,938	209,044,942	200,690,207	189,296,089
Financial assets (securities and derivatives)	149,596,997	149,588,755	153,780,536	153,776,323
Other assets	6,584,298	5,430,725	8,510,717	6,216,268
Non monetary assets	24,228,494	14,206,121	23,015,071	12,525,542
II. Off-balance sheet items	**61,730,331**	**61,521,512**	**42,691,687**	**42,467,225**
Payable guarantees	7,400,757	7,331,131	4,014,943	3,952,927
Performance guarantees	10,882,641	10,832,350	6,116,729	6,051,112
Irrevocable liabilities	43,413,347	43,344,379	32,332,800	32,279,122
Other	33,586	13,652	227,215	184,064
Total (I+II)	**571,504,821**	**550,961,917**	**526,879,563**	**502,468,624**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Changes in loans and receivables to customers by Stage of risk during 2021

In thousands of RSD

	Stage 1	Stage 2	Stage 3	Total
December 31, 2020	**171,917,691**	**11,095,822**	**17,676,694**	**200,690,207**
New receivables	63,499,170	533,857	237,002	64,270,029
Decrease/collection of receivables	(22,871,762)	(1,068,984)	(5,511,388)	(29,452,134)
Transfer to Stage 1	-	(5,942,875)	(210,211)	(6,153,086)
Transfer to Stage 2	(2,305,893)	-	(488,829)	(2,794,722)
Transfer to Stage 3	(958,066)	(582,465)	-	(1,540,531)
Transfer from other Stages	6,153,086	2,794,722	1,540,531	10,488,339
Other changes	(15,487,692)	(416,495)	(1,429,977)	(17,334,164)
As of December 31, 2021	**199,946,534**	**6,413,582**	**11,813,822**	**218,173,938**

Changes in impairment allowance of loans and receivables to customers by Stage of risk during 2021

In thousands of RSD

	Stage 1	Stage 2	Stage 3	Total
December 31, 2020	**802,035**	**212,915**	**10,379,168**	**11,394,118**
New receivables	626,347	15,305	157,605	799,257
Decrease/collection of receivables	(118,193)	(36,513)	(4,449,371)	(4,604,077)
Transfer to Stage 1	-	(83,090)	(86,228)	(169,318)
Transfer to Stage 2	(19,260)	-	(40,619)	(59,879)
Transfer to Stage 3	(5,459)	(19,060)	-	(24,519)
Transfer from other Stages	169,319	59,879	24,519	253,717
Other changes	131,332	146,429	1,261,935	1,539,696
As of December 31, 2021	**1,586,121**	**295,865**	**7,247,009**	**9,128,995**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

During 2021, transitions of exposures by Stages are consequence of regular business transactions:

- transition to Stage 1 from Stage 2 and 3 is a consequence improvement of performance and financial indicators of business clients (transition from stage 2 to 1), as well as of the settlement of due liabilities in whole or in part (decrease in arrears);
- transition to Stage 2 from Stage 1, is mostly due to the deterioration of business with individual clients in the corporate sector changes in the methodology in the area of identifying clients for the Watch list within the harmonization process with the NLB Group, as well as the process of harmonization with the NLB Group in the part of changing the NLB rating for 3 subcategories from the moment of approval, ie from 31.03.2021. when the Bank first introduced the NLB rating;
- transition to Stage 3 from Stages 1 and 2 is a consequence of increasing client risk, mostly in the micro segment, agriculture and individuals, as well as the application of continuous arrears and NLB rating scale, where clients who receive D, DF and E enter Stage 3. The decrease in receivables in Stage 3, for the most part, is a consequence of the transfer of 100% of impaired receivables to off-balance sheet records, as well as the regulation of risky receivables (collection from collateral and regular business of clients). The mentioned transition from Stages 1 and 2 to Stage 3 was accompanied by the movement of value adjustment, which significantly increased after entering Stage 3. During the year, receivables from Stage 1 were in Stage 2 before moving to Stage 3.
- - The increase in cost of risk in other changes in stage 1, and stage 2, mostly refers to the change of the Methodology in accordance with the harmonization process with NLB Group, in the part of PD calculation and new values of Beta factor. In addition to the above, the increase in stage 2 corrections also affected the withdrawal of previously approved placements by clients who were already in stage 2.
- The increase in impairments in other changes in stage 3, due to changes in methodology in the value of haircuts for collateral, which were increased in accordance with the harmonization process with NLB Group, as well as increase in impairment that occurred after the transition of the client from stage 1 and stage 2 and stage 3, under the already clarified assumptions.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level of risk

In thousands of RSD

December 31, 2021	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	51,717,845	281,167	882,434	52,881,446	39,662	1,980	551,661	593,303	52,288,142
Cash Loans	39,752,894	307,923	556,759	40,617,576	227,845	16,431	440,670	684,946	39,932,630
Agricultural Loans	12,152,637	157,646	263,810	12,574,093	124,004	5,718	171,468	301,190	12,272,903
Other Loans	3,939,523	50,199	199,853	4,189,575	24,832	2,541	180,864	208,237	3,981,338
Micro Business	9,305,709	1,379,944	418,004	11,103,657	138,159	24,767	201,411	364,337	10,739,320
Total retail	**116,868,608**	**2,176,879**	**2,320,860**	**121,366,347**	**554,502**	**51,437**	**1,546,074**	**2,152,013**	**119,214,334**
Large corporate clients	38,090,634	2,686,374	4,173,753	44,950,761	479,645	181,813	2,746,853	3,408,311	41,542,450
Middle corporate clients	12,840,354	587,428	249,519	13,677,301	99,912	3,927	160,001	263,840	13,413,461
Small corporate clients	4,083,048	357,777	498,639	4,939,464	46,513	3,879	160,267	210,659	4,728,805
State owned clients	22,630,517	605,124	3,053,533	26,289,174	300,909	54,809	1,123,741	1,479,459	24,809,715
Other	5,433,373	-	1,517,518	6,950,891	104,640	-	1,510,073	1,614,713	5,336,178
Total corporate	**83,077,926**	**4,236,703**	**9,492,962**	**96,807,591**	**1,031,619**	**244,428**	**5,700,935**	**6,976,982**	**89,830,609**
Total	**199,946,534**	**6,413,582**	**11,813,822**	**218,173,938**	**1,586,121**	**295,865**	**7,247,009**	**9,128,995**	**209,044,943**
Due from banks	**29,135,282**	**-**	**-**	**29,135,282**	**20,901**	**-**	**-**	**20,901**	**29,114,381**

Translation disclaimer: The English version is a translation of the original in Serbian for information purposes only. In case of discrepancy, the Serbian version will prevail

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level of risk

In thousands of RSD

December 31, 2020	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	45,177,028	688,692	905,200	46,770,920	16,848	4,057	416,440	437,345	46,333,575
Cash Loans	37,136,903	637,940	277,545	38,052,388	121,729	32,729	223,138	377,596	37,674,792
Agricultural Loans	11,475,146	222,594	282,684	11,980,424	92,244	21,850	122,071	236,165	11,744,259
Other Loans	4,277,483	82,170	198,889	4,558,542	23,469	4,846	178,465	206,780	4,351,762
Micro Business	8,318,090	1,429,708	440,735	10,188,533	115,242	38,180	219,625	373,047	9,815,486
Total retail	**106,384,650**	**3,061,104**	**2,105,053**	**111,550,807**	**369,532**	**101,662**	**1,159,739**	**1,630,933**	**109,919,874**
Large corporate clients	24,164,279	6,231,195	6,429,321	36,824,795	72,656	62,304	3,675,082	3,810,042	33,014,753
Middle corporate clients	7,876,894	740,097	531,659	9,148,650	41,383	6,090	194,402	241,875	8,906,775
Small corporate clients	2,959,089	298,297	823,753	4,081,139	27,425	4,937	393,345	425,707	3,655,432
State owned clients	21,815,385	764,054	3,588,648	26,168,087	70,593	37,864	1,087,247	1,195,704	24,972,383
Other	8,717,394	1,075	4,198,260	12,916,729	220,446	58	3,869,353	4,089,857	8,826,872
Total corporate	**65,533,041**	**8,034,718**	**15,571,641**	**89,139,400**	**432,503**	**111,253**	**9,219,429**	**9,763,185**	**79,376,215**
Total	**171,917,691**	**11,095,822**	**17,676,694**	**200,690,207**	**802,035**	**212,915**	**10,379,168**	**11,394,118**	**189,296,089**
Due from banks	**18,146,238**	**-**	**-**	**18,146,238**	**4,168**	**-**	**-**	**4,168**	**18,142,070**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Changes in impairment allowance of receivables in the Balance Sheet

In thousands of RSD

	December 31, 2020	Increase in impairment allowance	Reversal of impairment allowance	Other changes	December 31, 2021
Total retail	1,630,933	3,221,861	(2,156,325)	(544,456)	2.152.013
Total corporate	9,763,185	4,700,895	(2,681,253)	(4,805,845)	6.976.982
Total	**11,394,118**	**7,922,756**	**(4,837,578)**	**(5,350,301)**	**9.128.995**
Due from banks	**4,168**	**50,262**	**(33,667)**	**138**	**20,901**

** Other changes relate to the transfer of 100% impaired receivables from balance sheet to off-balance sheet records, exchange rate differences and other changes.*

Problematic loans and receivables – Stage 3

Problematic loans and receivables are those loans and receivables for which the Bank has determined that there is objective evidence that indicates impairment and for which it does not expect the payment of due principal and interest due in accordance with the loan agreement (impaired receivables). Estimates of impairment for problematic receivables are made for each individually significant placement with the status of default (risk sub-category 4D and 4DD according to the internal rating system and risk category 5), if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of the financial asset and if there is a measurable decrease in future cash flows. Also, problematic loans include less materially significant Stage 3 loans, and their impairment calculation is done on a group basis in accordance with the requirements of IFRS 9.

Non-problematic loans and receivables – Stage 1 and 2

For non-problematic receivables in Stages 1 and 2 (rating categories 1, 2, 3 and subcategory 4), impairment is assessed on a group Stage (non-impaired receivables). Group estimates are carried out by groups according to similar credit risk characteristics that are formed on the basis of an internally prescribed methodology (rating groups by type of clients and placements), based on the internal rating system at the monthly Stage.

The impairment assessment on a group basis is based on the expected credit loss in accordance with probability unfulfilled commitments over the next 12 months (receivables in Stage 1), unless there is a significant deterioration of credit risks in relation to the time of the initial recognition, when you estimate credit losses made on the basis of the probability of the neizmirenja obligations for a period of life of the instrument (claims at Stage 2). By appreciating specificity in dealings with clients, in particular establishes the migration for corporate clients, micro business, retail by product types.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Receivables by days past due **– Stage 1 and Stage 2**

In thousands of RSD

	Stage 1						Stage 2					
December 31, 2021	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**
Housing Loans	51,575,978	141,867	-	-	-	**51,717,845**	232,743	3,166	42,530	2,727	-	**281,167**
Cash Loans	37,047,151	2,705,743	-	-	-	**39,752,894**	116,090	80,544	69,858	41,432	-	**307,923**
Agricultural Loans	11,980,655	171,982	-	-	-	**12,152,637**	94,462	7,358	41,340	14,486	-	**157,646**
Other Loans	3,628,886	310,637	-	-	-	**3,939,523**	26,426	8,153	9,760	5,860	-	**50,199**
Micro Business	8,726,237	579,472	-	-	-	**9,305,709**	1,125,515	191,711	54,256	8,462	-	**1,379,944**
Total retail	**112,958,907**	**3,909,701**	**-**	**-**	**-**	**116,868,608**	**1,595,236**	**290,932**	**217,744**	**72,967**	**-**	**2,176,879**
Large corporate clients	38,087,679	2,955	-	-	-	**38,090,634**	2,686,374	-	-	-	-	**2,686,374**
Middle corporate clients	12,292,788	547,566	-	-	-	**12,840,354**	526,554	60,874	-	-	-	**587,428**
Small corporate clients	3,976,815	106,233	-	-	-	**4,083,048**	159,628	195,245	2,904	-	-	**357,777**
State owned clients	22,302,664	327,853	-	-	-	**22,630,517**	470,690	134,434	-	-	-	**605,124**
Other	5,433,373	-	-	-	-	**5,433,373**	-	-	-	-	-	**-**
Corporate clients	**82,093,319**	**984,607**	**-**	**-**	**-**	**83,077,926**	**3,843,246**	**390,553**	**2,904**	**-**	**-**	**4,236,703**
Total	**195,052,226**	**4,894,308**	**-**	**-**	**-**	**199,946,534**	**5,438,482**	**681,485**	**220,648**	**72,967**	**-**	**6,413,582**
Out of which: restructured	-	-	-	-	-	**-**	161,980	101,468	1,998	-	-	**265,446**
Due from banks	**20,728,515**	**8,406,767**	**-**	**-**	**-**	**29,135,282**	**-**	**-**	**-**	**-**	**-**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Receivables by days past due **– Stage 1 and Stage 2**

In thousands of RSD

	Stage 1						Stage 2					
December 31, 2020	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**
Housing Loans	45,133,418	43,610	-	-	-	45,177,028	551,533	3,053	88,293	45,813	-	688,692
Cash Loans	34,256,339	2,880,564	-	-	-	37,136,903	165,285	118,593	248,709	105,353	-	637,940
Agricultural Loans	11,219,296	255,850	-	-	-	11,475,146	68,022	20,534	82,356	51,682	-	222,594
Other Loans	3,970,234	307,249	-	-	-	4,277,483	33,645	10,294	27,028	11,203	-	82,170
Micro Business	7,925,617	392,473	-	-	-	8,318,090	1,042,963	302,015	73,106	11,624	-	1,429,708
Total retail	**102,504,904**	**3,879,746**	-	-	-	**106,384,650**	**1,861,448**	**454,489**	**519,492**	**225,675**	-	**3,061,104**
			-	-	-						-	
Large corporate clients	24,094,092	70,187	-	-	-	24,164,279	6,138,683	92,512	-	-	-	6,231,195
Middle corporate clients	7,773,498	103,396	-	-	-	7,876,894	629,973	107,051	3,073	-	-	740,097
Small corporate clients	2,864,269	94,820	-	-	-	2,959,089	225,281	30,505	42,511	-	-	298,297
State owned clients	21,439,880	375,505	-	-	-	21,815,385	595,476	61,171	107,407	-	-	764,054
Other	8,717,394	0	-	-	-	8,717,394	1,075	-	-	-	-	1,075
Corporate clients	**64,889,133**	**643,908**	-	-	-	**65,533,041**	**7,590,488**	**291,239**	**152,991**	**-**	-	**8,034,718**
			-	-	-						-	
Total	**167,394,037**	**4,523,654**	-	-	-	**171,917,691**	**9,451,936**	**745,728**	**672,483**	**225,675**	-	**11,095,822**
Out of which: restructured	-	-	-	-	-	-	287,926	24,334	110,022	2,279	-	424,561
			-	-	-						-	
Due from banks	**18,146,238**	**-**	-	-	-	**18,146,238**	**-**	**-**	**-**	**-**	-	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from clients according to the criterion of inclusion in Stage 2

In thousands of RSD

	December 31, 2021					December 31, 2020				
	Change of IR	**Restructuring**	**Due up to 30 days**	**Other**	**Total**	**Change of IR**	**Restructuring**	**Due up to 30 days**	**Other**	**Total**
Housing Loans	60,444	148,789	23,958	47,976	281,167	28.535	252.908	37.823	369.426	688.692
Cash Loans	6,543	-	72,711	228,669	307,923	3.428	316	88.172	546.024	637.940
Agricultural Loans	38,434	4,456	73,754	41,002	157,646	-	6.138	113.976	102.480	222.594
Other Loans	257	12,880	8,085	28,977	50,199	268	15.371	12.746	53.785	82.170
Micro Business	47,102	-	61,518	1,271,324	1,379,944	344.515	-	165.998	919.195	1.429.708
Total retail	**152,780**	**166,125**	**240,026**	**1,617,948**	**2,176,879**	**376.746**	**274.733**	**418.715**	**1.990.910**	**3.061.104**
Large corporate clients	992,124	-	-	1,694,250	2,686,374	4.641.240	-	-	1.589.955	6.231.195
Middle corporate clients	-	-	-	587,428	587,428	7.498	-	3.073	729.526	740.097
Small corporate clients	-	-	162,801	194,976	357,777	23.756	-	115.073	159.468	298.297
State owned clients	22,839	99,321	-	482,964	605,124	439.346	149.828	184	174.696	764.054
Other		-		-	-	-	-	-	1.075	1.075
Corporate clients	**1,014,963**	**99,321**	**162,801**	**2,959,618**	**4,236,703**	**5.111.840**	**149.828**	**118.330**	**2.654.720**	**8.034.718**
Total	**1,167,743**	**265,446**	**402,827**	**4,577,566**	**6,413,582**	**5.488.586**	**424.561**	**537.045**	**4.645.630**	**11.095.822**
Due from banks				**-**	**-**					**-**

The other includes technical and expert signals (in accordance with the process of early identification of potentially risky exposures (Watch list), as well as impaired creditworthiness of individuals. The change of the rating refers to the change of the NLB rating for 3 categories from the moment of approving the placement, ie from 31.03.2021. years for the existing portfolio.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Impairment allowance according to the criterion of inclusion in Stage 2

In thousands of RSD

	December 31, 2021					December 31, 2020				
	Change of IR	Restructuring	Due up to 30 days	Other	Total	Change of IR	Restructuring	Due up to 30 days	Other	Total
Housing Loans	61	930	895	94	1,980	98	1.524	118	2.317	4.057
Cash Loans	103	-	8,303	8,026	16,432	49	-	13.681	18.999	32.729
Agricultural Loans	400	150	4,298	870	5,718	-	248	15.797	5.805	21.850
Other Loans	2	826	1,138	575	2,541	1	3.393	730	722	4.846
Micro Business	308	-	957	23,502	24,767	14.640	-	6.195	17.345	38.180
Total retail	**874**	**1,907**	**15,590**	**33,067**	**51,438**	**14.788**	**5.165**	**36.521**	**45.188**	**101.662**
Large corporate clients	179,874	-	-	1,940	181,814	60.007	-	-	2.297	62.304
Middle corporate clients	-	-	-	3,927	3,927	455	-	29	5.606	6.090
Small corporate clients	-	-	1,466	2,412	3,878	1.928	-	655	2.354	4.937
State owned clients	379	3,610	-	50,820	54,809	32.907	2.805	1	2.151	37.864
Other				-	-	-	-	-	58	58
Corporate clients	**180,253**	**3,610**	**1,466**	**59,099**	**244,428**	**95.297**	**2.805**	**685**	**12.466**	**111.253**
Total	**181,127**	**5,517**	**17,056**	**92,166**	**295,866**	**110.085**	**7.970**	**37.206**	**57.654**	**212.915**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Translation disclaimer: The English version is a translation of the original in Serbian for information purposes only. In case of discrepancy, the Serbian version will prevail

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Impaired receivables by days past due – **Problematic receivables, Stage 3**

In thousands of RSD

December 31, 2021	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	315,972	4,880	23,333	3,818	534,431	**882,434**
Cash Loans	171,327	63,347	25,558	21,592	274,935	**556,759**
Agricultural Loans	77,811	5,360	6,503	1,156	172,980	**263,810**
Other Loans	25,659	4,468	4,417	4,290	161,019	**199,853**
Micro Businesses	168,389	40,395	4,212	7,866	197,142	**418,004**
Retail clients	**759,158**	**118,450**	**64,023**	**38,722**	**1,340,507**	**2,320,860**
Large corporate clients	2,275,290	-	-	-	1,898,463	**4,173,753**
Middle corporate clients	141,965	6,860	26,410	-	74,284	**249,519**
Small corporate clients	63,314	-	2,286	-	433,039	**498,639**
State owned clients	2,921,376	-	-	-	132,157	**3,053,533**
Other	216,895	-	-	-	1,300,623	**1,517,518**
Corporate clients	**5,618,840**	**6,860**	**28,696**	**-**	**3,838,566**	**9,492,962**
Total	**6,377,998**	**125,310**	**92,719**	**38,722**	**5,179,073**	**11,813,822**
Out of which: restructured	4,817,948	1,482	31,741	1,049	1,325,318	**6,177,538**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**

Receivables with a delay of less than 90 days in Stage 3 relate to clients who have financial difficulties as a result of the impact of the pandemic caused by the COVID-19 virus on the decline in business activity and reduction of financial potential to regulate liabilities to the Bank. The Bank has estimated that there is a risk of default by the end of the loan repayment.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Impaired receivables by days past due – **Problematic receivables, Stage 3**

In thousands of RSD

December 31, 2020	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	267,714	1,130	71,295	46,172	518,889	**905,200**
Cash Loans	41,801	19,780	15,113	51,643	149,208	**277,545**
Agricultural Loans	48,529	10,887	20,242	11,218	191,808	**282,684**
Other Loans	17,941	2,375	2,224	1,091	175,258	**198,889**
Micro Businesses	33,232	18,287	36,035	19,314	333,867	**440,735**
Retail clients	**409,217**	**52,459**	**144,909**	**129,438**	**1,369,030**	**2,105,053**
Large corporate clients	1,111,839	-	303,977	-	5,013,505	**6,429,321**
Middle corporate clients	194,086	-	41,773	4,094	291,706	**531,659**
Small corporate clients	37,004	-	34,525	10,472	741,752	**823,753**
State owned clients	3,418,323	-	-	-	170,325	**3,588,648**
Other	196,673	-	-	-	4,001,587	**4,198,260**
Corporate clients	**4,957,925**	**-**	**380,275**	**14,566**	**10,218,875**	**15,571,641**
Total	**5,367,142**	**52,459**	**525,184**	**144,004**	**11,587,905**	**17,676,694**
Out of which: restructured	4,003,837	5,009	56,271	19,125	5,037,927	**9,122,169**
Due from banks	-	-	-	-	-	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2 Problematic receivables

Participation of problematic receivables, Stage 3 in total loan

In thousands of RSD

December 31, 2021	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructured receivables	Stage 3 Impairment allowance	Share of Stage 3 in total loans (%)	Collateral value Stage 3
Total retail	**121,366,347**	**2,152,013**	**2,320,860**	**165,776**	**1,546,074**	**1,91%**	**1,836,069**
Housing Loans	52,881,446	593,303	882,434	80,414	551,661	1,67%	882,104
Cash Loans	40,617,576	684,946	556,759	9,077	440,670	1,37%	187,051
Agricultural Loans	12,574,093	301,190	263,810	44,479	171,468	2,10%	253,643
Other	4,189,575	208,237	199,853	10,962	180,864	4,77%	16,532
Micro Businesses	11,103,657	364,337	418,004	20,844	201,411	3,76%	496,739
Corporate clients	**96,807,591**	**6,976,982**	**9,492,962**	**6,011,762**	**5,700,935**	**9,81%**	**7,844,168**
Agriculture	3,163,493	18,747	15,144	-	2,926	0,48%	30,248
Manufacturing Industry	16,822,078	1,555,048	2,183,388	2,108,437	1,271,793	12,98%	2,182,839
Electric Energy	5,144,496	67,359	-	-	-	0,00%	-
Construction	15,551,101	693,521	733,092	43,801	613,374	4,71%	738,069
Wholesale and Retail	19,363,305	293,294	83,137	15,912	32,894	0,43%	83,682
Service Activities	15,953,991	1,718,269	3,397,515	2,826,685	1,402,480	21,30%	3,407,376
Real Estate Activities	8,184,243	653,950	1,283,501	963,962	629,126	15,68%	1,295,817
Other	12,624,884	1,976,794	1,797,185	52,965	1,748,342	14,24%	106,137
Total	**218,173,938**	**9,128,995**	**11,813,822**	**6,177,538**	**7,247,009**	**5,41%**	**9,680,237**
Due from banks	**29,135,282**	**20,901**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2 Problematic receivables (continued)

Participation of problematic receivables, Stage 3 in total loans

In thousands of RSD

December 31, 2020	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructured receivables	Stage 3 Impairment allowance	Share of Stage 3 in total loans (%)	Collateral value Stage 3
Total retail	**111,550,807**	**1,630,933**	**2,105,053**	**340,790**	**1,159,739**	**1,89%**	**1,733,364**
Housing Loans	46,770,920	437,345	905,200	145,700	416,440	1,94%	895,187
Cash Loans	38,052,388	377,596	277,545	5,823	223,138	0,73%	103,692
Agricultural Loans	11,980,424	236,165	282,684	48,649	122,071	2,36%	264,313
Other	4,558,542	206,780	198,889	16,384	178,465	4,36%	18,916
Micro Businesses	10,188,533	373,047	440,735	124,234	219,625	4,33%	451,256
Corporate clients	**89,139,400**	**9,763,185**	**15,571,641**	**8,781,379**	**9,219,429**	**17,47%**	**13,971,723**
Agriculture	2,876,122	13,199	9,002	-	4,928	0,31%	9,170
Manufacturing Industry	12,077,559	1,162,333	2,847,426	2,796,569	1,095,828	23,58%	2,846,877
Electric Energy	3,529,051	15,861	-	-	-	0,00%	-
Construction	12,650,343	547,050	669,404	7,057	525,043	5,29%	669,539
Wholesale and Retail	17,314,441	435,322	672,784	503,610	354,573	3,89%	666,399
Service Activities	11,828,689	2,313,040	4,632,020	4,582,130	2,253,170	39,16%	4,631,098
Real Estate Activities	8,092,592	491,452	1,356,389	687,488	474,825	16,76%	1,371,167
Other	20,770,603	4,784,928	5,384,616	204,525	4,511,062	25,92%	3,777,473
Total	**200,690,207**	**11,394,118**	**17,676,694**	**9,122,169**	**10,379,168**	**8,81%**	**15,705,087**
Due from banks	**18,146,238**	**4,168**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2 Problematic receivables (continued)

Changes in problematic receivables

In thousands of RSD

	December 31, 2020	New problematic receivables – Stage 3	Decrease in problematic receivables – Stage 3	Foreign exchange rate effect	Other changes	December 31, 2021	Net value at the end of year
Housing Loans	905,200	400,965	(359,882)	3,114	(66,964)	882,433	330,773
Cash Loans	277,545	572,246	(174,888)	-	(118,144)	556,759	116,088
Agricultural Loans	282,684	173,591	(141,260)	4	(51,208)	263,811	92,343
Other Loans	198,889	96,389	(86,772)	200	(8,853)	199,853	18,988
Micro Businesses	440,735	428,098	(303,841)	5	(146,994)	418,003	216,594
Total retail	**2,105,053**	**1,671,289**	**(1,066,643)**	**3,323**	**(392,163)**	**2,320,859**	**774,786**
Large corporate clients	6,429,321	-	(1,381,173)	102	(874,497)	4,173,753	1,426,900
Middle corporate clients	531,659	52,006	(208,923)	7	(125,230)	249,519	89,517
Small corporate clients	823,753	41,183	(346,337)	7	(19,967)	498,639	338,373
State owned clients	3,588,648	10,436	(482,895)	53	(62,709)	3,053,533	1,929,791
Other	4,198,260	2,619	(2,724,457)	40,286	811	1,517,519	7,446
Corporate clients	**15,571,641**	**106,244**	**(5,143,785)**	**40,455**	**(1,081,592)**	**9,492,963**	**3,792,027**
Total	**17,676,694**	**1,777,533**	**(6,210,428)**	**43,778**	**(1,473,755)**	**11,813,822**	**4,566,813**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The decrease of restructured receivables mostly refers to the transfer of 100% of impaired receivables to off-balance sheet records, as well as collection of non-performing placements.

Other changes relate to a partial increase / decrease in the amount of receivables within one lot during the year, and most often relate to partial collection.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.3. Nonproblematic receivables (Stage 1 and Stage 2)

In thousands of RSD

	December 31, 2021				December 31, 2020			
	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals
Housing Loans	51,980,174	18,838	51,999,012	51,005,399	45,757,208	108,512	45,865,720	45,451,796
Cash Loans	39,991,948	68,870	40,060,818	9,549,530	37,579,003	195,840	37,774,843	10,494,298
Agricultural Loans	12,277,055	33,228	12,310,283	11,877,066	11,611,627	86,113	11,697,740	11,065,548
Other Loans	3,982,438	7,283	3,989,721	196,778	4,332,597	27,056	4,359,653	206,082
Micro Businesses	10,101,387	584,266	10,685,653	10,606,918	9,247,799	499,999	9,747,798	9,737,277
Retail	**118,333,002**	**712,485**	**119,045,487**	83,235,691	**108,528,234**	**917,520**	**109,445,754**	**76,955,001**
Large corporate clients	36,644,209	4,132,799	40,777,008	40,842,438	24,713,727	5,681,747	30,395,474	30,401,513
Middle corporate clients	13,410,160	17,623	13,427,783	13,414,845	8,536,154	80,837	8,616,991	8,619,042
Small corporate clients	4,341,002	99,823	4,440,825	4,421,677	3,059,170	198,216	3,257,386	3,243,678
State owned clients	18,090,465	5,145,176	23,235,641	21,739,089	17,249,553	5,329,886	22,579,439	22,742,430
Other	3,523,808	1,909,564	5,433,372	4,222,590	4,404,927	4,313,542	8,718,469	6,899,846
Corporate Clients	**76,009,644**	**11,304,985**	**87,314,629**	84,640,639	**57,963,531**	**15,604,228**	**73,567,759**	**71,906,509**
Total	**194,342,646**	**12,017,470**	**206,360,116**	**167,876,330**	**166,491,765**	**16,521,748**	**183,013,513**	**148,861,510**
Due from banks	**29,135,282**	**-**	**29,135,282**	**-**	**18,146,238**	**-**	**18,146,238**	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables

In thousands of RSD

December 31, 2021	Gross exposure	Impairment of gross exposure	Restructured receivables	Impairment of restructured receivables	Restructured receivables stage 2	Impairment of restructured receivables- stage 2	Restructured receivables stage 3	Impairment of restructured receivables- stage 3	Percentage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Total retail	**121,366,347**	**2,152,013**	**331,901**	**110,280**	**166,125**	**1,907**	**165,776**	**108,373**	**0,27%**	**322,269**
Housing Loans	52,881,446	593,304	229,203	51,560	148,789	930	80,414	50,630	0,43%	229,203
Cash Loans	40,617,576	684,946	9,077	6,390	-	-	9,077	6,390	0,02%	1,426
Agricultural Loans	12,574,093	301,190	48,936	25,828	4,457	150	44,479	25,677	0,39%	48,936
Other	4,189,575	208,236	23,841	10,510	12,879	827	10,962	9,684	0,57%	21,860
Micro Businesses	11,103,657	364,337	20,844	15,992	-	-	20,844	15,992	0,19%	20,844
Corporate Clients	**96,807,591**	**6,976,982**	**6,111,083**	**3,221,939**	**99,321**	**3,610**	**6,011,762**	**3,218,329**	**6,31%**	**6,120,716**
Agriculture	3,163,493	18,747	-	-	-	-	-	-	0,00%	-
Manufacturing Industry	16,822,078	1,555,048	2,108,437	1,259,470	-	-	2,108,437	1,259,470	12,53%	2,108,437
Electric Energy	5,144,496	67,359	-	-	-	-	-	-	0,00%	-
Construction	15,551,101	693,521	43,801	30,771	-	-	43,801	30,771	0,28%	43,801
Wholesale and Retail	19,363,305	293,294	15,912	13,588	-	-	15,912	13,588	0,08%	15,912
Service Activities	15,953,991	1,718,269	2,826,685	1,319,804	-	-	2,826,685	1,319,804	17,72%	2,826,686
Real Estate Activities	8.184.243	653,950	963,962	553,756	-	-	963,962	553,756	11,78%	963,962
Other	12,624,884	1,976,794	152,286	44,550	99,321	3,610	52,965	40,940	1,20%	161,918
Total	**218,173,938**	**9,128,995**	**6,442,984**	**3,332,219**	**265,446**	**5,517**	**6,177,538**	**3,326,702**	**2,95%**	**6,442,985**
Due from banks	**29,135,282**	**20,901**	**-**	**-**	**-**	**-**	**-**	**-**	**0,00%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

In thousands of RSD

December 31, 2020	Gross exposure	Impairment of gross exposure	Restructured receivables	Impairment of restructured receivables	Restructured receivables stage 2	Impairment of restructured receivables-stage 2	Restructured receivables stage 3	Impairment of restructured receivables-stage 3	Percentage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Total retail	**111,550,807**	**1,630,933**	**615,523**	**143,459**	**274,733**	**5,165**	**340,790**	**138,294**	**0,55%**	**608,443**
Housing Loans	46,770,920	437,345	398,608	57,930	252,908	1,524	145,700	56,406	0,85%	398,608
Cash Loans	38,052,388	377,596	6,139	4,564	316	0	5,823	4,564	0,02%	1,095
Agricultural Loans	11,980,424	236,165	54,787	21,111	6,138	248	48,649	20,863	0,46%	54,481
Other	4,558,542	206,780	31,755	17,862	15,371	3,393	16,384	14,469	0,70%	30,025
Micro Businesses	10,188,533	373,047	124,234	41,992	-	-	124,234	41,992	1,22%	124,234
Corporate Clients	**89,139,400**	**9,763,185**	**8,931,207**	**4,245,431**	**149,828**	**2,805**	**8,781,379**	**4,242,626**	**10,02%**	**8,931,208**
Agriculture	2,876,122	13,199	-	-	-	-	-	-	0,00%	-
Manufacturing Industry	12,077,559	1,162,333	2,796,569	1,095,279	-	-	2,796,569	1,095,279	23,16%	2,796,569
Electric Energy	3,529,051	15,861	-	-	-	-	-	-	0,00%	-
Construction	12,650,343	547,050	7,057	3,516	-	-	7,057	3,516	0,06%	7,057
Wholesale and Retail	17,314,441	435,322	503,610	307,622	-	-	503,610	307,622	2,91%	503,610
Service Activities	11,828,689	2,313,040	4,582,130	2,235,253	-	-	4,582,130	2,235,253	38,74%	4,582,130
Real Estate activities	8.092.592	491,452	711,166	425,806	23,678	107	687,488	425,699	8,79%	711,167
Other	20,770,603	4,784,928	330,675	177,955	126,150	2,698	204,525	175,257	1,59%	330,675
Total	**200,690,207**	**11,394,118**	**9,546,730**	**4,388,890**	**424,561**	**7,970**	**9,122,169**	**4,380,920**	**4,76%**	**9,539,651**
Due from banks	**18,146,238**	**4,168**	**-**	**-**	**-**	**-**	**-**	**-**	**0,00%**	**-**

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Changes in restructured receivables

In thousands of RSD

	December 31, 2020	New restructured receivables	Decrease in restructured receivables	Foreign exchange rate effect	Other changes*	December 31, 2021	Net
Housing Loans	398,608	-	(154,623)	1,531	(16,313)	229,203	177,643
Cash Loans	6,139	4,456	(1,433)	-	(85)	9,077	2,687
Agricultural Loans	54,786	12,336	(13,483)	1	(4,704)	48,936	23,108
Other Loans	31,755	5,466	(9 ,008)	-	(4,372)	23,841	13,332
Micro Businesses	124,234	-	(103,390)	1	(1)	20,844	4,852
Retail	615,523	22,258	(281,937)	1,533	(25,475)	331,901	221,622
Large corporate clients	5,296,620	280,916	(1,323,958)	86	(866,111)	3,387,553	1,250,049
Middle corporate clients	384,958	-	(86,120)	5	(94,775)	204,068	66,125
Small corporate clients	171,521	-	(141,127)	-	36,899	67,293	28,375
State owned clients	3,078,108	-	(585,362)	50	(40,627)	2,452,169	1,544,595
Other	-	-	-	-	-	-	-
Corporate clients	8,931,207	280,916	(2,136,567)	141	(964,614)	6,111,083	2,889,144
Total	**9,546,730**	**303,174**	**(2,418,504)**	**1,674**	**(990,089)**	**6,442,984**	**3,110,766**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

**The increase in restructured receivables is a consequence of restructuring of NPL of clients whose business is affected by the influence of COVID 19 (Service activities) in order to relax the client. The decrease of restructured receivables mostly refers to the transfer of 100% of impaired receivables to off-balance sheet records, as well as the approval of moratorium III to one NPL client affected by the COVID 19 pandemic (Transportation) in accordance with the Decision of the National Bank of Serbia.*

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Measures that the Bank implements in the restructuring of receivables

The bank implements different restructuring measures depending on the needs of clients, respecting the Bank's interest in taking into account the complete business, financial and collateral position of clients.

The measures that the Bank members most often implement during the restructuring of placements are:

- The extension of the maturity period, which is mainly followed by the adjustment of the interest rate, which is in line with the financial position of the clients,
- The introduction of a grace period or moratorium on the settlement of obligations within a specified period
- Capitalization of days past due, if there are matured liabilities due to maturity, they are returned to unexpected liabilities during the implementation of the restructuring, or a new initial balance of claims is formed,
- Refinancing of receivables - in justified cases it is possible to refinance receivables from other creditors in order to improve the position of the Bank (collateral or financial approval of favorable repayment terms),
- partial write-offs - in the past period, the Bank members did not carry out partial write-offs in the course of restructuring,
- The conversion of debt into equity - has not been carried out in the past period

These measures can be implemented individually or by implementing a number of measures depending on each individual restructuring process.

4.1.5. Risk of concentration

The Bank manages the risk of concentration through a set limit system that includes exposure limits with the same or similar risk factors (according to sectors / activities, geographical areas, individual debtors or groups of related parties, credit protection instruments ...). Establishing appropriate exposure limits is the basis for risk concentration control in order to diversify the loan portfolio. Bank on an annual basis depending on market trends, appetite for risk, business policy Bank and the annual business plan, reviewed and, if necessary, changes internally set limits.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

Loans and receivables from banks and other financial organizations by branch and geographical concentration of exposures

In thousands of RSD

December 31, 2021	Non problematic receivables					Problematic receivables				
	Serbia	Montenegro	B&H	EU	Other	Serbia	Montenegro	B&H	EU	Other
Retail	**119,045,487**	**-**	**-**	**-**	**-**	**2,320,860**	**-**	**-**	**-**	**-**
Housing Loans	51,999,012	-	-	-	-	882,434	-	-	-	-
Cash Loans	40,060,818	-	-	-	-	556,758	-	-	-	-
Agricultural Loans	12,310,283	-	-	-	-	263,810	-	-	-	-
Other	3,989,721	-	-	-	-	199,854	-	-	-	-
Micro Businesses	10,685,653	-	-	-	-	418,004	-	-	-	-
Corporate	**81,878,911**	**697,393**	**4,738,325**	**-**	**-**	**9,492,962**	**-**	**-**	**-**	**-**
Agriculture	3,148,348	-	-	-	-	15,144	-	-	-	-
Manufacturing Industry	14,638,690	-	-	-	-	2,183,388	-	-	-	-
Electric Energy	5,144,496	-	-	-	-	0	-	-	-	-
Construction	14,818,008	-	-	-	-	733,092	-	-	-	-
Wholesale and Retail	19,280,169	-	-	-	-	83,137	-	-	-	-
Service Activities	12,556,477	-	-	-	-	3,397,515	-	-	-	-
Real Estate Activities	6,900,742	-	-	-	-	1,283,501	-	-	-	-
Other	5,391,981	697,393	4,738,325	-	-	1,797,185	-	-	-	-
Total	**200,924,398**	**697,393**	**4,738,325**	**-**	**-**	**11,813,822**	**-**	**-**	**-**	**-**
Due from banks	**9,664,698**	**2,718**	**66,022**	**17,265,585**	**2,136,259**	**-**	**-**	**-**	**-**	**-**

Total credit exposure nonproblematic receivables are Montenegro and Bosnia and Herzegovina and are located in Stage 1.
Depending on general economic trends and developments in individual industrial sectors, the Bank members carried out the diversification of investments in industrial sectors that are resistant to the impact of negative economic developments.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

In thousands of RSD

December 31, 2020	Non problematic receivables					Problematic receivables				
	Serbia	Montenegro	B&H	EU	Other	Serbia	Montenegro	B&H	EU	Other
Retail	**109,445,754**	**-**	**-**	**-**	**-**	**2,105,053**	**-**	**-**	**-**	**-**
Housing Loans	45,865,720	-	-	-	-	905,200	-	-	-	-
Cash Loans	37,774,843	-	-	-	-	277,545	-	-	-	-
Agricultural Loans	11,697,740	-	-	-	-	282,684	-	-	-	-
Other	4,359,653	-	-	-	-	198,889	-	-	-	-
Micro Businesses	9,747,798	-	-	-	-	440,735	-	-	-	-
Corporate	**64,849,738**	**2,494,280**	**6,223,741**	**-**	**-**	**15,571,641**	**-**	**-**	**-**	**-**
Agriculture	2,867,120	-	-	-	-	9,002	-	-	-	-
Manufacturing Industry	9,230,133	-	-	-	-	2,847,426	-	-	-	-
Electric Energy	3,529,051	-	-	-	-	0	-	-	-	-
Construction	11,980,938	-	-	-	-	669,404	-	-	-	-
Wholesale and Retail	16,641,657	-	-	-	-	672,784	-	-	-	-
Service Activities	7,196,670	-	-	-	-	4,632,020	-	-	-	-
Real Estate Activities	6,736,204	-	-	-	-	1,356,389	-	-	-	-
Other	6,667,965	2,494,280	6,223,741	-	-	5,384,616	-	-	-	-
Total	**174,295,492**	**2,494,280**	**6,223,741**	**-**	**-**	**17,676,694**	**-**	**-**	**-**	**-**
Due from banks	**4,542,713**	**538,842**	**320,686**	**11,213,216**	**1,530,781**	**-**	**-**	**-**	**-**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (concentration)

Loans and receivables to customers by geographical concentration of exposures in Serbia

In thousands of RSD

	December 31, 2021				December 31, 2020			
	Vojvodina	Belgrade	Central Serbia	Total	Vojvodina	Belgrade	Central Serbia	Total
Total retail	30,573,744	43,760,645	47,031,957	**121,366,346**	24,638,429	47,508,396	39,403,982	**111,550,807**
Corporate clients	22,072,987	41,662,437	27,636,450	**91,371,874**	31,230,721	35,992,358	13,198,299	**80,421,378**
Total	**52,646,731**	**85,423,082**	**74,668,407**	**212,738,220**	**55,869,150**	**83,500,754**	**52,602,281**	**191,972,185**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.6. Securities

In thousands of RSD

	December 31, 2021		December 31, 2020	
	Gross	Net	Gross	Net
Securities:				
-at fair value through profit and loss	512,823	512,823	8,308,106	8,308,106
-at fair value through other comprehensive income	148,142,030	148,141,448	144,626,430	144,625,977
-at amortized cost	942,144	934,484	846,000	842,240
TOTAL	149,596,997	149,588,755	153,780,536	153,776,323

Financial assets at fair value through profit and loss relate to investment units of the Kombank Monetary Fund, which are valued by mark to market.

Financial assets at fair value through other comprehensive income are placements that are intended to be held for an indefinite period of time and that may be sold due to the need for liquidity or due to changes in interest rates, exchange rates or market prices. They consist, for the most part, of bonds issued by the Republic of Serbia, local self-government units and bonds of other banks and countries (the United States of America, the Republic of Slovenia and the Republic of Ireland).

Securities at fair value through other comprehensive income are initially estimated at cost, and their fair value is calculated on a monthly basis, based on market prices for securities traded on the stock market, as well as applying internally developed models in the event that independent sources of market information are not available for a particular financial instrument, or when the available prices do not change regularly nether there are significant trading volumes. This model of valuation is based on the maturity date of the security and level of risk free interest rates.

Securities held at amortized cost relate to corporate bonds.

4.1.7. Collateral against credit risk (collateral)

In the following reviews, the value of the collateral is presented at the fair value of the collateral, so that the collateral value is only shown up to the amount of gross placements (in cases where the value of the collateral exceeds the amount of the loan). When the collateral value is lower than the value of gross placement, the value of the collateral is expressed.

The value of collateral and guarantees received in order to mitigate the exposure to credit risk arising from the placement of clients is shown in the following table:

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In thousands of RSD

December 31, 2021	Stage 1					Stage 2				
	Real Estate	Deposits	Guarantees	Other collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	47,687,370	3,149	-	3,034,485	**50,725,004**	280,384	-	-	12	**280,396**
Cash Loans	11,574	483,456	-	8,974,616	**9,469,646**	-	5,728	-	74,156	**79,884**
Agricultural Loans	4,814,918	3,225	2,390	6,903,368	**11,723,901**	98,356	-	-	54,809	**153,165**
Other Loans	92,136	1,701	-	90,085	**183,922**	3,602	247	-	9,009	**12,858**
Micro business	509,859	613,396	5,942,221	1,502,101	**8,567,577**	287,179	137,312	668,068	946,781	**2,039,340**
Total retail	**53,115,857**	**1,104,927**	**5,944,611**	**20,504,655**	**80,670,050**	**669,521**	**143,287**	**668,068**	**1,084,767**	**2,565,643**
Large corporate clients	19,426,939	147,041	178,209	18,117,349	**37,869,538**	2,164,623	-	286,524	521,751	**2,972,898**
Middle corporate clients	2,518,415	400,245	3,302,787	6,390,237	**12,611,684**	226,553	-	234,757	341,852	**803,162**
Small corporate clients	543,294	124,816	1,946,794	1,356,364	**3,971,267**	152,149	366	104,374	193,522	**450,411**
State owned clients	3,901,029	-	4,096,268	12,295,571	**20,292,868**	-	-	-	1,446,221	**1,446,221**
Other	-	-	-	4,222,591	**4,222,591**	-	-	-	-	**-**
Corporate clients	**26,389,677**	**672,102**	**9,524,058**	**42,382,110**	**78,967,947**	**2,543,325**	**366**	**625,655**	**2,503,346**	**5,672,692**
Total	**79,505,534**	**1,777,029**	**15,468,669**	**62,886,765**	**159,637,995**	**3,212,846**	**143,653**	**1,293,723**	**3,588,113**	**8,238,335**
Of which: restructured	-	-	-	-	**-**	153,587	-	-	110,637	**264,224**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

* Other collaterals relate to pledges on the goods, pledges on receivables, pledges on equipment, other guarantees.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In thousands of RSD

December 31, 2021	Stage 3				
	Real Estate	Deposits	Guarantees	Other collaterals	Total
Housing Loans	875,964	-	-	6,140	882,104
Cash Loans	-	5,693	-	181,358	187,051
Agricultural Loans	161,043	-	-	92,600	253,643
Other Loans	565	1,074	-	14,893	16,532
Micro business	124,398	60,000	79,670	232,671	496,739
Total retail	**1,161,970**	**66,767**	**79,670**	**527,662**	**1,836,069**
Large corporate clients	3,782,867	-	-	325,456	4,108,323
Middle corporate clients	167,136	-	15,104	80,216	262,456
Small corporate clients	412,438	-	29,542	75,807	517,787
State owned clients	559,764	-	-	2,361,494	2,921,258
Other	31,845	-	956	1,543	34,344
Corporate clients	**4,954,050**	**-**	**45,602**	**2,844,516**	**7,844,168**
Total	**6,116,020**	**66,767**	**125,272**	**3,372,178**	**9,680,237**
Of which: restructured	3,760,260	-	-	2,418,500	6,178,760
Receivables from banks	**-**	**-**	**-**	**-**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In thousands of RSD

December 31, 2020	Stage 1					Stage 2				
	Real Estate	Deposits	Guarantees	Other collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	42,495,115	11,880	-	2,259,057	44,766,052	657,595	-	-	28,149	685,744
Cash Loans	6,090	564,087	-	9,681,758	10,251,935	127	10,204	-	232,032	242,363
Agricultural Loans	4,297,713	9,271	31,422	6,535,348	10,873,754	87,366	3,269	-	101,159	191,794
Other Loans	77,486	2,479	-	111,040	191,005	3,579	439	-	11,059	15,077
Micro business	643,012	552,313	3,871,910	3,098,204	8,165,439	397,175	181,335	142,226	851,102	1,571,838
Total retail	**47,519,416**	**1,140,030**	**3,903,332**	**21,685,407**	**74,248,185**	**1,145,842**	**195,247**	**142,226**	**1,223,501**	**2,706,816**
Large corporate clients	11,551,288	178,205	3,416,827	8,803,852	23,950,172	5,660,395	-	220,144	570,802	6,451,341
Middle corporate clients	2,486,091	379,558	2,006,189	2,817,659	7,689,497	324,956	-	193,408	411,181	929,545
Small corporate clients	732,488	159,811	858,063	1,121,968	2,872,330	141,153	92	72,959	157,144	371,348
State owned clients	1,535,845	-	4,872,521	15,584,509	21,992,875	19,403	-	-	730,152	749,555
Other	-	-	-	6,899,846	6,899,846	-	-	-	-	-
Corporate clients	**16,305,712**	**717,574**	**11,153,600**	**35,227,834**	**63,404,720**	**6,145,907**	**92**	**486,511**	**1,869,279**	**8,501,789**
Total	**63,825,128**	**1,857,604**	**15,056,932**	**56,913,241**	**137,652,905**	**7,291,749**	**195,339**	**628,737**	**3,092,780**	**11,208,605**
Of which: restructured	-	-	-	-	-	249,991	-	-	172,863	422,854
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

* Other collaterals relate to pledges on the goods, pledges on receivables, pledges on equipment, other guarantees.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In thousands of RSD

December 31, 2020	Stage 3				
	Real Estate	Deposits	Guarantees	Other collaterals	Total
Housing Loans	857,295	-	-	37,892	895,187
Cash Loans	533	813	-	102,346	103,692
Agricultural Loans	198,608	-	-	65,705	264,313
Other Loans	3,454	510	-	14,952	18,916
Micro business	217,186	-	10,481	223,589	451,256
Total retail	**1,277,076**	**1,323**	**10,481**	**444,484**	**1,733,364**
Large corporate clients	5,324,586	60	-	1,098,637	6,423,283
Middle corporate clients	447,496	-	-	82,111	529,607
Small corporate clients	254,436	-	20,213	562,812	837,461
State owned clients	568,989	-	-	2,856,666	3,425,655
Other	2,755,593	-	-	124	2,755,717
Corporate clients	**9,351,100**	**60**	**20,213**	**4,600,350**	**13,971,723**
Total	**10,628,176**	**1,383**	**30,694**	**5,044,834**	**15,705,087**
Of which: restructured	5,830,895	-	-	3,285,902	9,116,797
Receivables from banks	- -	- -	- -	- -	-

Translation disclaimer: The English version is a translation of the original in Serbian for information purposes only. In case of discrepancy, the Serbian version will prevail

4 RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

The ratio of the amount of loans and the estimated value of the real estate held as collateral is monitored according to the range of Loan to Value Ratio - LTV ratios.

Overview of loans covered by PP&E according to LTV range

In thousands of RSD

	As of December 31, 2021	As of December 31, 2021
Less than 50%	18,331,413	18,976,984
50% - 70%	32,360,446	28,659,176
71% - 100%	23,164,003	28,222,903
101% - 150%	6,895,815	3,373,854
More than 150%	11,535,393	6,424,904
Total exposure	**92,287,070**	**85,657,821**
Average LTV	**59.78%**	**67.09%**

4.1.8. Foreclosed assets at net value

Foreclosed assets from Bank in the process of collecting placements are presented in the following table:

In thousands of RSD

	Residential Premises	Business Premises	Equipment	Land and Forests	Total
December 31, 2020	**48,829**	**1,042,203**	**24,063**	**115,766**	**1,230,861**
Acquisition	-	5,068	-	-	5,068
Sale	-	(224,536)	-	(3,852)	(228,388)
Transfer to investment property	(12,298)	(138,133)	-	-	(150,431)
Other – change in value	16,768	50,021	(2,279)	14,870	79,380
December 31, 2021	**53,299**	**734,623**	**21,784**	**126,784**	**936,490**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk

In order to adequately manage liquidity risk, in 2021 the Bank established an internal liquidity adequacy assessment process (ILAAP), which is conducted at least once a year. The internal liquidity adequacy assessment process provides comprehensive liquidity risk management and the establishment of a comprehensive internal assessment taking into account qualitative and quantitative elements. Qualitative elements describe strategies, procedures, methodologies, the established system of limits used in the Bank to manage and control liquidity risk, as well as liquidity management in crisis situations. Quantitative aspects of ILAAP are related to qualitative elements including insight into the fulfilment of prescribed limits, stress tests, gap analysis, liquidity ratios and other tools in order to successfully assess the liquidity position of the Bank.

The Bank adjusts its operations with the liquidity indicator, as follows: 0.8 calculated for one business day; then a minimum of 0.9 for no more than three consecutive working days, i.e. a minimum of 1 as the average of all working days of the month, as well as with regulated limits with a rigid liquidity ratio, as follows: 0.5 calculated for one working day; then a minimum of 0.6 not more than three consecutive working days, i.e. a minimum of 0.7 as the average of all working days of the month.

During 2021 the Bank has aligned its operations with a liquidity coverage ratio in all currencies, which maintains at a level not lower than 100%, i.e. internally defined limit.

Compliance with externally defined liquidity limits:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquidity coverage ratio	
	31.12.2021	**31.12.2020**	**31.12.2021**	**31.12.2020**	**31.12.2021**	**31.12.2020**
On the day	3.88	4.06	3.65	3.94	454%	405%
Average for the period	4.18	4.17	3.94	4.00	601%	385%
Maximum for the period	4.68	4.73	4.42	4.50	757%	413%
Minimum for the period	3.51	3.42	3.37	3.27	425%	295%

During 2021 liquidity ratio, rigid liquidity indicator and the liquidity coverage ratio ranged above the defined limits, as well as within the defined risk tolerance. The Bank has established a system of internal limits and the Risk Appetite Framework, in accordance with the Group's standards for structural liquidity indicators, as well as with the nature of the Bank's operations.

The Bank maintains a stable liquidity position and a sufficient and adequate level of liquidity reserves. Liquidity reserves are mostly in the form of cash and highly liquid debt government securities, which can be redeemed in a relatively short period of time. At the same time, the minimum amount of unsecured liquidity reserves to cover potential outflows in the event of stress is continuously monitored and maintained. In addition, the Bank complies with the limits of structural liquidity indicators, which are set in accordance with the Standards in the field of risk management in the NLB Group, and relate to the minimum level of available and unsecured liquidity reserves. The Bank also actively manages daily liquidity, in order to ensure timely settlement of due liabilities, taking into account the normal course of business and the emergency liquidity situation.In addition, the Bank limits and harmonizes operations with limits defined in terms of maturity by major currencies, as well as defined targets for diversification of funding sources.

Compliance with internally defined liquidity limits on the last day:	**Limits**	**December 31, 2021**	**December 31, 2020**
NSFR	Min 110%	221%	242%
Unsecured liquidity reserves	Min 18%	39%	41%
Self-financing indicator - LTD ratio	Max 105%	52%	51%
Share of non-banking sector deposits in total liabilities (excluding capital)	Min 65%	97%	96%
Strong stress test - 3 months	Min 100%	186%	234%

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at December 31, 2021

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	82,055,481	-	-	-	-	82,055,481
Loans and receivables due from other banks and other financial institutions	18,135,567	5,235,112	2,800,000	2,943,702	-	29,114,381
Loans and receivables due from customers	7,287,184	9,769,465	47,487,657	96,892,497	47,608,139	209,044,942
Financial assets (securities)	14,337,691	3,799,363	22,784,256	93,961,416	14,706,029	149,588,755
Other assets	1,333,996	581,039	60,532	-	-	1,975,567
Total	**123,149,919**	**19,384,979**	**73,132,445**	**193,797,615**	**62,314,168**	**471,779,126**
Deposits and other liabilities due to banks, other financial institutions and central bank	1,942,883	34,864	156,887	335	-	2,134,969
Deposits and other liabilities due to customers	339,785,262	8,048,414	31,098,419	23,275,420	1,078,903	403,286,418
Other liabilities	1,096,298	324,183	409,857	661,701	26,488	2,518,527
Total	**342,824,443**	**8,407,461**	**31,665,163**	**23,937,456**	**1,105,391**	**407,939,914**
Net liquidity gap As of December 31, 2021	**(219,674,524)**	**10,977,518**	**41,467,282**	**169,860,159**	**61,208,777**	**63,839,212**
Net liquidity gap As of December 31, 2020	**(199,526,987)**	**1,422,262**	**14,387,186**	**177,323,899**	**69,330,711**	**62,937,071**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at December 31, 2020

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	80,045,107	-	-	-	-	80,045,107
Loans and receivables due from other banks and other financial institutions	13,341,137	1,191,407	216,874	3,392,652	-	18,142,070
Loans and receivables due from customers	7,514,766	8,096,112	37,469,686	89,570,644	46,644,881	189,296,089
Financial assets (securities)	508,922	5,558,437	12,956,168	110,831,363	23,921,433	153,776,323
Other assets	1,138,614	983,624	573,006	-	-	2,695,244
Total	**102,548,546**	**15,829,580**	**51,215,734**	**203,794,659**	**70,566,314**	**443,954,833**
Deposits and other liabilities due to banks, other financial institutions and central bank	4,887,487	600	80,664	20,564	-	4,989,315
Deposits and other liabilities due to customers	295,543,959	14,110,912	35,881,120	25,954,180	1,209,230	372,699,401
Other liabilities	1,644,087	295,806	866,764	496,016	26,373	3,329,046
Total	**302,075,533**	**14,407,318**	**36,828,548**	**26,470,760**	**1,235,603**	**381,017,762**
Net liquidity gap As of December 31, 2020	**(199,526,987)**	**1,422,262**	**14,387,186**	**177,323,899**	**69,330,711**	**62,937,071**
Net liquidity gap As of 31.12.2019	**(154,650,166)**	**5,801,156**	**12,127,356**	**139,813,989**	**58,662,015**	**61,754,350**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The report on the maturity structure of monetary assets and liabilities contains monetary balance sheet items distributed according to the remaining maturity, with the conservative assumption that all transaction and demand deposits will be withdrawn within one month.

The Bank collects deposits from legal entities and individuals, which usually have shorter maturities and can be withdrawn upon request. The short-term nature of these deposits increases the Bank's liquidity risk and requires active management of this risk, as well as constant monitoring of market trends.

In the short term, the Bank manages liquidity risk by monitoring and controlling positions in all major currencies, in order to assess the need for additional sources of financing in case of maturity of appropriate positions, ie plans long-term structure of its sources and placements to provide sufficient stable sources and liquidity reserves.

The Bank's management believes that the appropriate diversification of the deposit portfolio by number and type of depositors, as well as the Bank's previous experience provide a good precondition for a stable and long-term deposit base, ie no significant outflows are expected.

The Bank regularly conducts a liquidity risk stress testing process as well as a reverse liquidity stress test.

The results of the stress test show how long the Bank is ready to "survive" the given assumptions of the stress scenario. Based on the results of the stress test, it is determined whether the Bank has sufficient liquid assets to survive three months of severe stress.

The reverse stress test provides additional insight into the Bank's risk position by finding scenarios that could potentially lead to the Bank's problems and on the basis of which the Bank can identify its weaknesses. It may also influence future business decisions of the Bank.

The Bank regularly tests the Liquidity Management Plan in crisis situations and checks the survival period and solvency of the Bank, the availability of sources to cover liabilities that may arise, ie evaluates support in the assumed conditions of the crisis.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows of monetary assets and monetary liabilities as at December 31, 2021

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	82,055,481	-	-	-	-	82,055,481
Loans and receivables due from other banks and other financial institutions	18,136,822	5,255,559	2,818,901	2,943,702	-	29,154,984
Loans and receivables due from customers	7,914,657	11,068,727	52,804,620	110,754,388	57,928,176	240,470,568
Financial assets (securities)	15,561,200	4,132,881	24,129,766	99,141,702	14,546,201	157,511,750
Other assets	1,333,996	581,039	60,532	-	-	1,975,567
Total	**125,002,156**	**21,038,206**	**79,813,819**	**212,839,792**	**72,474,377**	**511,168,350**
Deposits and other liabilities due to banks, other financial institutions and central bank	1,943,052	35,138	157,494	335	-	2,136,019
Deposits and other liabilities due to customers	339,818,887	8,079,011	31,276,800	24,198,252	1,248,498	404,621,448
Other liabilities	1,097,208	325,921	416,501	674,920	29,251	2,543,801
Total	**342,859,147**	**8,440,070**	**31,850,795**	**24,873,507**	**1,277,749**	**409,301,268**
Net liquidity gap As of December 31, 2021	**(217,856,991)**	**12,598,136**	**47,963,024**	**187,966,285**	**71,196,628**	**101,867,082**
Net liquidity gap As of December 31, 2020	**(198,953,604)**	**2,660,351**	**19,641,867**	**192,899,076**	**81,751,466**	**97,999,156**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows of monetary assets and monetary liabilities as at December 31, 2020

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	80,045,107	-	-	-	-	80,045,107
Loans and receivables due from other banks and other financial institutions	13,341,261	1,193,658	234,190	3,422,521	-	18,191,630
Loans and receivables due from customers	8,214,810	9,507,033	43,115,649	106,602,346	59,339,794	226,779,632
Financial assets (securities)	508,922	5,558,437	12,956,168	110,831,363	23,921,433	153,776,323
Other assets	1,138,614	983,624	573,006	-	-	2,695,244
Total	**103,248,714**	**17,242,752**	**56,879,013**	**220,856,230**	**83,261,227**	**481,487,936**
Deposits and other liabilities due to banks, other financial institutions and central bank	4,890,897	657	81,862	20,756	-	4,994,172
Deposits and other liabilities due to customers	295,667,334	14,285,938	36,288,520	27,440,382	1,483,388	375,165,562
Other liabilities	1,644,087	295,806	866,764	496,016	26,373	3,329,046
Total	**302,202,318**	**14,582,401**	**37,237,146**	**27,957,154**	**1,509,761**	**383,488,780**
Net liquidity gap As of December 31, 2020	**(198,953,604)**	**2,660,351**	**19,641,867**	**192,899,076**	**81,751,466**	**97,999,156**
Net liquidity gap As of 31.12.2019	**(154,031,077)**	**7,047,125**	**17,091,802**	**152,309,641**	**69,057,915**	**91,475,406**

Undiscounted cash flows arising from monetary assets and liabilities include future cash flows based on balance sheet positions and future interest rates.

4. RISK MANAGEMENT (continued)

4.3 Market risks

Market risk is the possibility of negative effects on the Bank's financial result and equity due to changes in market variables and includes interest rate risk in the banking book, foreign exchange risk for all business activities it performs and price risk of trading book positions.

The Bank is exposed to price risk, foreign exchange risk, counterparty risk, and the risk of settlement delivery based on items listed in the trading book. The trading book contains balance sheet and off-balance sheet items of assets and liabilities based on financial instruments held for trading purposes or for the protection of positions in other financial instruments held in a trading book.

The Bank has established an appropriate organizational structure, which clearly delineates the process of taking over market risks from the process of its management. The primary role in the market risk management process is performed by the Assets and Liabilities Management Committee, as well as other relevant committees of the Bank, whose decisions may influence the Bank's exposure to this risk.

4.3.1. Interest rate risk

Interest rate risk is the risk of negative effects on the Bank's financial result and equity based on positions in the banking book due to adverse changes in interest rates. Exposure to this type of risk depends on the ratio of interest-sensitive assets and interest-sensitive liabilities.

The Bank manages the following types of interest rate risk:

• Risk of time mismatch of repayment and repricing risk;

• Yield curve risk - to whom it is exposed due to change in yield curve shape;

• Base risk - to which it is exposed due to different reference interest rates in interest-sensitive positions with similar characteristics in terms of maturity or re-pricing;

• Optionality risk - to whom it is exposed because of contracted options - loans with the possibility of early repayment, deposits with the possibility of early withdrawal, and others.

The main objective of interest rate risk management is to maintain an acceptable level of exposure to interest rate risk from the aspect o impact on the financial result, by maintaining an adequate policy of maturity adjustment of the period for re-forming the interest rate, matching the appropriate sources with placements according to the type of interest rate and maturity, as well as the projection of the movement of the yield curve on the foreign and domestic market. Primarily, the Bank manages the internal yield margin through the cost of loans and deposits, focusing on the interest margin.

The Bank particularly examines the impact of changes in interest rates and the structure of interest-bearing assets and liabilities from the aspect of maturity, re-forming interest rates and currency structure and managing their impact on the economic value of capital.

The Bank processes the impact that could have a standardized interest rate shock (parallel positive and negative interest rate pops on the reference crisis yield by 200 basis points) for each significant value individually and for all other values individually

The process of managing interest rate risk is carried out through identification, measurement, mitigation, monitoring, control and reporting of interest rate risk.

During the first half of 2021, the Bank harmonized the interest rate risk management process with the standards of the NLB Group.

Identification of interest rate risk involves a comprehensive and timely identification of the causes that lead to the creation of risks and involves determining current exposure as well as exposure to interest rate risk based on new business products and activities.

4. RISK MANAGEMENT (continued)

4.3.1. Interest rate risk (continued)

Measurement, or interest rate risk assessment, is a quantitative assessment of the identified interest rate risk using the following methods:

• GAP analysis;

• Ratio analysis;

• Duration;

• Basis risk analysis;

• Credit spread risk analysis - the impact of the sensitivity of changes in the credit spread on the securities portfolio.

Interest rate risk mitigation involves maintaining the risk at an acceptable level for the Bank's risk profile and implies the process of defining the Bank's exposure limits, as well as defining and implementing measures to mitigate interest rate risk.

The monitoring and monitoring of interest rate risk includes the process of monitoring compliance with the established system of limits, as well as monitoring the defined measures for reducing the Bank's interest rate risk. Interest rate risk control involves control at all levels of governance as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Interest rate risk reporting involves a clearly defined system of internal reporting to the competent committees and bodies of the Bank's members on interest rate risk management.

Internal limits are determined on the basis of the internal interest report GAP, which includes all balance sheet items. Internal limits are set within the risk appetite and refer to the indicator of the economic value of capital, the indicator of the credit spread on the portfolio of securities and the indicator of interest income.

During 2021, interest rate risk indicators were within internally defined limits.

The compliance with internally defined interest rate risk limits on the last day was as follows:

	Limits	**2021**	**2020**
Credit spread indicator - securities portfolio	7%	5.37%	4.47%
Interest income indicator (NII)	3.5%	1.24%	0.89%

Compliance with internally defined limits of economic value of capital:

	2021	**2020**
As of December 31	2.69%	2.89%
Average for period	2.77%	3.83%
Maximum for period	3.13%	5.21%
Minimum for period	1.44%	2.89%
Limit	**8%**	**10%**

4. RISK MANAGEMENT (continued)

4.3 Market risks (continued)

4.3.1. Interest rate risk (continued)

Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2021

Exposure to interest rate risk can also be seen on the basis of the GAP Report on interest rate risk for monetary assets and liabilities:

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total Interest-Bearing	Non-Interest Bearing	Total
Cash and cash funds held with the central bank	25,209,646	-	-	-	-	25,209,646	56,845,835	82,055,481
Loans and receivables due from other banks and other financial institutions	21,079,269	5,235,112	2,800,000	-	-	29,114,381	-	29,114,381
Loans and receivables due from customers	91,730,632	20,754,905	51,424,776	43,137,734	1,996,895	209,044,942	-	209,044,942
Financial assets (securities)	13,824,868	3,799,363	22,784,256	93,866,822	14,706,029	148,981,338	607,417	149,588,755
Other assets	-	-	-	-	-	-	1,975,567	1,975,567
Total	**151,844,415**	**29,789,380**	**77,009,032**	**137,004,556**	**16,702,924**	**412,350,307**	**59,428,819**	**471,779,126**
Deposits and other liabilities due to banks, other financial institutions and central bank	2,133,493	-	-	-	-	2,133,493	1,476	2,134,969
Deposits and other liabilities due to customers	340,549,150	7,715,980	29,490,012	22,998,574	1,038,413	401,792,129	1,494,289	403,286,418
Other liabilities	-	-	-	-	-	-	2,518,527	2,518,527
Total	**342,682,643**	**7,715,980**	**29,490,012**	**22,998,574**	**1,038,413**	**403,925,622**	**4,014,292**	**407,939,914**
Net liquidity gap as at:								
As of December 31, 2021	**(190,838,228)**	**22,073,400**	**47,519,020**	**114,005,982**	**15,664,511**	**8,424,685**	**55,414,527**	**63,839,212**
As of December 31, 2020	**(186,026,874)**	**12,523,922**	**28,407,641**	**134,961,865**	**24,958,589**	**14,825,143**	**48,111,928**	**62,937,071**

4. RISK MANAGEMENT (continued)

4.3 Market risks (continued)

4.3.1. Interest rate risk (continued)

Report on GAP-interest rate risk of the monetary sub-balance on December 31, 2020

In thousands of RSD

	Up to 1 month	From 1 – 3 months	From 3 – 12 months	From 1 – 5 years	Over 5 years	Total Interest-Bearing	Non-Interest Bearing	Total
Cash and cash funds held with the central bank	32,130,108	-	-	-	-	32,130,108	47,914,999	80,045,107
Loans and receivables due from other banks and other financial institutions	15,174,439	1,208,548	798,865	-	-	17,181,852	960,218	18,142,070
Loans and receivables due from customers	68,487,874	19,680,365	49,050,661	49,539,202	2,187,853	188,945,955	350,134	189,296,089
Financial assets (securities)	-	5,558,437	12,956,168	110,831,363	23,921,433	153,267,401	508,922	153,776,323
Other assets	-	-	-	-	-	-	2,695,244	2,695,244
Total	**115,792,421**	**26,447,350**	**62,805,694**	**160,370,565**	**26,109,286**	**391,525,316**	**52,429,517**	**443,954,833**
Deposits and other liabilities due to banks, other financial institutions and central bank	4,888,698	-	79,959	20,364	-	4,989,021	294	4,989,315
Deposits and other liabilities due to customers	296,892,340	13,923,428	34,318,094	25,388,336	1,150,697	371,672,895	1,026,506	372,699,401
Other liabilities	38,257	-	-	-	-	38,257	3,290,789	3,329,046
Total	**301,819,295**	**13,923,428**	**34,398,053**	**25,408,700**	**1,150,697**	**376,700,173**	**4,317,589**	**381,017,762**
Net liquidity gap as at:								
December 31, 2020	**(186,026,874)**	**12,523,922**	**28,407,641**	**134,961,865**	**24,958,589**	**14,825,143**	**48,111,928**	**62,937,071**
31.12.2019	**(169,137,057)**	**17,566,198**	**27,086,199**	**130,109,292**	**19,883,410**	**25,508,042**	**36,246,308**	**61,754,350**

4. RISK MANAGEMENT (continued)

4.3 Market risks (continued)

4.3.1. Interest rate risk (continued)

The GAP report on the interest rate risk of the monetary sub-balance sheet contains monetary balance positions arranged according to the period of re-forming the interest rate or the remaining period to maturity, depending on which period is shorter. In accordance with the above, a conservative assumption was made that all transactions and avista deposits will be withdrawn within one month.

The management of the Bank believes that the appropriate position matching by type of interest rate and re-establishment period provides a good precondition for existence with the required financial result while preserving the economic value of the capital.

Risk of interest rate changes

In addition to monitoring interest rate GAP, interest rate risk management involves monitoring the sensitivity of Bank's assets and liabilities to different interest rate scenarios, the Group regularly implements stress-based interest rate risk testing, which assesses the impacts of the change of key factors on the interest rate risk of the Bank.

In modelling the scenario, in addition to changing interest rates, the impact of early withdrawal of deposits and early repayment of loans, assessed by the Bank on the basis of historical developments and expert assessments, is specifically considered, the Bank has carried out an estimate of the movement of transaction deposits, demand deposits and retail savings by applying relevant statistical models from domain analysis of time series.

Baseline scenarios for stress testing of economic value indicators of capital include: standard shock - parallel shift of the yield curve by +/- 400 bps for RSD and +/- 200 bps for other currencies, rotation of the curve as well as growth / decline of the short-term curve.

The modeling scenarios for stress testing of interest income indicators use assumptions in the part of yield curve change based on historical series of averages of quarterly differences between market and applied interest rates as well as the scenario of parallel shift of yield curve by 100 basis points for RSD currency and 50 basis points for currencies EUR, USD, CHF and other currencies collectively, observed in the period up to one year

The analysis of the Bank's sensitivity, or the impact on the financial result of the increase and decrease in the interest rate, assuming symmetrical movements and a constant financial position, is given in the table:

In thousands of RSD

	Parallel increase of 100 b.p.	Parallel reduction of 100 b.p.
2021		
As at December 31,	812,124	(812,124)
2020		
As at December 31,	609,075	(609,075)

4. RISK MANAGEMENT (continued)

4.3.2. Foreign exchange risk

The process of managing foreign currency risk is carried out through identification, measurement, mitigation, monitoring, control and reporting on foreign exchange risk.

During the first half of 2021, the Bank harmonized the foreign exchange risk management process with the standards of the NLB Group.

The Bank comprehensively identifies in a timely manner the causes that lead to the creation of foreign currency risk, which implies determining the current exposure to foreign exchange risk, as well as the exposure to foreign exchange risk based on new business products and activities.

Measurement, or foreign exchange risk assessment, is a quantitative assessment of the identified foreign currency risk, using the following techniques:

• GAP analysis and foreign exchange risk indicator;

• VaR;

• Stress test;

• Backtesting.

Foreign exchange risk mitigation involves maintaining the risk at an acceptable level for the Bank's risk profile by setting a transparent system of limits and defining measures to mitigate foreign exchange risk.

Foreign exchange risk control and monitoring includes monitoring and the compliance of positions with internally and externally defined limits, as well as monitoring of defined and undertaken measures. Continuous monitoring and control of foreign currency risk enables timely measures to be taken to maintain foreign exchange risk within defined limits. Foreign exchange risk control involves control at all levels of governance, as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Foreign exchange risk reporting includes the internal and external reporting system and is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Bank coordinates its operations with the regulated foreign currency risk indicator, which represents the ratio of the open foreign exchange position and position in gold and regulatory capital.

Overview of the total risk foreign currency position and the regulated foreign currency risk indicator as at December 31, 2021:

	December 31, 2021	December 31, 2020
Total risk foreign exchange position	1,306,182	1,327,082
Foreign exchange risk indicator	2.00%	1.95%
Regulatory limit	**20%**	**20%**

4. RISK MANAGEMENT (continued)

4.3 Market risks (continued)

4.3.2. Foreign exchange risk (continued)

Review of monetary assets and monetary liabilities by currencies as at December 31,2021

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	43,703,757	210,126	8,007,477	620,924	**52,542,284**	-	-	-	29,513,197	**82,055,481**
Loans and receivables due from other banks and other financial institutions	15,242,500	2,097,905	450,110	3,077,949	**20,868,464**	-	-	-	8,245,917	**29,114,381**
Loans and receivables due from customers	6,910,244	1,138	-	-	**6,911,382**	138,770,935	-	47,704	63,314,921	**209,044,942**
Financial assets – securities	53,487,754	8,162,770	1,760,642	-	**63,411,166**	40,600	-	-	86,136,989	**149,588,755**
Other assets	612,254	2,136,748	894	119	**2,750,015**	-	-	-	-774,448	**1,975,567**
Total	**119,956,509**	**12,608,687**	**10,219,123**	**3,698,992**	**146,483,311**	**138,811,535**	**-**	**47,704**	**186,436,576**	**471,779,126**
Deposits and other liabilities due to banks, other financial institutions and central bank	970,794	192,765	140,395	29,461	**1,333,415**	1,352	-	-	800,202	**2,134,969**
Deposits and other liabilities due to customers	254,535,330	11,217,791	10,127,893	3,596,891	**279,477,905**	336,019	-	-	123,472,494	**403,286,418**
Other liabilities	313,134	149,104	4,868	14,948	**482,054**	805,394	-	-	1,231,079	**2,518,527**
Total	**255,819,258**	**11,559,660**	**10,273,156**	**3,641,300**	**281,293,374**	**1,142,765**	**-**	**-**	**125,503,775**	**407,939,914**
Net Currency Position December 31, 2021	**(135,862,749)**	**1,049,027**	**(54,033)**	**57,692**	**(134,810,063)**	**137,668,770**	**-**	**47,704**	**60,932,801**	**63,839,212**
Net Currency Position December 31, 2020	**(120,602,070)**	**79,935**	**(48,993)**	**72,710**	**(120,498,418)**	**119,348,953**	**-**	**53,894**	**64,032,642**	**62,937,071**

4. RISK MANAGEMENT (continued)

4.3 Market risks (continued)

4.3.2. Foreign exchange risk (continued)

Review of monetary assets and monetary liabilities by currencies as at December 31,2020

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	35,679,701	125,698	6,788,183	551,161	**43,144,743**	-	-	-	36,900,364	**80,045,107**
Loans and receivables due from other banks and other financial institutions	13,134,299	2,042,453	440,506	2,518,269	**18,135,527**	-	-	-	6,543	**18,142,070**
Loans and receivables due from customers	12,325,113	-	-	-	**12,325,113**	120,159,267	-	53,894	56,757,815	**189,296,089**
Financial assets – securities	53,996,985	9,753,914	1,739,077	-	**65,489,976**	105,757	-	-	88,180,590	**153,776,323**
Other assets	1,160,479	58,069	1,153	384	**1,220,085**	-	-	-	1,475,159	**2,695,244**
Total	**116,296,577**	**11,980,134**	**8,968,919**	**3,069,814**	**140,315,444**	**120,265,024**	**-**	**53,894**	**183,320,471**	**443,954,833**
Deposits and other liabilities due to banks, other financial institutions and central bank	1,507,857	914,569	135,295	21,147	**2,578,868**	20,158	-	-	2,390,289	**4,989,315**
Deposits and other liabilities due to customers	234,754,045	10,829,680	8,829,245	2,946,069	**257,359,039**	144,321	-	-	115,196,041	**372,699,401**
Other liabilities	636,745	155,950	53,372	29,888	**875,955**	751,592	-	-	1,701,499	**3,329,046**
Total	**236,898,647**	**11,900,199**	**9,017,912**	**2,997,104**	**260,813,862**	**916,071**	**-**	**-**	**119,287,829**	**381,017,762**
Net Currency Position December 31, 2020	**(120,602,070)**	**79,935**	**(48,993)**	**72,710**	**(120,498,418)**	**119,348,953**	**-**	**53,894**	**64,032,642**	**62,937,071**

4. RISK MANAGEMENT (continued)

4.3 Market risks (continued)

4.3.2. Foreign exchange risk (continued)

A review of the ten-day VaR

The Bank also performs stress testing of foreign exchange risk, which assesses the potential impact of specific events and/or changes in more financial variables on the financial result, equity and foreign exchange risk ratio.

VaR denotes the largest possible loss in the Bank's portfolio for a certain period and at a predetermined confidence interval. The Group calculates one-day and ten-day VaR, with a confidence interval of 99%, on foreign currency positions (foreign currency VaR). The Bank calculates VaR using the autoregressive-heteroscedic model GARCH, for which it did not request the approval of the National Bank of Serbia, in order to assess regulatory capital requirements for foreign exchange risk.

Foreign currency VaR is accounted for in foreign currency positions, as well as in positions of indexed currency clauses contained in the banking book and trading book.

A review of the ten-day VaR with a confidence interval of 99% for 2021 and 2020 is shown as follows:

In thousands of RSD

	As at December 31,	Average	Maximum	Minimal
2021				
Foreign currency risk	17,267	752	17,267	43
2020				
Foreign currency risk	926	2,841	61,825	82

4.4. Operational risk

Operational risk is the risk of possible negative effects on the Bank's financial result and capital due to omissions (intentional and unintentional) in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the bank, as well as unforeseen external events. Operational risk includes legal risk, but not strategic and reputational risk. However, due to its importance, reputational risk is taken into account in operational risk management. Operational risk is defined as an event that occurs as a result of inappropriate or failed internal processes, actions of employees and systems or systemic and other external events, internal and external fraud, employment and workplace safety practices, customer claims, product distribution, fines and penalties for injuries, damage to tangible assets, business disruptions and systemic failures and process management.

The Bank also monitors operational risk events along the following lines of business: financing of economic entities, trade and sales, brokerage operations with individuals, banking operations with companies, banking operations with individuals, payment operations, client account services and asset management.

The operational risk management process is an integral part of the Bank's activities implemented at all levels and enables identification, measurement, mitigation, monitoring and control and reporting of operational risks in accordance with regulatory requirements and deadlines. The existing process relies on reliable methods of measuring operational risk exposure , operational losses database, up - to - date control and reporting system.

4. RISK MANAGEMENT (continued)

4.4. Operational risk (continued)

The Bank monitor daily operational risk events and manage operational risks. In order to efficiently monitor operational risk, in each organizational part of the Bank, employees for operational risks are appointed, who are responsible for the accuracy and promptness of data on all operational risk events, as well as for recording all incurred events in the operational risk database. The organizational part of the Bank in charge of risk management monitors and reports on operational risks to the Bank's Board of Directors, the Bank's Executive Board and the Audit Committee, ALCO Committee and Operational Risk Committee.

The Bank performs measurement and / or assessment of operational risk through a quantitative and /or qualitative assessment of the identified operational risk. The Bank conduct measurement of operational risk exposure through event logging, and self-evaluation. Key risk indicators are an early warning to signal changes in the Bank's risk profile. They relate to a specific operational risk and show greater exposure in the occurrence of operational risk events. Their purpose is to help reduce losses and operational risks through proactive consideration of risk factors.

The Bank's operational risk profile represents the Bank's exposure to operational risk and serves as a basis for making additional decisions, which would improve the existing operational risk profile and bring it closer to the target profile. The existing profile of identified operational risks is the result of the identification and assessment of operational risks within certain processes by organizational forms, which is carried out at least once a year. The existing operational risk profile includes operational risks that operational risk custodians (persons responsible for monitoring operational risks, as well as other employees) see within their organizational forms or outside them. During 2021, besides other assessments of the operational risks in the processes the Bank conducted an assessment of operational risk exposure. in the context of the Covid 19 virus pandemic as well as in the integration process and identified operational risks. Appropriate risk mitigation measures have been defined for the identified operational risks.

During the first quarter of 2021, the Bank complied with the standards of the NLB Group in the area of internal acts that define a comprehensive process of operational risk management. In addition, in the second quarter of 2021, the Bank implemented new software (LED) which is also used within the NLB Group and is intended for recording, monitoring and analyzing operational risks and adverse events and is in line with the ICAAP process applied at the Group level.

The Bank can’t eliminate all operational risks, but by introducing an appropriate control framework, monitoring and mitigating potential risks, it establishes a process for managing operational risk and the Bank takes measures to mitigate operational risks and proactively respond to potential operational risk events through permanent monitoring of all activities, implementation of adequate and a reliable information system and orientation to the project approach, whose implementation improves business practice and optimizes business processes.

Through reliable reporting on the implementation of measures to mitigate operational risks, the Bank has established a monitoring system for activities undertaken by the Bank in order to reduce operational risks and preventive responses to emerging operational events. The Bank assesses the risk of relying on third parties for performing certain activities related to business, based on a contract concluded with those persons that clearly define the terms, rights, obligations and responsibilities of the contracted parties.

For the purpose of smooth and continuous operation of all significant Bank's systems and processes, as well as limitation of losses in emergencies, the Bank adopted the Business Continuity Plan, with the goal of restoring the recovery of the information technology system in case of termination of operations. The Bank has adopted the Disaster Recovery Plan.

4. RISK MANAGEMENT (continued)

4.5. Risks of investment

The risk of the Bank's investment represents the risk of investments in other legal entities and in fixed assets and investment property. The Bank's investment in a entity which is not a entity in the financial sector may be up to 10% of the Bank's capital, whereby this investment implies an investment by which members of the Bank acquire a holding or shares of a person other than a person in the financial sector. The Bank's total investments in entities which are not entities in the financial sector and in fixed assets and investment property of the Bank may be up to 60% of the Bank's capital, except that this restriction does not apply to the acquisition of shares for their further sale within six months of the date of acquisition.

4.6. Risk of exposure

The Bank's large exposure to a single entity or a Bank of related parties, including entities related to the Bank, is an exposure that exceeds 10% of the Bank's capital.

In its business, the Bank takes care of compliance with the regulatory defined exposure limits:

• Exposure to a single client or a Bank of related parties must not exceed 25% of the Bank's capital;

• The sum of all large Bank exposures must not exceed 400% of the Bank's capital.

Defined limits of exposure to one client or a Bank of related parties also applies to clients related to the Bank.

The Bank's exposure to one entity or Bank of related parties, as well as the exposure to clients related to the Bank, was within the prescribed limits.

4. RISK MANAGEMENT (continued)

4.7. Country risk

The risk of the country is a risk that relates to the country of origin of the entity to which the Bank is exposed, or the risk of the possibility of negative effects on the Bank's financial result and capital due to the inability of the Bank members to collect receivables from the debtor for reasons arising from political, economic or social country of origin of the debtor. The country's risk includes the following risks:

• Political and economic risk, which implies the likelihood of a loss due to the inability of members of the Group to collect receivables due to restrictions established by the acts of the state and other authorities of the country of origin of the debtor, as well as the general and systemic circumstances in that country;

• Transfer risk, which implies the likelihood of a loss due to the inability to collect receivables denominated in a currency other than the official currency of the country of origin of the debtor, due to the limitation of the payment of obligations towards creditors from other countries in a particular currency as determined by the acts of the state and other authorities of the debtor country.

The Bank manages the country's risk at the level of individual placements and at the level of portfolio. The Bank measure and control the exposure of individual placements to country risk by determining the category of the internal rating of the debtor's country, based on the rating assigned by internationally recognized rating agencies and determining the exposure limit as a percentage of the Bank's capital depending on the country's internal rating category. The Bank performs measurement and control of the exposure of the country risk portfolio based on the grouping of receivables according to the degree of risk of the debtor countries.

In order to adequately manage the country's risk, the Bank defines the exposure limits individually by country of origin of the debtor.

The Bank's placements approved to debtors domiciled outside the Republic of Serbia for financing operations in the Republic of Serbia, whose financial obligations to the Bank are expected to be settled from the source of operations realized in the Republic of Serbia, represent the Bank's receivables.

4. RISK MANAGEMENT (continued)

4.8. Fair value of financial assets and liabilities

Overview of the carrying amount and fair value of financial assets and liabilities not measured at fair value

In thousands RSD

	December 31, 2021					December 31, 2020				
	Carrying amount	Fair value	Level 1	Level 2	Level 3	Carrying amount	Fair value	Level 1	Level 2	Level 3
Financial assets										
Cash and cash funds held with the central bank	82,055,482	82,055,482	82,055,482	-	-	80,045,107	80,045,107	80,045,107		
Loans and receivables due from other banks and other financial institutions	29,114,381	29,114.381	29,114,381	-	-	18,142,070	18,142,070	18,142,070		
Loans and receivables due from customers	209,044,943	208,948,338			208,948,338	189,296,089	187,604,124	-	-	187,604,124
Other asset	5,430,723	5,430,723	5,430,723	-		6,216,270	6,216,270	6,216,270		
Securities at amortized cost	934,484	934,484	-	-	934,484	842,240	842,240			842,240
Liabilities										
Deposits and other liabilities due to banks, other financial institutions and central bank	2,134,969	2,134,969	1,705,139	-	429,830	4,989,315	4,989,315	4,855,845		133,470
Deposits and other liabilities due to customers	403,286,418	403,239,009			403,239,009	372,699,401	372,432,163			372,432,163
Other liabilities	4,142,443	4,142,443			4,142,443	3,329,046	3,329,046			3,329,046

The calculated fair value of loans and advances to customers, as well as deposits received is equal to the fair value estimated by NLB dd and at which they are recognized on the date of acquisition of the majority stake in the Bank. On the date of acquisition, the impairment of most of the financial assets that have the status of risk-free exposures was also recognized. The values in the table above are shown in accordance with the fair values of these positions estimated on the day of the takeover of the Bank (December 31, 2020) and amortized until December 31, 2021, respectively. years.

4. RISK MANAGEMENT (continued)

4.8. Fair value of financial assets and liabilities

4.8.2. Financial instruments measured at fair value

	December 31, 2021				December 31, 2020			
Financial assets	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets at fair value through profit and loss in RSD	512,823	-	-	512,823	508,922	4,873,616	-	5,382,538
Financial assets at fair value through profit and loss in foreign currency	-	-	-	-	-	2,925,568	-	2,925,568
Financial assets at fair value through other comprehensive income in RSD	-	84,689,682	-	84,689,682	-	81,955,812	-	81,955,812
Financial assets at fair value through other comprehensive income in foreign currency	23,033,402	40,377,764	40,600	63,451,766	18,095,705	44,468,703	105,757	62,670,165
Total	**23,546,225**	**125,067,446**	**40,600**	**148,654,271**	**18,604,627**	**134,223,699**	**105,757**	**152,934,083**

Level 1 includes financial instruments that are traded on the international market and where there is an adequate price available or which are traded by the method of continuous trading, if the instruments are from the Belgrade Stock Exchange (bonds of the Republic of Serbia and Republika Srpska traded on the international market, Republic of Slovenia, Republic of Ireland, USA, Raiffeisen Bank International), while level 2 contains securities whose fair value is estimated on the basis of internally developed models based on information from auctions or the secondary securities market (RS bonds in RSD and EUR).

The fair value of assets for which no direct trading information is available is assigned to Level 3 (municipality bonds).

During 2021, one of the two municipal bonds was collected, so that the amount distributed in level 3 was further reduced and is immaterial, so that the movement is influenced by the calculation of interest and maturity.

4. RISK MANAGEMENT (continued)

4.9. Capital management

The Bank has established a risk management system in accordance with the scope and structure of its business activities, and the objective of capital management is the smooth realization of the Bank's business objectives.

The calculation of capital and capital adequacy ratios has been in accordance with Basel III standard as of June 30, 2017.

The main goals of managing the capital are:

- Preservation of the minimum regulatory requirement (EUR 10 million);
- Maintenance of individual capital buffers;
- Respect of the minimum regulatory capital adequacy ratios increased for the combined capital buffer;
- Maintaining confidence in security and business stability;
- Realization of business and financial plans;
- Supporting the expected growth in placements;
- Enabling the optimism of future sources of funds and their use;
- Achieving dividend policy.

The regulatory capital of the Bank is the sum of the Tier 1 capital (consisting of the Common Equity Tier 1 capital and additional Tier 1 capital) and Tier 2 capital, reduced for the deductible items. Capital adequacy ratios represent the ratio of capital of the Bank (total, Tier 1 or Common Equity Tier 1) and the sum of: risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries, settlement / delivery risk except on the basis of free delivery), market risks, operational risk, risk exposure amount for credit valuation adjustment and risk exposure amount related to exposure limit excesses in the trading book. Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries of the banking Bank shall be determined in accordance with the prescribed risk weight for all exposure classes. Risk exposure amount for operational risk is calculated by multiplying the reciprocal value of the prescribed capital adequacy and capital requirements for operational risk, determined as the three-year average of the product of the exposure indicator in all lines of business and the prescribed capital requirements for each business line.

4. RISK MANAGEMENT (continued)

4.9. Capital management (continued)

Capital adequacy ratios

In thousands of RSD

	December 31, 2021	December 31, 2020
Tier 1 capital	66,069,102	68,767,512
Common Equity Tier 1 capital	65,695,592	68,394,002
Additional Tier 1 capital	373,510	373,510
Deductible items of capital	(713,172)	(547,809)
Capital	**65,355,930**	**68,219,703**
Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries	194,363,632	172,470,230
Risk exposure amount for operational risk	34,534,805	34,167,575
Risk exposure amount for market risks	-	3,268,120
Capital adequacy ratio (min. 19.07%)	**28.55%**	**32.50%**
Tier 1 capital adequacy ratio (min. 15.87%)	**28.55%**	**32.50%**
Common Equity Tier 1 capital adequacy ratio (min. 13.46%)	**28.39%**	**32.32%**

During 2021, all prescribed capital adequacy ratios were above regulatory limits (12.80% + combined capital buffer, 9.60% + combined capital buffer and 7.19% + combined capital buffer for indicators of adequacy of total, Tier 1 and Common Equity Tier 1 capital respectively) .

By the Capital Management Strategy and Plan, the Bank ensures the maintenance of the level and structure of internal capital that provides adequate support for the growth of placements, future sources of funds and their use at the banking group level, the implementation of dividend policy, and adjustment to changes in regulatory requirements.

During 2021, the Bank calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of the Tier 1 capital and the amount of exposures that are included in the calculation of the ratio.

The Capital Management Plan, as part of the capital management system, includes:

- Strategic goals and the period for their realization;
- A description of the process of managing the available internal capital, planning its adequate level and responsibility for this process;
- Procedures for planning an adequate level of available internal capital;
- The way to reach and maintain an adequate level of available internal capital;
- Restrictions on available internal capital;
- Demonstrating and explaining the effects of stress testing on internal capital requirements;
- Allocation of capital;
- Business plan in case of occurrence of unforeseen events.

4. RISK MANAGEMENT (continued)

4.9. Capital management (continued)

On a continuous basis, the Bank conducts the process of internal capital adequacy assessment in accordance with the nature, scope and complexity of its business activities, in accordance with the Risk Management Strategy, Individual Risk Management Policies and the Capital Management Strategy.

The process of internal capital adequacy assessment, as a documented and continuous process, meets the following requirements:

- is based on identification and risk measurement;
- provides a comprehensive assessment and monitoring of the risks to which the Bank is exposed or may be exposed;
- Provides adequate available internal capital in accordance with the risk profile of the Bank;
- is involved in the banking Bank management system and decision making;
- Subject to regular analysis, monitoring and verification.

The stages of the internal capital adequacy assessment process at the Bank include:

- Determination of materially significant risks, in accordance with qualitative and quantitative criteria;
- Calculation of the amount of internal capital requirements;
- Calculation of stressed internal capital requirement for individual risks;
- Determining the total internal capital requirement;
- Comparison of the following elements:
  a. capital and available internal capital;
  b. minimum capital requirements and internal capital requirements for individual risks;
  c. the sum of minimum capital requirements and total internal capital requirements.

5. USE OF ASSESSMENT

The management uses assumptions and estimates that have an effect on the presented values of assets and liabilities during the reporting period. Estimates, as well as assumptions on the basis of which estimates have been made, are the result of regular checks. These estimates and assumptions are based on previous experience, as well as different information available on the day of drawing up financial statements, which act in a realistic and reasonable manner in the circumstances, applying expected credit loss concept.

Key sources of estimation uncertainty

Provisions for credit losses

Assets that are valued at amortised cost are assessed for impairment in the manner described in accounting policy 3 (j).

The impairment of placements aims ensure a reasonable, careful and timely determination of losses in order to protect the Bank's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the contingent liabilities.

Impairment of placements and provisions are only made when there is a reasonable basis, i.e. when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, and which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, the difficulties in the cash flows of the borrower (financial difficulties), the decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that the loan will be settled from these assets.

The Bank assesses the impairment of receivables on a group and on a individual basis.

5. USE OF ASSESSMENT (continued)

Individual assessment

The Bank assesses the impairment allowance for each individually significant placement with the default status, i.e. placements that are classified at stage 3 in accordance with IFRS 9. On this occasion, account is taken of the financial position of the loan beneficiary, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the client's creditworthiness, the value of collateral and the certainty of fulfillment of client's obligations towards the Bank, a new assessment of the impairment of placements is made.

An impairment allowance on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

Objective evidence that indicates the need for impairment of placements is considered to be:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfilment of other contractual provisions;
- when the members of the Bank, due to the financial difficulties of the borrower, substantially change the terms of repayment of claims in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) and the like.

Evidence can be documented by the analysis of the Watch process, information on the increased level of debtors' risk, reports from meetings held with the debtor, reports on the monitoring of clients collateral, reports of enforced collection and days of blockade, reports on loans in arrears and other information which the Bank has.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the planned future cash flows of the borrower. When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Bank recognizes the existence of multiple collection scenarios when estimating the expected future cash flows. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Bank on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

5. USE OF ASSESSMENT (continued)

Group assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and which are not individually significant in default status and for placements for which impairment allowance calculated on individual assessment has not been determined, as well as receivables based on commissions and other receivables that are not reduced to the present value.

Bank estimates are carried out by groups according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the economy sector and by rating groups by type of placements in the household sector), based on the internal rating system at the monthly level. The principle of expected loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of statistically proven interdependencies.

Group-based impairment is based on the expected credit loss in accordance with the probability of default in the next 12 months (stage 1 receivables), except in cases where there is a significant increase in credit risk in relation to the moment of initial recognition, when the credit loss assessment is carried out on the probability of default for the instrument's life span (stage 2 receivables).

By appreciating the specifics of the clients, migrations for corporate clients, micro businesses, retail clients by product types, financial institutions and exposure to countries are determined separately.

The impairment allowance reduces the gross amount of the placements and is recognized as an expense in the income statement.

Determining the probable loss on off-balance sheet items

Determining the probable loss on off-balance sheet items (contingent liabilities) is carried out when it is estimated that there is enough certain expectation that an outflow of funds will be made to settle the contingent liability. The Bank also determines the probable loss for unused commitments, for which there is not unconditional and without prior notice, possible cancelation the contracted obligation. When calculating provisions based on unused commitments, the Bank uses a conversion factor (CCF) that adjusts the carrying amount of unused commitments.

5. USE OF ASSESSMENT (continued)

Determination of fair value

The fair value of financial instruments is the amount by which assets can be exchanged or liabilities settled between the well informed, willing parties in a transaction under market conditions.

The Bank performs valuation of financial instruments by:

- Fair value through profit and loss
- fair value through other comprehensive income, with the recognition of "recycling" or without recognition in the income statement.

Financial assets and liabilities classified at fair value through the profit and loss account are subsequently measured at the fair value without including the cost of sales or other expenses when the recognition is terminated. Gains / losses arising from the change in the fair value of these financial instruments, their dividend income, and exchange rate differences are recognized in the income statement. There is no test of the potential impairment of these financial instruments.

After initial recognition, equity instruments are subsequently measured depending on whether they have a quoted market price. Instruments of capital which have a quoted market price are measured at market value, and investments in equity instruments that do not have a quoted market price in an active market are measured using valuation techniques, combining more available approaches and techniques for measuring fair values.

Investments in equity instruments that are not held for trading and which are measured at fair value through other comprehensive income are subsequently measured at fair value excluding the cost of sales or other expenses in case of derecognition.
With the exception of received dividends recognized in the income statement, all other related gains and losses, including a component of foreign exchange differences, are recognized in the other comprehensive income, through equity.

The amounts shown in the other comprehensive income cannot be subsequently transferred to the income statement, although cumulative gains or losses can be transferred within equity, to undistributed profits.

Investments in debt instruments that are valued at fair value through other comprehensive income are valued in the following way after initial recognition:

a. gains / losses from impairment, which are derived from the same methodology, which is also applied to financial assets measured at amortized cost, are recognized in the income statement;
b. gains / losses on exchange differences are recognized in the income statement;
c. interest income, calculated using the effective interest method, is recognized in the income statement;
d. gains / losses from changes in fair value are recognized through other comprehensive income;
e. in case of modification made, the gain / loss from modification is recognized in the income statement and
f. in case of derecognition, the cumulative gain / loss previously recognized through the other comprehensive income is reclassified from equity to the income statement, as adjustment due to reclassification.

5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

Financial derivatives are subsequently translated at market value. Market values of financial derivatives are obtained on the basis of various valuation techniques, including the discounting of cash flows. The change in the value of financial derivatives is accounted for in the balance sheet and income statement.

Changes in the fair value of financial liabilities for liabilities that are measured at fair value are made in the case of:

- a change in fair value that is a consequence of a change in its own credit risk of an obligation is reflected in the other comprehensive income, and
- the remaining amount of the change in the fair value of the liability is recorded in the income statement.

Financial liabilities held for trading and derivatives, after initial recognition and impairment, are valued at fair value.

The change in the fair value of a financial liability held for trading is included in income statement of the period in which it was incurred.

If the Bank settles its obligations towards creditors and employees in cash, which is determined in relation to the price of the shares or has the option to determine between these two methods of settling the obligation, the valuation of such transactions is carried out in accordance with the relevant IFRS.

The concept of fair value

When measuring fair values, the Bank identifies methods/techniques that need to maximize the use of observable inputs and to minimize the use of unobservable inputs.

There are 3 approaches for measuring fair values:

- market approach
- income approach
- cost approach

The Bank determines the fair value of financial instruments at the balance sheet date. Whenever possible, the Bank performs measurement of fair value using the market prices available in the active market for the given instrument. The market is considered active if quoted prices are easily and regularly available and represent real and regular market transactions at market conditions.

In the event that the market for financial instruments is not active, fair value is determined using estimation methodology. Estimation methodologies include transactions at market terms between the well informed, willing parties (if available), reference to the existing fair value of other instruments that are essentially the same, discounted cash flow analyzes, and other alternative methods. The selected estimation methodology maximizes the use of market data, is based on the least possible extent on the Bank-specific estimates, includes all factors that market participants consider as determining for the price, in accordance with the accepted economic methodologies for determining the price of financial instruments. Input data for estimation methods reasonably reflect market expectations and risk-bearing factors that are contained in a financial instrument. The assessment methods are adjusted and tested for their correctness by using the prices from perceptible existing transactions on the market for the same instruments, based on other available observable market data.

5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

The best evidence of the fair value of a financial instrument in the initial recognition is the price achieved in the transaction, i.e. the fair value of the consideration given or received, unless the fair value of the instrument is proven by comparison with other remarkable existing transactions on the market for the same instruments (without modification or re-formulation) or is based on an estimation method whose variables include only data that is visible on the market. When the price achieved in a transaction gives the best evidence of fair value at initial recognition, financial instruments are initially measured at the cost of the transaction and all the differences between that price and the value initially established by the valuation method are subsequently recorded in the income statement, depending on the individual facts and circumstances transactions, but not later than the moment when the assessment is supported by perceptible market data or when the transaction is completed.

Any difference between the fair value at initial recognition and the amount that may depend on the non-observable parameters are recognized in the income statement without delay but are recognized over the life of the instrument in an appropriate manner or when they are purchased, transferred or sold, or when the fair value becomes noticeable. The assets and long positions are measured at the offered price, and the obligations and short positions are measured at the required price. The fair value reflects the credit risk of the instrument and includes adjustments that reflect the credit risk of the Bank and other counterparties, where relevant. Estimates of fair values based on assessment models are corrected for all other factors, such as liquidity risk or uncertainty models, to the extent that the Bank considers that third parties can take them into account when determining the transaction price.

Determination of the fair value of financial instruments and recognition of the effects of the assessment is carried out on the basis of the provisions of the Methodology for determining the fair value of financial instruments , based on Politics and Strategy risk management .

6. SEGMENT REPORTING

The Bank has three operating segments – profit centres, which are the Bank's strategic divisions and their business is object of segment reporting.

The following summary describes the operations in each of the Bank's reporting segments:

Corporate Banking	Includes loans, deposits and other transactions and balances with corporate customers but not with banks
Retail Banking	Includes loans, deposits and other transactions and balances with retail customers, micro businesses, entrepreneurs and agriculture clients
Investment banking and interbank operations	Include securities and other financial instruments, as well as transactions with banks

Revenues from collected written-off receivables in the total amount of RSD 2,566,904 thousand, provisions for severance pay in the amount of RSD 1,610,928 thousand and net provisions legal costs in the total amount of RSD 1,418,371 thousand had a significant impact on the Bank's operations in 2021.

When producing segment reports, operational operating costs are divided into direct operating costs (directly under the control of business segments or directly linked to segment business) and indirect operating costs (the amount of these costs is not directly controlled by the segments or there is no direct link to the business of the segments).

Each business segment is granted with direct operating costs relating to this segment as well as with part of indirect operating expenses (distribution of these costs to segments is performed using the corresponding keys that are used for the allocation of costs of cost centres to profit centres).

Direct operating expenses at Bank level amounted to RSD 8,037,683 thousand and make up 67% of total operating costs. Direct operating costs are mostly comprised of expenses that are directly attributable to the business segments (salaries, rental costs, depreciation costs, marketing and other costs), and a minor part are comprised of expenses that are allocated to the segments based on management decisions.

The amount which refers to the segment of retail banking was RSD 6,079,203 thousand of direct costs (76% of total direct costs) as a result of large business network and number of employees in the retail sector.

In accordance with the aforementioned, in 2021, the Bank realized pre-tax profit in the amount of RSD 3,463,384 thousand.

6. SEGMENT REPORTING (continued)

Operating segments report for 2021 is provided below:

	Retail Banking	Corporate Banking	Investment and Interbank operations	Other	Total
Revenues and expenses					
Interest income	7,052,260	2,167,413	3,884,028	-	13,103,701
Interest expenses	(667,468)	(46,131)	(220,854)	(24,139)	(958,592)
Net interest income	6,384,792	2,121,282	3,663,174	(24,139)	12,145,109
Net income from fees and commissions	4,506,477	854,181	376,706	-	5,737,364
Result before impairment allowance	10,891,269	2,975,463	4,039,880	(24,139)	17,882,473
Net gains/losses from impairment allowance	(923,178)	471,169	467,781	-	15,772
Profit before operating expenses	9,968,091	3,446,632	4,507,661	(24,139)	17,898,245
Direct operating expenses	(6,079,203)	(1,741,152)	(217,328)	-	(8,037,683)
Net foreign exchange gains/losses	-	-	53,070	-	53,070
Net other income and expenses	(2,096,439)	(350,815)	(127,191)	-	(2,574,445)
Profit before indirect operating expenses	1,792,449	1,354,665	4,216,212	(24,139)	7,339,187
Indirect operating expenses	(2,214,135)	(1,360,391)	(301,277)	-	(3,875,803)
Profit before tax	**(421,686)**	**(5,726)**	**3,914,935**	**(24,139)**	**3,463,384**
Assets per segment					
Cash and cash funds held with the central bank	-	-	82,055,481	-	82,055,481
Loans and receivables due from banks	-	-	29,114,381	-	29,114,381
Loans and receivables due from customers	119,203,834	89,841,108	-	-	209,044,942
Investment securities	-	-	149,588,755	-	149,588,755
Other	-	-	1,628,063	18,008,783	19,636,846
	119,203,834	**89,841,108**	**262,386,680**	**18,008,783**	**489,440,405**
Liabilities per segment					
Liabilities to banks	-	-	2,134,969	-	2,134,969
Obligations to clients	343,567,750	48,698,634	11,020,034	-	403,286,418
Other	-	-	-	8,376,296	8,376,296
	343,567,750	**48,698,634**	**13,155,003**	**8,376,296**	**413,797,683**

6. SEGMENT REPORTING (continued)

Operating segments report for 2020 is provided:

	Retail Banking	Corporate Banking	Investment and Interbank operations	Other	Total
Revenues and expenses					
Interest income	6,904,573	2,151,235	4,145,459	-	13,201,267
Interest expenses	(772,562)	(170,956)	(172,685)	(15,774)	(1,131,977)
Net interest income	6,132,011	1,980,279	3,972,774	(15,774)	12,069,290
Net income from fees and commissions	3,627,660	738,724	509,024	-	4,875,408
Profit before impairment allowance	9,759,671	2,719,003	4,481,798	(15,774)	16,944,698
Net gains/losses from impairment allowance	(186,045)	(903,135)	17,148	-	(1,072,032)
Profit before operating expenses	9,573,626	1,815,868	4,498,946	(15,774)	15,872,666
Direct operating expenses	(5,822,469)	(1,832,875)	(216,522)	-	(7,871,866)
Net foreign exchange gains/losses	-	-	4,404	-	4,404
Net other income and expenses	(1,288,112)	529,435	152,177	-	(606,500)
Profit before indirect operating expenses	**2,463,045**	**512,428**	**4,439,005**	**(15,774)**	**7,398,704**
Indirect operating expenses	(2,027,685)	(1,286,221)	(286,279)	-	(3,600,185)
Profit before tax	435,360	(773,793)	4,152,726	(15,774)	3,798,519
Assets per segment				-	
Cash and cash funds held with the central bank	-	-	80,045,107	-	80,045,107
Loans and receivables due from banks	-	-	18,142,070	-	18,142,070
Loans and receivables due from customers	109,884,102	79,411,987	0	-	189,296,089
Investment securities	-	-	153,776,323	-	153,776,323
Other	-	-	3,433,697	15,308,113	18,741,810
	109,884,102	**79,411,987**	**255,397,197**	15,308,113	460,001,399
Liabilities per segment					
Liabilities to banks	-	-	4,989,315	-	4,989,315
Obligations to clients	310,252,041	47,903,374	14,543,986	-	372,699,401
Other	-	-	-	7,652,144	7,652,144
	310,252,041	**47,903,374**	**19,533,301**	**7,652,144**	**385,340,860**

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

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

(i) Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are highly liquid or having a short term original maturity (less than one year) it is assumed that the carrying amount is approximate to their fair value. This assumption is also applied to demand deposits, saving accounts without a specific maturity and all variable interest rate financial instruments.

(ii) Fixed rate financial instruments

The fair value of fixed interest rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The assessed fair values of assets and liabilities with fixed interest rates mostly correspond to the carrying values thereof given that the interest rates applied do not depart from market interest rates. There are no materially significant departures in this respect (Note 4.8.).

8. NET INTEREST INCOME / (EXPENSES)

Net interest income / expenses include:

	In thousands of RSD	
	Year ended December 31,	
Income from:	**2021**	**2020**
Loans and receivables due from banks (REPO)	60,480	69,140
Loans and receivables due from customers	9,219,445	9,055,660
The National Bank of Serbia (liquid assets deposited and mandatory reserves	28,635	100,519
Securities at fair value through profit or loss	35,541	-
Securities that are not carried at fair value through profit or loss	3,759,373	3,975,800
Leasing contracts - derecognition	227	148
Total interest income	**13,103,701**	**13,201,267**
Expenses from:		
Deposits and liabilities due to banks and other financial institutions	(92,859)	(71,389)
Deposits and liabilities due to customers	(828,250)	(1,040,911)
Borrowings received	(1,515)	(3,903)
Securities that are not carried at fair value through profit or loss	(11,829)	-
Leasing liabilities	(14,538)	(15,774)
Actuarial calculation	(9,601)	-
Total interest expenses	**(958,592)**	**(1,131,977)**
Net interest income	**12,145,109**	**12,069,290**

All interest income and expense shown in the previous table are calculated using the effective interest method, except those relating to securities carried at fair value through profit or loss (calculated using the agreed interest rate), leasing contracts (calculated using incremental). borrowing rates) and on the basis of actuarial calculation (calculated using the discount rate in accordance with IAS 19).

9. NET INCOME / (EXPENSES) FROM FEES AND COMMISSIONS

Net fee and commission income includes:

	In thousands of RSD Year ended December 31, 2021	2020
Fees and commission income in domestic currency		
Payment transfer operations	3,728,064	3,317,831
Fees on issued loans and guarantees	150,833	122,556
Fees on purchase and sale of foreign currencies	602,984	551,327
Brokerage and custody fees	32,666	26,975
Fees arising from card operations	2,204,651	1,878,548
Credit Bureau processing fees	62,579	50,929
Other banking services	534,802	475,227
	7,316,579	**6,423,393**
Fees and commission income in foreign currencies		
Payment transfer operations	109,832	95,977
Fees on issued loans and guarantees - corporate customers	2,126	1,920
Brokerage and custody fees	42,935	34,328
Fees arising from card operations	175,911	141,233
Other banking services	141	64
	330,945	**273,522**
Fee and commission income	**7,647,524**	**6,696,915**
Fee and commission expenses in domestic currency		
Payment transfer operations	(235,299)	(167,749)
Fees arising on purchase and sale of foreign currencies	(15,828)	(31,696)
Fees arising from card operations	(572,276)	(437,974)
Credit Bureau processing fees	(56,596)	(47,894)
Other banking services	(60,846)	(220,535)
	(940,845)	**(905,848)**
Fee and commission expenses in foreign currencies		
Payment transfer operations	(116,541)	(115,161)
Fees arising from card operations	(765,090)	(748,643)
Other banking services	(87,684)	(51,855)
	(969,315)	**(915,659)**
Fee and commission expenses	**(1,910,160)**	**(1,821,507)**
Net fee and commission income	**5,737,364**	**4,875,408**

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

Net gains on the financial assets held for trading include:

	In thousands of RSD Year ended December 31, 2021	2020
Gains on the fair values of securities and other funds are valued at fair value through PL-Bonds of the Republic of Serbia	-	90,707
Gains on the fair value adjustment of securities – investment units	4,823	4,922
Net gain / loss	**4,823**	**95,629**

11. NET GAINS / (LOSSES) FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Net gain/loss on the grounds of termination of recognition consists of:

	In thousands of RSD Year ended December 31, 2021	2020
Gains arising from derecognition of financial instruments at fair value through Other Comprehensive Income	163,816	70,778
Gains arising from derecognition of securities at fair value through Profit and loss	39,039	122,007
Gains arising from derecognition of derivatives at fair value through Profit and loss – FORWARD	-	4,537
Losses arising from derecognition of financial instruments valued at fair value through Other Comprehensive Income	(348)	-
Losses from derecognition of derivatives valued at fair value trough Profit and loss - FORWARD	-	(202)
Gains arising from derecognition of financial instruments at fair value through Other Comprehensive Income	(5,264)	(39,324)
Net gain / loss	**197,243**	**157,796**

Gains arising from derecognition of financial instruments valued at fair value through Other Comprehensive Income in the amount of RSD 163,816 thousand relates to bonds of the Republic of Serbia denominated in foreign currency.

Gains arising from derecognition of securities and other investments at fair value through income statement in the amount of RSD 39,039 thousand relates to: bonds of the Republic of Serbia in dinars in the amount of RSD 26,912 thousand, the bonds of the Republic of Serbia in foreign currency amounting to RSD 10,019 thousand, foreign government bonds in foreign currency in the amount of RSD 286 thousand and investment units in total of RSD 1,822 thousand.

11. NET GAINS / (LOSSES) FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (continued)

Losses arising from derecognition of securities and other investments at fair value through Profit and loss amounting to RSD 5,264 thousand relates to: bonds of the Republic of Serbia in dinars amounting to RSD 4,489 thousand and the bonds of the Republic of Serbia in a foreign currency of RSD 775 thousand.

12. NET EXCHANGE RATE GAINS / (LOSSES) AND GAINS / (LOSSES) ON AGREED CURRENCY CLAUSE

	In thousands of RSD	
	Year ended December 31,	
	2021	**2020**
Positive currency clause effects	91,548	150,499
Positive currency clause effects – value adjustment of securities	40	191
Foreign exchange gains – value adjustment of liabilities	62	220
Positive currency clause effects – leasing contracts	335	986
Foreign exchange gains	1,812,292	1,387,685
	1,904,277	**1,539,581**
Negative currency clause effects	(76,206)	(163,508)
Negative currency clause effects – value adjustment of securities	(40)	(211)
Negative currency clause effects – value adjustment of liabilities	(107)	(203)
Negative currency clause effects – leasing contracts	(412)	(895)
Foreign exchange losses	(1,774,442)	(1,370,360)
	(1,851,207)	**(1,535,177)**
Net gain / (loss)	**53,070**	**4,404**

13. NET GAINS / (LOSSES) FROM IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT

Net gain / (loss) from impairment of financial assets relates to:

	In thousands of RSD Year ended December 31, 2021	2020
Impairment allowance of financial assets measured at amortised cost	(8,154,575)	(4,461,954)
Provisions for off-balance sheet items	(367,549)	(235,337)
Impairment allowance for debt securities measured through other comprehensive income	(405,599)	(72,707)
Losses arising from the modification of financial instruments	-	(342,435)
Impairment allowance of direct write-off of placements	(3,198)	(174)
Reversal of impairment allowance of financial assets valued at amortised cost	5,886,266	3,401,198
Reversal of provisions for off-balance sheet items	383,192	201,851
Income from collection of receivables previously written-off	2,566,904	396,134
Reversal of allowance for debt securities measured through other comprehensive income	110,331	41,295
Revenues arising from modification of financial instruments	-	97
Total	**15,772**	**(1,072,032)**

During 2021, the Bank collected written-off receivables in the amount of RSD 2,566,904 thousand. Out of the total amount of collected written-off receivables, the largest part of the amount refers to the collection of receivables from off-balance sheet records for which a permanent write-off was previously made by transfer from the balance sheet to the off-balance sheet, of which RSD 166,839 thousand relate to the collection of loans to individuals, and the rest in the amount of RSD 2,400,065 thousand are to collect loans from legal entities, mostly.

By the date of issue of these financial statements the Bank did not make materially significant collections from impaired placements that would affect the reversal of impairment.

Effects arising from the credit risks of debt securities in the amount of net loss of RSD 295,268 thousand the Bank recognised in Equity, in the position losses of the debt instruments (Expenses of debt securities at fair value through Other Comprehensive Income in the amount of RSD 405,599 thousand and income on the same basis in amount of RSD 110,331 thousand). These positions are exempt from the structure of the table of changes in the impairment and provisions for off-balance sheet items.

13. NET GAINS / (LOSSES) FROM IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

MOVEMENT ON IMPAIRMENT ACCOUNTS AND PROVISIONS FOR OFF-BALANCE

	Loans and receivables due from banks (Note 23.2)	Loans and receivables due from customers (Note 24.2)	Securities - local government and corporate bonds (Note 22)	Investments in associates and joint ventures (Note 25)	Investment in Subsidiaries (Note 26)	Other assets (Note 31)	Off-balance sheet liabilities (Note 34)	Total
Balance as at January 1, 2021	**4,168**	**11,394,118**	**4,213**	**-**	**2,047,191**	**2,225,620**	**224,463**	**15,899,773**
New impairment allowance	50,262	7,922,757	15,735	-	-	165,821	367,549	8,522,124
Decrease in impairment allowance	(33,667)	(4,837,578)	(11,707)	(20,383)	(760,221)****	(222,710)	(383,192)	(6,269,458)
Foreign exchange effects	138	33,419	1			1,767		35,325
Permanent Write-offs	-	(5,508,881)	-	-		(16,322)	-	(5,525,203)
Other changes	-	125,160*	-	898,593**	(1,286,970)**	(1,062,385)***	(1)	(1,325,603)
Balance as at December 31, 2021	**20,901**	**9,128,995**	**8,242**	**878,210**	**-**	**1,091,791**	**208,819**	**11,336,958**

** the effect of recognizing interest income on impaired loans by applying an alternative concept of IRC methods related to netting interest income and impairment expenses*
*** transfer of impairment of investments in subsidiaries to associates in the amount of RSD 898,593 thousand and sale of subsidiaries in the amount of RSD 388,377 thousand*
**** cancellation of the adjustment based on impairment of assets acquired through collection of receivables and recording on the basic account*
***** reduction of the value adjustment of the investment in Komercijalna banka a.d. Banja Luka based on the new valuation on September 30, 2021.*

In 2021, the Bank increased net expenses from impairment of placements at amortized cost, off-balance provisions in total amount of RSD 2,252,666 thousand.

Among other changes on the impairment accounts and provisions the amount of RSD 5,525,203 thousand relates to permanent write-off that the Bank carried out in 2021, i.e. transfer from on-balance to off-balance records on the basis of the decisions of the NBS of the accounting write-off.

14. NET GAINS / (LOSSES) FROM DERECOGNITION OF INVESTMENTS IN ASSOCIATES

In thousands of RSD

	Year ended December 31, 2021	2020
Net gains/losses from derecognition of investments in subsidiaries	563	-
Net gain	**563**	**-**

The stated gain refers to the sale of 100% of the shares of Komercijalna banka a.d. Banja Luka occurred in December 2021. The total positive effect on the Income Statement for 2021, including the reduction of the adjustment in the amount of RSD 760,221 thousand (Note 13), amounts to RSD 760,784 thousand.

15. OTHER OPERATING INCOME

	In thousands of RSD Year ended December 31, 2021	2020
Other income from operations	192,523	199,291
Revenues from dividends and shares	18,667	12,098
Net income	**211,190**	**211,389**

In the other operating income from operations in the amount of RSD 192,523 thousand, the most significant amounts relate to revenue from lease of properties, including advances received for rental in the amount of RSD 108,613 thousand and refunds of court costs and utility costs in the amount of RSD 62,250 thousands, revenues from charged costs for the use of business mobile phones upon employee authorization and the cost of using business vehicles for private purposes in the amount of RSD 16,734 thousand.

During 2021, the Bank received dividends from other participations and shares in amount of RSD 18,667 thousand (2020: RSD 12,096 thousand), which form part of the position of Other income, and dividends from shares in Dunav Osiguranje ADO of RSD 9,425 thousand, VISA Inc. in the amount of RSD 7,140 thousand and MasterCard in the amount of RSD 2,102 thousand.

16. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

Costs of salaries, salary compensation and other personal expenses consist of:

	In thousands of RSD Year ended December 31, 2021	2020
Net salaries	2,816,018	2,694,582
Net benefits	493,316	430,756
Payroll taxes	401,203	383,023
Payroll contributions	825,716	832,187
Considerations paid to seasonal and temporary staff	6,621	761
Provisions for retirement benefits – net (Note 34)	(112,669)	79,181
Other personal expenses	530,961	1,399,456
Total	**4,961,166**	**5,819,946**

Salaries, benefits and other personal expenses in the amount of RSD 4,961,166 thousand are lower by RSD 858,780 thousand or 14.76% compared to the same period last year. Other personal expenses are mostly related to annual bonuses to employees.

17. DEPRECIATION COSTS

	In thousands of RSD Year ended December 31, 2021	2020
Amortization costs – intangible assets (Note 27.2)	228,884	221,070
Depreciation costs – property and equipment (Note 28.2)	311,856	340,139
Depreciation costs – investment property (Note 29.1)	-	-
Depreciation costs – right of use assets (Note 28.2)	372,085	377,754
Total	**912,825**	**938,963**

18. OTHER INCOME

Other income consists of:

	In thousands of RSD Year ended December 31, 2021	2020
Income from reversal of unused provisions for litigations	74,459	775,329
Gains on sale of fixed assets and assets held for sale	36,781	-
Income from sale of real estate acquired through collection of receivables	127,828	-
Income from decrease of liabilities	1,252	2,874
Income from changes in the value of investment property (Note 29.1)	107,537	30,335
Income from changes in the value of assets held for sale (Note 30)	17,002	-
Income from changes in the value of assets acquired through the collection of receivables	112,014	-
Other income	110,137	81,214
Total	**587,010**	**889,752**

Income from changes in the value of investment property in the amount of 107,537 thousand dinars relate to the recording of positive outcomes of valuations of investment property in accordance with the amended accounting policy for subsequent valuation of investment property (Note 2.5 and Note 29)

Within the item other income incurred in 2021, the most significant amount relates to interest income from previous years totalled RSD 83,567 thousand dinars (citizens in the amount of RSD 4,414 thousand, entrepreneurs in RSD 1,995 thousand, farmers in RSD 2,101 thousand and the corporate in the amount of RSD 75,057 thousand).

19. OTHER EXPENSES

Other expenses include:

	In thousands of RSD Year ended December 31, 2021	2020
Cost of materials	314,385	312,082
Cost of production services	1,729,741	1,236,532
Non-material costs (without taxes and contributions)	2,993,695	2,371,230
Tax costs	163,960	157,695
Contributions costs	690,891	696,277
Other operating costs	34,154	18,507
Other expenses	498,554	403,006
Losses on disposal and write-off of fixed assets, intangible assets and inventories	12,377	687
Expenses arising from changes in value of investment property (Note 29.1)	40,620	463,082
Expenses arising from changes in value of assets held for sale (Note 30)	-	7,591
Expenses arising from changes in value of assets acquired through the collection of receivables	32,634	-
Expenses arising from provisions for legal costs (Note 34)	1,492,830	1,007,519
Expenses arising from provisions for severance pay accor. to voluntary severance package (Note 34)	1,610,928	-
Total	**9,614,769**	**6,674,208**

19. OTHER EXPENSES (continued)

a) Other expenses

Within the position of other expenditures in the amount of RSD 498,554 thousand, among others the following are recorded expenditures arising from paid invoices of insurance companies for life insurance policies of clients in favour of the Bank in the amount of RSD 249,870 thousand, and whose payment was covered by the Bank. The specified policies are used as collateral for loans granted to individuals. Additionally, this position also includes expenditures related to insurance policies for users of current account sets and travel insurance international payment cards in the amount of RSD 23,033 thousand.

b) Provision for legal costs

Expenses arising from provisions for legal costs totalling to RSD 1,492,830 thousand (note 34) are result of increased expenditures for 17,733 new cases during the year 2021, and increase provisions for active cases from previous years.

c) Expenses arising from provisions for severance pay accor. to voluntary severance package

Expenses arising from provisions for severance pay accor. to voluntary severance package in the amount of RSD 1,610,928 thousand (Note 34) relate to the recognition of provisions for reorganization costs made on the basis of the Bank's Voluntary Severance Package adopted by the Bank.

20. INCOME TAX – current tax and deferred tax

20.1 Components of income taxes as of December 31 were as follows:

In thousands of RSD

	Year ended December 31, 2021	2020
Gains from deferred taxes	348,040	120,049
Losses from deferred taxes	(165,725)	(1,384,134)
Total	**182,315**	**(1,264,085)**

Upon submitted tax return and tax balance for 2019, the Bank paid an advance income tax for 2020, until the submission of the tax balance for 2020. After the submission of the tax return and the tax balance for 2020 on June 18, 2021, and bearing in mind that the Bank for 2020 has no income tax duty remained, the Bank overpaid the amount. Input taxes can be used for future periods, a request for a refund can be submitted or the amount will be used to cover other tax liabilities. The bank paid RSD 18,911 thousand in advance, as shown in the account of receivables for overpaid taxes on December 31, 2021.

20.2 Reconciliation of the effective tax rate is presented in the table below:

In thousands of RSD

	2021	2021	2020	2020
Profit for the year before taxes	-	**3,463,384**		**4,192,846**
Tax calculated using the local income tax rate	15%	519,508	15%	628,927
Expenses not recognized for tax purposes	1.73%	60,036	3.64%	152,443
Tax effects of the net capital losses /gains	-0.17%	(5,875)	-0.01%	(384)
Tax effects of income reconciliation	-0.73%	(25,337)	-2.77%	(116,098)
Tax effects on IFRS 9	-1.01%	(34,851)	-0.83%	(34,851)
Tax credit received and used in the current year	0.86%	29,732	-1.14%	(47,600)
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-15.68%	(543,213)	-13.89%	(582,437)
Tax effect adjustments (used and new ones)	-5.26%	(182,315)	30.15%	1,264,085
Tax effects stated within the income statement		**182,315**		**(1,264,085)**

20. INCOME TAX – current tax and deferred tax (continued)

20.3 Movements in deferred taxes as at December 31 are presented as follows:

In thousands of RSD

	Year ended December 31, 2021	2020
Balance as of January 1	(147,400)	1,074,197
Occurrence and reversal of temporary differences	656,642	(1,221,597)
Balance as of December 31	**509,242**	**(147,400)**

20.4. Deferred tax assets and liabilities

20.4.1. Deferred tax assets and liabilities refer to:

In thousands of RSD

	2021			2020		
	Asset	**Liability**	**Net**	**Asset**	**Liability**	**Net**
Difference in the present value of fixed assets for tax and financial reporting purposes	-	(26,129)	(26,129)	36,037	-	36,037
Tax losses carried forward	29,732		29,732	-	-	-
Outcomes of change in values of debt and equity securities	127,073	(644,075)	(517,002)	1,779	(968,884)	(967,105)
Long-term provisions for retirement benefits	41,361	-	41,361	58,265	-	58,265
Impairment of assets	357,279	-	357,279	342,947	-	342,947
Employee benefits under Article 9 paragraph 2. CIT Law - calculated but not paid in the tax period	821	-	821	762	-	762
Accrued and unpaid public duties	229	-	229	112	-	112
First implementation of IFRS 9	34,851	-	34,851	69,702		69,702
Tax credit from loan conversion to CHF	76,119	-	76,119	76,119	-	76,119
Provisions for legal costs	390,567	-	390,567	256,095	-	256,095
Actuarial gains on provisions for employee severance payments	240	-	240	-	(20,334)	(20,334)
Accrued and unpaid severance pay	121.174		121,174	-	-	-
	1,179,446	**(670,204)**	**509,242**	**841,818**	**(989,218)**	**(147,400)**

Within the tax period from January 1 to December 31, 2021, incurred loss amounted to RSD 198,215 thousand and thus a deferred tax asset in the amount of RSD 29,732 thousand was established.

Tax losses carried forward that are not recorded in the books of the Bank and on basis of which deferred tax assets were not formed as of December 31, 2020 amounted to RSD 8,685,280 thousand. The tax credit expired in 2021.

Deferred tax assets were not formed for tax credits on the basis of fixed asset investments in the amount of RSD 10,724 thousand.

20. INCOME TAX – current tax and deferred tax (continued)

20.4.2. Overview of tax credits for which deferred tax assets were not recognized:

In thousands of RSD

Type of tax credit	Year	Amount as at December 31, 2021	Amount as at December 31, 2020	Expiration date for use
Tax losses carried forward	2016	-	8,685,280	2021
Total tax losses		**-**	**8,685,280**	
Impact of tax losses on future income tax (15%)		-	1,302,792	from 2019 -2021
Tax credit on the basis of investment in fixed assets	2013	10,724	11,766	2023
Total to reduce future income tax liabilities		**10,724**	**1,314,558**	

20.4.3. Movements in temporary differences during 2021 and 2020 are shown as follows:

In thousands of RSD

2021	As at January 1,	Through profit or loss account	Through Other comprehensive income	Directly through retained earnings	As at December, 31
Property, plant and equipment	36,037	(65,816)	5,513	(1,863)	(26,129)
Tax losses carried forward	-	29,732	-	-	29,732
Securities	(967,105)	-	450,103	-	(517,002)
Long term provisions for employee benefits	58,265	(16,904)	-	-	41,361
Actuarial gains	(20,334)	-	20,574	-	240
Impairment of assets	342,947	14,332	-	-	357,279
Remuneration of employees according to Article 9. p.2. ZPDPL	762	59	-	-	821
Accrued and unpaid public duties	112	117	-		229
First-time Adoption of IFRS 9	69,702	(34,851)	-	-	34,851
Tax credit based on conversion of CHF loans	76,119	-	-		76,119
Provisions for legal costs	256,095	134,472	-	-	390,567
Accrued and unpaid severance pay	-	121,174	-	-	121,174
Total	**(147,400)**	**182,315**	**476,190**	**(1,863)**	**509,242**

In thousands of RSD

2020	As at January 1,	Through profit or loss account	Through Other comprehensive income	Directly through retained earnings	As at December, 31
Property, plant and equipment	39,299	(5,764)	2,502	-	36,037
Tax losses carried forward	1,259,350	(1,259,350)	-	-	0
Securities	(1,007,684)	-	40,579	-	(967,105)
Long term provisions for employee benefits	53,838	4,427	-	-	58,265
Actuarial gains	(19,741)	-	(593)	-	(20,334)
Impairment of assets	324,857	18,090	-	-	342,947
Remuneration of employees according to Article 9. p.2. ZPDPL	1,213	(451)	-	-	762
Accrued and unpaid public duties	163	(51)	-	-	112
First-time Adoption of IFRS 9	104,552	(34,850)	-	-	69,702
Tax credit based on conversion of CHF loans	76,119	-	-	-	76,119
Provisions for legal costs	242,231	13,864	-	-	256,095
Total	**1,074,197**	**(1,264,085)**	**42,488**	**-**	**(147,400)**

20. INCOME TAX – current tax and deferred tax (continued)

20.5 Tax effects relating to Other comprehensive income

In thousands of RSD

	2021			2020		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to change in fair value of equity shares and security (increase in equity and debt securities)	(2,165,395)	324,809	(1,840,586)	(262,464)	39,369	(223,095)
Net decrease in actuarial loss / gain	(137,159)	20,574	(116,585)	3,954	(593)	3,361
Changes in properties value	-	5,513	5,513	7,894	2,502	10,396
Decrease due to change in fair value of equity shares and security (decrease in equity and debt securities)	(835,289)	125,294	(709,995)	(8,064)	1,210	(6,854)
Total	**(3,137,843)**	**476,190**	**(2,661,653)**	**(258,680)**	**42,488**	**(216,192)**

21. CASH AND ASSETS HELD WITH THE CENTRAL BANK

Cash and assets held with the central bank include:

In thousands of RSD

	December 31, 2021	December 31, 2020
In RSD		
Cash on hand	4,653,308	4,549,226
Gyro account	24,859,789	24,851,040
Surplus of liquidity assets deposited	-	7,500,000
Other RSD cash funds	99	99
	29,513,196	**36,900,365**
In foreign currency		
Cash on hand	11,906,740	10,206,878
Obligatory reserve held with the NBS	39,019,097	31,633,723
Other cash funds	1,616,448	1,304,141
	52,542,285	**43,144,742**
Total	**82,055,481**	**80,045,107**
Adjustment to cash and cash held with the central bank for the purpose of preparing statement of cash flows		
Foreign currency accounts held with foreign banks (Note 23.1)	17,601,652	10,725,914
Foreign currency obligatory reserves	(39,019,097)	(31,633,723)
Surplus of liquidity assets deposited	-	(7,500,000)
	(21,417,445)	**(28,407,809)**
Cash and cash equivalents reported in statement of cash flows	**60,638,036**	**51,637,298**

In the cash flow statement, the bank records cash on the NBS bank account, cash on accounts of foreign banks, funds in the account of the Central Securities Depository and cash at the cash register.

Within the giro account, the RSD mandatory reserve is presented, which represents the minimum reserve of the RSD funds allocated in accordance with the Decision on the obligatory reserve with the National Bank of Serbia. In accordance with the aforementioned Decision, the RSD mandatory reserve is calculated on the amount of the average daily book value of dinar deposits, loans and other RSD liabilities during one calendar month using the rate ranging from 0% to 5%, depending on the maturity of liabilities and their source, while the calculated RSD obligatory reserve makes the sum: calculated obligatory reserves in RSD, 38% of the RSD countervalue of the calculated obligatory reserve in EUR on deposits up to 730 days, and 30% of RSD countervalue calculated compulsory reserve in EUR on deposits over 730 days (Official Gazette of RS No. 76/2018).

National Bank of Serbia shall pay interest on allocated funds t of 0.10% p.a. applied from June 18, 2020.

21. CASH AND ASSETS HELD WITH THE CENTRAL BANK (continued)

The Bank shall calculate the foreign exchange required reserve on the 17th day of the month on the basis of the average foreign currency deposit balance during the previous calendar month. The Bank shall allocate foreign currency required reserves in foreign currency to a special account with the National Bank of Serbia and may withdraw these funds as necessary. The bank is obliged to maintain the average monthly balance of the allocated foreign currency reserve in the amount of the calculated foreign currency reserve requirement, while in order to achieve the average daily balance of the allocated reserve requirement, the daily balance on the foreign currency reserve requirement account may be less than or greater than the calculated foreign currency reserve requirement.

Pursuant to the Decision Required Reserve (Official Gazette of RS no. 76/2018), the rates applied in calculation of the obligatory foreign currency reserve were as follows:

- for foreign currency deposits placed up to 730 days the rate of 20% was applied;
- for foreign currency deposits placed for over 730 days the rate of 13% was applied; and
- for RSD deposits indexed with currency clause the rate of 100% was applied regardless of maturity.

The Bank does not earn interest on obligatory reserve in the currency of the foreign country. During 2021, in accordance with the Decision on Obligatory Reserves Held with NBS, the Bank allocated a part of the foreign currency reserve to its gyro account.

Other foreign currency cash in the amount of RSD 1,616,448 thousand (2020: RSD 1,304,141 thousand) relate to an accruals account at the Central Registry of securities for security trading.

22. SECURITIES

22.1. Securities consist of:

In thousands of RSD

	December 31, 2021	**December 31, 2020**
Securities measured at fair value through profit and loss (in RSD)	512,823	5,382,538
Securities measured at fair value through profit and loss in foreign currency	-	2,925,568
Total I	**512,823**	**8,308,106**
Securities measured at fair value through other comprehensive income (in RSD)	84,730,864	82,062,022
Securities measured at fair value through other comprehensive income in foreign currency	63,411,166	62,564,408
Impairment allowance	(582)	(453)
Total II	**148,141,448**	**144,625,977**
Securities measured at amortized cost – corporate bonds (in RSD)	846,000	846,000
Discount bill	96,144	-
Impairment allowance	(7,660)	(3,760)
Total III	**934,484**	**842,240**
Total I+II+III	**149,588,755**	**153,776,323**

22. SECURITIES (continued)

22.2. The structure of securities measured at fair value through profit and loss is provided below:

In thousands of RSD

	December 31, 2021	December 31, 2020
Republic of Serbia bonds (in RSD)	-	4,873,616
Investment units of OIF monetary fund (in RSD)	512,823	508,922
Republic of Serbia bonds (in foreign currency)	-	2,925,568
Total	**512,823**	**8,308,106**

Investment units as at December 31, 2021 in the total amount of RSD 512,823 thousand refer to investment units KomBank Monetary Fund, Belgrade.

22.3. The structure of the securities that are measured at fair value through other comprehensive income:

In thousands of RSD

	December 31, 2021	December 31, 2020
In RSD		
Republic of Serbia bonds	84,689,682	80,958,748
T-bills Government of Republic of Serbia	-	997,064
Bonds of local government (city of Sabac and municipality of Stara Pazova)	41,182	106,210
Total in RSD	84,730,864	82,062,022
In foreign currency		
Republic of Serbia bonds	45,794,353	59,359,112
Bonds of foreign banks (Raiffeisen Bank International)	1,760,642	1,739,077
Bonds of foreign States (Republika Srpska)	15,856,171	1,466,219
Total in foreign currency	63,411,166	62,564,408
Total	**148,142,030**	**144,626,430**

22. SECURITIES (continued)

Changes in impairment is presented as follows:

Impairment of securities at fair value through OCI

In thousands of RSD

	December 31, 2021	December 31, 2020
Individual impairment allowance		
Balance as at January 1	453	602
Increase (Note 13)	11,835	4,106
Effects of the changes in exchange rates (Note 13)	1	
Reversal (Note 13)	(11,707)	(4,255)
Total individual impairment allowance	**582**	**453**

Impairment of securities measured at amortized cost

In thousands of RSD

	December 31, 2021	December 31, 2020
Individual impairment allowance		
Balance as at January 1	3,760	-
Increase (Note 13)	3,900	3,760
Total individual impairment allowance	**7,660**	**3,760**
Total individual impairment	**8,242**	**4,213**

23. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

23.1 Loans and receivables due from banks include:

In thousands of RSD

	December 31, 2021	December 31, 2020
RSD loans and receivables		
REPO transactions	-	-
Loans for working capital	66,839	1,500
Overnight loans	-	-
Deposed money in RSD	8,150,000	-
Other loans and receivables	7,946	4,085
Prepayments	22,514	970
Accruals	(202)	(2)
Impairment allowance	(1,179)	(12)
Total in RSD	**8,245,918**	**6,541**
FX loans and receivables		
REPO transactions	-	1,165,461
Foreign currency accounts held with foreign banks (Note 21)	17,601,652	10,725,914
Overnight loans	-	1,175,802
Other loans and receivables due from foreign banks	1,186,428	1,018,991
Foreign currency deposits placed with other banks	1,063,616	2,299,612
Prepayments	115	1,700
Other receivables	2,744	4,360
Loans to foreign banks (subsidiaries)	-	797,865
Secured foreign currency warranties	1,033,630	949,980
Impairment allowance	(19,722)	(4,156)
Total in foreign currency	**20,868,463**	**18,135,529**
TOTAL	**29,114,381**	**18,142,070**

As at December 31, 2021, the Bank did not have securities acquired in reverse repo transactions with the National Bank of Serbia. During the year, placements to treasury bills purchased from the National Bank of Serbia, maturing up to 7 days with the annual interest rate of 0.11% to 0.43%.

Short-term time loans and deposits with banks in RSD are deposited for up to one year with an interest rate ranging from 0.11% to 1.30% per annum. Short term time deposits at banks in foreign currency are deposited for a period not exceeding one year, with interest rates ranging from 0.05% per annum for the EUR, from 0.03% to 0.12% for USD and from 0.02% to 0,03% for GBP.

Reverse repo with domestic banks was placed at an interest rate of 0.20%.

23. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

23.2 Movements on the account of impairment allowance of loans and receivables due from banks are provided in the table below:

In thousands of RSD

Impairment allowance	**December 31, 2021**	**December 31, 2020**
Balance as at January 1	4,168	218,351
Impairment allowance in current year		
Increase (Note 13)	50,262	42,256
Reclassification – transfer on clients	-	(195,504)
Effects of the changes in exchange rates (Note 13)	138	(18,956)
Reversal (Note 13)	(33,667)	(41,992)
Other	-	13
Balance as at December 31	**20,901**	**4,168**

24. LOANS AND RECEIVABLES DUE FROM CLIENTS

24.1 Loans and receivables due from customers:

In thousands of RSD

	December 31, 2021			December 31, 2020		
	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Corporate customers and registered farms						
Transaction account overdrafts	465,479	(9,563)	455,916	340,913	(24,140)	316,773
Working capital loans	51,627,619	(2,924,395)	48,703,224	42,389,327	(4,474,995)	37,914,332
Investment loans	49,808,508	(1,480,258)	48,328,250	41,686,558	(676,393)	41,010,165
Loans for payments of imported goods and services	998,631	(34,218)	964,413	2,928,241	(30,092)	2,898,149
Loans for discounted bills of exchange, acceptances and payments made for guarantees called on	4,552	(2,924)	1,628	306,114	(278,343)	27,771
Other loans and receivables	17,402,398	(3,167,773)	14,234,625	23,357,788	(4,859,265)	18,498,523
Prepayments	353,319	(23,381)	329,938	492,069	(29,138)	462,931
Accruals	(174,430)	-	(174,430)	(191,382)	-	(191,382)
	120,486,076	**(7,642,512)**	**112,843,564**	**111,309,628**	**(10,372,366)**	**100,937,262**
Retail customers – private individuals						
Transaction account overdrafts	2,540,761	(172,988)	2,367,773	2,674,284	(168,229)	2,506,055
Housing loans	52,578,106	(562,682)	52,015,424	46,434,157	(408,119)	46,026,038
Cash loans	40,128,468	(655,992)	39,472,476	37,233,498	(354,972)	36,878,526
Consumer loans	252,566	(4,804)	247,762	239,232	(781)	238,451
Other loans and receivables	1,473,636	(66,905)	1,406,731	1,741,027	(72,608)	1,668,419
Prepayments	988,007	(23,112)	964,895	1,475,339	(17,043)	1,458,296
Accruals	(273,683)	-	(273,683)	(416,958)	-	(416,958)
	97,687,861	**(1,486,483)**	**96,201,378**	**89,380,579**	**(1,021,752)**	**88,358,827**
Balance as of December 31	**218,173,937**	**(9,128,995)**	**209,044,942**	**200,690,207**	**(11,394,118)**	**189,296,089**

24. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

24.2 Movements on the account of impairment allowance of loans and receivables due from customers are presented in the table below:

In thousands of RSD

	December 31, 2021	December 31, 2020
Individual impairment allowance		
Balance at January 1	10,379,168	11,020,640
Increase (Note 13)	1,761,148	825,568
Reclassification from Group Impairment	898,221	450,519
Reclassification from Bank's impairment	-	195,504
Effects of the changes in foreign exchange rates (Note 13)	864	(1,261)
Released during the year (Note 13)	(1,004,891)	(1,019,998)
Permanent write-off	(4,907,081)	(1,143,788)
Other (Note 13)	119,580	51,984
Individual impairment allowance	**7,247,009**	**10,379,168**
Group impairment allowance		
Balance at January 1	1,014,950	999,693
Increase (Note 13)	6,161,609	3,367,791
Reclassification to Individual impairment allowance	(898,221)	(450,519)
Effects of the changes in foreign exchange rates (Note 13)	32,555	(23,613)
Reversal during the year (Note 13)	(3,832,687)	(2,192,478)
Permanent write-off (Note 13)	(601,800)	(736,499)
Other (Note 13)	5,580	50,575
Total Group impairment allowance	**1,881,986**	**1,014,950**
Balance as of December 31	**9,128,995**	**11,394,118**

Loans and receivables due from retail customers

During 2021, short-term and long-term loans to retail customers in RSD were approved for a period of 30 days to 120 months in RSD with nominal interest rates ranging from 2.00% to 14.95% per annum.

Short-term loans to retail customers in foreign currency are approved for a term up to twelve months with nominal interest rates ranging from 1.40% to 8.00% annually.

Long-term loans to retail customers in foreign currency are approved for the period from thirteen to ninety-five months with nominal interest rates ranging from 1.50% to 8.00% annually.

24. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

Loans and receivables due from legal entities

Short-term loans to legal entities in RSD were approved for a period of up to twelve months with a range of interest rates ranging from 2.30% to 7.95% annually. In foreign currency, short-term loans were granted for a period up to twelve months with an interest rate of EUR 1.50% to 5.70% annually.

Long-term loans in RSD were approved for a period over twelve months at an interest rate of 1.61% to 5.30% annually. Long-term loans in foreign currency were granted for a period over twelve months at an interest rate of EUR 1.06% to 3.95% annually.

Risks and Uncertainties

The management of the Bank calculates provision for possible loan losses by applying the concept of expected credit losses. Losses due to the impairment of financial assets held at amortised cost are measured as the difference between the carrying value of the financial asset and the present value of the estimated future cash flows discounted with the initial interest rate of the asset. Losses are recognized in the income statement and are measured at the position of impairment and of financial assets. When events after the balance sheet date is affected by a reduction in the amount of loss due to impairment, such a reduction is recognized as revenue of the abolition of impairment, through the income statement.

Loans and other receivables are shown in the amount less the Bank and the individual calculation of impairment. Individual and group provisions are deducted from the book value of loans that are identified as impairment to their value reduced to their recoverable value. In order to protect against the risk of default in dealings with customers, the Bank is undertaking the following measures for the regulation of claims: extension, restructuring, alignment, retrieval of assets for the purpose of securing payment of claims, the conclusion of contracts with interested third party, launch litigation and other measures. If measures regulating investments, or foreclosure and court proceedings have not produced the expected results, or when there is no possibility of the collection in its entirety, initiates the proposal for a permanent write-off of the remaining claims of the banks, or transfer from on-balance to off-balance records.

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

In thousands of RSD

	December 31, 2021	December 31, 2020
NLB banka a.d., Podgorica	2,366,273	-
Impairment allowance	(878,210)	-
Total	**1,488,063**	**-**

In November 2021, in conducted operation with NLB Group, the Bank acquired 23.97% of equity share of NLB banka a.d. Podgorica in respect of shares with Komercijalna banka Podgorica. (note 3 (a)).

The Bank engaged an independent appraiser to assess the equity share value as of November 30, 2021, after the legal change - merger of Komercijalna banka a.d. Podgorica to NLB banka a.d. Podgorica.

26. INVESTMENTS INTO SUBSIDIARIES

In thousands of RSD

	December 31, 2021	December 31, 2020
KomBank INVEST a.d., Beograd	140,000	140,000
Komercijalna banka a.d., Banja Luka	-	2,974,615
Komercijalna banka a.d., Podgorica	-	2,366,273
Impairment allowance	-	(2,047,191)
Total	**140,000**	**3,433,697**

During 2021, the Bank alienated its equity share in Komercijalna banka a.d. Banja Luka, while Komercijalna banka a.d. Podgorica was merged to NLB banka a.d. Podgorica (note 3 (a) and note 25).

27. INTANGIBLE ASSETS

27.1 Intangible assets comprise:

In thousands of RSD

	December 31, 2021	December 31, 2020
Intangible assets	361,707	495,533
Intangible assets in progress	220,394	15,136
Total	**582,101**	**510,669**

27.2 Movements on the account of intangible assets in 2021 and 2020 are presented below:

In thousands of RSD

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance as of January 1, 2020	**2,719,781**	**26,977**	**2,746,758**
Additions	-	66,004	66,004
Transfers	77,845	(77,845)	-
Balance as of December 31, 2020	**2,797,626**	**15,136**	**2,812,762**
Balance as of January 1, 2021	**2,797,626**	**15,136**	**2,812,762**
Additions	-	300,316	**300,316**
Transfers	95,059	(95,059)	**-**
Balance as of December 31, 2021	**2,892,685**	**220,393**	**3,113,078**
Impairment allowance			
Balance as of January 1, 2020	**2,081,023**	**-**	**2,081,023**
Amortization (Note 17)	221,070	-	221,070
Balance as of December 31, 2020	**2,302,093**	**-**	**2,302,093**
Balance as of January 1, 2021	**2,302,093**	**-**	**2,302,093**
Amortization (Note 17)	228,884	-	**228,884**
Balance as of December 31, 2021	**2,530,977**	**-**	**2,530,977**
Net carrying value			
Balance as of December 31, 2020	**495,533**	**15,136**	**510,669**
Balance as of December 31, 2021	**361,708**	**220,393**	**582,101**

28. PROPERTY, PLANT AND EQUIPMENT

28.1 Property, plant and equipment comprise:

In thousands of RSD

	December 31, 2021	December 31, 2020
Property	4,688,759	4,842,782
Equipment	421,160	382,842
Investments in progress	2,760,607	20,064
Leased assets	885,133	799,642
Total	**8,755,659**	**6,045,330**

28.2 Movements on the account of property and equipment in 2021 and 2020 are presented below:

In thousands of RSD

	Property	Equipment	vestments ı progress	Leased assets	Total
Cost					
Balance as at January 1, 2020	**7,116,041**	**3,604,856**	**43,224**	**1,339,640**	**12,103,761**
Additions and new lease contracts	-	-	109,024	230,429	339,453
Transfer from investments in progress	77,648	54,536	(132,184)		-
Write-off	(18,280)	(196,783)	-		(215,063)
Shortages by physical inventory count	-	(1,116)	-		(1,116)
Leasing - other	-	(6)	-	(41,453)	(41,459)
Balance as at December 31, 2020	**7,175,409**	**3,461,487**	**20,064**	**1,528,616**	**12,185,576**
Balance as at January 1, 2021	**7,175,409**	**3,461,487**	**20,064**	**1,528,616**	**12,185,576**
Additions and new lease contracts	-	-	2,977,047	464,365	3,441,412
Transfer from investments in progress	8,177	217,975	(226,152)	-	-
Write-off	(47,802)	(96,217)	(10,352)	-	(154,371)
Shortages by physical inventory count	-	(3,522)	-	-	(3,522)
Leasing - other	-	-	-	(100,249)	(100,249)
Balance as at December 31, 2021	**7,135,784**	**3,579,723**	**2,760,607**	**1,892,732**	**15,368,846**
Impairment allowance					
Balance as at January 1, 2020	**2,208,553**	**3,078,334**	**-**	**378,937**	**5,665,824**
Charges in the year (Note 17)	142,354	197,785	-	377,754	717,893
Write-off	(18,280)	(196,442)	-	-	(214,722)
Shortages by physical inventory count	-	(1,026)	-	-	(1,026)
Leasing - other	-	(6)	-	(27,717)	(27,723)
Balance as at December 31, 2020	**2,332,627**	**3,078,645**	**-**	**728,974**	**6,140,246**
Balance as at January 1, 2021	**2,332,627**	**3,078,645**	**-**	**728,974**	**6,140,246**
Charges in the year (Note 17)	134,122	177,734	-	372,085	683,941
Write-off	(19,724)	(94,452)	-	-	(114,176)
Shortages by physical inventory count	-	(3,364)	-	-	(3,364)
Leasing - other	-	-	-	(93,460)	(93,460)
Balance as at December 31, 2021	**2,447,025**	**3,158,563**	**-**	**1,007,599**	**6,613,187**
Net carrying value					
Balance as at December 31, 2020	**4,842,782**	**382,842**	**20,064**	**799,642**	**6,045,330**
Balance as at December 31, 2021	**4,688,759**	**421,160**	**2,760,607**	**885,133**	**8,755,659**

The investments in progress are mostly related to the purchase of an office building in December 2021 in the amount of RSD 2,734,933 thousand.

28. PROPERTY, PLANT AND EQUIPMENT (continued)

28.3 Leased assets

In thousands of RSD

	December 31, 2021	December 31, 2020
Business premises	839,886	792,639
Vehicles	2,141	1,016
Other equipment	43,106	5,987
Total	**885,133**	**799,642**

28.4 Movements on the account of leased assets in 2021 and 2020 are presented below:

In thousands of RSD

	Business premises	Vehicles	Other equipment	Total
Cost				
Balance as at January 1, 2020	**1,314,870**	**1,898**	**22,872**	**1,339,640**
New leases agreements	229,243	1,186		**230,429**
Derecognition	(40,094)	-	(1,359)	**(41,453)**
Balance as at December 31, 2020	**1,504,019**	**3,084**	**21,513**	**1,528,616**
				-
Balance as at January 1, 2021	**1,504,019**	**3,084**	**21,513**	**1,528,616**
New leases agreements	412,868	2,762	48,735	**464,365**
Derecognition	(84,746)	-	(15,503)	**(100,249)**
Balance as at December 31, 2021	**1,832,141**	**5,846**	**54,745**	**1,892,732**
Impairment allowance				
Balance as at January 1, 2020	**369,448**	**1,035**	**8,454**	**378,937**
Charges in the year (Note 17)	368,291	1,033	8,430	**377,754**
Derecognition	(26,358)	-	(1,359)	**(27,717)**
Balance as at December 31, 2020	**711,381**	**2,068**	**15,525**	**728,974**
Balance as at January 1, 2021	**711,381**	**2,068**	**15,525**	**728,974**
Charges in the year (Note 17)	359,757	1,637	10,691	**372,085**
Derecognition	(78,883)	-	(14,577)	**(93,460)**
Balance as at December 31, 2021	**992,255**	**3,705**	**11,639**	**1,007,599**
Net carrying value				
Balance as at December 31, 2020	**792,638**	**1,016**	**5,988**	**799,642**
Balance as at December 31, 2021	**839,886**	**2,141**	**43,106**	**885,133**

The Bank does not place any mortgages on buildings to secure loans repayment.

Due to incomplete cadastral books, on December 31, 2021 for 7 objects with the present value of RSD 89,262 thousand the Bank still does not have evidence of ownership. The Bank's management takes all necessary measures for the acquisition of ownership papers. Completion of this process depends on the conduct of the competent national authorities.

29. INVESTMENT PROPERTY

29.1. Movements on the account of investment property in 2021 and 2020 are presented below:

	In thousands of RSD Total
Cost	
Balance as at January 1, 2020	2,195,432
Adjustments of the opening balance due to changes in accounting policy (Note 2.5)	968,003
Abolition of accumulated depreciation	(337,505)
Adjustments of balance as at January 1, 2020	**2,825,930**
Positive effects of change in value (Note 18)	30,335
Negative effects of change in value (Note 19)	(463,082)
Balance as at December 31, 2020 (adjusted)	**2,393,183**
Balance as at January 1, 2021	**2,393,183**
Transfer from assets acquired by collection	150,431
Positive effects of change in value (Note 18)	107,537
Negative effects of change in value (Note 19)	(40,620)
Balance as at December 31, 2021	**2,610,531**
Impairment allowance	
Balance as at January 1, 2020	**337,505**
Abolition of accumulated depreciation	**(337,505)**
Adjustments of balance as at January 1, 2020	-
Charges in the year	38,420
Adjusted depreciation (Note 2.5)	(38,420)
Balance as at December 31, 2020	**-**
Balance as at January 1, 2021	**-**
Balance as at December 31, 2021	**-**
Net carrying value	
Balance as at December 31, 2020 (adjusted)	**2,393,183**
Balance as at December 31, 2021	**2,610,531**

As at December 31, 2021 the Bank has reported investment properties with the net book value of RSD 2,610,531 thousand, which comprise leased properties.

In 2021, the Bank voluntary changed of the accounting policy for the subsequent valuation of investment property and thus the fair value method is used instead of the previously cost method (Note 2.5).

Pursuant to Decision of the Bank's Management, seven properties given in long-term lease, were reclassified from the position of assets acquired through the collection of receivables to the position investment property with net carrying value of RSD 150,431 thousand.

As of December 31, 2021, the Bank has not yet registered property rights in the competent public registers for two investment properties with carrying value of RSD 54,193 thousand. In relation to these properties, all necessary activities have been undertaken which should result in the final registration in favor of the Bank.

29. INVESTMENT PROPERTY (continued)

29.2. Operating lease

The Bank leases out its investment properties. Leases are classified as operating because not all of the risks and rewards of ownership are transferred.

Investment properties are leased to tenants under operating lease agreement made with monthly rents. The bank has no variable annuity depending on the index or rate. Investment properties are usually leased for a period of 1 to 10 years.
Some contracts are for an indefinite period.

As of December 31, 2021, the net result from investment property is positive and amounts to RSD 64,132 thousand.

Unit	Area in sqm	Total Costs	Realised income from leases	Net result
Beograd, Trg politike 1	3,354	(16,213)	33,016	16,803
Niš, Vrtište nova d-zgrada	1,816	(7,981)	-	(7,981)
Niš, TPC Kalča	85	(238)	6,073	5,835
Beograd, Omladinskih brigada 19	15,218	(12,342)	8,958	(3,384)
Šabac, Majur, Obilazni put bb	1,263	(974)	-	(974)
Lovćenac, Maršala Tita bb,	46,971	(841)	7,054	6,213
Negotin, Save Dragovića 20-22	658	(274)	-	(274)
Niš, Bulevar 12. februar bb	2,878	(1,289)	6,913	5,624
Beograd, Radnička 22	7,190	(7,906)	37,740	29,834
Novi Sad, Vardarska 1/B,	291	(1,451)	3,557	2,106
Novi Sad, Bulevar Oslobođenja 88	44	(91)	469	378
Kotor, Stari Grad, Palata beskuća, poslovni prostor, zgr.br.1	207	(279)	6,431	6,152
Beograd, Luke Vojvodića 77a	80	(603)	796	193
Beograd, Baje Pivljanina 83	279	(748)	2,823	2,075
Subotica, Magn.polja 17	2,492	(1,508)	2,069	561
Čačak, S.polje, Kr.put bb	1,227	(999)	1,510	511
Niš, Čajnička bb	825	(1,406)	1,828	422
Valjevo, Vojvode Mišića 170	231	(20)	-	(20)
Mionica, Andre Savičića 8	106	(13)	71	58
Total		**(55,176)**	**119,308**	**64,132**

The following table shows an analysis of the maturity of lease receivables - undiscounted rents that the Bank will receive after the reporting date

In thousands of RSD

	December 31, 2021	December 31, 2020
Due:		
- up to year	77,868	103,027
- up to 2 years	2,271	77,867
- up to 3 years	2,271	2,271
- up to 4 years	2,271	2,271
- up to 5 years	2,271	2,271
- over 5 years	2,271	2,271
Total	**89,223**	**189,978**

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

In thousands of RSD

	December 31, 2021	December 31, 2020
Balance as at January 1, 2021	130,426	196,300
Net income / expenses from change in value (Notes 18 and 19)	17,002	(7,591)
Sale	(45,814)	-
Transfers to PPE	-	(58,283)
Total	**101,614**	**130,426**

Non-current assets held for sale:

Unit	Area in sqm	In thousands of RSD Carrying Value
Jasika, business premises	75.87	971
Vrbas, M. Tita 49, business premises	145.56	2,093
Kotor, business premises 1 and 2	690.00	98,550
Total	-	**101,614**

The Bank's management continues to pursue the sale process for all assets that have not been sold in the past year.

31. OTHER ASSETS

Other assets comprise:

In thousands of RSD

	December 31, 2021	December 31, 2020
In RSD		
Fee receivables per other assets	112,989	93,729
Inventories	98,303	105,924
Foreclosed assets	938,429	2,295,185
Prepaid expenses	162,428	137,454
Equity investments	2,663,302	2,516,622
Other RSD receivables	2,115,051	2,247,288
	6,090,502	**7,396,202**
Impairment allowance on:		
Fee receivables per other assets	(89,209)	(81,165)
Foreclosed assets	(1,940)	(1,064,325)
Equity investments	(446,350)	(446,661)
Other RSD receivables	(720,587)	(807,868)
	(1,258,086)	**(2,400,019)**
In foreign currency		
Fee receivables per other assets	17	8
Other receivables from operations	342,484	564,131
Receivables in settlement	81,828	294,261
Other foreign currency receivables	515,817	702,775
	940,146	**1,561,175**
Impairment allowance on:		
Other receivables from operations	(264,496)	(263,782)
Receivables in settlement	(77,341)	(77,308)
	(341,837)	**(341,090)**
Total	**5,430,725**	**6,216,268**

31. OTHER ASSETS (continued)

Movements of other assets and prepayments impairment allowance is shown in the following table:

	December 31, 2021	*In thousands of RSD* December 31, 2020
Individual impairment allowance		
Balance at January 1	248,549	246,679
Increase (Note 13)	1	2,979
Reversal in the year (Note 13)	(72,430)	(1,109)
Permanent write offs	(1,526)	
Total Individual impairment allowance	**174,594**	**248,549**
Group impairment allowance		
Balance at January 1	1,977,071	1,911,622
Increase (Note 13)	165,820	215,494
Effects of the changes in foreign exchange rates (Note 13)	1,767	(1,493)
Reversal in the year (Note 13)	(150,280)	(141,366)
Permanent write-off	(14,796)	(6,812)
Other (Note 13)	(1,062,385)	(374)
Total Group impairment allowance	**917,197**	**1,977,071**
Balance as of December 31, exposed to credit risk	**1,091,791**	**2,225,620**
Impairment allowance of inventory (not exposed to credit risk)	61,782	68,828
Balance as at December 31, 2021 (without impairment of equity investments)	**1,153,573**	**2,294,448**
Impairment of equity investments	446,350	446,661
Total impairment of other assets	**1,599,923**	**2,741,109**

31. OTHER ASSETS (continued)

a) Equity shares

Other assets also comprise equity shares and are shown in the following table:

In thousands of RSD

	December 31, 2021	December 31, 2020
Equity investments in banks and other financial organizations	80,270	80,270
Equity investments in companies and other legal entities	431,327	458,725
Equity investments in non-resident entities abroad	2,151,705	1,977,627
	2,663,302	**2,516,622**
Impairment allowance of:		
Equity investments in banks and other financial organizations in bankruptcy	(80,270)	(80,270)
Equity investments in companies and other legal entities	(366,080)	(366,391)
	(446,350)	**(446,661)**

Equity shares in banks and other financial organizations relate to: Euroaxis banka a.d., Moskva in the amount of RSD 78,387 thousand, Union banka a.d., in the amount of RSD 1,874 thousand and Universal banka in bankruptcy in the amount of RSD 9 thousand.

Equity shares in companies mostly relate to: 14. Octobar a.d. Krusevac in the amount of RSD 324,874 thousand, Dunav osiguranje a.d.o. Belgrade in the amount of RSD 60,276 thousand, RTV Politika d.o.o. Belgrade in the amount of RSD 37,634 thousand, Belgrade Stock Exchange a.d. in the amount of RSD 2,246 thousand and Politika a.d. Belgrade RSD 2,244 thousand.

Equity shares in non-resident entities abroad relate to VISA INC Company in the amount of RSD 1,685,355 thousand and MASTER Card International in the amount of RSD 450,354 thousand.

Impairment allowance of equity shares totalling RSD 446,350 thousand relates to the impairment of cost of those equity shares that have no market value, out of which the major portion refers to: 14. October a.d., Krusevac in the amount of RSD 324,874 thousand, Euroaxis bank Moscow worth RSD 78,387 thousand, RTV Politika Belgrade in RSD 37,633 thousand and PPD Dobricevo d.o.o. Cuprija amounting to RSD 2,563 thousand.

b) Other receivables and receivables from operations

Other receivables stated in RSD mostly relate to operating receivables in the amount of RSD 223,059 thousand (impairment in the amount of RSD 76,968 thousand), receivables from material values received by collection of receivables in the amount of RSD 938,429 thousand (impairment in the amount of RSD 1,940 thousand), receivables from advances given for working capital in the amount of RSD 53,484 thousand (impairment in the amount of RSD 8,360 thousand), receivables from rent in RSD 371,984 thousand (impairment in the amount of RSD 233,682 thousand), receivables for default interest from other assets in the amount of RSD 200,766 thousand (impairment in the amount of RSD 126,775 thousand) and operating receivables according to the court judgment in the amount of RSD 209,085 thousand (impairment in entire 100%).

31. OTHER ASSETS (continued)

v) Foreclosed assets

Foreclosed assets totalling to RSD 938,429 thousand gross, less recorded impairment allowance of RSD 1,940 thousand, with the net carrying value of RSD 936,489 thousand relate to:

I Foreclosed properties classified in accordance with the classification decision that applied before December 30, 2013.

In thousands of RSD

Item	Area in sqm	Value	Date of acquisition
Novi Pazar, Kej skopskih žrtava 44, lokal	82.95	2,760	27.09.2006
Gnjilica, field VII class	2,638	75	15.04.2008
Čačak, Hotel „ Prezident“, Bulevar oslobođenja bb	2,278.92	68,762	21.01.2009
Buče, forest, IV class	8,292	299	12.10.2010
Budva, Crna Gora, forest, IV class	974	8,080	27.05.2011
Prijevor, forest, IV class	1,995	11,087	27.05.2011
Beograd, Mihajla Avramovića 14a, residential	925.35	166,849	21.11.2011
Kruševac, Koševi, production business facility I.C.P.	12,836	38,440	08.06.2012
Mladenovac, Sopot-Nemenikuće, field III class	16,633	274	25.06.2012
Obrenovac, Mislođin, , field III class	10,017	1,078	11.07.2012
Novi Pazar, Ejupa Kurtagića 13, house	139.90	4,755	24.07.2012
Majur, Tabanovačka, field	14,452	1,671	10.08.2012
Mali Požarevac, Veliko polje, fiels III and IV class	21,915	328	27.09.2012
Ćuprija, Alekse Šantića 2/24, apartment	72.40	924	15.01.2013
Niš, Ivana Milutinovića 30, business premises	438.39	4,919	23.04.2013
Niš, Triglavska 3/1, apartment	79.80	3,609	04.06.2013
Mladenovac, field-meadow III class	1,142	505	18.07.2013
Prijepolje, Karoševina, sawmill	450	1,126	08.11.2013
Total I		**315,541**	

31. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

II Foreclosed properties classified in accordance with the classification decision that is applied after December 30, 2013

In thousands of RSD

Description	Area in sqm	Value	Date of acquisition
Vukovac,, Milatovac, agricultural land	132,450	521	16.05.2014.
BOR, Nikole Pasica 21, commercial building, warehouse	3,823	39,437	08.05.2014.
Mokra Gora, land, forests, fields, houses	58,400	3,246	31.01.2014.
Kopaonik, House with land	337	5,865	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 6/3	29	3,944	31.01.2014.
Novi Sad, Bulevar oslobodjenja 30 and commercial property 7/3	44	5,984	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 8/3	35	4,760	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 9/3	34	4,624	31.01.2014.
Novi Sad, Bulevar oslobodjenja and 30th, commercial property 10/3	39	5,304	31.01.2014.
Novi Sad, Bulevar oslobodjenja 88, commercial/23	253	31,340	31.01.2014.
Novi Sad, Tihomira Ostojica 4, office space 7	134	5,663	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, office space 8	81	4,075	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, office space 9	79	3,974	31.01.2014.
Novi Sad, Polgar Andrasa 40/a, office space 10	408	21,387	31.01.2014.
Zrenjanin, Novosadski put 4, building, pump and land	9,144	38,110	14.08.2014.
Budva, Rezevici, Montenegro, rocks, forest	1,363.20	17,922	22.07.2014.
Budva, Rezevici, Montenegro, forest V class	5,638.54	74,126	22.07.2014.
NIS, Ivana Gorana Kovacica 31, residential building	434.58	9,572	17.04.2013.
Mladenovac, Americ, field IV class	7,768	260	03.10.2014.
Valjevo, Radjevo selo, warehouse	394	2,364	11.06.2014.
Bela Crkva, Kajtasovo, forest	4,187	85	03.10.2014.
Mladenovac, fields, orchards	25,136	551	03.10.2014.
NIS, Sjenicka 1, commercial buildings, warehouses, workshops	1,452.73	14,178	14.03.2013.
NIS, Sumadijska 1, Office space	504.60	1,939	04.12.2014.
Valjevo, Worker 6, place	69	2,981	28.05.2014.
Prokuplje, field III class	12,347	530	28.08.2015.
Prokuplje, Maloplanska 7, building with land	490	300	11.06.2012.
Sokobanja, agricultural land, Orchard, field IV class	417,908	7,394	31.07.2012.
Sokobanja, production hall with land	5,042	25,347	31.07.2012.
Sokobanja, space with land	2,005	728	31.07.2012.
Sokobanja, House with land	4,194	8,117	31.07.2012.
Lebane, Branka Radičevica 17, residential and commercial building	768.42	6,246	27.08.2015.
Sid, Jamene, field, krcevinai cerje IV and V class	29,515	1,354	11.03.2016.
Loznica, Lipnica, Karađorđeva, residential and commercial building with land	146	2,149	15.10.2015.
Vrhpolje, lodging hospitality	1,334	2,457	16.05.2013.
Zrenjanin, Bagljas, pasture II class	230	50	22.12.2015.
Svilajnac, Kodublje, Office building, halls and land	10,462	28,802	26.02.2016.
Aleksandrovo, Merosina, building with land	8,527	14,056	23.12.2015.
Bojnik, Mirosevce, fields, pasture, vineyard	29,550	232	31.03.2016.
Valjevo, Bobove, field VI and VII class	20,599	360	19.05.2016.
Kotor, Montenegro, Office space, building No. 1	106	24,117	22.12.2016.
Kotor, Montenegro, Office space, building No. 1	345	52,330	22.12.2016.
Kotor, Montenegro, Office space, building No. 1	345	34,887	22.12.2016.
Nis, Trg Ucitelja Tase br. 10/1, office space	79.40	6,114	13.03.2019.
Curug, Nikole Pasica bb, silos with additional facilities	910	61,577	07.10.2019.
Zabari, fileds III class	12,732	306	08.03.2017.
Novi Sad, Petra Drapsiina 29, apartment	154	14,230	14.10.2020.
Lazarevo, Complex of agricultural buildings	1,585	5,069	
Total II		**599,164**	

31. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

III Equipment foreclosed before December 30, 2013 – that do not meet requirements according to the NBS classification of on-balance and off-balance sheet items

		In thousands of RSD
Description	**Value**	**Date of acquisition**
Krusevac, moveable assets (\machinery, furniture, equipment)	5,544	08.06.2012
Nis and Soko Banja Moveable assets (lines for processing coffee, transport devices and devices for maintaining hygiene)	4,916	31.07.2012
Paracin, lines for production for coffee	1,569	31.12.2012
Vranic, lines for production	1,810	09.07.2013
Total III	**13,839**	

IV Equipment acquired in periods after December 30, 2013 – which classify as balance and off-balances items in accordance with the relevant NBS decision

		In thousands of RSD
Description	**Value**	**Date of acquisition**
Moveable property, agricultural equipment and tools	48	03.06.2015
Equipment supplies raw materials	1,242	18.07.2014
Muvables, installation material	388	13.05.2014
Other	6,267	07.10.2019
Total IV	**7,945**	

V Securities acquired through the collection of receivables

		In thousands of RSD
Description	**Value**	**Date of acquisition**
Securities acquired through the collection of receivables	1,940	12.09.2019
Impairment of securities	(1,940)	
Total V	**-**	
Total (current value) I + II+ III+ IV+V	**936,489**	

31. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

The effect of the impairment of assets acquired through collecting receivables in 2021 is shown in the table:

In thousands of RSD

	Properties	Equipment	Total
Positive effect of change in value (Note 18)	112,014	-	112,014
Negative effect of change in value (Note 19)	(30,355)	(2,279)	(32,634)
Total	**81,659**	**(2,279)**	**79,380**

The positive effect of the value assessment of assets acquired through the collection of receivables is recognized as income for the period up to the amount of previously recognized impairment loss, while the negative effect of is recognized as expense for the period, as follows:

- change in value of property in the net amount of RSD 81,659 thousand under estimated lower market value of property and land (less haircut by 14% in accordance with the Group Methodology) compared to their initial value (acquisition value);
- impairment of equipment in the amount of RSD 2,279 thousand based on the estimated lower market value.

By engaging an authorized external appraiser, the Bank carried out a reassessment of fixed assets acquired through collecting receivables acquired prior to the twelve month period.

31. OTHER ASSETS (continued)

v) Foreclosed assets(continued)

G.1.1 Appraisal value of foreclosed properties

Property	Area in sqm	Book value before the appraisal	Appraisal value In thousand of EUR	Appraisal value Net current value in thousand of RSD	The difference in value in thousands of RSD
Beograd, Mihajla Avramovića 14a, residential building	925.35	147,436	1,419	166,849	19,413
Budva, Reževići, Crna Gora, forest V class	5,638.54	74,111	630	74,126	15
Čačak, Hotel „ Prezident“, Bulevar oslobođenja bb	2.278.92	68,748	585	68,762	14
Čurug, Nikole Pašića bb, silos with auxiliary facilities	910	55,280	524	61,577	6,297
Kotor, Crna Gora, office premises, building no. 1	345	60,135	445	52,330	(7,805)
Bor, Nikole Pašića 21, office building, warehouse	3,823	40,165	335	39,437	(728)
Kruševac, Koševi, production business facility I.C.P.	12.836	40,194	327	38,440	(1,754)
Zrenjanin, Novosadski put 4, building, pump and land	9,144	30,165	326	38,310	8,145
Kotor, Crna Gora, office premises, building no. 1	345	53,481	297	34,887	(18,594)
Novi Sad, Bulevar oslobođenja 88, office premises 23	253	17,473	267	31,340	13,867
Svilajnac, Kodublje, office building, hall and land	10,462	26,633	245	28,802	2,169
Sokobanja, production hall with land	5,042	20,491	216	25,347	4,856
Kotor, Crna Gora, office premises, building no. 1	106	18,513	205	24,117	5,604
Novi Sad, Polgar Andraša 40/a, business premises 10	408	22,177	182	21,387	(790)
Budva, Reževići, Crna Gora, rocky, forest	1,363.20	18,149	152	17,922	(227)
Niš, Sjenička 1, office building, warehouses, workshop	1,452.73	11,461	121	14,178	2,717
Novi Sad, Petra Drapšina 29, apartment	154	13,447	121	14,230	783
Aleksandrovo, Merošina, building with land	8,527	12,690	120	14,056	1,366
Prijevor, , forest IV class	1.995	4,179	94	11,087	6,908
Niš, Ivana Gorana Kovačića 31, residential building	434.58	3,914	81	9,572	5,658
Budva, Crna Gora, forest IV class	974	3,612	69	8,080	4,468
Sokobanja, building with land	4,194	3,185	69	8,117	4,932
Sokobanja, agricultural land, orchard, class IV field	417,908	4,932	63	7,394	2,462
Lebane, Branka Radičevića 17, residential and commercial building	768.42	4,944	53	6,246	1,302
Niš, Trg Učitelja Tase br. 10/1, shops	79.40	5,489	52	6,114	625
Novi Sad, Bulevar oslobođenja 30a business premises 7/3	44	4,045	51	5,984	1,939
Kopaonik, house with land	337	3,533	50	5,865	2,332
Novi Sad, Tihomira Ostojića 4, business premises 7	134	4,964	48	5,663	699
Novi Sad, Bulevar oslobođenja 30a, business premises 10/3	39	3,585	45	5,304	1,719
Lazarevo, Complex of agricultural facilities	1585	5,069	43	5,069	-
Niš, Ivana Milutinovića 30. business premises	438.39	4,420	42	4,919	499
Novi Pazar, Ejupa Kurtagića 13. house	139.90	3,184	40	4,755	1,571
Novi Sad, Bulevar oslobođenja 30a, business premises 8/3	35	3,218	40	4,760	1,542
Novi Sad, Bulevar oslobođenja 30a, business premises 9/3	34	3,126	39	4,624	1,498
Novi Sad, Polgar Andraša 40/a, business premises 8	81	4,281	35	4,075	(206)
Novi Sad, Bulevar oslobođenja 30a, business premises 6/3	29	2,666	34	3,944	1,278
Novi Sad, Polgar Andraša 40/a, business premises 9	79	4,176	34	3,974	(202)
Niš, Triglavska 3/1, apartments	79.80	2,842	31	3,609	767
Mokra Gora, land, forests, fields, houses	58,4	3,288	28	3,246	(42)
Valjevo, Radnička 6, apartment	69	2,410	25	2,981	571
Novi Pazar, Kej skopskih žrtava 44. shop	82.95	1,910	23	2,760	850
Vrhpolje, catering unit	1,334	2,049	21	2,457	408
Valjevo, Rađevo village, warehouse	394	380	20	2,364	1,984
Other (23 units)	-	12,896	133	15,645	2,749
TOTAL		**833,046**		**914,705**	**81,659**

31. OTHER ASSETS (continued)

v) Foreclosed assets(continued)

G.1.2 Appraisal value of foreclosed equipment

Equipment	Carrying amount before appraisal in thousand of RSD	Net book value in thousand of RSD	Difference in thousand of RSD
Movable assets	11,044	8,923	(2,121)
Equipment, supplies, secondary raw material	6,752	6,594	(158)
Other	6,267	6,267	-
Total	**24,063**	**21,784**	**(2,279)**

As of December 31, 2021, the Bank did not register property rights in the land public books for two units with a current value of RSD 1,176 thousand acquired through the collection of receivables. In relation, all necessary activities have been undertaken which should result in the final registration in favor of the Bank.

For three movables items with a total value of RSD 96 thousand, the Bank does not hold any book ownership (items are recorded in off-balance sheet records).

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

32. DEPOSITS AND OTHER LIABILITIES TO BANKS, OTHER FINANCIAL INSTITUTIONS AND CENTRAL BANK

Deposits and other liabilities due to banks and other financial institutions comprise:

In thousands of RSD

	December 31, 2021	December 31, 2020
Demand deposits	1,764,847	4,581,556
Term deposits	259,542	230,612
Overnight deposits	109,000	150,000
Other	1,580	27,147
Balance as at December 31	**2,134,969**	**4,989,315**

During 2021 deposits were 0.10% for RSD. Interest rates on deposits taken from subsidiary foreign banks amounted 0.25% for USD deposits.

33. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS

Deposits and other liabilities due to customers comprise:

In thousands of RSD

	December 31, 2021	December 31, 2020
Corporate customers and registered farms		
Demand deposits	87,826,768	77,792,263
Overnight and other deposits	9,347,332	16,109,013
Borrowings	615,954	977,225
Special-purpose deposits	2,769,430	2,329,833
Deposits for loans approved	368,651	648,554
Interest payable, accrued interest liabilities and other financial liabilities	487,686	694,654
Retail customers – private individuals		
Demand deposits	56,766,007	47,618,377
Savings deposits	233,332,560	216,205,003
Special-purpose deposits	7,911,007	6,691,310
Deposits for loans approved	2,526,247	2,481,075
Interest payable, accrued interest liabilities and other financial liabilities	1,136,322	987,685
Other deposits	198,454	164,409
Balance as of December 31	**403,286,418**	**372,699,401**

Corporate Customer's Deposits

RSD demand deposits of corporate customers mostly comprise balances of transaction deposits of companies and legal entities. In accordance with the Decision on Interest Rates for 2021, up to April 30,2021, these deposits were interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate is 0.10% per annum if average monthly balance is higher than RSD 50 thousand. From May 1, 2021, transaction deposits of legal entities are non-interest-bearing. Depending on the level of the average monthly balance, the interest rate on transaction deposits of entrepreneurs is 0.10% per annum if average monthly balance is higher than RSD 50 thousand. From October 1, 2021 entrepreneurial transaction deposits are non-interest-bearing.

Foreign currency demand deposits of non-resident customers are non-interest bearing.

For the period January 1 to December 31, 2021, short-term corporate deposits are interest bearing with rate ranging from: reference interest rates annually minus 0.85% percentage points for a period of 30 to 59 days, to interest rates equal to the reference interest rate annually minus 0.25% percentage points for a period of 180 to 364 days, with a limit of at least RSD 300 thousand, while long-term deposits are deposited at an interest rate determined by the reference interest rate of the National Bank of Serbia on an annual basis.

For the period January 1 to December 31, 2021, Short-term deposits of entrepreneurs in RSD are deposited with interest rate ranging from: 0.15% to 0.45% on deposits from 30 to 59 days to interest rate of 0.75% to 1.20% for a period of 184 to 364 days, with a limit of at least 300 thousand dinars , while long-term deposits are deposited at interest rate of 1.00% to 1.50%.

For the period January 1 to December 31, 2021, Short-term corporate and entrepreneurs deposits in foreign currency are deposited with an interest rate ranging from: 0.00% to 0.25% on deposits from 30 to 59 days to an interest rate of 0.40% for a period of 180 to 364 days for EUR and USD 0.50 % on deposits from 30 to 59 days to 1.00% for a period of 180 to 364 days, with a limit of at least 3 thousand EUR / USD.

For the period January 1 to December 31, 2021, Long-term corporate and entrepreneurs deposits in foreign currency are deposited with interest rates ranging from: 0.10% to 0.70% on deposits of 365 and more days for EUR, or for USD from 0.15% to 1.40% on deposits of 365 and more days , with a limit of at least 3 thousand EUR / USD

32. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS (continued)

Retail deposits

Domestic and foreign currency savings deposits of the private individuals during 2021 were non-interest bearing.

Short-term retail deposits in dinars were deposited at interest rates ranging from 1.00% to 2.50% annually, and in foreign currency from 0.05% to 0.35% for EUR, and for other currencies from 0.10% to 1.00% annually.

Long-term retail deposits in dinars are deposited at interest rates ranging from 2.00% to 3.00% annually, and in foreign currency from 0.15% to 0.80% for EUR, and for other currencies from 0.15% to 1.50% annually.

Within the liabilities arising from loans, the total liabilities on foreign credit lines to foreign legal entities that are defined as customers for the balance sheet purposes are recognized.

The structure of long-term and short-term loans that are stated in the position of liabilities to customers is as follows:

In thousands of RSD

	December 31, 2021	December 31, 2020
Long-term loans		
Government of the Republic of Italy	2,744	5,487
European Investment Bank (EIB)	613,210	970,366
European Agency for Reconstruction and Development (EAR)	-	1,372
Total	**615,954**	**977,225**

The maturity of the loans presented is between 2022 and 2030.

For credit lines (tripartite), the Bank has no contractual obligations with creditors related to financial indicators (monitoring/reporting).

33. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS (continued)

33.1. Structure and movement of deposits and other financial liabilities to banks, other financial organizations, central bank and customers are shown below

In thousands of RSD

	December 31, 2021	December 31, 2020
Balance, January 1		
Deposits and other financial liabilities to banks, other financial institutions and the central bank (Note 32)	4,989,315	5,021,756
Deposits and other financial liabilities to other customers (note 33)	372,699,401	335,317,154
Balance, January 1	**377,688,716**	**340,338,910**
Net inflows / outflows - deposits	27,239,107	37,092,014
Net inflows / outflows - loans	(1,259,627)	919,055
Net inflows / outflows - interest	(911,886)	(953,415)
Net inflows / outflows - fees	(2,753)	(4,165)
Foreign exchange differences	1,727,979	(824,495)
Accrued interest and other non-cash transactions	939,851	1,120,812
Balance at December 31	**405,421,387**	**377,688,716**

In thousands of RSD

	December 31, 2021	December 31, 2020
Deposits and other financial liabilities to banks, other financial institutions and the central bank (Note 32)	2,134,969	4,989,315
Deposits and other financial liabilities to other customers (note 33)	403,286,418	372,699,401
Total banks and customers	**405,421,387**	**377,688,716**

34. PROVISIONS

Provisions relate to:

In thousands of RSD

	December 31, 2021	December 31, 2020
Provisions for off-balance sheet items (Note 13)	208,819	224,463
Provisions for litigations (Note 38.4)	2,603,783	1,707,301
Provisions for employee benefits in accordance with IAS 19	613,425	597,504
Other provisions (Note 19)	807,826	-
Balance at December 31	**4,233,853**	**2,529,268**

34. PROVISIONS (continued)

Movements on the accounts of provisions are provided below:

In thousands of RSD

	December 31, 2021					December 31, 2020			
	Off-balance sheet provisions (Note 13)	Provisions for litigation (Note 38.4)	Provisions for employee benefits (IAS 19)	Other provisions (Note 19)	Total	Off-balance sheet provisions (Note 13)	Provisions for litigation (Note 38.4)	Provisions for employee benefits (IAS 19)	Total
Balance at January 1	**224,463**	**1,707,301**	**597,504**	**-**	**2,529,268**	**190,977**	**1,614,874**	**522,279**	**2,328,130**
Payments	367,549	1,492,830	-	1,610,928	3,471,307	235,337	1,007,519	79,181	1,322,037
Provisions against actuarial gains within equity	-	-	137,159		137,159	-	-	(3,956)	(3,956)
Release of provisions	-	(521,889)	(18,170)	(803,102)	(1,343,161)	-	(139,763)	-	(139,763)
Reversal of provisions	(383,192)	(74,459)	(112,669)	-	(570,320)	(201,851)	(775,329)	-	(977,180)
Interest costs			9,601		9,601				
Other	(1)	-	-	-	(1)				
Balance at December 31	**208,819**	**2,603,783**	**613,425**	**807,826**	**4,233,853**	**224,463**	**1,707,301**	**597,504**	**2,529,268**

a) Provisions for litigations

A provision was done on the basis of estimates of future outflows in the amount of claims, including interest and costs. Total provisions for all litigations as of December 31, 2021 amounted to RSD 2,603,783 thousand.

In comparison with December 31, 2020 there was a change in the overall level of provision in the net amount RSD 896,482 thousand. Of that, a change that relates to the additional provisions for litigations is RSD 1,418,371 thousand, recognized in the income statement, while the reduction of provisions totalling to RSD 521,889 thousand refers to the use of the provisions for payments and for passed court verdicts.

The largest number of disputes concerns claims for payment of credit processing fees, damages and determination.

At the session of the Civil Department of the Supreme Court of Cassation held on September 16, 2021, the Legal Position on the Admissibility of Contracting Loan Costs (adopted on May 22, 2018) was amended by stipulating that the Bank is not obliged to prove the structure and amount of costs covered by the total loan costs specified in the offer accepted by the borrower by concluding the loan agreement.

At the same session on September 16, 2021, the position on the admissibility of contracting insurance premiums, as an obligation of the borrower with NMIC, was taken by stating that the provision of the loan agreement which legally obliges the borrower to pay the insurance premium to the bank with NMIC is legally valid, provided that this obligation is clearly stated. to the borrower in the pre-contractual phase by stating this type of loan costs and its percentage and nominal amount in the offer. The bank is not obliged to acquaint the borrower with the structure and method of calculating the loan insurance premium.

In the financial statements, the estimate of provisions for litigation on the basis of lawsuits filed against the Bank until September 20, 2021 relating to the fees charged by the Bank to borrowers was made without taking into account the position of the Supreme Court of Cassation of September 16, 2021 due to the Bank's determination to wait for the unification of case law based on the position of the Supreme Court of Cassation.

34. PROVISIONS (continued)

b) Provisions for retirement benefits

Provisions for retirement benefits are formed on the basis of an independent actuary's report at the balance sheet date, and are stated in the amount of the present value of expected future payments.

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

	31 December 2021	31 December 2020
Discount rate	4.20%	4.00%
Salary growth rate within the Bank	3.80%	3.00%
Salary growth rate at the national level	3.80%	6.00%
Employee turnover	2.90%	5.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Serbia was used to determine the discount rate.

Sensitivity analysis of changes in significant actuarial assumptions:

		December 31, 2021 In thousands of RSD
Actuarial assumptions	Change of assumptions in p.p.	Change in the present value of provisions for employees
Discount rate	+0,5	-22.891
	-0,5	24.899
Earnings growth	+0,5	21.066
	-0,5	-19.508
Fluctuation	+0,5	-24.088
	-0,5	12.569

c) Other provision

Other provisions relate to the recognition of provisions for reorganization costs made on the basis of the Bank's voluntary severance package, the estimated number of employees who would be interested in leaving the Bank voluntarily, and the estimated indicative cost to reduce the number of permanent employees. and optimizing the Bank's operations.

In 2021, a provision in the amount of RSD 1,610,928 thousand was formed, while according to the voluntary severance package from March 12 to December 31, 2021, an amount of RSD 803,102 thousand was paid off.

35. OTHER LIABILITIES

Other liabilities include:

In thousands of RSD

	December 31, 2021	December 31, 2020
Payables	240,655	127,031
Liabilities to employees (salaries, taxes, contributions and other liabilities to employees)	67,368	26,196
Advances received	27,356	27,473
Leasing liabilities	910,609	821,322
Deferred income from interest and fees and other income	238,274	306,737
Accrued liabilities and other accruals	1,385,642	1,339,692
Liabilities on transitional accounts	770,418	1,866,452
Liabilities from profit	177,656	183,667
Liabilities for taxes and contributions	13,638	7,461
Other liabilities	310,827	269,445
Balance at December 31	**4,142,443**	**4,975,476**

Liabilities on transitional accounts in the amount of RSD 770,418 thousand mainly relate to liabilities in the account for liquidated foreign currency accounts of domestic legal entities in the amount of RSD 114,870 thousand, liabilities for unpaid dividends to legal entities in the amount of RSD 93,414 thousand, liabilities based on closed customer accounts in RSD in the amount of RSD 142,076 thousand, liabilities in settlement based on liquidated foreign currency accounts of foreign legal entities in the amount of RSD 59,291 thousand and liabilities in settlement on other bases in RSD in the amount of RSD 105,494 thousand.

35.1 **Liabilities from profit** in the total amount of RSD 177,656 thousand consist of:

- dividend payable on preference shares in the amount of RSD 4,251 thousand,
- liabilities from profit to employees in the amount of RSD 173,405 thousand

The remaining amount of liabilities based on dividends in the amount of RSD 4,251 thousand refers to liabilities from the period before 2014 and liabilities to shareholders who did not submit instructions for the payment of dividends.

35. OTHER LIABILITIES (continued)

35.2 Lease liabilities

The maturity breakdown of lease liabilities is shown in the following table:

	2021		2020	*In thousands of RSD*
	Net book value	Non-discounted cash flows	Net book value	Non-discounted cash flows
Mature:				
- up to a year	340,163	353,375	323,006	334,983
- up to 2 years	230,204	238,828	214,032	221,561
- up to 3 years	158,435	163,786	142,359	146,686
- up to 4 years	115,005	117,987	72,980	75,449
- up to 5 years	44,745	46,130	40,894	42,284
- over 5 years	22,058	25,931	28,050	31,551
Total	**910,610**	**946,037**	**821,321**	**852,514**

Breakdown of total payments or outflows for lease liabilities in 2021 and 2020 are shown in the following table:

	December 31, 2021	***In thousands of RSD*** **December 31, 2020**
Fixed payments	373,915	381,660
Variable payments	8,580	7,455
Total	**382,495**	**389,115**

Variable payments included in the lease liability depend on the index. Of the total outflows of RSD 382,495 thousand, RSD 367,957 thousand relates to principal shown within cash flows from financing activities, while interest amounts to RSD 14,538 thousand shown within cash flows from operating activities within CF Statement.

Breakdown of expenditures and revenues from lease activities incurred in 2021 and 2020 is shown in the following table:

	December 31, 2021	***In thousands of RSD*** **December 31, 2020**
Depreciation costs of rights to use (Note 17)	(372,085)	(377,754)
Interest for lease liabilities (Note 8)	(14,538)	(15,774)
Lease costs (excluded from IFRS 16 note 19)	(46,220)	(31,787)
Tax duty IFRS 16 (Note 19)	(67,238)	(65,222)
Net effects of expenditure / (income) from variable payments and expenditure of funds with the right of use (Notes 15 and 19)	475	629
Exchange differences (Note 12)	(79)	95
Total	**(499,685)**	**(489,813)**

The Bank leases business premises, vehicles and other equipment used in its business. Lease agreements for business premises are usually concluded for a period of 5 years, while some leases are for a longer period of time, or for an indefinite period.

35. OTHER LIABILITIES (continued)

35.2 Lease liabilities

Indefinite contracts are included in the recognition of lease liabilities in accordance with planned estimates. A lease period of 5 years is usually provided, except for business premises in strategic locations for which management estimates a different (longer) lease term. Lease of vehicles and other equipment is usually made for a period of 1 to 5 years. Some lease agreements include the possibility of automatic renewal, while the vast majority include the right of unilateral termination for the Bank. These options are agreed by the management in accordance with the business needs. Leases for renewable periods are included in the measurement of the lease liability if it is highly probable that the lessee will exercise this option.

The terms of each lease are agreed on an individual basis and contain different terms. Apart from the obligations assumed in connection with the leased property, the leases do not include other obligations, except for participation in the costs of security, maintenance, marketing, etc., depending on the location or the lessor. The leased property cannot be used as collateral for the loans taken.

The Bank also leases certain equipment with a lease period of 12 months or less and low value equipment. For these leases, the Bank applies an exemption from the obligation to recognize short-term leases and low-value leases. Lease for short-term and small leases is recognized as an expense on a straight-line basis over the lease period.

To calculate the net present value of future leases, the Bank uses its incremental borrowing rate as the discount rate prevailing on the lease date.

In 2021, the Bank has no gains or losses from reverse lease transactions.

36. EQUITY

36.1 Equity is comprised of:

In thousands of RSD

	December 31, 2021	December 31, 2020
Share capital	17,191,466	17,191,466
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	22,147,207	22,147,207
Revaluation reserves	3,887,345	6,585,755
Retained earnings	5,927,921	3,358,593
Profit / (Loss) for the period	3,645,699	2,534,434
Balance as at December 31	**75,642,722**	**74,660,539**

The Bank's issued (share) capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Bank (owners of the ordinary shares) as well as to shares in profit distribution (owners of the preference and ordinary shares). As of December 31, 2021 the Bank's share capital totalled RSD 17,191,466 thousand and comprised 17,191,466 shares with the individual par value of RSD 1 thousand.

36. EQUITY (continued)

36.1 Equity is comprised of (continued)

Breakdown of the Bank's shares is provided in the table below:

Share type	Share count December 31, 2021	Share count December 31, 2020
Ordinary shares	16,817,956	16,817,956
Preferred shares	373,510	373,510
Balance as at December 31	**17,191,466**	**17,191,466**

The structure of the Bank's shareholders with ordinary (common stock) shares at December 31, 2021 was as follows:

Shareholder	Number of shares	% of participation
NLB d.d. Ljubljana	14,847,047	88.28
OTP BANKA SRBIJA (custody account)	460,560	2.74
BDD M&V INVESTMENTS AD BEOGRAD	382,590	2.27
Jugobanka a.d., Beograd – in bankruptcy	321,600	1.91
Company Dunav osiguranje a.d., Beograd	290,214	1.73
OTP BANKA SRBIJA (custody account)	85,664	0.51
TEZORO BROKER AD	58,952	0.35
BDD M&V INVESTMENTS AD BEOGRAD (cumulative account)	51,117	0.30
CRIMINAL-POLICE ACADEMY	34,320	0.20
TANDEM FINANCILA a.d. Novi Sad	22,235	0.13
DUNAV RE AD	17,220	0.10
MERA INVEST DOO BEOGRAD	16,900	0.10
TEZORO BROKER AD	12,160	0.07
ERSTE BANK CUSTODY	11,379	0.07
PHYSICAL BODY	11,170	0.07
KRUNA KOMERC D.O.O.	10,000	0.06
ELEKTRODISTRIBUCIJA SRBIJE DOO	8,990	0.05
Other (729 of shareholders)	175,838	1.06
	16,817,956	**100.00**

The structure of the Bank's shareholders with preferred shares at December 31, 2021 was as follows:

Shareholder	Number of shares	% of participation
Physical body	73,140	19.58
NLB d.d. Ljubljana	57,250	15.33
Tezoro broker a.d	28,389	7.60
OTP banka Srbija (custody account)	18,447	4.94
Jugobanka a.d., Beograd (in bankruptcy)	18,090	4.84
Physical body	17,440	4.62
BDD M&V Investments a.d Beograd	10,768	2.88
Others (490 of shareholders)	149,986	40.16
	373,510	**100.00**

36. EQUITY (continued)

36.1 Equity is comprised of (continued)

On June 26, 2019 the Ministry of Finance of the Republic of Serbia repurchased shares which were held by the shareholders DEG-DEUTSHE INVESTITIONS and SVEDFUND INTERNATIONAL in the total percentage of 6.90%, and on November 26, 2019 repurchased EBRD shares 24.43%, IFC CAPITALIZATION FUND LP shares 10.15%, which increased percentage of ownership of Serbian Government to 83.23%.

On February 26, 2020 the Ministry of Finance of the Republic of Serbia announced that the representatives of Nova Ljubljanska banka d.d. (NLB) and the Minister of Finance of the Republic of Serbia, signed an Agreement on the purchase and sale of 83.23% of ordinary shares of Komercijalna banka AD Belgrade.
By signing this agreement, the Bank acquired a new strategic partner, who took over the management of the Bank after the completion of the transaction.

By signing the Agreement on the transfer of shares on December 30, 2020 between the Republic of Serbia and NLB d.d. Ljubljana, Slovenia, the process of selling Komercijalna banka a.d. was completed. The subject of the agreement was 83.23% of ordinary shares of Komercijalna banka, which made NLB d.d. Ljubljana the owner of shares held by the Republic of Serbia and the largest individual owner of the Bank with the right to manage.

On March 11, 2021, the NLB d.d. Ljubljana published an Offer to take over the remaining ordinary and the entire issue of preferred shares of Komercijalna banka a.d. Beograd. By additional acquisition of ordinary shares until Dece,ber 31, 2021, , the NLB d.d. Ljubljana increased its participation in the management shares of Komercijalna banka a.d. Beograd at 88.28%.

Revaluation reserves amounting to RSD 3,887,345 thousand (2020: RSD 6,585,755 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 959,025 thousand, revaluation reserves from valuation of equity instruments in the amount of RSD 1,856,965 thousand, revaluation reserves arising from the valuation of debt securities amounting to RSD 1,072,717 thousand and actuarial loss of RSD 1,362 thousand. Presented values include deferred tax effects.

36.2. Earnings per share

Basic earnings per share is calculated by dividing the profit (loss) attributable to shareholders (of a parent company) by weighted average number of ordinary shares outstanding for the period.

	December 31, 2021	December 31, 2020
Earnings minus preferred dividend (In RSD thousand)	3,638,602	2,522,631
Weighted average number of shares outstanding	16,817,956	16,817,956
Earnings per share (in RSD)	**216**	**150**

Basic earnings per share for the year 2021 amounts to RSD 216 or 21.64% of the nominal value of ordinary shares, while for 2020 adjusted earnings per share was RSD 150, or 15% of the nominal value of the ordinary shares.

37. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

An analysis of assets and liabilities according to when they are expected to be due or settled is shown in the table below:

In thousands of RSD

December 31, 2021	Up to 12 months	Over 12 months	Total
Cash and assets held with the central bank	82,055,481	-	**82,055,481**
Securities	40,921,310	108,667,445	**149,588,755**
Loans and receivables from banks and other financial organisations		2,943,702	**29,114,381**
Loans and receivables from clients	64,544,306	144,500,636	**209,044,942**
Investments in associates and joint ventures	-	1,488,063	**1,488,063**
Investments into subsidiaries	-	140,000	**140,000**
Intangible assets	-	582,101	**582,101**
Property, plant and equipment	-	8,755,659	**8,755,659**
Investment property	-	2,610,531	**2,610,531**
Current tax assets	18,911	-	**18,911**
Deferred tax assets	509,242	-	**509,242**
Non-current assets held for sale and discontinued operations	101,614	-	**101,614**
Other assets	3,193,527	2,237,198	**5,430,725**
TOTAL ASSETS	**217,515,070**	**271,925,335**	**489,440,405**
Deposits and other liabilities to banks, other financial organisations and central bank	2,134,634	335	**2,134,969**
Deposits and other financial liabilities to clients	378,932,095	24,354,323	**403,286,418**
Provisions	-	4,233,853	**4,233,853**
Current tax liabilities	-	-	**-**
Deferred tax liabilities	-	-	**-**
Other liabilities	3,454,254	688,189	**4,142,443**
TOTAL LIABILITIES	**384,520,983**	**29,276,700**	**413,797,683**
Net	**(167,005,913)**	**242,648,635**	**75,642,722**

37. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

In thousands of RSD

December 31, 2020 - adjusted	Up to 12 months	Over 12 months	Total
Cash and assets held with the central bank	80,045,107	-	**80,045,107**
Securities	19,023,527	134,752,796	**153,776,323**
Loans and receivables from banks and other financial organisations	14,749,418	3,392,652	**18,142,070**
Loans and receivables from clients	53,080,564	136,215,525	**189,296,089**
Investments into subsidiaries		3,433,697	**3,433,697**
Intangible assets	-	510,669	**510,669**
Property, plant and equipment	-	6,045,330	**6,045,330**
Investment property	-	2,393,183	**2,393,183**
Current tax assets	12,237	-	**12,237**
Deferred tax assets	-	-	**-**
Non-current assets held for sale and discontinued operations	130,426	-	**130,426**
Other assets	4,134,132	2,082,136	**6,216,268**
TOTAL ASSETS	**171,175,411**	**288,825,988**	**460,001,399**
Deposits and other liabilities to banks, other financial organisations and central bank	4,968,751	20,564	**4,989,315**
Deposits and other financial liabilities to clients	345,535,991	27,163,410	**372,699,401**
Provisions	-	2,529,268	**2,529,268**
Current tax liabilities	-	-	**-**
Deferred tax liabilities	-	147,400	**147,400**
Other liabilities	4,453,086	522,390	**4,975,476**
TOTAL LIABILITIES	**354,957,828**	**30,383,032**	**385,340,860**
Net	**(183,782,417)**	**258,442,956**	**74,660,539**

38. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

In thousands of RSD

	December 31, 2021	December 31, 2020
Operations on behalf and for the account of third parties	4,047,859	4,097,143
Commitments	**62,616,254**	**42,879,760**
Receivables under repurchase agreements	-	1,175,802
Other off-balance sheet items	465,420,201	441,152,366
Total	**532,084,314**	**489,305,071**

Commitments

38.1 Guarantees and letters of credit

The Bank issues guarantees and letters of credit to vouch to third parties for the liability settlement by its clients. Such contracts have defined validity terms, which most commonly last up to a year. The contractual values of contingent liabilities are presented in the table below:

In thousands of RSD

	December 31, 2021	December 31, 2020
Payment guarantees (note 4.1.1.)	7,400,757	4,014,943
Performance guarantees (note 4.1.1.)	10,882,641	6,116,729
Letters of credit	-	169,229
Balance as at December 31	**18,283,398**	**10,300,901**

The above listed amounts represent the maximum amount of loss that the Bank would incur as at reporting date in the event that none of the Bank's clients were able to settle their contractual obligations (Note 4).

38.2 Commitments

The breakdown of commitments is provided below:

In thousands of RSD

	December 31, 2021	December 31, 2020
Unused portion of approved payment and credit card loan facilities and overdrafts	8,673,457	11,058,537
Irrevocable commitments for undrawn loans	29,867,267	21,252,952
Other irrevocable commitments	5,792,132	267,370
Balance as at December 31	**44,332,856**	**32,578,859**

38. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

38.3 Other off-balance sheet items comprise managed funds and other off-balance sheet assets

Funds managed on behalf and for the account of third parties amount to RSD 4,047,859 thousand and are mostly comprised of assets for consignment loans of the Republic of Serbia in the amount of RSD 3,265,543 thousand and relate to the long-term housing loans extended to retail customers, loans on the basis of the purchase of social apartments of budget institutions in the amount of RSD 397,693 thousand (loans taken from Beobanka in bankruptcy). Other assets mainly relate to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets which amount to RSD 465,420,201 thousand, the Bank,among other things, records nominal value of securities per custody operations performed for the account of its clients RSD 62,264,803 thousand, the nominal value of the securities in the portfolio of the Bank RSD 143,207,644 thousand, the amount written-off of funds in RSD in the amount of 26,945,546 thousand, and the amount written-off of financial assets in foreign currency in the amount of 3,786,814 thousand dinars, according to the NBS of the accounting write off balancing assets. The Bank according to the issued permission to perform custody jobs saved and financial instruments in the accounts of clients' securities, what is off-balance evidence. The Bank takes no credit risk in respect of managed funds.

Moreover, in accordance with the regulations, other off-balance sheet assets include the value of the tangible assets received as collaterals securitizing loan repayment: residential and commercial real estate properties and other collaterals that amount to RSD 179,824,410 thousand.

38.4 Litigation

Based on the expert judgment of the Bank's Legal Department and the lawyers representing the Bank, in disputes against the Bank up to December 31,2021, the Bank's management made provisions for potential losses in litigation in the amount of RSD 2,603,783 thousand (2020: RSD 1,707,301 thousand) (Note 34).

As at December 31, 2021 the Bank has 46,782 registered proceedings against the Bank, the total value of RSD 5,944,758 thousand.

This amount includes both binding claims for payment and the values of the subject matter of the dispute indicated in the lawsuits with the determining claim. The stated amount does not include the amounts of interest and court expenses.

In addition, as at December 31, 2021, the Bank has 13,674 registered proceedings against third parties, whose total value of the subject matter of the dispute is RSD 45,626,213 thousand.

38.5 Tax Risks

Tax systems in the Republic of Serbia is undergoing continuous amendments. In different circumstances, tax authorities could have different approach to some problems, and could establish additional tax liabilities together with related penalty interest and fines. The Bank's management believes that tax liabilities recognized in the financial statements are fairly presented.

39. RELATED PARTY DISCLOSURES

Related parties of the Bank are: parent bank, subsidiaries and associates, entities that are members of the same group or are under joint control, members of the Board of Directors and the Audit Committee, the Executive Board and managers who as members of other committees have planning powers and responsibilities , directing and controlling the activities of the bank ("key management"), close members of their families, as well as legal entities that are under the control or significant influence of key management and members of their families, in accordance with IAS 24.

In the normal course of business, a number of banking transactions are performed with subsidiaries. These include loans, deposits, investments in equity securities, derivative instruments, payment transactions and other banking operations.

39.1 Parent company and subsidiaries

NLB d.d. Ljubljana, which owns 88.28% of the Bank's ordinary shares, has the largest share in the management rights of the Parent Bank. The Parent bank has one subsidiary: KomBank INVEST a.d., Belgrade. During 2021, Komercijalna banka a.d., Podgorica and Komercijalna banka a.d., Banja Luka ceased to be the subsidiary of the Bank (Note 3 (a)).

39. RELATED PARTY DISCLOSURES (continued)

39.1 Parent Bank and subsidiaries (continued)

Transactions with subsidiary are shown in the following tables:

A. Balance as at December 31, 2021

RECEIVABLES *In thousands of RSD*

Subsidiary	Loans and receivable	Interest and fees	Other assets	Impairment for allowances	Net	Off-balance items	Total
KomBank INVEST	-	311	-	-	311	-	311
Total:	**-**	**311**	**-**	**-**	**311**	**-**	**311**

LIABILITIES *In thousands of RSD*

Subsidiary	Loans and deposits	Interest and fees	Other liabilities	Total
KomBank INVEST	53	-	-	53
Total:	**53**	**-**	**-**	**53**

INCOME AND EXPENSES *In thousands of RSD*

Subsidiary	Interest income	Fee and commission income and other income	Interest expenses	Fee and commission expenses	Net income / expenses
Kom. banka AD Podgorica*	4,716	7,414	(280)	(74)	11,776
Kom.banka AD Banja Luka*	4,262	5,122		(983)	8,401
KomBank INVEST	-	2,798	-	-	2,798
Total:	**8,978**	**15,334**	**(280)**	**(1,057)**	**22,975**

** For Komercijalna banka a.d. Podgorica and Komercijalna banka a.d. Banja Luka includes revenues and expenses until the day of the merger, ie until the day of sale*

Komercijalna Banka AD Beograd realized net negative exchange rate differences in the amount of RSD 32,779 thousand on the basis of transactions with its subsidiaries.

39. RELATED PARTY DISCLOSURES (continued)

39.1 Parent Bank and subsidiaries (continued)

B. Balance as at December 31, 2020

RECEIVABLES *In thousands of RSD*

Subsidiary	Loans and receivable	Interest and fees	Other assets	Impairment for allowances	Net	Off-balance items	Total
Kom. banka AD Podgorica	535,833	871	960	379	537,285	1,763,703	2,300,988
Kom.banka AD Banja Luka	305,569	25	284	208	305,670	2,939,505	3,245,175
KomBank INVEST	-	251	-	-	251	200	451
Total:	**841,402**	**1,147**	**1,244**	**587**	**843,206**	**4,703,408**	**5,546,614**

LIABILITIES *In thousands of RSD*

Subsidiary	Loans and deposits	Interest and fees	Other liabilities	Total
Kom. banka AD Podgorica	1,031,864	-	-	1,031,864
Kom.banka AD Banja Luka	223,493	-	-	223,493
KomBank INVEST	228	-	-	228
Total:	**1,255,585**	**-**	**-**	**1,255,585**

INCOME AND EXPENSES *In thousands of RSD*

Subsidiary	Interest income	Fee and commission income and other income	Interest expenses	Fee and commission expenses	Net income / expenses
Kom. banka AD Podgorica	11,343	3,868	(1,569)	(6)	13,636
Kom.banka AD Banja Luka	4,042	2,316	-	(758)	5,600
KomBank INVEST	-	2,344	-	-	2,344
Total:	**15,385**	**8,528**	**(1,569)**	**(764)**	**21,580**

Komercijalna Banka AD Beograd realized net positive exchange rate differences in the amount of RSD 65,875 thousand on the basis of transactions with its subsidiaries.

39. RELATED PARTY DISCLOSURES (continued)

39.2 Other related parties

Loans and receivables from related parties

In thousands of RSD

	December 31, 2021			December 31, 2020		
Loans and Receivables:	**Balance**	**Off balance**	**Total**	**Balance**	**Off balance**	**Total**
NLB a.d.Beograd	8,408,902	-	8,408,902	5	-	5
NLB d.d. Ljubljana	593,929	-	593,929	6,085	-	6,085
NLB a.d. Banja Luka	17,291	-	17,291	-	-	-
NLB a.d. Podgorica	1,489,560	-	1,489,560	-	-	-
NLB Srbija d.o.o.	605	-	605	-	-	-
Prvi faktor d.o.o. Beograd	1	-	1	-	-	-
REAM d.o.o Beograd	137	1	138	-	-	-
Beomox doo	17,130	-	17,130	19,968	122	20,090
PMC Inženjering	-	-	-	844,093	-	844,093
Physical bodies	54,543	2,637	57,180	166,700	16,989	183,689
Emi house	-	-	-	1	-	1
Total	**10,582,098**	**2,638**	**10,584,736**	**1,036,852**	**17,111**	**1,053,963**

Liabilities	**Deposits**	**Borrowings**	**Total**	**Deposits**	**Borrowings**	**Total**
NLB a.d. Beograd	59,460	-	59,460	-	-	-
NLB d.d. Ljubljana	18,776	-	18,776	-	-	-
NLB a.d. Podgorica	8,212	-	8,212	-	-	-
NLB Interfinanz d.o.o Beograd	5	-	5	-	-	-
NLB Leasing d.o.o	40	-	40	-	-	-
Prvi faktor d.o.o. Beograd	22	-	22	-	-	-
REAM d.o.o Beograd	115	-	115	-	-	-
Beomox doo	5,318	-	5,318	7,344	-	7,344
Arhitektonski biro STUDIO 3	-	-	-	389	-	389
Reprezent d.o.o.	-	-	-	12	-	12
Bolero ZR	-	-	-	64	-	64
Physical bodies	141,752		141,752	363,582	-	363,582
Total	**233,700**	**-**	**233,700**	**371,391**	**-**	**371,391**

39. RELATED PARTY DISCLOSURES (continued)

39.2 Other related parties (continued)

Income and expenses from related parties

In thousands of RSD

	2021		
	Interest	Fees	Total
Revenues			
NLB a.d. Beograd	38,806	4,391	43,197
NLB d.d. Ljubljana	1	2,639	2,640
NLB a.d. Banja Luka	-	595	595
NLB a.d. Podgorica	-	20,409	20,409
Beomox doo	420	1,331	1,751
Physica bodies	1,006	386	1,392
Total revenues	**40,233**	**29,751**	**69,984**
Expenses			
NLB a.d. Beograd	(35)	(5,036)	(5,071)
NLB d.d. Ljubljana	(839)	(3,940)	(4,779)
NLB a.d. Banja Luka	-	(293)	(293)
NLB a.d. Podgorica	-	(200)	(200)
NLB Interfinanz d.o.o Beograd	-	(5)	(5)
NLB Srbija d.o.o.	-	(5)	(5)
Prvi faktor d.o.o. Beograd	-	(26)	(26)
Beomox doo	(1)	(797)	(798)
Physica bodies	(455)	(62)	(517)
Total expenses	**(1,330)**	**(10,364)**	**(11,694)**
Net revenues / (expenses)	**38,903**	**19,387**	**58,290**

Income and expenses from related parties

In thousands of RSD

	2020		
	Interest	Fees	Total
Revenues			
PMC Iženjering	9,475	29	9,504
Arhitektonski biro STUDIO 3	-	8	8
Beomox doo	551	318	869
NLB Beograd	40	864	904
NLB Ljubljana	1	1,357	1,358
Bolero ZR	-	19	19
Emi house	-	63	63
Win Win Retail	-	416	416
WinWin Shop	-	242	242
Physica bodies	6,985	746	7,731
Total revenues	**17,052**	**4,062**	**21,144**
Expenses			
NLB Beograd	-	(642)	(642)
NLB Ljubljana	(67)	(1,385)	(1,452)
Beomox doo	(7)	-	(7)
Physica bodies	(1,262)	(25)	(1,287)
Total expenses	**(1,336)**	**(2,052)**	**(3,388)**
Net revenues	**15,716**	**2,010**	**17,726**

39. RELATED PARTY DISCLOSURES (continued)

39.3 Gross and net remunerations paid to the members of the Bank's Executive Board, Board of Directors and Audit Committee were as follows:

In thousands of RSD

	December 31, 2021	December 31, 2020
Gross remunerations		
Executive Board	81,507	96,547
Net remunerations		
Executive Board	69,514	82,553
Gross remunerations		
Board of Directors and Audit Committee	8,417	21,980
Net remunerations		
Board of Directors and Audit Committee	5,684	13,979

40. UNRECONCILED OUTSTANDING ITEM STATEMENTS

Based on the obligation to reconcile the situation with the debtors on 31.12.2021. year, the Bank forwarded 5,487 statements of open items.

Based on the analysis of the conducted regular Annual Census as of December 31, 2021, the Bank has non-compliant statements of open items for 36 clients.

Non-compliant statements for 23 clients refer to clients who dispute the amount of receivables for given advances, receivables based on issued invoices and receivables based on rent in the total amount of 4,614 thousand dinars.

Five clients dispute receivable for domestic payment charge and the issue agent's fee in RSD in the total amount of RSD 138 thousand. Seven clients dispute receivables from loans in the total amount of RSD 1,435 thousand and one client disputes the balance in the off-balance sheet item in RSD 108 thousand. The amount of allowances for impairment for disputed receivables (and the amount of provisions for balance sheet items) is determined by the Parent Bank's credit risk policy.

The Parent Bank is in a continuous process of reconciliation of disputed items.

41. EVENTS AFTER THE REPORTING PERIOD

An extraordinary session of the Bank's Assembly was held on February 2, 2022, at which the following decisions were made:
• Decision on amendments to the Memorandum of Association
• Decision on the adoption of the Statute
• Decision on supplementing the Decision on accepting the merger of NLB Banka a.d. Belgrade Komercijalna banka a.d. Belgrade

On February 25, 2022, an extraordinary session of the Bank's Assembly was held, at which the following was adopted:
• Decision on Amendments to the Decision on Acquisition of the Bank's Own Shares by Dissenting Shareholders

With the mentioned Decision, the Bank accepted the requests of dissenting shareholders for the purchase of 574,693 pieces of its own ordinary shares.

The bank is obliged to no later than March 8, 2022. year, ie within 60 days from the expiration of 15 days from the day of the conclusion of the session of the Bank's Assembly at which the decision on status change was made, after receiving the prior consent of the NBS to acquire own shares, pay dissenting shareholders who submitted a request to repurchase their shares.
Apart from the events described in the previous paragraphs, there were no significant events after the balance sheet date that would need to be disclosed in the Notes to the financial statements as at 31 December 2021.

42. EXCHANGE RATES

Foreign exchange rates determined at the interbank foreign exchange market applied for the reconciliation of balance sheet items in RSD on December 31, 2021 and 2020 for certain major currencies are:

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

In Belgrade, March 03, 2022

Signed on behalf of Komercijalna banka a.d. Beograd by:

БАНКА АД БЕОГРАД
БЕОГРАД
КОМЕРЦИЈАЛНА

Dejan Janjatović
Deputy of the Chief of the Executive Board

Vlastimir Vuković
Chief Executive Officer

KOMERCIJALNA BANKA AD BEOGRAD
NLB GROUP

ANNUAL BUSINESS REPORT
FOR THE YEAR 2021

February, 2022

CONTENT

Annual Business Report for the year 2021 presents a credible presentation of the development and business results of Komercijalna banka ad Beograd achieved in 2021.

1. BANK'S KEY PERFORMANCE INDICATORS

P&L(in 000 RSD)	2021.	2020.	Index 21/20	2019.	2018.	2017.
Gain/loss before tax	*3.463.384*	*3.798.519*	*91,2*	*8.268.685*	*8.121.073*	*7.187.250*
Gain/loss after tax	*3.645.699*	*2.534.434*	*143,8*	*8.955.759*	*8.145.182*	*8.117.368*
Net interest income	*12.145.109*	*12.069.290*	*100,6*	*12.605.384*	*12.834.638*	*12.446.197*
Net fee income	*5.737.364*	*4.875.408*	*117,7*	*5.328.996*	*5.210.149*	*5.082.226*
*Operating expenses **	*11.913.487*	*11.472.051*	*103,8*	*11.064.609*	*10.473.783*	*10.833.081*
Net income /expenses from impairment of finan. assets that are not measured at fair value through P&L	*15.772*	*-1.072.032*	*-*	*2.425.931*	*9.493*	*17.883*

** Note: Within operating costs, salary costs, tangible and intangible operating costs are shown*

BALANCE SHEET (in 000 RSD)	2021.	2020.	Index 21/20	2019.	2018.	2017.
BALANCE SHEET ASSETS	*489.440.405*	*460.001.399*	*106,4*	*432.380.443*	*401.165.980*	*369.183.538*
RETAIL						
*Loans ***	*118.286.619*	*108.585.889*	*108,9*	*99.057.214*	*92.033.605*	*81.712.222*
*Deposits ****	*342.469.159*	*309.268.562*	*110,7*	*280.484.488*	*260.296.411*	*241.210.420*
CORPORATE						
Loans	*89.221.890*	*78.833.152*	*113,2*	*81.504.403*	*75.264.373*	*71.725.704*
Deposits	*48.646.021*	*47.765.467*	*101,8*	*47.879.400*	*49.879.580*	*41.371.592*
Securities	*149.588.755*	*153.776.323*	*97,3*	*138.469.551*	*133.177.598*	*117.288.767*

**** Note: Item loans does not include other placements and receivables, item deposits does not include other liabilities and funds received through credit lines*

**** Note: At the end of 2017, RSD 11.2 billion of microclient deposits were transferred from the corporate to the retail, which is why the data was corrected in relation to the Annual Business Report for 2017*

RATIOS	2021.	2020.	Index 21/20	2019.	2018.	2017.
RATIO LOANS/DEPOSITS						
Gross loans/deposits	*55,6%*	*53,4%*	*104,1*	*57,7%*	*58,4%*	*61,3%*
Net loans/deposits	*53,7%*	*51,0%*	*105,2*	*54,9%*	*54,8%*	*56,1%*
EQUITY (in 000 RSD)	*75.642.722*	*74.660.539*	*101,3*	*75.852.173*	*67.560.513*	*63.260.055*
Capital adequacy	*28,55%*	*32,50%*	*87,9*	*30,83%*	*29,18%*	*27,89%*
Number of employees	*2.372*	*2.669*	*88,9*	*2.744*	*2.766*	*2.806*
PROFITABILITY PARAMETERS						
ROA	*0,73%*	*0,84%*	*86,8*	*2,00%*	*2,13%*	*1,89%*
ROE - on total equity	*4,59%*	*5,06%*	*90,6*	*11,71%*	*12,57%*	*11,91%*
Net interest margin on total assets	*2,6%*	*2,7%*	*95,7*	*3,0%*	*3,4%*	*3,3%*
Cost / income ratio	*66,6%*	*67,7%*	*98,4*	*61,7%*	*58,0%*	*61,8%*
Assets per employee (in 000 EUR)	*1.755*	*1.466*	*119,7*	*1.340*	*1.227*	*1.111*
Loans per employee (in 000 EUR)	*777*	*611*	*106,2*	*575*	*535*	*487*
Deposits per employee (in 000 EUR)	*1.447*	*1.197*	*114,3*	*1.047*	*976*	*868*

During the preparation of the Bank's balance sheet for 2021, the balance sheet for 2020 was adjusted, due to which there is a difference in the data in relation to the already published Annual Business Report for 2020. In accordance with the changes in the balance sheet for 2020, a subsequent correction of the business performance indicators for 2020 was made to the extent possible.

During 2021, the business of economic entities took place in the conditions of the still present pandemic of the COVID-19 virus, but also some new global disturbances such as international trade. The business year 2021 was marked by the growth of the domestic economy, the growth of inflation since April and on the world market, the energy crisis since November. Given the present circumstances, most of the key macroeconomic indicators achieved positive values. According to a preliminary estimate, the growth of gross domestic product (GDP) at the end of 2021 is 7.5%[1], foreign direct investment (FDI) in twelve months reached the value of EUR 3.9 billion[2], and there was a slight deficit of the national budget (January-November 2021), a slight decrease in the share of public debt in GDP, the unchanged value of the dinar against the euro and the unemployment rate of 10.5% at the end of the third quarter. Achieved macroeconomic and financial stability, previous growth rates, timely and adequate package of measures, achieved economic structure helped the Serbian economy to respond to current challenges in 2021, especially those resulting from the current COVID-19 pandemic[3].

In 2020, the National Bank of Serbia (NBS), as part of measures to preserve overall financial stability, made several decisions, among which the following stand out: Decision on temporary measures to preserve the stability of the financial system, Decision on temporary measures for banks to mitigate the pandemic COVID-19 in order to preserve the stability of the financial system, Decision on temporary measures for banks to facilitate access to finance for private individuals, Decision on temporary measures for banks to adequately manage credit risk in a pandemic COVID-19. All the mentioned decisions were in force during 2021, along with new decisions or amended existing ones, such as the Decision on amendments to the decision on temporary measures for banks in order to adequately manage credit risk in the conditions of the COVID-19 pandemic.

Having in mind that the financial position of a larger number of debtors during 2020 was significantly difficult, the NBS enabled debtors who want to pause with the repayment of due obligations, and/or debtors could request a temporary delay in the repayment of due obligations. Debtor-oriented measures as well as bank-oriented measures to adequately manage credit risk have further contributed to maintaining the stability of the financial system. The mentioned measures were in force during 2021 as well. Based on the decisions made, in 2020, the NBS implemented three moratoriums on the repayment of liabilities to banks and financial leasing providers. First, in March 2020, the first moratorium on the repayment of financial obligations was adopted. The second moratorium in July 2020 enabled debtors to have additional delays in repaying certain obligations to banks. In December 2020, the NBS will adopt a third moratorium.

"Instant Payment System" (IPS), which, among other payment systems, was introduced by the NBS in order to make payments more efficient and faster, starting in October 2018, continued to operate successfully and show real importance during 2021, as evidenced by growth the number of payments (75.6%) and the value of transactions (102.4%)[4]. IPS NBS payment system works continuously (24/7/365) providing easier and uninterrupted access to payment transactions to all stakeholders.

Until the end of December 2021, the NBS maintained the key policy rate (KPR) at the level of 1.00%. From October 2021, the NBS suspended securities repurchase auctions while continuing to reverse securities repurchase auctions while increasing the weighted average rate at those auctions. This rate has been increased from 0.11% since October to 0.50% at the reverse repo auction in December 2021[5].

The capital adequacy ratio of the Banking sector was at a high and stable level during the first three quarters of 2021 (21.7%[6] at the end of Q3 2021).
Interest rates on newly approved dinar loans to the economy and households are at a stable and low level, despite the still present problems in society due to the COVID-19 pandemic (3.0% of the economy; 8.3% of the population, November 2021[7]).

After Serbia's entry into the international capital market, with the first issue of Eurobonds denominated in EUR in June 2019, data on the EMBI risk premium [2] for Serbia on the basis of debt in EUR are regularly published. Serbia's risk premium, measured by the EMBI index (bond index of emerging countries) for debt in EUR, has increased since the end of the second quarter of 2021 by 30 b.p. to be 174 b.p. at the end of October. Debt risk premiums in EUR and other emerging European countries had similar developments due to the changed willingness of investors to invest in emerging countries. Serbia's risk premium for debt in USD is also on the rise from the second quarter, reaching 137 b.p.[8] at the end of October 2021. This value is still significantly below the composite risk measure of emerging countries for debt in USD (EMBI Composite), which at the end of October 2021 amounted to 327 b.p.

During the previous year, the Bank was in the group of systemically important banks, with a significant share

1 NBS, Macroeconomic trends in Serbia, January 2022
2 NBS, Macroeconomic trends in Serbia, January 2022
3 NBS, Macroeconomic trends in Serbia, December 2021.
4 NBS, IPS NBS system performance indicators, January, December 2021
5 NBS, an overview of the auction trade in securities by which the NBS conducts open market operations
6 NBS, Macroeconomic trends in Serbia, January 2022.
7 NBS, Macroeconomic trends in Serbia, January 2022.
8 NBS, Inflation Report, November 2021

in the assets and capital of the Banking sector. At the end of the third quarter of 2021, the Bank participated in the assets of the Banking sector with 9.8%, while in terms of total capital it participated with 10.7%. The Bank still stands out in the sector in terms of the volume of foreign currency savings of households. At the end of 2021, household savings deposits amounted to EUR 1,988.7 million.

On 12/30/2020 Nova Ljubljanska banka dd Ljubljana acquired direct controlling ownership in Komercijalna banka ad Beograd, whereby the Bank became part of the NLB Banking Group. Since they are part of the same NLB Banking Group, in 2021 Komercijalna banka ad Beograd and NLB Banka ad Beograd started the merger process. With the publication of the Draft Agreement on the status change of the merger with the Business Registers Agency, October 20, 2021, the procedure of status change of merger of NLB Banka ad Beograd with Komercijalna banka ad Beograd was initiated. The agreed date of merger, in terms of the Law on Banks, is 31.12.2021, and the expected moment of integration of the Bank and NLB Banka a.d. Beograd is April 30, 2022.

In 2021, the key objectives of the Bank's management are safe, stable and profitable operations, as well as the continued integration of the Bank into the operations of the NLB Group. The stated goals, with the commitment of all employees, were achieved despite the present pandemic COVID-19 and the additional project of integration of the two banks. The Bank achieved growth in balance sheet assets and operating profit with high liquidity and high capital adequacy.

The total capital of the Bank, as one of the key indicators of business security, was increased in 2021, despite the significant payment of dividends to the owners of ordinary and preferred shares in previous years. At the end of 2021, the Bank has a total capital of RSD 75.642,7 million or EUR 643.3 million. The Bank's capital adequacy ratio at the end of 2021 is 28, 55%.

Following the changes made in previous years, the Bank provided products and services to retail clients through a network of 190 branches grouped in six Business Centers and the Kosovska Mitrovica Branch. Work with legal entities was performed through three Sectors for work with small and medium enterprises and the Corporate Banking Division - large clients.

The modern society in which we live and work is based on the Internet and electronic business, which is why the Bank has implemented modern technologies in its business. Aware of these changes in the company, the Bank has set the continuation of digitalization of business during 2021 as one of the important business goals. The Bank's digital banking services have shown their full effect and importance for operations in the previous two years and extraordinary business conditions. Already today, the Bank provides almost all digital banking services to its clients in the same way as these services are available to clients in the most developed countries of the world. In 2021, the Bank continued to implement the process of internal digitalization to improve existing business processes, i.e. increase efficiency and quality of work.

In the conditions of the still present pandemic COVID-19, and during 2021, the Bank took all necessary measures for quality management of business risks. Risk management measures, which the Bank has taken in previous years, have contributed to the successful completion of 2021. The greatest risk in the operations of the Bank and the Banking sector remains credit risk. As a result of the established risk management system, now harmonized with the standards of the NLB Group and the application of NBS regulations, the Bank managed to maintain the non-performing loans (NPL) indicator at an acceptable level in 2021. At the end of 2021, the NPL indicator was 4.7%.

The Bank ended 2021 with a profit before tax of RSD 3.463,4 million. The profit realized in previous years and the high value of the capital adequacy ratio enabled the Bank to form a significant amount of reserves from profit. At the end of 2021, reserves from profit are unchanged compared to the end of 2020.

2. MACROECONOMIC BUSINESS CONDITIONS

According to the report of the International Monetary Fund (IMF) published in October 2021, the projection of the global economy for 2021 is 5.9%, which is 0.1 pp below the previous estimate from July 2021. The projection for 2022 is global growth of 4.9%[9]. For countries from the group of "developed economies", the growth projection for 2021 is 5.2%[10], which is 0.4 pp less than the estimate from July 2021. The economy of the United States is expected to grow first by 6.0% in 2021, and then by 5.2% in 2022[11] The growth of economic activity is estimated for the countries of the "euro zone" and amounts to 5.0% in 2021, while the growth of 4.3% is estimated in 2022[12]. The Japanese economy is projected to grow slightly by 2.4% at the end of 2021, while the IMF forecasts growth of 3.2% in 2022[13]. In the segment "growing markets and developing countries", economic growth is projected at as much as 6.4% in 2021 and growth at 5.1% in 2022. In the segment "growing markets and developing countries", economic growth is projected at as much as 6.4% in 2021 and growth at 5.1% in 2022. Economic growth estimates for China are much better than for most other countries, and growth is projected to be 8.0% in 2021 and 5.6% in 2022[14]. According to the October IMF report for Serbia, the estimate of GDP growth for 2021 is 6.5%, while the estimate for 2022 is slightly lower and amounts to 4.5%[15].

In the international financial market and during 2021, the leading central banks pursued various monetary policies, starting with the Federal Reserve (FED, USA), the European Central Bank (ECB), and the Swiss National Bank (SNB). In March 2020, the Federal Reserve lowered the reference rate by 1.0pp (0.00-0.25%) for the last time and did not change it during 2021. The European Central Bank last reduced the reference rate by 0.10pp (0.0%) in September 2019, and the Bank of England increased the interest rate by 0.15pp (0.25%) at the end of 2021. The Swiss National Bank kept the key-policy rate at -0.75% in 2021[16].

At its October 2021 meeting, the European Central Bank (ECB) confirmed that it would continue to make net asset purchases under the Asset Purchase Program (APP), and that it would last as long as necessary to increase the expansionary impact of interest rates and hence this program will be completed immediately before the start of their increase. Also, the ECB confirmed that favorable financing conditions in the euro area can be maintained with a lower volume of asset purchases under the PEPP program compared to the previous period. The PEPP program will adapt to market conditions in the coming period, and will last at least until March 2022, and/or until it is estimated that the crisis caused by the pandemic is over.[17]

According to the ECB's December 2021 estimate, in the baseline scenario, annual euro area inflation, as measured by the harmonized index of consumer prices (HICP standard), will increase from 2.6% in 2021 to 3.2% in 2022. In order to be stabilized at 1.8% in 2023 and 2024.[18]
Expectations are that GDP will return to pre-crisis levels (GDP from 2019) in the first quarter of 2022. Real GDP growth in the euro area remained strong in the third quarter of 2021, which is close to the first projections[19]. GDP growth is expected to be weak in the coming period as pandemic-related constraints and supply problems intensify. A better situation is expected from the first quarter of 2022 before the slowdown in 2023 and 2024[20]. According to ECB projections from December 2021, the expected GDP growth rate is 5.1% in 2021, 4.2% in 2022 and 2.9% in 2023.[21]

On the international commodity market, in the period from 27. 12.2021 to 7.1.2022, the price of crude oil continued to grow. The rise in oil prices was influenced by: the publication of good data on the refining industry in China and South Korea, the report of the Energy Information Agency on the decline in US oil stocks, investor optimism due to less fear of a new strain of coronavirus, escalating conflict in Kazakhstan and disruption of transport oil due to the maintenance of pipelines in Libya[22]. The price of Brent oil is during the period from 27.12. 2021 to 7.1.2022 ranged from USD 77.99 to 81.92 per barrel[23].

In the Republic of Serbia, according to the preliminary estimate of the Republic Statistical Office (SORS), GDP growth for 2021 is 7.5%[24]. GDP growth in 2022 and 2023 should reach the level of 4.5% and 5.0% respectively[25]. Inflationary pressures, which were mild until the first half of 2021, intensified from the second half of the year and affected the growth of year-on-year inflation, which at the end of December 2021 amounted to 7.9% y-o-y[26]. In accordance with the NBS Memorandum, the target inflation rate for the period from January 2021 to December 2024 will be within the target of 3.0% ± 1.5pp[27]. The Labor Force Survey of the Republic Bureau of Statistics shows that the unemployment rate for the third quarter of 2021 is 10.5%[28]. The total value of foreign trade in the period January-September 2021 amounted to EUR 36.0 billion[29]. The net inflow of foreign direct investment (FDI) for the twelve months of 2021 amounted to EUR 3.9 billion[30]. Central government public debt at the end of November 2021 amounted to EUR 29.9 billion, representing 56.4% of GDP[31].

In March 2021, Moody's rating agency increased Serbia's credit rating from Ba3 to Ba2, Fitch reaffirmed[3]the country's credit rating of BB +

9 IMF, World Economic Outlook, October 2021
10 IMF, World Economic Outlook, October 2021
11IMF, World Economic Outlook, October 2021
12IMF, World Economic Outlook, October 2021

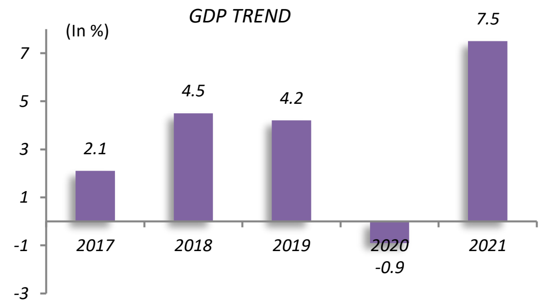
(September 2021), while S&P reaffirmed Serbia's (BB +) rating in December 2021, but also improved the prospects for obtaining an investment rating from stable to positive.[32]

During 2021, the total turnover on the Belgrade Stock Exchange amounted to RSD 41.2 billion or EUR 350.7 million, which is a decrease compared to 2020 (-15.4%). 18,743 transactions (3.6%) were realized and the market capitalization of RSD 533.3 billion was realized. The Belex line stock exchange index ended 2021 at 1,711.57 (9.29%), while the Belex15 index reached 820.78 (9.64%).[33]

GDP Trends

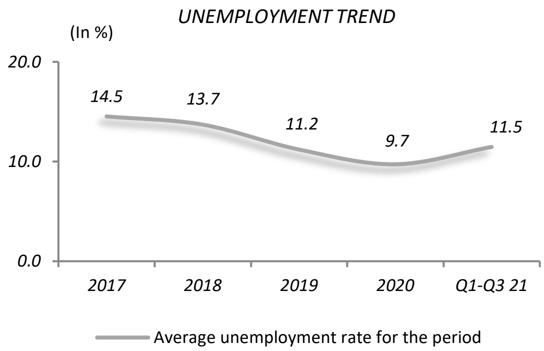
In 2020, Serbia recorded a decline in GDP of 0.9%[34], which is one of the better results in Europe. Economic activity was significantly changed or improved during 2021, despite the present global pandemic of the COVID-19 virus. In the first quarter of 2021, GDP growth was 1.6%[35] compared to the previous year. In the second quarter of the same year, GDP growth of as much as 13.7%[36] was recorded. In the third quarter of 2021 the growth of GDP slowed to 7.7%[37]. GDP growth in the third quarter on the production side was provided by the services sector, due to growth in trade, tourism, transport, professional and technical services as well as activities with state participation (government, education, health). Economic activity in the industrial sector slowed in the third quarter. Agricultural production due to the dry season also made a negative contribution to GDP. The recovery of private construction operations with the continued implementation of large infrastructure projects resulted in a growth of the construction sector of 16%.[38] The SORS's preliminary estimate of GDP trends for 2021 is a growth of 7.5% y-o-y[39].

In November 2021, industrial production achieved a year-on-year growth of 7.0%, and in the period January-November 2021, a total growth of physical volume of 6.7%[40] was achieved. In retail trade, the turnover of goods in the first eleven months of 2021 compared to the same period last year increased by 10.1% (at current prices).[41] In the period January-November 2021, despite the present pandemic and restrictive health measures, there was an increase in the number of tourists by 37.4% and an increase in the number of overnight stays by 28.4% y-o-y[42].



Employment /unemployment

There were no significant oscillations in the labor market during the first three quarters of 2021, despite new measures to suppress the present pandemic. According to the data from the Labor Force Survey, at the end of the third quarter of 2021, the unemployment rate was 10.5% and was slightly higher than in the same period in 2020, when it was 9.8%.[43] The employment rate for the same period is 50.0%. In the third quarter of 2021, the employment rate increased by 2.2 pp, and the unemployment rate was higher by 0.7 pp compared to the same period in 2020.[44] There was a decrease in the population outside the labor force, primarily due to the growth of employment (107,700) but also of unemployment (36,600)[45] compared to the same period last year. The average net salary in the period January-September 2021 amounted to RSD 64,487 (EUR 549) and increased by 8.8% compared to the same period in 2020.[46]



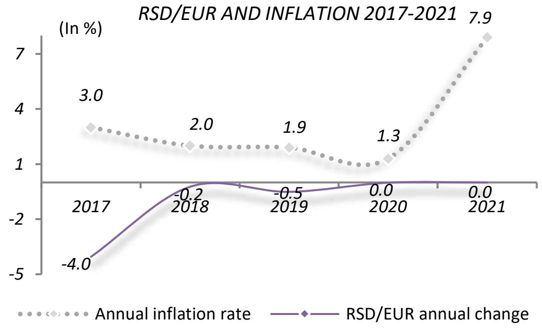
Source: Statistical Office of Republic of Serbia, Labor Force Survey

13 IMF, World Economic Outlook, October 2021
14 IMF, World Economic Outlook, October 2021
15 IMF, World Economic Outlook, October 2021
16 NBS, Review of developments in the global financial market, 20-24 December 2021
17 NBS, Inflation report, November 2021.
18 ECB, Eurosystem staff macroeconomic projections for the euro area, December 2021
19 ECB, Eurosystem staff macroeconomic projections for the euro area, December 2021
20 ECB, Eurosystem staff macroeconomic projections for the euro area, December 2021
21 ECB, Eurosystem staff macroeconomic projections for the euro area, December 2021, tab 1
22 NBS, Review of developments in the global financial market, December 27.2021.-January 7 2022.
23 NBS, Review of developments in the global financial market, December 27 2021.-January 7 2022.
24 NBS, Macroeconomic trends in Serbia, January 2022.
25 MFIN, Fiscal strategy for the year 2022 with projections for 2023 and 2024

Inflation

Year-on-year inflation at the end of 2020 was 1.3%. At the beginning of 2021, the year-on-year inflation rate was declining and amounted to 1.1% in January, 2.8% at the end of April, and reached 7.9% year-on-year at the end of December.[47] The rise in inflation since April 2021 has been driven by temporary factors, rising food and oil prices on the world market. Inflation was 7.9% in December, with about three-quarters of inflation determined by factors beyond monetary policy, such as food and energy prices[48]. According to the NBS projection, year-on-year inflation should decrease during T2 2022, during T3 it should be around the target range of 3.0% ± 1.5pp, and then at the end of 2022 a gradual stabilization around the central value of 3.0% is expected.[49].

RSD/EUR AND INFLATION 2017-2021

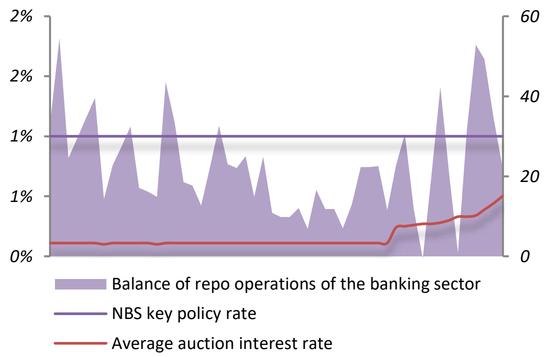


Key-policy rate

On December 10, 2020, the National Bank of Serbia lowered the key-policy rate (KPR) to the level of 1.00%, and after that date it did not change it, including throughout 2021. From October 2021, the NBS will gradually reduce the expansion of monetary policy without changing base interest rates, given the increased cost pressures from the domestic and international environment and the need to influence inflation. The NBS expects that the positive effects of previously adopted monetary and fiscal measures on the economy can be expected in the coming period. Favorable financial conditions can be maintained even with a smaller degree of monetary policy expansion. According to the data of the Statistical Office of Republic of Serbia (SORS), year-on-year inflation in December 2021 amounted to 7.9%, while according to a preliminary estimate of the SORS, the GDP growth rate is 7.5% y-o-y. By keeping the KPR at the level of 1.0%, with a gradual increase in the average repo rate, the NBS continued to support the growth of lending activity with respect to corporate and retail. In November 2021, total loans of the Banking sector recorded a year-on-year growth of 9.0%.[50]

The weighted average REPO rate at the end of 2021 was 0.50%, while at the end of 2020 it was 0.10%.[51] The volume of REPO transactions of the NBS and commercial banks [4]in 2021 ranged from a minimum of RSD 0.5 billion to a maximum of RSD 54.6 billion, to end the year with RSD 22.6 billion.

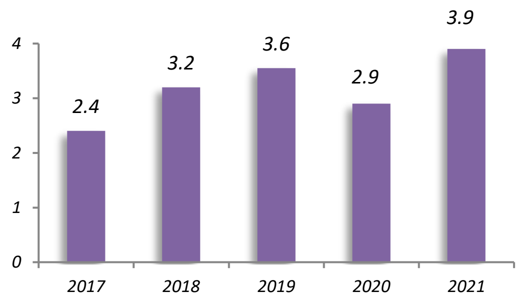
RIR AND REPO TRANSACTIONS DURING 2021



Foreign direct investment

Foreign direct investment (FDI), in 2020, reached EUR 2.9 billion net.[52]. The volume of net FDI in the twelve months of 2021 will reach EUR 3.9 billion[53]. Most of the FDI was directed towards the manufacturing industry, of which especially in the automotive, metal, food and car tire industries.

FOREIGN DIRECT INVESTMENT (billion EUR)

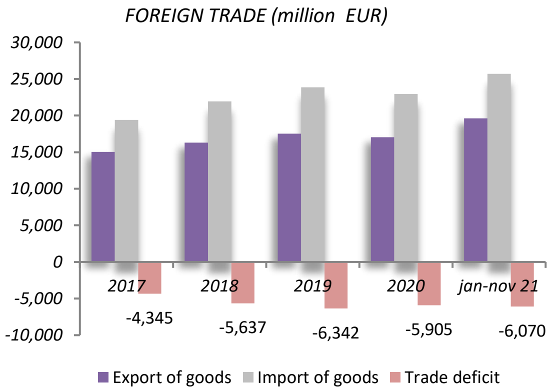


The mentioned investments have, among other things, contributed to further increase of employment, growth of production and exports of the processing industry. The total current account deficit of the Republic's balance of payments for 2020 amounted to EUR 2.0 billion and was fully covered by FDI. The share of the balance of payments deficit in GDP was 4.2%. In the first ten months of 2021, the current account deficit amounted to EUR 1.6 billion[54] and was fully covered by FDI.

26 RZS, Announcement for Public, December 2021.
27 NBS, Memorandum NBS on inflation targets until 2024, adopted at the session of the NBS EB, December 9, 2021
28 SORS, Labor Force Survey, third quarter 2021.
29 MFIN, Current macroeconomic trends, December 2021.
30 NBS, Macroeconomic trends in Serbia, January 2022.
31 MFIN, Table public debt of the Republic of Serbia, January 2022.
32 NBS, Macroeconomic trends in Serbia, January 2022.
33 Belgrade Stock Exchange, annual statistics, 2021.
34 NBS, Macroeconomic trends in Serbia, December 2020.
35 NBS, Macroeconomic trends in Serbia, December 2021.
36 NBS, Basic macroeconomic indicators, December 2021.
37 NBS, Macroeconomic trends in Serbia, December 2021.
38 MFIN, Current macroeconomic trends, January 2022.
39 NBS, Macroeconomic trends in Serbia, January 2022.
40 MFIN, Current macroeconomic trends, January 2022.
41 MFIN, Current macroeconomic trends, January 2022
42 MFIN, Current macroeconomic trends, January 2022
43 RZS, Labor Force Survey, third quarter 2021.
44 RZS, Labor Force Survey, third quarter 2021.
45 RZS, Labor Force Survey, third quarter 2020.
46 NBS, Macroeconomic trends in Serbia, December 2021.

Foreign trade

The total foreign trade of the Republic of Serbia in the period January-November 2021 amounted to EUR 45.3 billion.[55] Compared to the same period in 2020 (EUR 36.3 billion), this volume of trade represents an increase of 24.9%. Exports of goods, in the eleven months of 2021, reached the value of EUR 19.6 billion, while imports of goods amounted to EUR 25.7 billion. The foreign trade deficit amounted to EUR 6.1 billion, an increase of 13.4% compared to the same period last year.



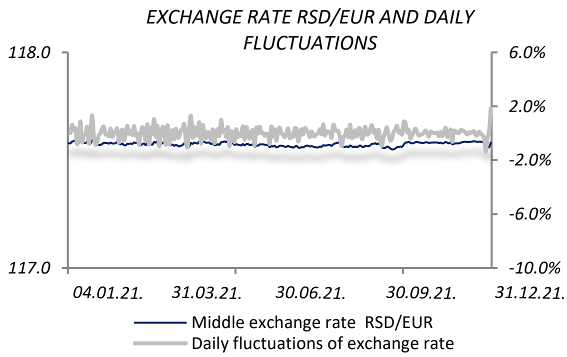
In the period January-November 2021, the most important export products were electrical machinery, appliances and devices with a share of 12.2%, followed by vegetables and fruits with 5.0[57]. A significant share of exported goods consisted of cereals and grain products, iron and steel and propulsion machines and devices.[58]

The most important imported products are electrical machine[5]s and appliances, oil and oil derivatives, road vehicles, medical and pharmaceutical products, industrial machines for general use.[59] Serbia's main foreign trade partners are Germany, followed by China, Italy and Russia in 2021.[60]

Exchange rate EUR / RSD

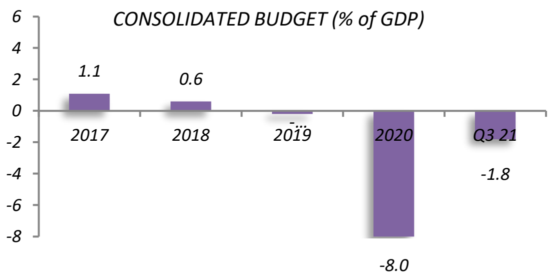
The EUR / RSD exchange rate at the end of 2021 was 117.58 and was unchanged compared to the end of 2020 exchange rate (117.58). During 2021, the EUR / RSD exchange rate ranged from 117.54 to 117.59 RSD for one EUR. The movement of the dinar exchange rate was influenced by good macroeconomic indicators that are better than the indicators of neighboring countries, GDP growth, improved credit rating of the country (Moody's[61]), a large inflow of foreign direct investment in January-October 2021. During 2021, the dinar remained unchanged against the euro, while it depreciated against the USD by 8.0%. During 2021, the National Bank of Serbia (NBS) also intervened in the interbank foreign exchange market (MDT) through the purchase and sale of foreign exchange, and thus prevented larger daily fluctuations in the value of the dinar.

At the end of November 2021, the NBS's gross foreign exchange reserves reached EUR 16.5 billion and increased by EUR 3.6 billion compared to November 2020.[62].



Budget deficit / surplus

In the period January-November 2021, at the general government level, a total fiscal deficit of RSD 112.1 billion[63] was recorded. In the observed period, revenues grew. At the same time, expenditures recorded lower growth. In the observed period, revenues grew. At the same time, expenditures recorded lower growth.



Source: MFIN (consolidated fiscal result)[6]

In the period January-November 2021, the budget deficit of the Republic in the amount of RSD 149.6 billion was recorded.[64]. In the mentioned period, revenues in the amount of RSD 1,316.7 billion were collected, and realized expenditures in the amount of RSD 1,466.3 billion. Observing only November 2021, the budget deficit in the amount of RSD 51.8 billion was realized. Revenues in the amount of RSD 125.4 billion of budget revenues were collected in

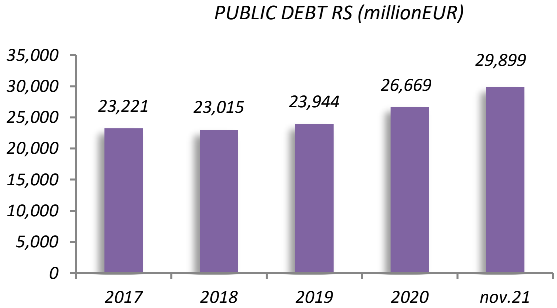
47RZS, Announcement, Consumer Price Index, December 2021.
48 NBS, Macroeconomic trends in Serbia, January 2022.
49 NBS, Macroeconomic trends in Serbia, January 2022.
50 NBS, Macroeconomic trends in Serbia, December 2021.
51 NBS, Open market operations
52 MFIN, Table 1 Basic indicators of macroeconomic trends, 6.12.2021.
53 NBS, Macroeconomic trends in Serbia, January 2022
54 MFIN, Table 1 Basic indicators of macroeconomic trends, 4.1. 2022.
55 MFIN, Table 1, Basic indicators of macroeconomic trends, 4.1. 2022.
56 MFIN, Table 1, Basic indicators of macroeconomic trends, 4.1. 2022.
57 MFIN, Current macroeconomic trends, January 2022.
58 MFIN, Current macroeconomic trends, January 2022.
59 MFIN, Current macroeconomic trends, January 2022.
60 MFIN, Current macroeconomic trends, January 2022.
61 NBS, Macroeconomic trends in Serbia, December 2021.
62 NBS, Table– basic monetary aggregates, December 23, 2021
63 MFIN, Announcement for November 2021.
64 MFIN, Announcement for November 2021.

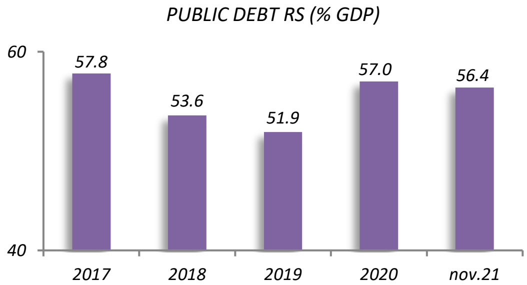
November, and the largest part of them are tax revenues (RSD 106.8 billion)[65]. Tax revenues refer to the payment of VAT and excise duties to the budget. Budget expenditures in November amounted to RSD 177.2 billion[66].

Public debt

According to available data, the public debt of the Republic of Serbia (central government) at the end of November 2021 amounted to EUR 29.9 billion, which is 56.4% of GDP.[67] Compared to the same period in 2020, according to available data from the Ministry of Finance, the mentioned amount of public debt represents an increase of EUR 3.2 billion. In the situation of the pandemic and the economic measures taken by the Government to help the economy and the population, the share of public debt in GDP decreased compared to the same period last year (57.0%). Public debt will almost certainly remain below 60% of GDP by the end of 2021.[68].

Observing the currency structure of the public debt of the Republic of Serbia, about 54% is in euros, 10% in dollars (October 2021). According to the structure of interest rates, about 87% of the public debt of the Republic of Serbia is at fixed interest rates.[69].





According to the data of the Public Debt Administration of the Republic of Serbia, the debt balance of government securities at the end of October 2021 amounted to RSD 1,003.3 billion and EUR 2.3 billion.[70]. During 2021, three issues of government Eurobonds denominated in EUR were issued. In March 2021, the series Serbia 2033, denominated in EUR, with a volume of EUR 1.0 billion, was issued for a period of 12 years at an executive rate of 1,920%. In September 2021, the Serbia 2028 series, denominated in EUR, with a volume of EUR 1.0 billion, was issued for a period of 7 years at an executive rate of 1.262%, and an additional series, Serbia 2036, was issued, also in EUR, with a volume of EUR 750 million for a term of 15 years at an executive rate of 2.305%[71].

External debt

According to the NBS data, at the end of September 2021, the total external debt of the public and private sectors amounted to EUR 35.2 billion[72], and compared to the same period in 2020, it increased by EUR 4.5 billion. In the observed period, the external debt of the private sector increased by EUR 1.1 billion, while the external debt of the public sector increased by EUR 3.4 billion[73]. The external solvency indicator, presented as the ratio of the external debt to the value of exports of goods and services, decreased slightly at the end of September 2021, and amounted to 131.0% (138.2% [74]at the beginning of the year). According to the World Bank criteria, the value of indicators below 132% shows that the country belongs to the group of low-indebted countries.[75]

65MFIN, Press release for November 2021.
66MFIN, Release for November 2021.
67MFIN, Table 5-public debt of the Republic of Serbia, January 2022.
68 NBS, Macroeconomic trends in Serbia, December 2021.
69 RS Public debt Administration, Monthly report, October 2021.
70 RS Public Debt Administration, Monthly report, October 2021.
71 Public Debt Administration, Monthly report, October 2021.
72NBS, RS External debt towards debtors as of 30 December 2021.
73NBS, RS External debt towards debtors as of 30 December 2021
74NBS, Indicators of external position of Serbia as of January 10, 2022.
75MFIN, Current macroeconomic trends, January 2022.

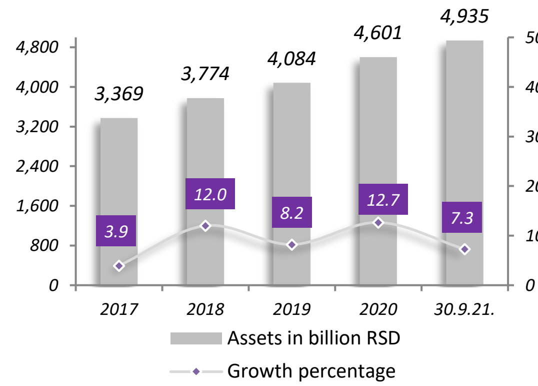
3. BANKING SECTOR AND BANK'S FINANCIAL POSITION

3.1. Banking Sector

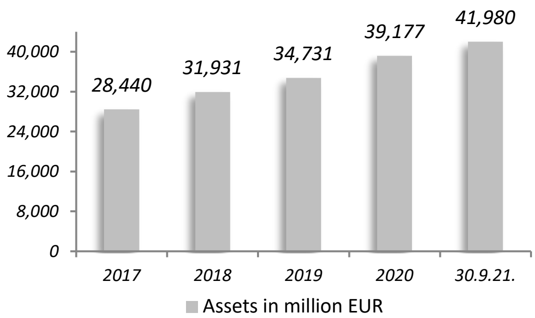
At the end of September 2021, the Banking sector of the Republic of Serbia consists of a total of 24 banks with 22,503 employees.[76] Total assets reached RSD 4,935.2 billion, and total capital amounted to RSD 721.2 billion at the end of September 2021. The ten largest banks in terms of balance sheet assets account for 83.5% of the total assets of the Banking sector.

The balance sheet assets of the Banking sector during the first nine months of 2021 increased by 7.3% compared to the end of 2020, while total capital increased by 0.6%.

BANKING SECTOR TREND

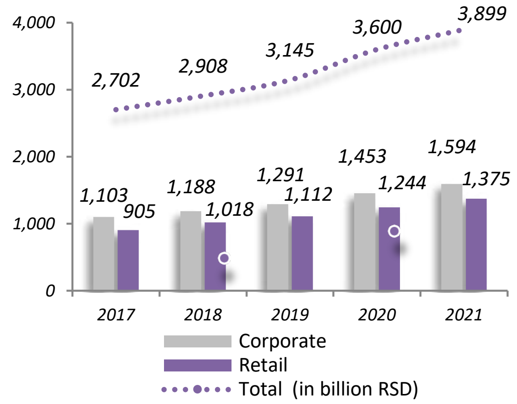


BANKING SECTOR TREND



During the first three quarters of 2021, the trend of reducing interest rates on dinar newly approved loans to corporate and retail clients continued. The interest rate on dinar loans to corporate in September 2021 was 3.3%, and the interest rate on loans to retail customers was lowered to a new minimum of 8.4%.[77]. Despite the present COVID-19 pandemic, the credit activity of the sector continued to grow at a slower pace compared to 2020 and as a consequence of the high base from the previous year due to the application of the moratorium. In September 2021, total domestic loans increased by 6.6% y-o-y and such a trend is expected to continue in the future. During the analyzed period in 2021, as well as in 2020, the Banking sector had significant surpluses of liquid assets, having in mind the liquidity ratio of 2.3[79] at the end of September 2021. The surplus of liquid assets commercial banks invested mainly in government securities and REPO operations of the NBS. At the end of December 2021, the balance of bank investments under REPO transactions amounted to RSD 22.6[80] billion. The share of securities was 15.6%, and cash and funds with the Central Bank was 16.2% in the assets of the Banking sector (as of September 30, 2021)

CREDIT ACTIVITY OF THE SECTOR

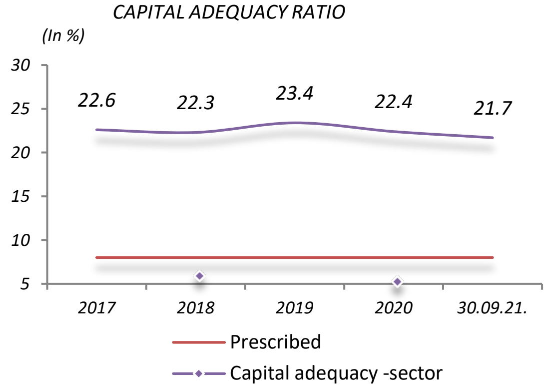


The share of gross NPL loans in total gross loans at the end of November 2021 was 3.4%, while at the end of December 2020 it was 3.7%[81]. Impairment provisions of NPL loans cover 57.9%[82] of gross NPL loans at the end of November 2021.

During the observed year 2021 and the problems of preserving jobs, repaying loans and other difficulties, retail foreign currency savings tended to grow steadily. At the end of December 2021, the total retail foreign currency savings reached the amount of EUR 12.3 billion[83], which is an increase compared to the end of 2020 by 11.3%. Total household savings, in the same period, reached EUR 13.2[84] billion, which is an increase of 11.3% compared to the end of 2020.

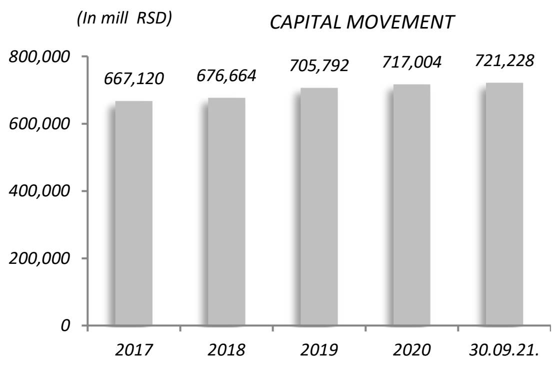
The average value of the *capital adequacy* ratio of the Banking sector as of September 30, 2021 is 21.7%[85]. In relation to the prescribed minimum indicator of 8.0%, the achieved value of 21.7% indicates adequate capitalization of the Banking sector. At the end of September 2021, the share capital of the Banking sector amounted to RSD 383.5 billion.

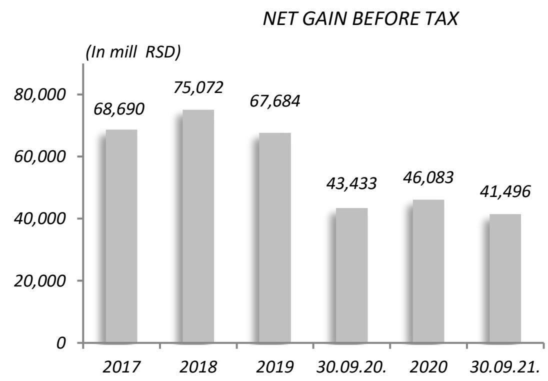
CAPITAL ADEQUACY RATIO

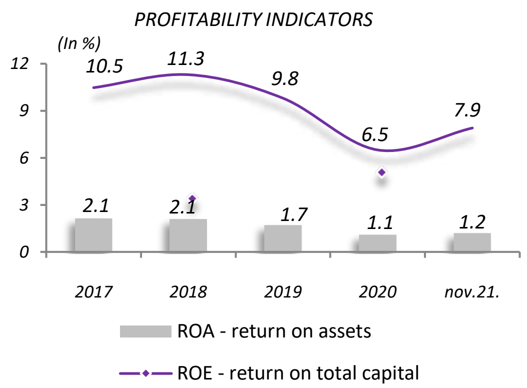


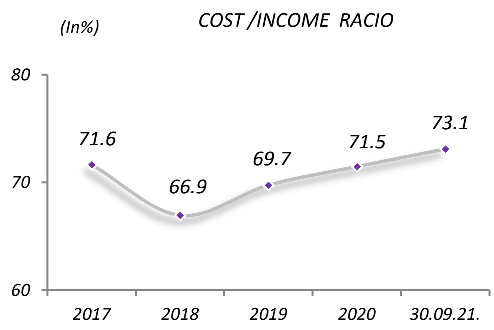
At the end of December 2021, the credit indebtedness of commercial banks abroad (long-term and short-term loans) amounted to RSD 312.7 billion and increased by 9.9% compared to the same period in 2020[86].

During the first three quarters of 2021, the Banking sector recorded a year-on-year decline in profitability. At the end of the third quarter of 2021, a positive net financial result was achieved, before taxes, in the amount of RSD 41.5 billion. In the observed period, 20 banks operated positively with a total profit of RSD 42.2 billion, while 4 banks operated with a total loss of RSD 0.7 billion.





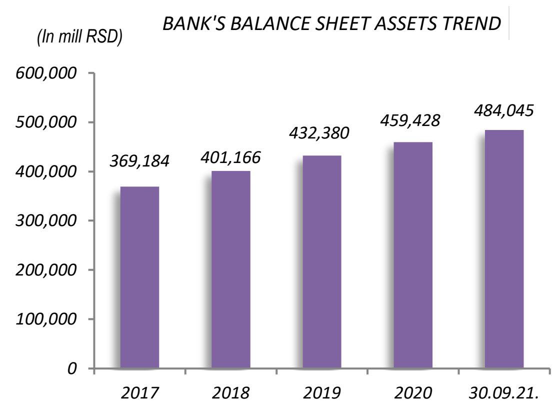




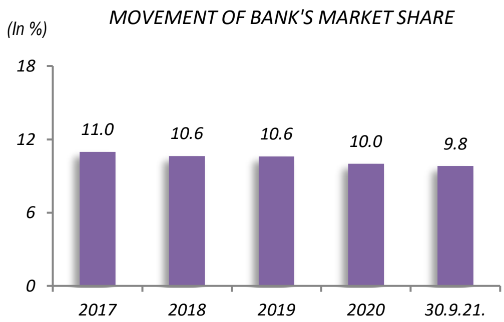
Cost/Income racio has an upward trend following the reduction during 2018, and amounts to 73.1% (as of 30.09.2021).

3.2. Financial position of the Bank in relation to Sector

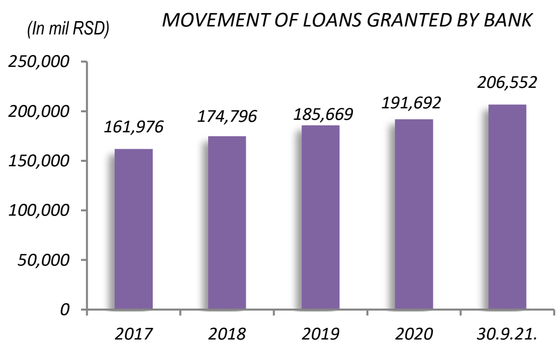
With the amount of balance sheet assets of RSD 484,044.6 million, the Bank as of 30.09.2021 accounted for 9.8% of the Banking sector, and/or it ranked fourth. According to available data on NBS internet presentation, the Bank's share in banking sector at the end of 2020 was 10.0%.



86 NBS, Banks' liabilities abroad, table 2.5., 26.1.2022

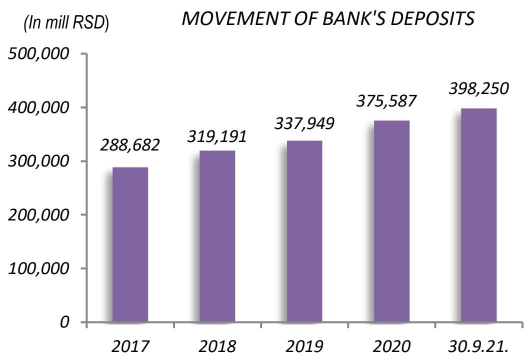


Loans to customers and receivables of the Bank on 30.09.2021. amounted to RSD 244.246,5 million, which represents 7.7% of the Bank's market share. At the end of 2020, the Bank had a 7.2% stake in the Banking sector in the amount of RSD 207,438.2 million in loans to customers and receivables.



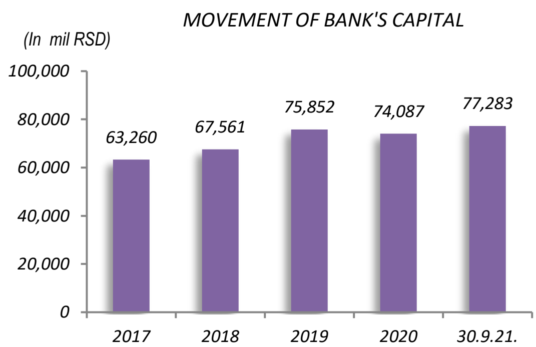
Note: due to comparability with previous years, the chart shows the Bank's loans without other placements and receivables

The share of deposits and other liabilities of the Bank in total deposits of the Banking sector amounted to 9.9% as of September 30, 2021. (RSD 400.219,9 million), and at the end of 2020 it was 10.0% (RSD 377.688,7 million).



Note: Due to comparability with previous years, the chart shows the Bank's deposits without other liabilities and credit lines

Observing the item total capital, the Bank on 30.09.2021 accounted for 10.7% of the Banking market (RSD 77.282,9 million), and at the end of 2020 had a share of 10.3% of the Banking sector (RSD 74.086,9 million).



4. DESCRIPTION OF BUSINESS ACTIVITIES, ORGANIZATIONAL STRUCTURE AND BRANCHES OF THE BANK

4.1. Description of business activities

Komercijalna banka a.d. Belgrade, was founded on December 1, 1970, and transformed into a joint stock company on May 6, 1992. The Bank was registered with the Commercial Court in Belgrade on July 10, 1991, and was legally re-registered with the Business Registers Agency on April 14, 2005. The Bank received a banking license from the National Bank of Yugoslavia on July 3, 1991. Bank registration number is 07737068, PIB number: SR 100001931, Activity code: 6419, Account number: 908-20501-70

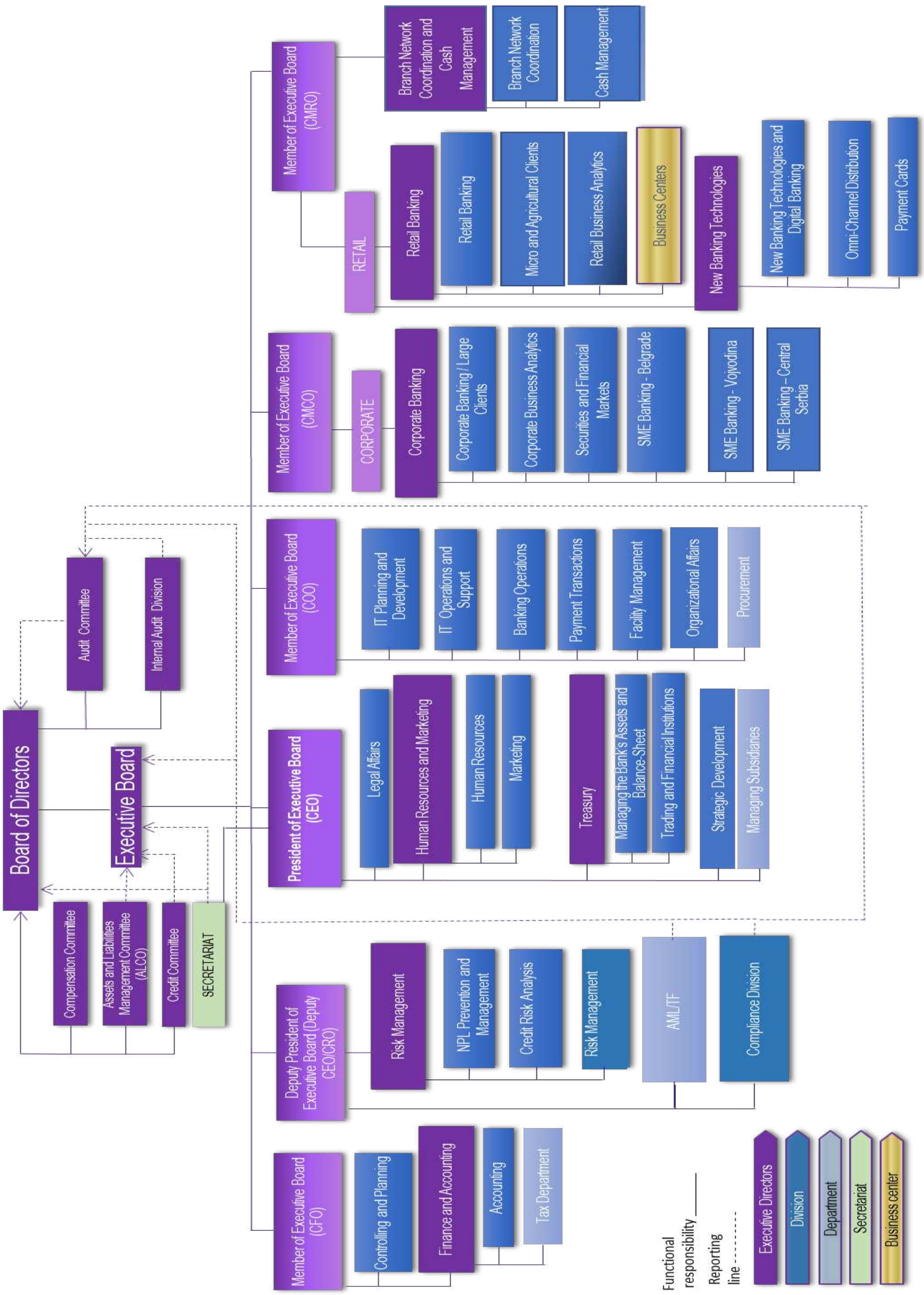
Komercijalna banka is registered in the Republic of Serbia to perform various activities in accordance with the Law on Banks. Within the registered activities, Komercijalna banka performs the following activities:

- Deposit operations (receiving and placing the deposits);
- Credit operations (granting and taking loans);
- Foreign currency, foreign currency – exchange operations and exchange operations;
- Payment transactions;
- Payment card issuance;
- Securities operations (issuance of securities, custody bank operations, etc.);
- broker-dealer operations;
- Issuance of guarantees, bills of exchange an other forms of sureties (guarantee operations);
- Purchase, sale and collection of receivables (factoring, forfeiting and alike.);
- insurance agency activities, with the prior consent of the National Bank of Serbia;
- activities for which it is authorized by law.

The Bank shall perform the activities referred to in paragraph 1, item 4 in accordance with the law governing payment services starting from October 1, 2015. Komercijalna banka is authorized to perform international payment transactions on the basis of the Decision of the National Bank of Serbia of April 2, 2003 by which Decision the Decision of the National Bank of Yugoslavia of 27.5.1992 was replaced. The Bank is authorized to perform the activities of a broker-dealer company on the basis of the Decision of the National Bank of Serbia of December 9, 2004 and the Decision of the Securities Commission of 14.4.2005. The Bank is authorized to perform the activities of a custodian bank on the basis of the Decision of the National Bank of Serbia of March 8, 2006 and the Decision of the Securities Commission of 1.6.2006. Komercijalna banka is also authorized to perform insurance representation activities by the Decision of the National Bank of Serbia dated September 1, 2011.

Address/ Headquarters	Svetog Save 14	Svetogorska 42-44	Trg Politike 1
TELEPHONE	381-11-30-80-100	381-11-32-40-911	381-11-33-39-001
FAX	381-11-344-23-72	381-11-32-35-121	381-11-33-39-196
S.W.I.F.T. code	KOBBRSBG	KOBBRSBG	KOBBRSBG
REUTERS dealing code	KOMB	KOMB	KOMB
INTERNET	*www.kombank.com*	*www.kombank.com*	*www.kombank.com*
E-mail	*posta@kombank.com*	*posta@kombank.com*	*posta@kombank.com*

4.2. The Bank's organization structure



Note: Organizational Scheme of the Bank as of 31.12.2021

4.3. Bank's Branches

In accordance with the new organization of the business network, which has been in full use since March 2018, the Bank conducts its business activities through a network of Business Centers, one branch and sub-branch network, the number of which changes and adjusts to market needs, Small and Medium Enterprises Division (Belgrade, Vojvodina and Central Serbia), Corporate Division - Large Clients. During and at the end of 2021, operations were conducted at the Bank's Headquarters in Belgrade, 6 Business Centers (intended for work with private individuals) and Kosovska Mitrovica Branch (for operations in the territory of Kosovo and Metohija), through a network of 190 sub-branches, as well as 3 Divisons for work with small and medium enterprises (Belgrade, Central Serbia, Vojvodina, intended for work with corporate clients) and the Corporate Division for work with large clients-Belgrade.

On 31.12.2021 Komercijalna banka a.d. Beograd has control over:

1. KOMBANK INVEST a.d., Beograd, UCITS fund management company as a subsidiary (Komercijalna banka a.d. Beograd owns 100%)

During 2021 Komercijalna banka a.d. Beograd has lost control of:

1. Komercijalna banka a.d. Podgorica, Montenegro due to the status change of the merger of NLB Banka ad Podgorica in November 2021. The share of Komercijalna banka ad Beograd in the capital of NLB Banka ad Podgorica after merger is 23.97%, which gained the status of an associate bank company, and
2. Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina by selling 100% ownership in this bank in December 2021.

4.4. Regional layout of the Bank's Business Network

	BUSINESS CENTERS	SEAT
1.	BC Beograd 1	Trg Politike 1, Beograd
2.	BC Beograd 2	Trg Politike 1, Beograd
3.	BC Kragujevac	Moše Pijade 2, Požarevac
4.	BC Niš	Episkopska 32, Niš
5.	BC Novi Sad	Bulevar oslobođenja 88, Novi Sad
6.	BC Užice	Petra Ćelovića 4, Užice
	BRANCHES	**SEAT**
1.	Kosovska Mitrovica	Čika Jovina 11, Kosovska Mitrovica
	DIVISIONS	**SEAT**
1.	Corporate Banking Division – Large Clients	Svetogorska 42-44, Beograd
2.	Corporate Banking Division – Small and Medium Enterprises - Vojvodina	Bulevar oslobođenja 88, Novi Sad
3.	Corporate Banking Division – Small and Medium Enterprises - Beograd	Svetogorska 42-44, Beograd
4.	Corporate Banking Division – Small and Medium Enterprises – Central Serbia	Svetogorska 42-44, Beograd

In 2021, there were no changes in the organization within the Corporate business function. Work with legal entities took place through three Divisions for work with small and medium enterprises (Vojvodina, Beograd and Central Serbia) and the Division for work with corporates - large clients.

Due to the fact that a large number of the Bank's clients still want a traditional service, i.e., a direct relationship with the Bank and employees in the sub-branches, an extensive business network has been maintained. At the end of 2021, Komercijalna Banka operated in the retail segment through a network of 190 sub-branches grouped in 6 Business Centers and the Kosovska Mitrovica Branch.

281 ATMs and about 13,500 POS terminals were available to customers, making the Bank one of the market leaders. The Bank continued its activities to improve the user experience by improving the appearance of sub-branches, moving to new premises, adjusting / optimizing working hours and the like.

5. CORPORATE GOVERNANCE

In the Republic of Serbia, corporate governance is, at the level of legislation, regulated primarily by:

- Company Law
- Accounting Law

And for banks also by

- Law on Banks.

The above mentioned legislation establishes the basic principles of corporate governance.
The bodies and boards of the Bank are constituted in accordance with the Law on Banks.
According to the Law on Banks the bodies of the Bank are as follows:

- General Meeting of Shareholders;
- Board of Directors and
- Executive Board.

Pursuant to the Law on Banks the following have been organized within the Bank:

- Audit Committee;
- Credit Committee and
- Assets and Liabilities Management Committee

The competencies and authorities of all bodies and boards of the Bank are based on the relevant legal regulations and are defined by internal acts, of which the following stand out:

- Memorandum of Association;
- Bank's Articles of Association;
- Rules of Procedure of the Bank 's bodies and
- Other internal acts.

5.1. Rules of Corporate Governance

1. Code of Corporate Governance of the Serbian Chamber of Commerce

The Bank in its operations, in accordance with the Decision of the Executive Board of the Bank no. 8373 dated 9 April 2013, applies the Code of Corporate Governance of the Serbian Chamber of Commerce ("Official Gazette of the RS", No. 99/2012), which was adopted by the Assembly of the Serbian Chamber of Commerce.
The text of the Corporate Governance Code is published on the Bank's website (https://www.kombank.com/sr/o-nama/korporativno-upravljanje).

The rules of corporate governance have been implemented through the Bank's internal acts and all employees of the Bank strive to ensure that there are no deviations in their implementation.

The Corporate Governance Code establishes the principles of corporate practice according to which the holders of the Bank's corporate governance act and adhere in their operations. The aim of the Code is to introduce good business practices in the field of corporate governance, equal influence of all stakeholders, existing and potential shareholders, employees, clients, bodies of the Bank, the state, etc. The ultimate goal is to ensure long-term and sustainable development of the Bank.

In accordance with the "Rulebook on Listing of the Belgrade Stock Exchange", the Bank regularly submits and publishes a completed "Questionnaire on Corporate Governance Practice" every year and it is published on the website of the Belgrade Stock Exchange at the link: https://www.belex.rs/ trgovanje /vesti/ hartija/ KMBN.

2. **Relevant information on corporate governance practices that go beyond the requirements of national law**

As a member of the NLB Group Slovenia, the Bank applies the NLB Group Code of Conduct. The NLB Group Code of Conduct sets standards and rules of conduct that apply to all employees, as well as to our associates. The Code describes the values and basic principles of ethical business conduct that NLB Group members expect, respect and promote.
The Code of Conduct and the values and beliefs based on it support the long-term goal of all members of the Group. The members of the Group strive to improve the culture of daily business, which is essential for achieving long-term trust.

Komercijalna banka a.d. Beograd as a member of the NLB Group, Belgrade strives to ensure that every employee, regardless of the type of work he performs and the location where he works, as well as members of all target groups of the NLB Group, lives in accordance with the highest standards of integrity in everything he does..

The key to achieving these standards is a strong culture of compliance implemented by NLB Group, with due diligence of all employees in accordance with its policies, rules and other internal acts and in accordance with relevant legal regulations in all legal environments in which NLB Group operates.

The management of the NLB Group and all member banks fully supports the Code and is committed to its compliance, in order to build partnerships with clients.

5.2. Board of Directors of the Bank

The Board of Directors of the Bank is established in accordance with the Law on Banks, the Bank's Articles of Association and consists of at least 5 (five) members, including the Chairperson, of which at least one third of the members must be independent of the Bank. At least three members of the Board of Directors must have appropriate experience in the field of finance, in accordance with the law. The members of the Board of Directors of the Bank are appointed by the General Meeting of Shareholders of the Bank for a period of four years. The Draft Decision on the appointment of the Chairperson and members of the Board of Directors of the Bank is determined by the Board of Directors of the Bank, at the proposal of the shareholders.
Members of the Board of Directors of the Bank as of December, 31 2021. are as follows:

NAME AND SURNAME	SHAREHOLDER /MEMBER INDEPENDENT OF THE BANK	TITLE	DATE OF APPOINTMENT	TERM OF OFFICE
Archibald Kremser	*NLB dd Slovenija*	*Chairperson*	*30.12.2020.*	*4 years from the date of appointment*
Blaž Brodnjak	*NLB dd Slovenija*	*Member*	*30.12.2020.*	*4 years from the date of appointment*
Uršula Kovačič Košak	*NLB dd Slovenija*	*Member*	*30.12.2020.*	*4 years from the date of appointment*
Igor Zalar	*NLB dd Slovenija*	*Member*	*30.12.2020.*	*4 years from the date of appointment*
Marko Jerič	*NLB dd Slovenija*	*Member*	*30.12.2020.*	*4 years from the date of appointment*
Vesna Vodopivec	*NLB dd Slovenija*	*Member*	*30.12.2020.*	*4 years from the date of appointment*
Nenad Filipović	*Member independent of the Bank*	*Member*	*30.12.2020.*	*4 years from the date of appointment*
Prof. Dragan Đuričin	*Member independent of the Bank*	*Member*	*30.12.2020.*	*4 years from the date of appointment*
Veljko Kuštrov	*Member independent of the Bank*	*Member*	*26.11.2021.*	*4 years from the date of appointment*

Membership in the Board of Directors terminates upon expiration of the term of office or release from duty.
The competencies of the Bank's Board of Directors are defined in Article 73 of the Law on Banks and Article 27 of the Bank's Articles of Association. The Board of Directors may transfer certain competencies, determined by Article 27 of the Articles of Association, except for the competencies determined by law as non-transferable, to the competence of the Executive Board or another body of the Bank.

The Board of Directors of the Bank is responsible for the accuracy of all reports on operations, financial condition and results of operations of the Bank sent to the shareholders of the Bank, the public and the National Bank of Serbia.

Meetings of the Board of Directors are convened by the Chairperson of the Board of Directors. Sessions of the Board of Directors are held in the manner determined by law and the Rules of Procedure of the Board of Directors. Sessions of the Board of Directors may also be held using a conference call or using a link of other audio or visual communication equipment, so that all persons participating in the meeting can hear and talk to each other, in which case they will be considered present at the session.

A quorum for the work and decision-making of the Bank's Board of Directors exists if the session is attended by a majority of the total number of members of the Bank's Board of Directors. The Chairperson and each member shall have one vote. The Board of Directors makes decisions by a majority vote of the total number of votes in the Board of Directors.

5.3. The Bank's Executive Board

The Executive Board consists of at least three members, one of whom is the President of the Executive Board and another Deputy President of the Executive Board. The President of the Executive Board represents the Bank and acts as its agent. The President of the Executive Board manages the work of the Executive Board and is responsible for the implementation of decisions from the field of responsibility of the Executive Board.
Deputy President of the Executive Board replaces the President of the Executive Board in case of his/her absence and performs the tasks at the order of the President of the Executive Board and is responsible for the implementation of decisions from the field of responsibility of the Executive Board and the tasks delegated to him.
The term of office of the members of the Executive Board, including the President and the Deputy President, is four years from the date of appointment.

As of December 31st 2021, the members of the Bank's Executive Board are:

NAME AND SURNAME	FUNCTION	DATE OF APPOINTMENT	DURATION OF THE TERM OF OFFICE
Vlastimir Vuković	*President*	*04.02.2021.*	*4 years from the date of appointment*
Dejan Janjatović	*Deputy President*	*04.02.2021.*	*4 years from the date of appointment*
Dragiša Stanojević	*Member*	*03.06.2016.*	*4 years + 1 + 1 from the date of appointment*
Dubravka Đedović Negre	*Member*	*01.12.2021.*	*4 years from the date of appointment*

Responsibilities of the Executive Board are defined in Article 76 of the Law on Banks and Article 31 of the Bank's Articles of Association. The Bank's Executive Board organizes and supervises the day-to-day operation of the Bank. The Bank's Executive Board is responsible for the implementation and efficient functioning of the Bank's internal control system. The Executive Board may transfer certain responsibilities from Article 31, except for the responsibilities specified in the law as non-transferable, to the responsibility of the Bank's another body or an employee.

The manner of operation of the Bank's Executive Board is specified in more detail in the Rules of Procedure of the Executive Board.

There is quorum for operation and decision-making by the Executive Board if the session is attended by the majority of the total number of members of the Executive Board. The Executive Board passes decisions with the majority of votes of the total number of members.

5.4. Audit Committee

The Bank's Audit Committee consists of at least three members, at least two of whom are members of the Bank's Board of Directors who have the appropriate experience in the area of finance. At least one member of the Audit Committee is a person independent of the Bank. Members of the Audit Committee are elected to a period of four years. The Board of Directors may, with its decision, release a member of the Audit Committee from their duty before the expiration of the time to which they were appointed.

As of December 31st 2022, the members of the Audit Committee are:

NAME AND SURNAME	FUNCTION	DATE OF APPOINTMENT	DURATION OF THE TERM
Prof. Dragan Đuričin	*Chairperson*	*05.01.2021.*	*4 years from the date of appointment*
Marko Jerič	*Member*	*15.03.2021.*	*4 years from the date of appointment*
Igor Zalar	*Member*	*15.01.2021.*	*4 years from the date of appointment*
Polona Kurtevski	*Member*	*15.03.2021.*	*4 years from the date of appointment*
Barbara Deželak	*Member*	*15.03.2021.*	*4 years from the date of appointment*

Duties of the Audit Committee are defined in Article 80 of the Law on Banks and Article 34 of the Bank's Articles of Association. The Bank's Audit Committee is obliged to propose to the Bank's Board of Directors elimination of identified irregularities and scheduling of the General Meeting of Shareholders when it assesses that the Bank operates contrary to the law, another regulation, Articles of Association or the Bank's another document or if it determines that on the basis of the audit report or when it identifies other irregularities that might have more difficult consequences on the Bank's operation.

There is a quorum for operation and decision-making by the Audit Committee if the session is attended by the majority of the total number of members of the Audit Committee. The Audit Committee passes decisions with the majority of votes of the total number of members.

Audit Committee sessions are held in the manner specified by the law and the Rules of Procedure of the Audit Committee.

When selecting the members of the governance bodies, the Bank applies the existing legislation that regulates this area, primarily the Law on Banks. In accordance with the Law, when selecting members of the governance bodies, in a situation where that is envisaged, the Bank obtains a prior approval from the National Bank of Serbia to the proposed appointments for the membership of the governance bodies.

5.5. Description of changes in the company's business policies

During 2021 the Bank did not make changes in the document Business Policy, which is based on:

- the Bank's position in the financial market and the client's trust in the Bank;
- projections of the key parameters of macroeconomic policy and
- the Bank's development aims.

The business policy determines the key principles of operation and defines the tasks the Bank performs with the aim of achieving the business results and priorities defined in the applicable Strategy and Business Plan of the Bank.

The Bank's business policy is consistent with the Risk Management Strategy and the Capital Management Strategy, as well as the policies for managing individual risks.

The Bank operates independently, on market principles, with the implementation of the principles of liquidity, profitability and security, with the observance of the law, other regulations and the general principles of the Banking operation and achieving its targets in a socially responsible manner, in accordance with the core values and business ethics.

5.6. Description of the key elements of the internal control system and decrease in risks in relation to the financial reporting process

The key elements of the internal control systems and the decrease of risk in relation to the financial reporting process have been established through:

- the work of the boards established in accordance with the Law on Banks (Board of Directors, Executive Board and the Audit Committee),
- establishment of the internal control system (risk management function, compliance function and the internal audit function) and
- the appropriate strategy, policy and other documents adopted on the Bank's level with the aim of ensuring adequate financial reporting.

The Bank's committees in the process of establishing the internal control system and decrease in the risk related to the financial reporting process

With the aim of establishing an adequate internal control system and decreasing the risk related to the financial reporting process, in accordance with the Law on Banks and the Articles of Association of Komercijalna banka a.d. Beograd:

The Bank's Board of Directors, among other things:

- adopts the draft business policy and strategy of the Bank and submits them to the General Meeting of the Bank's Shareholders for adoption;
- adopts the risk management strategy and policy, as well as the strategy of managing the Bank's capital;
- establishes the internal control system in the Bank and the Banking Group and monitors its efficiency;
- adopts the Bank's internal audit program and plan and the internal audit work methodology;
- considers the reports of the external and internal audit on the results of the performed audit, as well as the reports on the activities and the work of the internal audit, ad approves the annual report on the adequacy of risk management and the Bank's internal control;
- adopts quarterly and annual reports of the Bank's Executive Board on the Bank's operation, including the quarterly risk management reports and the submits to the General Meeting of the Bank's Shareholders the adopted financial report for final adoption and
- passes rules of procedure for its operation and the operation of the Audit Committee, Credit Committee and ALCO.

The Executive Board, among other things:

- proposes to the Board of Directors the Bank's business policy and strategy, as well as the risk management strategy and policy and the strategy of managing the Bank's capital;
- implements the Bank's business policy and strategy by passing the appropriate business decisions;
- implements risk management strategies and policies and the strategy for managing the Bank's capital by adopting the risk management procedures and procedures for identifying, measuring and assessing risk and ensuring their implementation and reports to the Board of Directors on those activities;
- analyzes the risk management system and reports to the Board of Directors on the level of exposure to risks and risk management and
- submits to the Board of Directors an overview of the Bank's business activities, balance sheet and P&L.

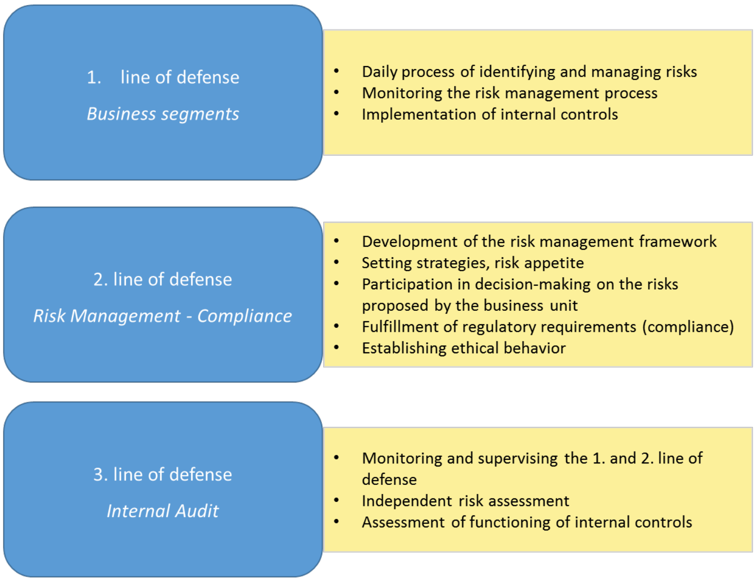
The Audit Committee, among other things:

- analyzes the annual reports and other financial statements of the Bank that are submitted to the Bank's Board of Directors for adoption and consideration;
- analyzes and adopts the draft strategies and policies of the Bank in relation to risk management and the internal control system that are submitted to the Board of Directors for adoption;
- analyzes and supervises the application and adequate implementation of the adopted policies and strategies for risk management and implementation of the internal control systems and
- considers, with the Bank's external auditor, the Bank's annual financial statements.

Internal control system

The Bank has established three lines of defense that cover:

- ***Business lines*** – the first line of defense, by proposing business decisions within the defined internal policies and authority and, in doing so, take responsibility for the assumed risks.
- ***Risk Management and Compliance*** – cover the second line of defense by defining the rules on risk appetite / profile, risk strategy, risk management and monitoring. Apart from this, it also includes an analysis and co-decision-making on risks proposed by the business part and, consequently the assuming of responsibility for analysis and the assumed risks. The organizational unit in charge of business compliance focuses on systemic monitoring of the legislative and regulatory environment. Apart from regulatory compliance, they also check the compliance within the organization. An organizational unit in charge of establishing the system of managing risk of money laundering and terrorism financing (AML Department) focuses on identifying and assessing the risk of money laundering and terrorism financing, defining the strategy and establishing the system for monitoring and managing risks, as well as control of its efficiency.
- ***Internal Audit*** – The Internal Audit is the third line of defense, where the Internal Audit monitors the decision-making process in all areas of the Bank, considers the key operating risks, advises the management on all levels. It provides independent and unbiased assurance regarding the management of key risks and functioning of internal controls.



In accordance with the Law on Banks[87] , the Bank has established an appropriate internal control system in the manner that allows for continuous monitoring of the risk the Bank is exposed to in its operation.
The internal control system consists, particularly, of:

- Risk Management Function,
- Compliance Function and
- Internal Audit Function.

In accordance with the Law on Banks, the Bank has set up a special organizational unit for risk management with the aim of identifying, measuring and assessing the risks it is exposed to in its operation and the goal of managing the risks it is exposed to. Risk management activities are functionally and organizationally separated from the Bank's regular business activities.

Within the risk management function in the Bank three departments have been established in the Bank: NPL Work-Out, Credit Risk and Risk Management.
As part of the regular activities on the level of these three departments, appropriate strategies, policies, methodologies, procedures, instructions and other documents are prepared.

The compliance function in the Bank is performed by the Compliance Department. The manager of the Department is appointed and released from duty buy the Bank's Board of Directors, in accordance with the Law on Banks.

87 Law on Banks, Section 2, Articles from 82 to 87

The compliance function identifies and monitors the compliance risk and manages that risk which particularly includes the risk of sanctions by the regulatory body and financial losses, as well as reputational risk.
Compliance risk occurs as a consequence of omitting to bring the operation into compliance with the law and other regulations, business standards, ML/TF standards, as well as some other documents that regulate the operation of banks.
Head of Compliance and the employees in this department are independent in their work and perform exclusively the tasks that have been assigned to the Compliance Department, in accordance with the law and the by-laws of the National Bank of Serbia.
The Compliance Department, in accordance with the law, at least once a year, identifies and assesses the key compliance risks and proposes the plans for managing those risks of which a report is prepared, which is sent to the Board of Directors for adoption, after it is adopted by the Executive Board. The Executive Board and the Audit Committee are informed of the identified omissions that relate to the compliance of operation.
In accordance with the law, the Compliance prepares a program for monitoring the compliance of the Bank's operation, as well as a significant number of general by-laws (policies, methodologies, rulebooks and rules) and other documents with the aim of ensuring the compliance of the Bank's operation with the laws and secondary legislation.

The function of internal audit in the Bank is performed by the Internal Audit Department which has been established in accordance with the Law on Banks with the aim of providing to the Board of Directors independent and objective opinion on the issues that are the subject matter of the audit, performs advisory activity focused on improving the existing internal control system and operation of the Bank and provides assistance to the Board of Directors in the achievement of its goals.
The Internal Audit is independent in its operation, which is allowed by the Law on Banks i.e. the established organizational structure in the Bank, so the Internal Audit reports for its work directly to the Board of Directors. In accordance with the Law on Banks, the Head of the Internal Audit is appointed and released from duty by the Board of Directors. The Head of Internal Audit has the right to address directly to the Bank's Board of Directors whenever it is needed.
Head of the Internal Audit prepares the internal audit program and determines the methodology of its operation and submits reports on its operation to the Audit Committee and the Board of Directors.

The Internal Audit performs regular and periodic controls of operation and actions of the Bank's organizational units, in accordance with the defined audit plans. The employees of the Internal Audit are entitled to inspect all of the Bank's documents and its subsidiaries and the right to monitor the operation without limitation.

Risk reduction regarding the financial reporting process – the Bank's accounting policies

In accordance with Article 50 of the Law on Banks, the Bank maintains its accounts and accounting records and prepares annual financial statements that truthfully and objectively reflect its operation and financial condition. The contents and form of financial statements are specified in the Law on Accounting, Law on Banks and other regulations of the National Bank of Serbia. When preparing the annual financial statements, the Banks are obliged to apply the international financial reporting standards, from the day the competent international body has determined as the date of their application.

The Bank's accounting policies regulate: the key principles, frameworks and processes for maintaining business accounts, manner of mea ruing and recognizing all the forms of property and liabilities, income and expenses, as well as preparation of financial statements, in accordance with the IAS (International Accounting Standards), IFRS (International Financial Reporting Standards) and interpretation of competent regulatory bodies, as well as responsibilities.

The accounting policies are special principles, bases, conventions, rules and practice adopted by the Bank for the valuation of balance-sheet items, preparation, presentation and disclosure of financial statements. Adopted accounting policies relate to recognizing, termination of recognizing, measuring and assessing the Bank's assets, liabilities, income and expenses.
When selecting the accounting policies, the following principles apply: intelligibility, relevance, reliability, substance over forms, materiality, neutrality, caution, comprehensiveness, consistency, comparability, timeliness, cost-benefit balance and other criteria that the Conceptual Framework for Financial Reporting refers to.

Accounting policies are based on:

- Conceptual framework for financial reporting,
- Individual International Accounting Standards (IAS),
- International Financial Reporting Standards (IFRS),
- Applicable interpretations of the International Financial Reporting Standards and
- Other professional regulations.

Accounting policies are determined in accordance with the basic treatment that IAS/IFRS require and in certain cases, when this is proved to be adequate, in accordance with the allowed alternative treatment.

The Bank's Executive Board and the authorized managers are responsible for:

- appropriate implementation of regulations when passing the decisions from the area of material – financial operation and
- legality of financial statements.

Managers who, according to their function, organize and coordinate the work on the accounting – bookkeeping tasks in the Bank and parts of the Bank are responsible for:

- preparation of financial statements,
- timely provision of instructions and for setting the deadlines for submission of data and documents for the preparation of financial statements,
- timely informing the competent bodies of the breach and failure to observe the material-financial regulation and decisions of the management bodies,
- adequate application of regulations and professional regulations in maintaining the business accounts and
- timely provision of the necessary reviews (internal and external) as data for the preparation of reports.

The Bank's managers are in charge of organizing and coordinating the tasks of controlling and planning, as well as the employees who directly perform those tasks, are responsible for the preparation of internal and external reports on the Bank's operation and the operation of the Banking Group.

Risk reduction in relation to the financial reporting process – operational risk management

Operational risk management means identifying, measuring and assessing, overcoming and monitoring the risks, including reporting on operational risks the Bank is exposed to or might be exposed to.

Operational risk management policy determines the manner of organizing the operational risk management processes with a division of responsibility of employees, the manner of assessing the risk profile, establishing the operational risk limit system and actions in case of overstepping the set limit, the manner of monitoring and checking operational risk, the functional principles of the internal control systems, assessment of internal capital requirements for operational risk, the framework and frequency of stress testing and actions in case of adverse stress test results in Komercijalna banka a.d. Beograd.

Operational risk management methodology is the process used to assess the Bank's exposure to operational risks. The aim is the preparation of the Bank's risk profile that will result in changes in the culture and governance measures. The document defines the methodology for calculating tolerance to operational risks, calculation of operational risk profiles and activities in the area of identification, assessment, overcoming operational risks and reporting, as well as the manner of calculating the capital requirements for operational risk. Operational risk management methodology applies on the level of NLB banking Group as well as on the level of the Group members.

The Bank ensures good quality identification, assessment and management of operational risks, among other things, through the use of LER application for entering losses (adverse events) and identified risks.

At the end of the select period, the responsible persons in the organizational units prepare the Record on Performed Measurement of the Operational Risk by Self-Assessment. The Record contains the data about the Bank's organizational forms, the processes that carries the risk, type of risk cause of the operational risk event, type of event, the business line / group of tasks, financial effect on the Bank, the probability of occurrence of an event, importance for operation, the final risk assessment, the expected consequences of the case of risk occurrence and other data.

In case of significant operational risks are identified, the Operational Risk Committee is informed and it is tasked with proposing the measures, activities and assessment of the deadlines for the implementation of measures for managing and controlling the identified operational risks. On the basis of performed identifications and assessment of operational risks, the Risk Management Department prepares, once a year, after the completion of identification and assessment of operational risks, the Operational Risk Profile for the Banka and submits it to the Operational Risk Committee and the Risk Section in NLB d.d. Ljubljana.

Adequately established and controlled information system of the Bank, as well as checking the entering of date has enabled unhindered operation of the Bank in terms of financial reporting to regulatory institutions.

There were no delays in the Bank regarding financial reporting to regulatory institutions nor were there financial consequences on the Bank's business results. In case there was a delay or an omission in financial reporting to the regulatory institutions, the Operational Risk Committee would be informed which would make a decision on further actions.

5.7. Information on takeover bids

During 2021 Komercijalna banka a.d. Beograd did not prepare the bids for the takeover of other legal entities and, on those grounds, for 2021 the Bank is not obliged to apply the regulations that govern the takeover of companies.

In accordance with the above, during 2021, Komercijalna banka a.d. Beograd did not, through the process of acquiring other legal entities:

- acquire any direct or indirect share in the equity of another legal entity;
- become an owner of any securities that would enable it special control over other legal entities;
- become an owner of the securities with limited voting rights over another legal entity;
- participate in the appointment and release from duty of the management of another legal entity and
- participate in determining the authorization of another legal entity's management.

5.8. Description of diversity policy

In the Republic of Serbia, the diversity policy is, at the level of legislation, regulated primarily by:

- Law on Gender Equality (December 2009), and/or
- Gender Equality Law (May 2021).

With the entry into force of the Gender Equality Law, the Law on Gender Equality ceased to be valid, with the remark that certain provisions of the Gender Equality Law enter into force only on January 1, 2024.
The Law on Gender Equality regulates the creation of equal opportunities for exercising rights and obligations, taking special measures to prevent and eliminate discrimination based on sex and gender, and the procedure of legal protection of persons exposed to discrimination.

The Law on Gender Equality belongs to the group of anti-discrimination laws by which:

- the right to equality of women and men guaranteed by the Constitution of the Republic of Serbia, is elaborated in more detail, and
- special measures are introduced to ensure the implementation of equal opportunities policy

In accordance with Article 13 of the Law on Gender Equality, the Bank undertakes the following on an annual basis, and no later than January 31 of each year:

- for the current year, draws up a Plan of Measures to eliminate or alleviate gender inequality and
- for the previous year, adopts the Annual Report on the implementation of the plan of measures to eliminate or alleviate gender inequality.

The content of the Action Plan and the content of the Annual Report on the Implementation of the Action Plan are defined by a special act of the Minister responsible for gender equality.

In accordance with legal regulations, the Bank is obliged to submit the Plan of Measures and the Annual Report on the Implementation of the Plan of Measures to the Ministry in charge of gender equality no later than March 31 of the current year.
In accordance with the laws and bylaws, the Bank, when compiling the Plan of Measures and the Annual Report on the Implementation of the Plan of Measures, includes all employees, including members of the Executive Board of the Bank. The reports submitted to the competent authority shall disclose data (without providing personal data on employees) in the form of the number and structure of employees, according to various criteria:

- total number of employees;
- total number of managerial positions;
- total number of executive positions;
- number of identical jobs, with different net earnings;

- total number of employees sent for professional development or training for the reporting period;
- total number of employees hired;
- total number of laid off employees;
- number of women on maternity leave;
- number of women returned to work after maternity leave;
- number of jobs, according to the general act of the Bank, for which there is a justified need to make gender differences in accordance with the law governing work.

Data from the Action Plan and the Annual Report on the Implementation of Measures are used to achieve the following objectives:

- created equal opportunities for exercising rights and obligations arising from employment and on the basis of work, in accordance with the law governing work;
- encourage and improve the equal representation of women and men in the Bank in employment and in the work process.

In the coming period, the actions of economic entities in the Republic of Serbia will be harmonized with the provisions of the Law on Gender Equality (activities related to the implementation of the Law on Gender Equality will be started after the adoption of bylaws by the competent ministry, which are the preconditions for taking activities).

During 2021, the Bank did not have adopted the Diversity Policy document, but the Bank's management adheres to the principles of gender diversity of management members and employees, diversity of educational profiles of employees, diversity of different religions, and diversity of age structure of employees. In the following period, after the realization and completion of the merger process, the intention is to adopt a joint document the Bank Diversity Policy at the level of the Bank, which exists at the level of the NLB Group.

The Bank's management in selecting members of management bodies and senior management is guided by the principle of gender equality, diversity of educational profiles, range of knowledge, skills and experience, age.

In accordance with the Labor Law and the Collective Agreement of Komercijalna banka ad Beograd, all forms of discrimination, harassment, sexual harassment and abuse of employees at work and in connection with work are prohibited.

The Bank and the Bank's Trade Union shall cooperate in the prevention and avoidance of any kind of conduct referred to in the preceding paragraph.
At the end of 2021, the Bank's Board of Directors consists of 7 men and 2 women. The Executive Board of the Bank consists of 1 woman and 3 men.

6. BALANCE SHEET AS OF 31.12.2021

6.1. Bank's Assets as of 31.12.2021

No	DESCRIPTION	31.12.2021.	31.12.2020.	INDICES	% SHARE AS OF 31.12.21.
1	2	3	4	5	6
	ASSETS (in 000 RSD)				
1.	Cash and Balances with Central Bank	82.055.481	80.045.107	102,5	16,8
2.	Pledged financial assets	-	-	-	-
3.	Receivables from derivatives	-	-	-	-
4.	Securities	149.588.755	153.776.323	97,3	30,6
5.	Loans and receivables from banks and other financial organizations	29.114.381	18.142.070	160,5	5,9
6.	Loans and receivables from customers	209.044.942	189.296.089	110,4	42,7
7.	Changes in fair value of items that are subject to hedging	-	-	-	-
8.	Receivables from derivatives intended for hedging	-	-	-	-
9.	Investment in associates and joint ventures	1.488.063	-	-	0,3
10.	Investments in subsidiaries	140.000	3.433.697	4,1	-
11.	Intangible assets	582.101	510.669	114,0	0,1
12.	Property, plant and equipment	8.755.659	6.045.330	144,8	1,8
13.	Investment property	2.610.531	2.393.183	109,1	0,5
14.	Current tax assets	18.911	12.237	154,5	-
15.	Deferred tax assets	509.242	-	-	0,1
16.	Non-current assets intended for sale and assets from discontinued operations	101.614	130.426	77,9	-
17.	Other assets	5.430.725	6.216.268	87,4	1,1
	TOTAL ASSETS (from 1 to 17)	**489.440.405**	**460.001.399**	106,4	100,0

At the end of 2021, the Bank's balance sheet assets amounted to RSD 489.440,4 million and increased by RSD 29.439,0 million or 6.4% compared to the beginning of the year.
During 2021, the item of cash and assets with the central bank increased by RSD 2.010,4 million or 2.5%.
Investments in securities at the end of 2021 amount to RSD 149.588,8 million. Compared to the beginning of the year, investments in securities decreased by RSD 4.187,6 million or 2.7%. At the end of 2021, investments in securities accounted for 30.6% of the Bank's total balance sheet assets, which is less than the amount at the end of the previous year (33.4%).
Loans and receivables from customers amount to RSD 209.044,9 million and in relation to the balance recorded on 31.12.2020 have increased by RSD 19.748,9 million. At the end of 2021, loans and receivables from customers accounted for 42.7% of balance sheet assets.
Loans and receivables from banks and other financial organizations amount to RSD 29.114,4 million and have increased by RSD 10.972,3 million during 2021.
Total loans and receivables from customers and banks as at 31.12.2021 amounted to RSD 238.159,3 million, which is 48.7% of the total balance sheet assets of the Bank.
The item of assets deferred tax assets as of 31.12.2021 is explained in more detail in points 3 and 20.4. Notes to the financial statements for 2021.

6.2. Bank's Liabilities as of 31.12.2021

No.	DESCRIPTION	31.12.2021.	31.12.2020.	INDICES	% OF SHARE AS OF 31.12.21.
1	2	3	4	5	6
	LIABILITIES (in 000 RSD)				
1.	Liabilities from derivatives	-	-	-	-
2.	Deposits and other financial liabilities to banks, other financial organizations and central bank	2.134.969	4.989.315	42,8	0,4
3.	Deposits and other financial liabilities to other customers	403.286.418	372.699.401	108,2	82,4
4.	Liabilities from derivatives intended for hedging	-	-	-	-
5.	Changes in fair value of items that are subject to hedging	-	-	-	-
6.	Liabilities from securities	-	-	-	-
7.	Subordinated liabilities	-	-	-	-
8.	Provisions	4.233.853	2.529.268	167,4	0,9
9.	Liabilities from assets intended for sale and assets from discontinued operations	-	-	-	-
10.	Current tax liabilities	-	-	-	-
11.	Deferred tax liabilities	-	147.400	-	-
12.	Other liabilities	4.142.443	4.975.476	83,3	0,8
13.	**TOTAL LIABILITIES (from 1 to 12)**	**413.797.683**	**385.340.860**	107,4	84,5
	CAPITAL				
14.	Share capital	40.034.550	40.034.550	100,0	8,2
15.	Treasury shares	-	-	-	-
16.	Profit	9.573.620	5.893.027	162,5	2,0
17.	Loss	-	-	-	-
18.	Reserves	26.034.552	28.732.962	90,6	5,3
19.	Unrealized losses	-	-	-	-
20.	Non-controlling interest	-	-	-	-
21.	**TOTAL CAPITAL (from 14 to 20)**	**75.642.722**	**74.660.539**	101,3	15,5
22.	**TOTAL LIABILITIES (13 + 21)**	**489.440.405**	**460.001.399**	106,4	100,0

Bank's total liabilities at the end of 2021 amount to RSD 413.797,7 million and account for 84.5% of total liabilities (as of 31.12.2020 total liabilities accounted for 83,8% of liabilities). Concurrently, total capital of the Bank amounts to RSD 75.642,7 million and makes for 15.5% in total liabilities (as of 31.12.2020 the share was 16.2%). Total liabilities have increased relative to the end of previous year by RSD 28.456,8 million or 7.4%, while the total capital of the Bank has increased by RSD 982,2 million, or 1.3%.

Total deposits and other financial liabilities to banks and customers, at the end of 2021 amount to RSD 405.421,4 million, which makes for 82.8% of total balance sheet liabilities. Total deposits and other financial liabilities have recorded an increase in relation to the end of previous year of RSD 27.732,7 million, or 7.3%.

The item deposits and other financial liabilities to customers has been increased during 2021 by RSD 30.587,0 million, or by 8.2%, while the item deposits and other financial liabilities to banks has been reduced relative to the end of previous year by RSD 2.854,3 million, or by 57.2%.

The item other liabilities, during 2021 decreased by RSD 833,0 million or 16.7%, mostly due to due to the reduction of liabilities in foreign currency settlement by RSD 499.125,8 million.

The item provisions at the end of 2021 increased by RSD 1.704,6 million due to increase of other provisions and provisions for court disputes. Changes in the item provisions are explained in more detail in Item 34 of Notes to Financial Statements.

Liabilities arising from foreign credit lines at the end of 2021 amount to RSD 616,0 million and compared to the beginning of the year have been reduced by RSD 361,3 million.

Change in the item deferred tax liabilities is explained in more detail in Items 3 and 37 of Notes to Financial Statements.

6.3. Off-Balance Sheet Items as of 31.12.2021

No.	*DESCRIPTION*	*BALANCE AS OF 31.12.2021.*	*BALANCE AS OF 31.12.2020.*	*INDICES*
1	*2*	*3*	*4*	*5=(3:4)*100*
1	TRANSACTIONS IN THE NAME AND ON ACCOUNT OF THIRD PARTIES	4.047.859	4.097.143	98,8
2	FUTURE COMMITMENTS	62.616.255	42.879.760	146,0
3	RECEIVED SURETIES FOR FUTURE COMMITMENTS	0	0	-
4	DERIVATIVES	0	0	-
5	OTHER OFF-BALANCE SHEET ITEMS	465.420.201	442.328.167	105,2
	TOTAL	**532.084.315**	**489.305.070**	108,7

The total off-balance sheet assets of the Bank, during 2021, increased by RSD 42.779,2 million or 8.7% compared to the end of 2020.

On 31.12.2021 future commitments, including guarantees and other sureties, amount to a total of RSD 62.616,3 million, which compared to the end of the previous year represents an increase of RSD 19.736,5 million or 46.0% mainly due to an increase in irrevocable commitments for undrawn loans and advances.

Transactions in the name and on account of third parties, at the end of 2021 amount to RSD 4.047,9 million and are reduced by RSD 49,3 million, or 1.2% compared to the end of 2020.

Other off-balance sheet items increase by RSD 23.092,0 million, or 5.2% relative to the end of previous year, as a result of changes on other off-balance sheet assets.

7. FINANCIAL INSTRUMENTS RELEVANT TO THE ASSESSMENT OF THE FINANCIAL POSITION

At the end of 2021, the second year of the COVID-19 pandemic, difficult international movement and transport, interrupted global supply chains, rising inflation both domestically and internationally, the following items are of the utmost importance for adequate assessment of the Bank's financial position:

• on assets side:
- ✓ Loans to customers,
- ✓ Securities,
- ✓ Cash and balances with central bank.

• on liabilities side:
- ✓ Customers' deposits,
- ✓ Capital.

7.1. Loans to customers, securities, cash and balances with central bank as of 31.12.2021

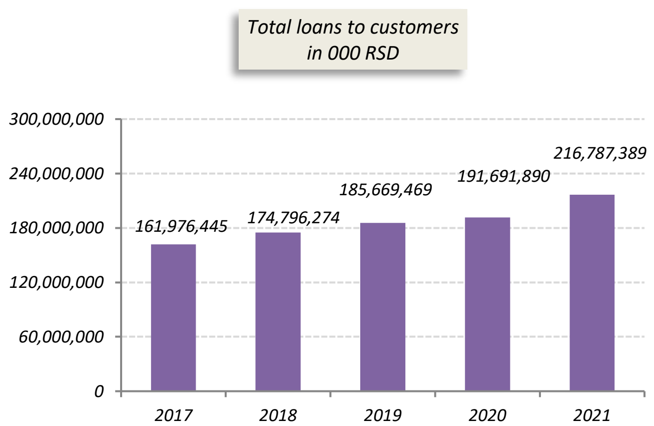
Loans to customers at the end of 2021 amount to RSD 216.787,4 million and account for 44.3% of total balance sheet assets. Loans to customers at the end of 2020 amounted to RSD 191.691,9 million and accounted for 41.7% of total Bank's assets. During 2021 total loans to customers increased by RSD 25.095,5 million.

Loans to corporate customers reached the amount of RSD 89.221,9 million and increased by RSD 10.388,7 million relative to the end of 2020. The growth was achieved despite the efforts of the NBS to postpone or facilitate the payment of clients' obligations to banks through three moratoriums implemented during 2020 and 2021.
Loans to banks and other financial organizations at the end of 2021 reached the amount of RSD 9.278,9 million and increased by RSD 5.006,0 million in comparison to 2020.
Loans to retail customers reached the volume of RSD 118.286,6 million and recorded a growth of RSD 9.700,7 million, or 8.9% during 2021.

No.	DESCRIPTION	BALANCE AS OF 31.12.2021.	BALANCE AS OF 31.12.2020.	INDEX
1	2	3	4	5= (3:4)*100
I	LOANS TO CUSTOMERS (1+ 2.+3)	216.787.389	191.691.890	113,1
1.	Corporate	89.221.890	78.833.152	113,2
2.	Retail	118.286.619	108.585.889	108,9
3.	Banks and financial organizations	9.278.880	4.272.849	217,2

Note: The item loans does not include other investments and receivables.

Especially during the pandemic 2020 and 2021, the Bank has paid great attention to risk management policy, given the fact that loans and other placements make up a large part of total balance sheet assets. A special effort of the Bank's management was to monitor credit risk. During 2021, as in previous years, the Bank's loan portfolio was secured with an appropriate amount of impairment provisions and reserves.



At the end of 2021 the investments in securities amount to RSD 149.588,8 million, which makes for 30.6% of total assets. At the end of 2020 the same item amounted to RSD 153.776,3 million, which is a reduction of investments in securities by RSD 4.187,6 million due to efforts of the management to increase investments in loans. Securities mostly consist of securities of the Republic of Serbia - government bonds in RSD and EUR.

Cash and balances with central bank reached the amount of RSD 82.055,5 million at the end of 2021, which accounts for 16,8% of Bank's assets. Compared to the start of the year cash and balances with central bank increased by RSD 2.010,4 million, or by 2.5%. The most of this item consists of funds allocated with the National Bank of Serbia in form of foreign currency required reserve (47.6%) and funds on drawing account (30.3%). The biggest difference compared to 2020 is the reduction of liquidity surpluses due to the increase of deployment of funds in loans.

Having in mind the structure of assets, it can be stated that credit-sensitive assets, as well as other types of risks, were maintained at an optimal level with a reasonable risk-taking policy. The Bank's management, by adequately assessing credit risk in a significantly more restrictive manner, ensured the protection of the loan portfolio.

7.2. Customers' deposits as of 31.12.2021

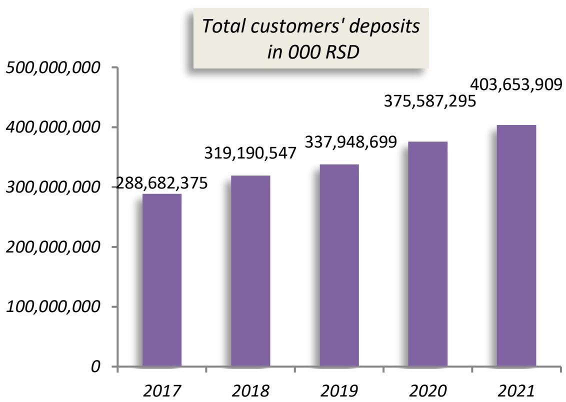
Customers' deposits at the end of 2021 amount to RSD 403.653,9 million, which makes for 82.5% of total balance sheet liabilities. Compared to the end of 2020 the customers' deposits have been increased by RSD 28.066,6 million, or by 7.5%.

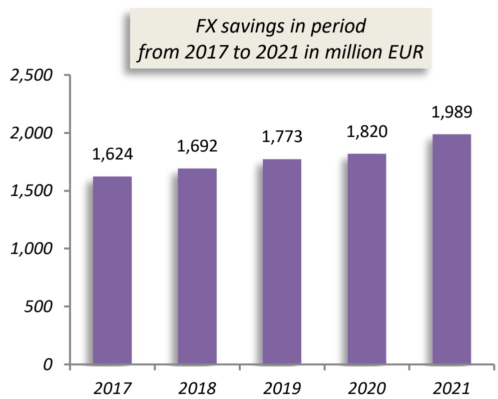
Deposits of corporate customers account for 12.1% of total deposits and have increased by RSD 880,6 million relative to the start of the year.

No.	DESCRIPTION	BALANCE AS OF 31.12.2021.	BALANCE AS OF 31.12.2020.	INDEX
1	2	3	4	5= (3:4)*100
II	CUSTOMERS' DEPOSITS RECEIVED (1.+2.+3.)	403.653.909	375.587.295	107,5
1.	Corporate	48.646.021	47.765.467	101,8
2.	Retail	342.469.159	309.268.562	110,7
3.	Banks and financial organizations	12.538.729	18.553.266	67,6

Note: The item deposits does not include other liabilities and funds received through credit lines

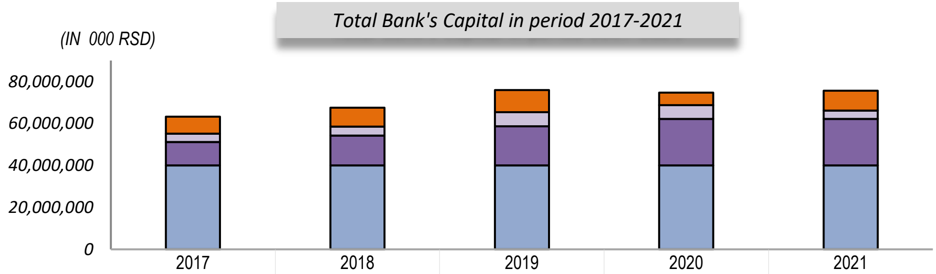
Deposits of banks and other financial organizations account for 3.1% of total deposits and are reduced by RSD 6.014,5 million. Retail deposits, at the end of 2021, increased by RSD 33.200,6 million compared to the end of 2020 and account for 84.8% of total deposits of the Bank. The deposit potential of the Bank consists predominantly of foreign currency deposits of private individuals.





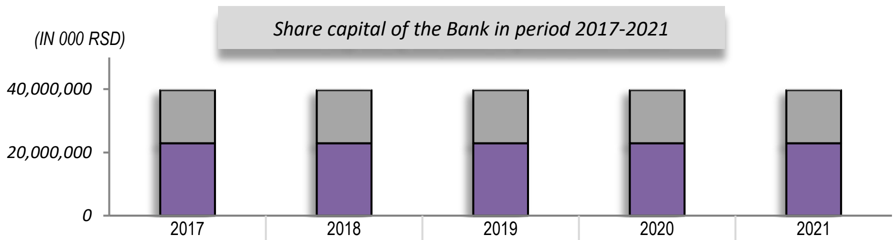
Despite the reduction of debit interest rates of both the Banking sector and the Bank, retail foreign currency savings were preserved and at the end of 2021 amounted to EUR 1.988,7 million. The structure is still dominated by a large number of deposits of a smaller individual amount. The trust of depositors enabled the Bank to maintain one of the leading positions within the Banking sector of the Republic of Serbia in terms of the volume of collected foreign currency savings, image and recognisability. Despite the reduction of interest rates on retail savings compared to previous years, foreign currency deposits of private individuals recorded a growth of 9.3% at the end of 2021 compared to the end of 2020.

7.3. Bank's capital and repurchase of treasury shares



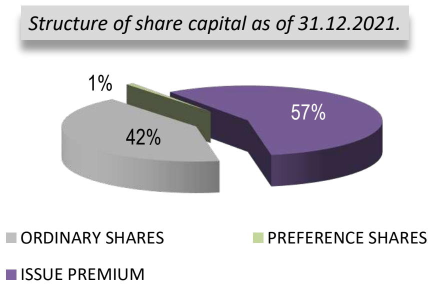
	2017	2018	2019	2020	2021
LOSS	0	0	0	0	0
UNDISTRIBUTED PROFIT	8,137,249	9,047,691	10,425,898	5,893,027	9,573,620
REVALUATION RESERVES	4,026,721	4,254,737	6,826,518	6,585,755	3,887,344
RESERVES FROM PROFIT	11,061,535	14,223,535	18,565,207	22,147,207	22,147,207
SHARE CAPITAL	40,034,550	40,034,550	40,034,550	40,034,550	40,034,550
TOTAL CAPITAL	63.260.055	67.560.513	75.852.173	74.660.539	75.642.722

At the end of 2021, total capital of the Bank, amounts to RSD 75.642,7 million, which accounts for 15.5% of total liabilities of the Bank. Total capital is increased by RSD 982,2 million, or by 1.3% at the end of 2021, relative to 2020. The amount of capital at the end of 2021 is also impacted by distribution of profit from 2019. By the said distribution a part of the profit from 2019 was allocated to dividends for the holders of ordinary and preference shares. In period from 2011 to 2021 the total capital of the Bank was increased 70.8%, or RSD 31.367,2 million. In the same period, the share capital increased by 40.7% or RSD 11.572,0 million. For a long period of time, the Bank allocated a significant part of the realized profit to reserves for estimated losses in order to maintain security of operations and capital adequacy, i.e., to protect share capital from possible losses and to increase capital. From 2017 to 2020, the Bank increased its total reserves by allocating from the realized profit and on the basis of revaluation. At the end of 2021, reserves from profit remained unchanged compared to 2020, while revaluation reserves decreased by RSD 2.698,4 million. The Bank's total capital reserves decreased by RSD 2.698,4 million compared to 2020.



	2017	2018	2019	2020	2021
CONVRTIBLE PREFERRED SHARES	0	0	0	0	0
PREFERENCE SHARES	373,510	373,510	373,510	373,510	373,510
ORDINARY SHARES	16,817,956	16,817,956	16,817,956	16,817,956	16,817,956
ISSUE PREMIUM	22,843,084	22,843,084	22,843,084	22,843,084	22,843,084
TOTAL SHARE CAPITAL	40.034.550	40.034.550	40.034.550	40.034.550	40.034.550

Ordinary shares of the Bank have been traded on the "Standard Listing" since 2010, while preferred shares are traded on the "Open Market" of the Belgrade Stock Exchange. During 2014, convertible preference shares were converted into ordinary shares and since then there have been no changes in the share capital structure. As at 31 December 2021, the Bank has 16.817.956 ordinary shares and 373.510 preference shares with an individual nominal value of RSD 1.000,00.



Nova Ljubljanska banka d.d. (NLB d.d.) Ljubljana, Slovenia on 30.12.2020 completed the process of purchasing Komercijalna banka a.d. Beograd. On that day, the Agreement on the transfer of shares of Komercijalna banka a.d. Beograd between the Republic of Serbia and NLB d.d. Ljubljana, Slovenia was signed. Through the initial purchase process NLB d.d. Ljubljana acquired 83.2306% of ordinary voting shares.

An offer to take over the remaining ordinary and the entire issue of the preferred shares of the target company Komercijalna banka ad Beograd, which lasted from 11.03 to 09.04.2021, NLB d.d. Ljubljana acquired additional 4.76798% of ordinary voting shares and 15,32757% preferred shares. Following the offer to take over the shares of the target company NLB d.d. Ljubljana held 87.99858% of ordinary voting shares and 15.32757% of preferred shares of Komercijalna banka ad Beograd. During 2021 NLB d.d. also acquired additional ordinary shares and hence as of 31.12.2021 it has held 88.2809% of ordinary shares.

Bank's shareholders (with share over 5%) as at December 31, 2021 are as follows:

SHAREHOLDERS	ORDINARY SHARES	% OF STAKE	PREFERRED SHARES	% OF STAKE	TOTAL SHARES	% STAKE IN SHARE CAPITAL
NLB d.d. Ljubljana	14,847,047	88.2809	57,250	15.3276	14,904,297	86.6959
OTHER	1,970,909	11.7190	316,260	84.6724	2,287,169	13.3041
TOTAL	16,817,956	100.00	373,510	100.00	17,191,466	100.00

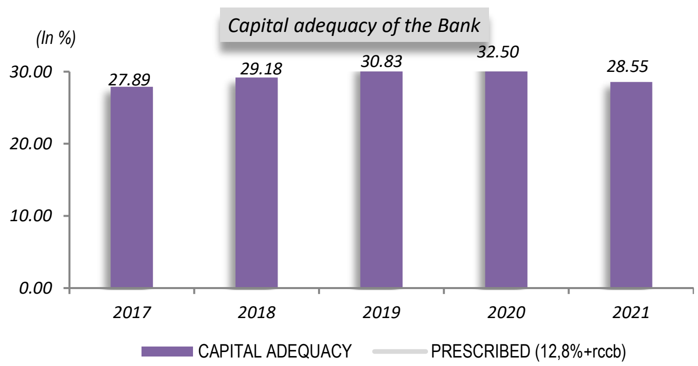
Bank's treasury shares

The Bank does not have its treasury shares as of December 31, 2021, nor did it own them during 2021.

At the time of drafting this Report the legally prescribed activities are underway to complete the process of merging of NLB Banka ad Beograd to Komercijalna banka a.d. Beograd. The extraordinary General Meeting of Bank's Shareholders was held on 23.12.2021, at which one of the items was „Decision on Accepting the Merger of NLB Banka a.d. Beograd to Komercijalna banka a.d. Beograd. Pursuant to the Company Law (Law) dissenting shareholders who did not agree with the mentioned decision had the legal right to ask the Bank to repurchase the shares in question under the conditions and in the manner determined by the provisions of Article 475 of the Law. As a result of the mentioned process and based on the rights of dissenting shareholders, it is expected that the Bank will acquire a certain number of its treasury shares during 2022.

Capital adequacy

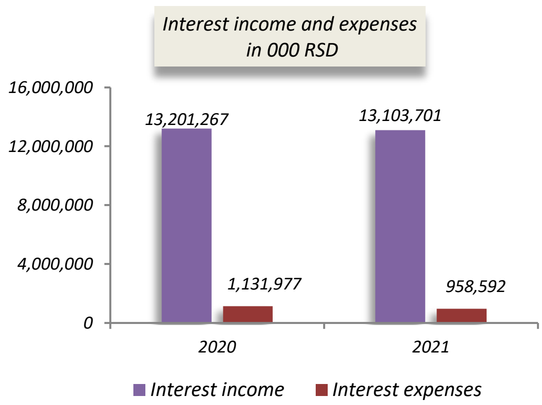
At the end of 2021 the capital adequacy ratio of the Bank, despite still considerable values of provisions, equals 28.55%, which shows that the Bank maintained the adequate capitalization. During 2021, as well, with the still present pandemic COVID-19, difficult business conditions, work of employees from home, the Bank met all business parameters prescribed by the Law on Banks, and met all obligations, which is a reliable indicator of stable and secure operations



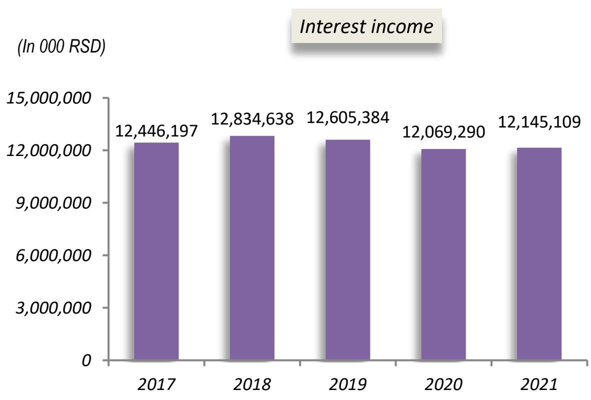
8. P&L FOR PERIOD FROM 01.01. TO 31.12.2021

No.	DESCRIPTION	31.12.2021.	31.12.2020.	INDICES
1	2	3	4	5
	OPERATING INCOME AND EXPENSES (in 000 RSD)			
1.1.	Interest income	13.103.701	13.201.267	99,3
1.2.	Interest expenses	(958.592)	(1.131.977)	84,7
1.	**Interest gain**	**12.145.109**	**12.069.290**	100,6
2.1.	Fee and commission income	7.647.524	6.696.915	114,2
2.2.	Fee and commission expenses	(1.910.160)	(1.821.507)	104,9
2.	**Fee and commission gain**	**5.737.364**	**4.875.408**	117,7
3.	Net gain /loss (-) from change in fair value of FI	4.823	95.629	5,0
4.	Net gain /loss (-) from reclassification of FI	-	-	-
5.	Net gain /loss (-) from derecognition of FIs that are measured at fair value	197.243	157.796	125,0
6.	Net gain /loss (-) from hedging	-	-	-
7.	Net income /expense (-) from exchange differences and the effects of the agreed currency clause	53.070	4.404	1.205,0
8.	Net income / expense (-) from impairment of FS that are not measured at fair value through P&L	15.772	(1.072.032)	-
9.	Net gain/loss (-) from derecognition of FIs that are measured at amortized cost	-	-	-
10.	Net gain/loss (-) from derecognition of investments in associates and joint ventures	563	-	-
11.	Other operating income	211.190	211.389	99,9
12.	**TOTAL NET OPERATING INCOME**	**18.365.134**	**16.341.884**	112,4
13.	Costs of salaries, compensations and other personal expenses	(4.961.166)	(5.819.946)	85,2
14.	Depreciation costs	(912.825)	(938.963)	97,2
15.	Other income	587.010	889.752	66,0
16.	Other expenses	(9.614.769)	(6.674.208)	144,1
17.	**GAIN /LOSS (-) BEFORE TAX (from 1 to 16)**	**3.463.384**	**3.798.519**	91,2
18.	Income tax	-	-	-
19.	Profit from deferred taxes	348.040	120.049	289,9
20.	Loss from deferred taxes	(165.725)	(1.384.134)	12,0
21.	**GAIN /LOSS (-) AFTER TAX (from 17 to 20)**	**3.645.699**	**2.534.434**	143,8
22.	Net profit from discontinued operations	-	-	-
23.	Net loss from discontinued operations	-	-	-
24.	**RESULT OF THE PERIOD GAIN/LOSS (-) (from 21 to 23)**	**3.645.699**	**2.534.434**	143,8

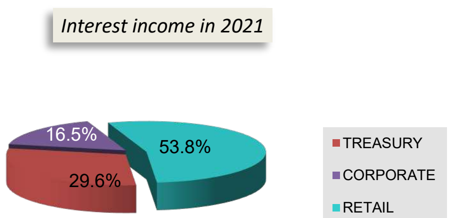
8.1. Interest income and expenses

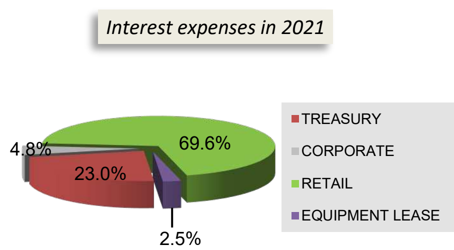


During 2021 the realized interest income amounts to RSD 12.145,1 million and represents a growth of 0.6% compared to the same period 2020. The amount of interest income is impacted by lower lending interest rates on the market, in particular lower realized interest income on securities.

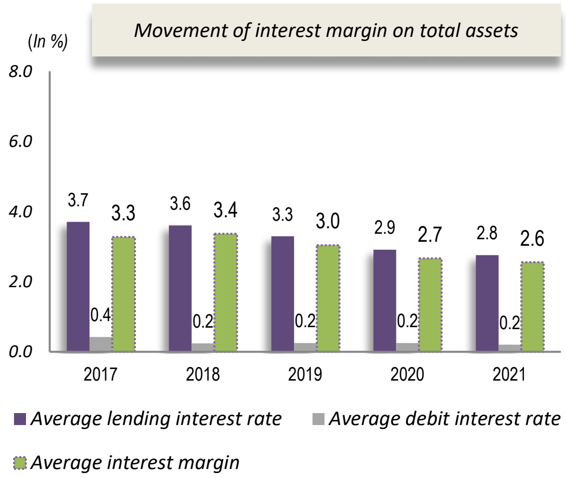


Compared to the same period last year, the realized interest income is lower by RSD 97,6 million, or by 0.7%, while the interest expenses are lower by RSD 173,4 million, or by 15.3%.



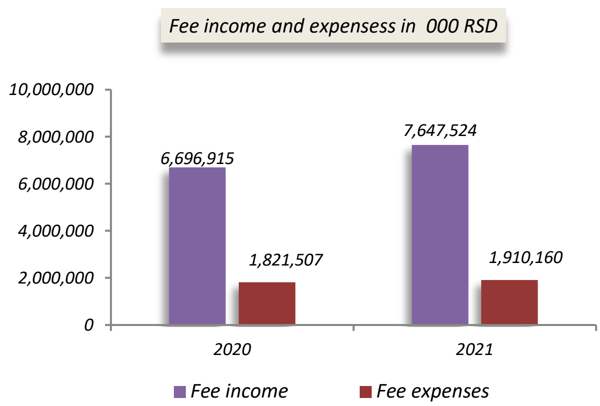


Within interest income, the biggest share is that of interest income from retail operations (RSD 7.052,3 million or 53.8%). Within interest expenses are also dominant interest expenses from retail operations (RSD 667,5 million or 69.6%) which is, for the most part, a result of interest expenses on collected retail FX savings.



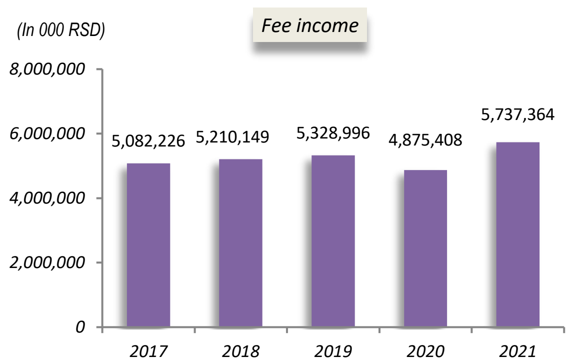
During 2021 a slight decline was recorded of average lending interest rate while the average debit interest rate remained stable and at the level from 2020. Interest margin on total assets has been realized of 2.6%.

8.2. Fee income and expenses

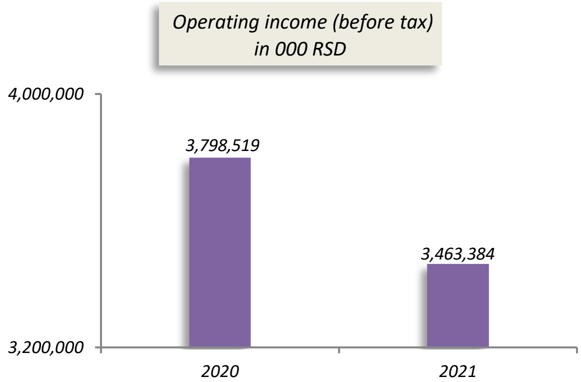


During 2021, compared to the same period last year, the realized fee and commission income for baking services are higher by RSD 950,6 million, or by 14.2%. Concurrently, the fee and commission expenses are higher by RSD 88,7 million, or by 4.9%.

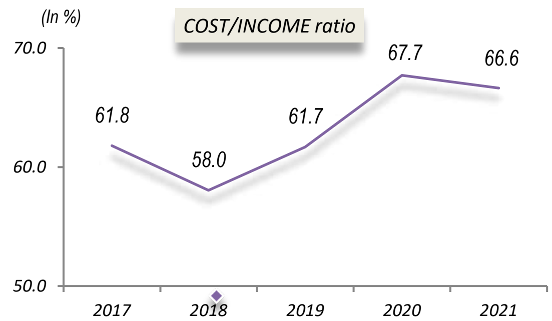
Fee and commission income realized during 2021 amounts to RSD 5.737,4 million and records an increase of 17.7% relative to the same period 2020.

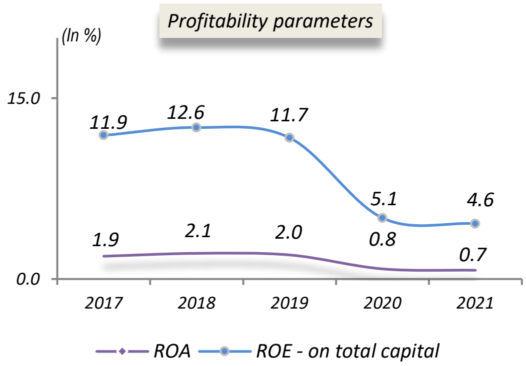


8.3. Operating income (before tax)



Over the period from January 1, to December 31, 2021 the operating income was realized in the amount of RSD 3.463,4 million, which represents a reduction compared to the same period last year.
Cost/Income ratio at the end of 2021 is 66.6% in comparison to 67.7% at the end of 2020, shows a downward tendency. The amount of operating expenses is impacted by the increase of costs of production services and intangible costs. Net interest and fee income during 2021 recorded an increase compared to 2020.

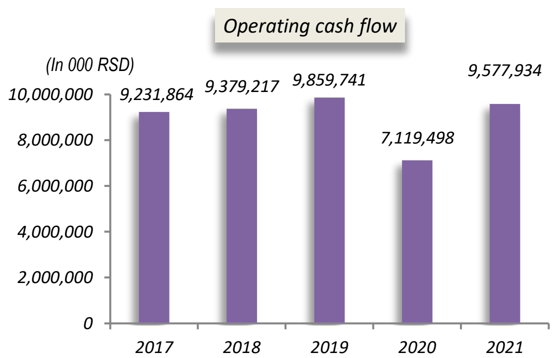




The realized operating profit provided the Bank, at the end of 2021, return on total capital of 4.59%, and/or return on average assets of 0.73%. Due to changed business conditions in 2020 and 2021 lower values of ROA and ROE have been realized than the realized values in 2019, and/or at time before pandemic.

Operating cash flow

Operating cash flow, in period 01.01.-31.12.2021, relative to the same period of 2020, increased by RSD 2.458,4 million, it increased by 34.5%. Despite the fact that business operations in 2021, as well, were conducted in altered conditions, primarily under the influence of pandemic COVID-19, throughout 2021, compared to 2020 a growth was recorded in interest inflow by RSD 2.849,3 million, or a growth of 23.7%. Fee inflow in the same period recorded a growth of RSD 951,3 million, or a growth of 14.0%. On the side of cash outflows from operating activities, payments based on fees were realized in a larger amount by RSD 49,9 million during 2021. Interest outflows in 2021 were realized in a smaller amount by RSD 41,5 million compared to 2020.



9. DEVELOPMENT, FINANCIAL POSITION AND RESULTS OF THE BANK'S OPERATIONS IN 2021

9.1. Introduction

In 2020, the Bank successfully completed the privatization process of the Bank. After the Agreement between the Republic of Serbia and Nova Ljubljanska banka d.d. Ljubljana was signed in February 2020, the process of acquisition of the Bank was successfully completed on December 30, 2020. In 2021, the key objectives of the Bank's management are safe, stable and profitable operations, as well as the continued integration of the Bank into the operations of the NLB Group. An important task of the Bank's management was to manage business risks, especially credit risk, in order to achieve a quality loan portfolio in the given conditions. The policy of the Bank's management towards allocating part of the realized profit to reserves, in previous years, enabled business security by increasing the capital and capital adequacy ratios of the Bank, which proved to be the right policy in the COVID-19 pandemic.

Realized net interest income during 2021 is higher than in 2020, as well as net fee and commission income. The lower amount of interest income is a consequence of the decrease in income from "treasury" operations, i.e., investment in securities, while the amount of interest expenses is influenced by the movement of deposits collected by the Bank in the previous period and reduction of debit interest rates.

Realized net fee and commission income is influenced by higher fee and commission income on the basis of retail banking.

The results of the Bank's operations in 2020 and 2021, as well as the entire sector, were influenced by the adoption of a series of decisions by the National Bank of Serbia and the Government aimed at making it easier for debtors to settle obligations to financial organizations.

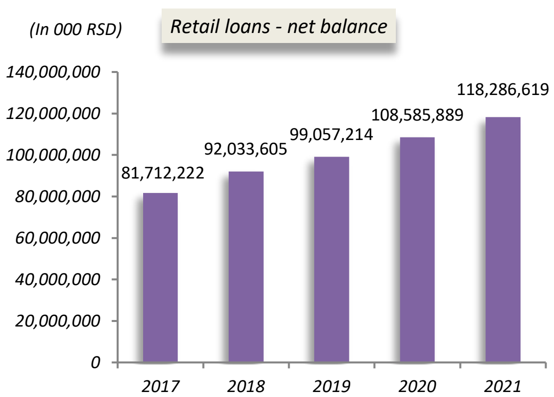
9.2. Retail Banking Operations

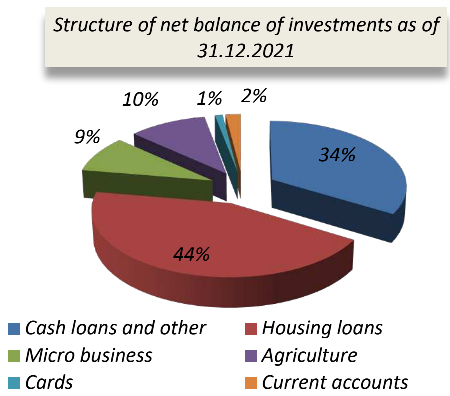
In 2021 the retail banking operations continued the upward trend and realized, by majority of indicators, considerable results. The most important goal of operations was a growth of lending in all segments and creating the basis for even bigger growth in the forthcoming period.

Loans

In all segments (private individuals, agriculture and micro business) the Bank conducted a comprehensive redesign of credit products, and thus significantly raising the attractiveness and competitiveness of its offer. In addition to product changes, technological solutions have been innovated, which has led to faster and easier loan approval. In the segment of private individuals, the possibility of remote signing of contract documents with two-factor authentication (mail address / SMS OTP code) has been introduced for cash loans up to RSD 600.000.

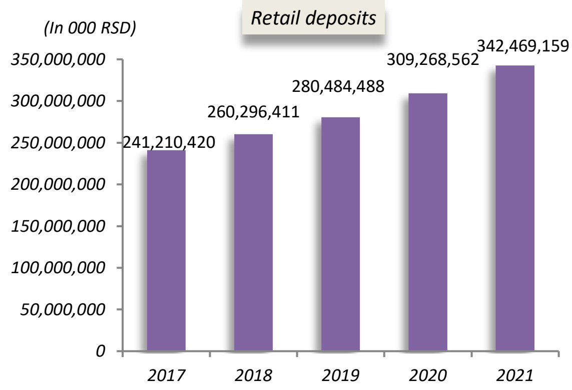
All of the above resulted in a realization that was 31% higher than in 2020. In 2021, retail banking achieved the largest loan realization in the Bank's history.
As a result of the growth in sales, the net balance of retail loans increased by RSD 9.701 million in 2021. In the structure of net balance as of 31.12.2021, the share of housing loans is 44%, and the share of other products is 56%.





Deposits [88]

The Bank is the institution of the greatest trust of clients, so deposits are constantly growing. In 2021, deposits increased by RSD 33.201 million.



Other products

The Bank has a respectable base of 1.4 million customers in the Retail segment. In the most important segment, private individuals with regular salaries and pensions, the Bank has 420.000 clients, which is a quality basis for further dynamic business growth. The number of clients who use the "Set account" as a higher quality product compared to the basic current account is constantly increasing. Out of a total of 353.000 "Set accounts", 45.000 are "Start sets" intended for the youngest clients, which means that the Bank is developing a long-term client base.

In the micro business segment as well, there is an increase in the number of users of "Set of accounts". A total of 20.000 micro clients use the set account, and about 18.000 micro clients regularly use the Bank's electronic services.

The number of payment cards has slightly increased. The Bank's clients have about a million cards, half of which are used regularly.

The Bank enabled the use of the new KomBank Pay service. This innovative digital service, "moves" cards to mobile phones and enables even faster, simpler and more secure contactless payments.

Electronic banking of private individuals

At the end of 2021, the Bank will provide services for private individuals to more than 265.000 clients through electronic channels. The constant growth of users continued in the fourth quarter of 2021, where the "mBank" channel had an increase in users by 33% annually. On the "eBank" channel, the growth in the number of users as of the fourth quarter of 2021 amounted to 12% annually.
The growth in the number of users of electronic channels is a result of intensive activities of the business network to animate clients, given the numerous benefits that "eBank" and "mBank" provide.

The number of transactions has increased significantly on the "mBank" channel, it is higher by 36% compared to 2020. The number of transactions on the "eBank" channel is approximately the same as in 2020.

Business network

The Bank operated in the retail segment in 190 sub-branches, making us one of the market leaders. 281 ATMs and about 13.500 POS terminals are available to customers, making us also one of the leaders in the market. Having in mind the needs of clients, the Bank continued with the activities of improving the user experience by improving the appearance of sub-branches, adjusting working hours and the like.

Profitability
Retail banking in 2021 generated total net interest and fee income in the amount of RSD 10.891 million, which is 9.4% more than in 2020. We especially emphasize the growth of fee income by RSD 865 million, which is 16.6% more than in 2020. Conditions have been created for the realization of even higher net revenues in the future.

[88] The item deposits does not include other liabilities and assets received through credit lines

9.3. New banking technologies - digital banking and payment cards

Market – main tendencies

In line with the development of the regulatory framework, the market is moving in the direction of increasing digitalization of products and services in the field of finance. In addition to services that allow customers to communicate with the Bank through digital channels, in the last few years services have rapidly developed that allow customers to apply and immediately receive basic banking products. With the implementation of instant payments, the country's payment system now operates 24x7, which has contributed to an increase in the number of users on electronic channels, especially mobile banking, and the next "big thing" is video identification where customers will have the opportunity to open account or apply for loan without visiting the Bank.

From the end of 2018, the "Law on Interbank Fees and Special Business Rules for Payment Transactions on the Basis of Payment Cards" is applied, according to which the reduction of interbank fees is prescribed, which in the transitional period (first six months) amounted to a maximum of 0.5% for debit cards and 0.6% for credit cards. The additional reduction of fees, which has been applied since June 18, 2019, has been harmonized with the European level of 0.2% for debit and 0.3% for credit cards. The National Bank of Serbia also directed banks to use the national card scheme and support the domestic brand "Dina" card, pointing to lower costs. The promotion of the national "Dina" card had a positive effect on the ratio of reissued payment cards in favor of the "Dina" card.

The trend of adopting cashless payment methods and digital provision of services continues, as indicated by key market parameters:

- the number of cash payment and disbursement transactions has been declining for several years,
- at the same time, electronically initiated orders are recording increasing annual growth rates followed by increasing turnover, the number of transactions at merchants' internet points of sale is growing, cards are still the dominant payment instrument, but the use of electronic money is on the rise,
- the receiving network is expanding with the increase of internet points of sale, POS terminals and ATM devices,
- the number of active users of internet and mobile banking is on the rise.

9.3.1. Bank's digital banking

The existing "Real Time Decision Management" (RTDM) campaign for private individuals has been adapted for display on the mobile application. From March 2020, all users of the mobile application will be able to "see" "RTDM".

Activation of the "Self Learner" model, which predicts customer behavior based on the history of acceptance / rejection of offers and customer characteristics, and thanks to advanced analytics, was completed in the third quarter of 2020, which is expected to maximize sales of the Bank’s services and products to users of digital channels.

"RTDM" ("Real Time Decision Management") campaign was created to send the best offer to micro legal entities and entrepreneurs through the KOMBANK BIZ WEB application and it was released to the production environment in the second quarter of 2021. Analytical CRM (RTDM) and a campaign for private individuals, were created and released to the production environment in the third quarter of 2021, through the Bank’s sub-branches ("bankaP" application).

The regulatory requirement for the introduction of instant payments at the merchant's point of sale has directed digital development activities towards enabling the acceptance of instant payments from the point of view of the Bank as an acceptor and the Bank as an issuer of payment instruments.

- As an acceptor, the Bank provided an instant payment acceptance service on the infrastructure that relies on the existing system for accepting payment cards, and the option of using an independent infrastructure was introduced, which does not require the merchant to have a POS terminal.
- As an issuer of payment instruments, the Bank provided its clients with a fast and simple service of non-cash execution of payment transactions at the merchant's point of sale via the Bank’s mobile application using the QR code.
- After a successful testing period in the NBS TestLab, as well as on limited number of users in the "pilot production", the NBS gave the Bank permission for the "full production" of instant payment functionality "e-commerce" (e-

commerce).) on the web, as well as instant payments on a mobile device via "deeplink" technology. This functionality will be available to the Bank’s clients at the beginning of the first quarter of 2022.

- The redesign and improvement of the internet and mobile application for private individuals was performed, where the application was optimized in order to improve the user experience.
  - ✓ The number of users of electronic banking for private individuals has increased, as well as outgoing transactions and the number of electronic banking transactions for private individuals.
  - ✓ The number of users of the mobile application for private individuals has also increased, accompanied by an increase in the number of transactions and an increase in turnover.
- The redesign and improvement of the internet and mobile application for legal entities and entrepreneurs KOMBANK BIZ was performed, where the application was optimized in order to improve the user experience (import of orders, group signing of orders, payment by cession and assignment ...).
  - ✓ The number of users of electronic banking for legal entities and entrepreneurs has increased, as well as outgoing transactions and the number of electronic banking transactions for legal entities and entrepreneurs.
  - ✓ The total number of electronic banking users of legal entities increased, as well as the total number of electronic banking transactions of legal entities, followed by the growth of eBank's share in the total number of transactions and the volume of payment transactions of the Bank.
- The digital branch of the Bank "KOMeCENTER" continued to operate successfully, and the number of requests for products is growing compared to the previous year. Of the Bank’s products offered through "KOMeCENTER", the greatest interest of clients was for the allowed overdraft.
- The project of "lowering" the functionality of the digital branch of the Bank "KOMeCENTER" to a mobile application for private individuals was completed in the fourth quarter of 2021. "Full production" is planned for the first quarter of 2022.
- The "remote signature" option has been implemented at the "KOMeCENTER" digital branch, and at the same time the conditions of "online" cash loans have been improved, where the Bank is among the three most favorable on the market in this segment.
- After successfully completing the testing period in the NBS TestLab, as well as on limited number of users in the "pilot production", the NBS gave the Bank permission for the "full production" of the "Transfer" service. This functionality will be available to the Bank’s clients at the beginning of the first quarter of 2022.

9.3.2. Payment card development activities

- KomBank Pay application - digital wallet has been launched.
- Acceptance of UNION pay cards at POS terminals and ATMs of Komercijalna banka has been put into production and put into operation.
- DinaCard prize campaign, planned for the period October 2021 - January 2022. The goal of the campaign is to promote the national brand DinaCard, increase the share of active cards and increase the number of transactions per user.
- New DCC functionality for VISA cards of foreign issuers has been introduced.

9.4. Corporate operations

Market-main tendencies

The business operations of the economy in 2021 were also affected by the COVID-19 virus pandemic. In 2021, the trend of lowering dinar interest rates in the Banking sector continued, despite the fact that the NBS key-policy rate stagnated, while the decline in interest rates on Euro-indexed loans was contributed by a sharp decline in risk premiums, credit rating improvements and easing the ECB's monetary policy.

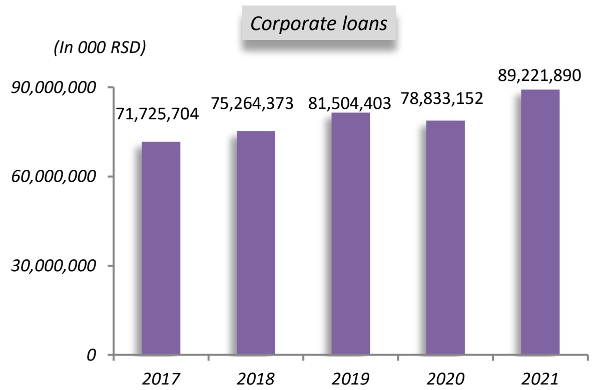
Banks' standards for newly approved corporate loans remained unchanged in 2021, primarily for small and medium-sized enterprises, as well as large enterprises.

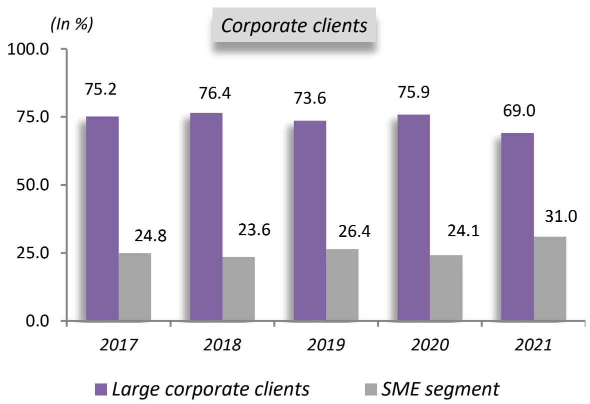
Observed by maturity and currency, a slight easing of standards is present in short-term and long-term corporate dinar lending, as well as corporate short-term lending in foreign currency.

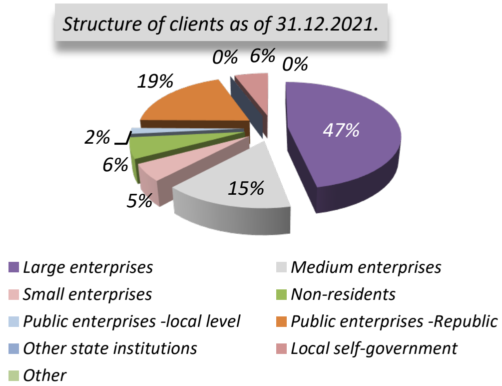
In 2021, the level of corporate loans increased. At the level of the Banking sector, the level of loans is higher than at the end of 2020 (in total companies, public enterprises and local government recorded an increase of 7.5% and/or RSD 111,0 billion). [89]

Loans [90]

Realization of newly approved loans in 2021 is 39% higher than in 2020. Compared to the same period last year, in the segment of large corporate clients and in the SME segment, significantly higher realization was achieved. The balance sheet portfolio increased by 19% compared to the previous year, and the share of large corporate clients in the portfolio structure decreased from 75.9% (at the end of 2020) to 69.0%.







Average weighted interest rates on loans disbursed in the Bank in RSD (2.85%) and in EUR (2.33%) in 2021 are at a lower level compared to disbursed loans in the Bank in 2020 (RSD 3.65%; EUR 2.54%).
Average market interest rates in RSD (3.30%) and in EUR (2.20%) in 2021 are also lower than interest rates in 2020 (RSD 3.80%; EUR 2.50%), i.e., the general trend of lowering interest rates in 2021 is noticeable.

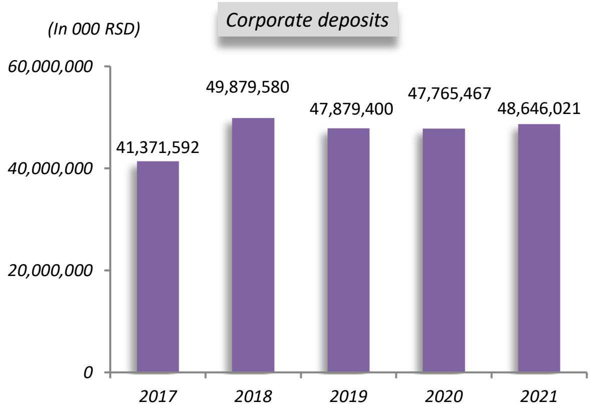
The interest rate on loans indexed in EUR is still lower in relation to loans in dinars, which in the conditions of a stable exchange rate was the determining factor of the market for higher demand for loans with a currency sign in relation to dinar loans. Of the total amount of realized loans in 2021, 15% were realized in dinars, while 85% were realized through loans with a currency sign in EUR. Consequently, in 2021, the share of dinar loans in the total portfolio increased from 7.5% in 2020 to 10.8%.

In terms of competition during 2021, the most active were Banca Intesa a.d. Beograd, UniCredit Banka Srbija a.d. Beograd, Raiffeisen banka a.d. Beograd, OTP banka a.d. Beograd.

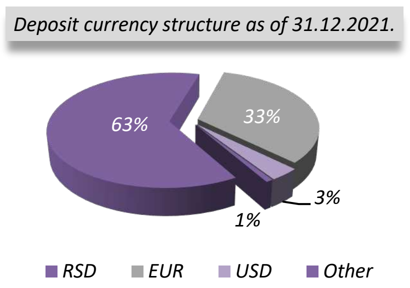
89 NBS, Consolidated Balance Sheet of the Banking Sector, January 2022
90The item granted loans does not include other placements.

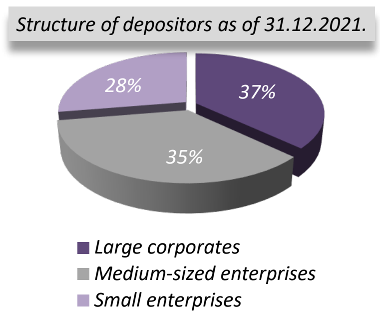
Deposits [91]

High share of transaction deposits of 86% of total corporate deposits resulted in lower interest expenses and has a positive effect on the Bank's business result.

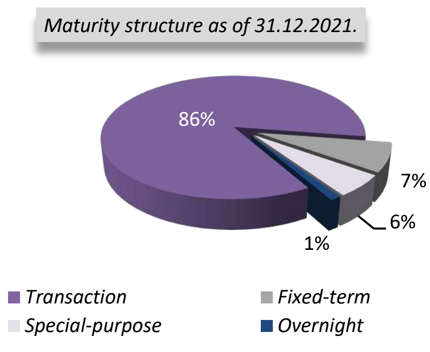


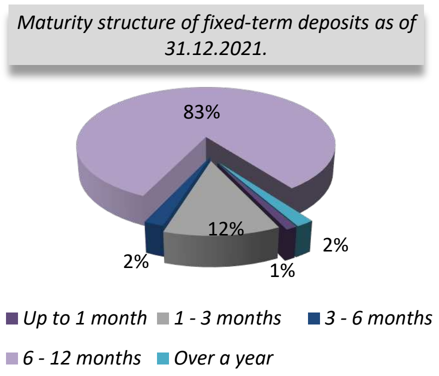
Note: At the end of 2017 RSD 11.2bn worth of deposits from micro clients was transferred from Corporate into Retail, due to which the date differs from the data in the previous annual report; the level of corporate deposits at the end of 2016 was under the influence of a single individual deposit.





Note: Overview of the structure of depositors has been prepared using internal customer segmentation.





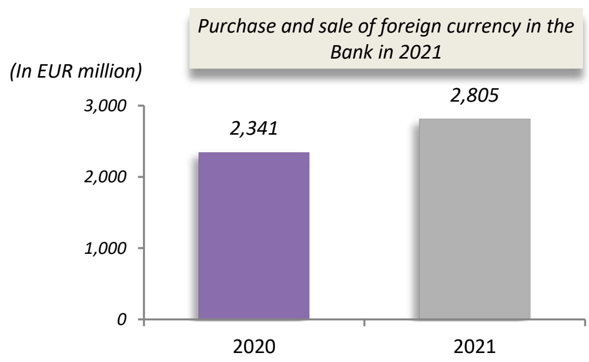
91 The item deposits is not included in other liabilities and funds received through credit lines.

9.5. Asset management

Starting from the Bank's strategic orientation, the activity of the Treasury business function was focused on active management of assets and liquidity while ensuring unhindered operation of the Bank and meeting the customers' business needs.
The environment which the treasury function operated in was characterized by stable key-policy rate during 2021, at 1.00%, a decreasing trend in the return on the government securities in the first 3 quarters, sudden surge in return in the last quarter of 2021 and negative interest rates for EUR and CHF in foreign markets, which, bearing in mind the available assets, posed a very significant challenge to liquidity management.

In 2021 the Bank's liquidity position was stable. Dinar liquidity was invested into short-term lending in interbank market, through the operations with the National Bank of Serbia and into government securities of the Republic of Serbia, while FX liquidity was invested into short-term lending in interbank market and also into bonds of other countries with AAA, AA and A ratings.

In the overall operation with customers, licensed exchange offices and other banks in the interbank FX market, the volume of FX purchase and sale transactions generated was 19.84% higher year-over-year.



Strategy of the Treasury function, in the upcoming period, will be focused on careful employment of liquid assets into risk-free and low-risk financial instruments.

9.6. Operation of the Securities Division

The Securities Division is an organizational unit of the Bank that performs the tasks and transactions with financial instruments on the capital market, the local market – Belgrade Stock Exchange and over-the-counter trading, as well as the on the developed stock exchanges abroad, primarily in the EU and the USA. It comprises the Broker-Dealer Department – Authorized Bank and the Depositary and Custody Operations Department, with the licenses from the Securities Commission for providing investment and additional i.e. custody services and depositary services. In 2021, the Bank realized the following results in its operation with financial instruments:

- the Bank is among the leading members of the Belgrade Stock Exchange in terms of the total volume of transactions; it ranks second in terms of the number of transactions, eighth in terms of the value of transactions on the local stock exchange, around sixth in terms of trading in foreign markets from local brokers;
- continued development of services related to on-line trading in shares on stock exchanges abroad and in Serbia – an improved version of the web application Kombank Trader was put into operation and it allows an access to all significant international stock exchanges, from all types of devices (desktop, laptop, tablet, mobile phone, from different operating systems, Android, IOS…);
- inflow of new customers with the right to foreign exchange bonds of the Republic of Serbia, on the basis of restitution;
- active participation in the integration process within NLB Group and adoption of NLB Group business standards.

10. RISK MANAGEMENT

10.1. Goals and policies for managing financial risks

Risk management is a key element of business management, given that the exposure to risks arises from all business activities, as an inseparable part of banking, which is managed through identification, measurement, assessment, monitoring, control and mitigation i.e. establishment of risk limitation, as well as reporting in accordance with the strategies and policies.

The Bank has established a comprehensive and reliable risk management system that covers: the risk management framework and the statement of assuming the risk, risk management strategy, policy and procedure, methodology for managing individual risks, appropriate organizational structure, effective and efficient process of managing all risks the Bank is exposed to or could be exposed to in its operation, adequate internal control system, appropriate information system, adequate process of internal capital adequacy assessment. Also, the Bank's Recovery Plan was integrated in the risk management system, as a mechanism of early identification of a situation of a difficult financial disturbance where the Bank may undertake measures i.e. implement the defined recovery options with the aim of preventing the early intervention stage where the regulator has an active participation or improvement of the already deteriorated financial condition. The risk management framework is the formalization of the Bank's appetite to materially significant risks, which includes definition of targets, tolerance and limit for all materially significant risks that may be quantified. Risk Management Strategy and the Strategy and Plan for Capital Management the Bank has set the following targets within the risk management system: minimizing the adverse effects on the financial result and the capital with the observance of the defined framework of the acceptable level of risk, managing the necessary level of capital adequacy, development of the Bank's activities in accordance with the business strategy and the possibilities and market development, with the aim of creating competitive advantages, ,diversification of risks the Bank is exposed to, maintaining the share of NPLs in the total loans at the level below the set limit, maintaining concentration risk indicator regarding the exposure to certain types of products below the level specified by the regulations, maintaining the share of loans in dinars with a currency clause in foreign currency and the loans in foreign currencies in the Bank's total loans below the level specified by the regulations, maintaining the ratio of coverage by liquid assets above the level specified by the regulations and the internal limits. The permanently monitors all the announcements and changes in the regulatory framework, analyzes the effect on the level of risks and undertakes measures for timely adjustment of its operation to new regulations.

In the first half of the year the Bank implemented the activities on complying with the new regulations, particularly in the part that relates to the regulatory framework that governs the measures for preserving the stability of the financial system, as well as support to the economy in order to mitigate the consequences of COVID -19 pandemic by the National Bank of Serbia and the Ministry of Finance of the Republic of Serbia (repayment freeze – moratorium, guarantee scheme, etc.) in the environment caused by the COVID – 19 pandemic. Through a clearly defined process of introducing new and significantly amended products, services and activities in relation to the processes and systems, the Bank analyzes their effect on the future risk exposure with the aim of optimizing its income and expenses for the assessed risk, as well as minimizing all the potentially possible adverse effects on the Bank's financial result. A more detailed overview of targets and risk management policies of the Bank is presented in the Notes to Financial Statements.

Policy of protection against exposure to credit risk

With the aim of protection against credit risk the Bank applies credit risk mitigation techniques by obtaining also acceptable security instruments (collaterals), as secondary sources of loan collection. The Bank tries to operate with the clients of good creditworthiness and it assess the creditworthiness at the moment the loan application is filed and through regular monitoring of the borrower, the loan and the collateral, with the aim of undertaking the appropriate activities in the collection process in a timely manner. The types of securities for the receivables depend on the credit risk assessment of the borrower and are determined in each individual case and are obtained upon signing the contract and before disbursing the loan.

The Bank significantly improved the social and environmental risk management system and process in 2021.

With its internal documents, the Bank has regulated the evaluation of credit protection instruments and management of such instruments.

The Bank pays special attention to marketability and adequate valuation of collaterals in relation to which, when valuing the collaterals, it hires licensed valuers in order to reduce the potential risk of unrealistic valuation to the lowest possible level, while real estate, goods, equipment and other movable items that are pledged bust be insured by an insurance company acceptable for the Bank, with the insurance policies assigned in favor of the Bank.
With the aim of protection against the change in the market value of collaterals, the appraised value is adjusted for the set haircut, depending on the type of collateral and the location of the real estate, and these haircuts are regularly revised and reconsidered.

The Bank pays particular attention to monitoring the collaterals and undertakes activities on securing new valuations, but also on acquiring additional collaterals, primarily from the clients with identified problems in operation, but also from the clients where the coverage of exposure by collaterals is reduced due to the decrease in the value of obtained collaterals.

With the aim of adequate risk management, the Bank performs the activities of credit risk analysis when approving lending and by establishing the system for monitoring, prevention and management of non-performing loans, including also adequate identification of potential NPL clients (Watch List), mitigates credit risk with clients of the aforementioned status, as well as by undertaking the measures and actions aimed at protecting the Bank's interest and preventing the adverse effects on the Bank's financial result and equity. The Watch List was significantly improved in the first half of 2021, in accordance with the process of harmonization with the new owner NLB dd Ljubljana. As part of the Watch List the following categories were defined: WL1 (level 1), WL2 and ICL (level 2).

During 2021 the Bank continued improving the risk management system by taking into account the process of harmonization with the new owner NLB dd Ljubljana, the requirements of the external auditor, as well as the effect of COVID – 19 pandemic. The Bank revised the Risk Management Strategy (decreased the highest acceptable level of NPLs, created new and updated the existing targets, tolerance and limits for the most important risk parameters and amended the procedures and methodologies with the aim of bringing them into compliance with the NLB Group requirements.

In the first half of 2021, in the environment of COVID – 19 pandemic, with a slight improvement of the business environment, the Bank continued to maintain the quality of its loan portfolio by performing regular analyses of the effect of the pandemic on the decrease in business activities and a decrease in the financial potential of the clients from the most affected industries and continued to resolve the problems of the customers who had already been recognized as problematic and it also performed the activities on reducing NPLs. In accordance with the Decision of the National Bank of Serbia, due to the effect of the COVID – 19 pandemic, the most affected clients were allowed moratorium 3 (extension of the loan repayment period with a grace period of 6 months) and, in accordance with the Decision of the Government of the Republic of Serbia, liquidity and refinancing loans were approved from the Guarantee Scheme. Also, in accordance with the Decision of the National Bank of Serbia on the accounting write-off of the Bank's balance-sheet assets, the Bank continued to transfer the 100% impaired loans to off-balance-sheet record. The Bank's activities on maintaining the quality of the loan portfolio in the environment caused by COVID – 19 pandemic resulted in the decrease in the NPL level.

In the first half of 2021 also the Decision of the National Bank of Serbia that prescribes a pause in the repayment of the borrower's liabilities (moratorium 3) was applied. A grace period of 6 months was allowed to clients who met the conditions from the NBS Decision (consequence of the effect of COVID – 19) and who requested the moratorium 3 in the environment of potential risks caused by the extraordinary health situation in the country. Also, the Government of the Republic of Serbia passed a decree on extension of the guarantee scheme 1 and the new guarantee scheme 2 with the aim of supporting the financing of corporate clients. The Bank applies IFRS 9 standard and, in accordance with this standard, it calculates the impairment of balance-sheet assets and probable loss from off-balance-sheet items. The Bank applies the "expected loss" concept by factoring in the effect of the expected trend in macroeconomic effects on the future trends in the probability of default on the basis of statistically proven interdependencies. The portfolio is differentiated into three levels that monitor the client's status (level 1 – PL clients without the identified deterioration of credit risks, level 2 – PL clients with identified deterioration of credit risk – measured with a set of defined criteria, level 3 – NPL clients), with defined criteria for the transfer of clients from higher into lower levels. Also, in accordance with the IFRS 9, the Bank calculates the impairment also for the exposure to the Republic of Serbia and the National Bank of Serbia.

The Bank brought itself into compliance also with the amended regulations in the part that relates to the definition of default.

During 2021 the Bank compared all aspects of the credit risk management system and process. The system of triggers for stage 2 and 3, methodology for impairment of financial assets, haircuts for collaterals, inclusion of the forward-looking component in the LGD parameter were improved. A special aspect of credit risk management was the analysis of future trends in risk factors.

10.2. Risk exposure (price, credit, liquidity and cash flow risk) with the strategy for managing risks and assessment of their efficiency

In its operation the Bank is particularly exposed to the following types of risk:
1. credit risk and risks related to it,
2. liquidity risk,
3. market risk,
4. interest risk in the Banking book,
5. operational risk,
6. investment risk,

7. exposure risk,
8. country risk, as well as all other risks that might arise in the Bank's regular operations.

Credit risk is the possibility of occurrence of adverse effects on the Bank's financial result and equity, due to the borrower's failure to meet their liabilities to the Bank.

Credit risk is conditioned on the borrower's creditworthiness, their duly settlement of liabilities to the Bank, as well as the quality of the security instruments. An acceptable level of exposure to the credit risk is in line with the defined Risk Management Framework and the Risk Management Strategy and depends on the structure of the Bank's portfolio, on the basis of which it is enabled to limit the adverse effects on the Bank's financial result and equity, while minimizing the capital requirements for credit risk, counterparty risk, risk of a reduction in the value of purchased receivables, risk of settlement/delivery in relation to free deliveries and with the aim of maintaining capital adequacy at an acceptable level. The Bank manages credit risk on client level, the level of a group of related entities and on the level of the whole loan portfolio. The Bank approves loans to clients (legal entities and private individuals) for which it assesses that they are creditworthy, by performing an analysis i.e. quantitative and/or qualitative measurement and assessment of credit risk and the borrower's financial situation. The process of measuring credit risk is based on measuring the level of difference of an individual loan on the basis of the internal rating system, as well as on the basis of implementation of NBS regulations, which requires classification of each lending on the basis of the specified criteria.

By monitoring and controlling the portfolio in its entirety and per individual segments, the Bank makes a comparison with the previous periods, identifies the trends and the causes of changes in the level of credit risk. Also, it monitors the asset quality indicators (trends in NPL, the level of coverage of NPL by impairments, etc.), as well as the exposure according to regulatory and internally defined limits. The decision on managing the concentration risk in relation to certain types of products introduced also the monitoring and reporting on the degree of loan indebtedness of private individuals (DTI ratio). These regulations are somewhat relaxed with the amendments and supplements passed by the National Bank of Serbia with the aim of bringing them into compliance with the current business circumstances, caused by the COVID – 19 pandemic. The process of monitoring the quality of the loan allows the Bank to estimate the potential losses, as the result of the risk it is exposed to and to undertake appropriate corrective measures. On the other hand, the Bank does not invest in high-risk lending such as investment into potentially profitable projects that carry a high risk, in investment funds of high-risk portfolio, etc.

Liquidity risk is the possibility of occurrence of adverse effects on the Bank's financial result and equity due to the Bank's inability to meet its due liabilities as the result of withdrawal of the existing funding sources and the inability to obtain new funding sources – liquidity risk of the funding sources, as well as hindered conversion of assets into liquid funds, due to disturbances in the market – market liquidity risk.

Liquidity risk is expressed as the Bank's difficulty in settling due receivables in case of insufficient liquidity reserves and the inability to cover unexpected outflow of other liabilities. In its operation the Bank observes the key liquidity principles by realizing a sufficient level of liquid assets to cover the liabilities arising within a short period i.e. observes the solvency principle by establishing an optimum structure of its own and borrowed funding sources and by establishing a sufficient level of liquidity reserves that do not threaten the realization of the planned return on equity.

The liquidity risk is expressed also in the Bank's inability to transform certain parts of assets into liquid assets within a short period. The Bank analyzes the risks of funding sources and the liquidity market risk. The problem of liquidity from the aspect of the funding sources relates to the structure of liabilities i.e. the obligations and is expressed as potentially significant share of unstable sources, short-term sources or their concentration. The liquidity risk of the funding sources is, actually, the risk that the Bank will not be able to meet its obligations due to the withdrawal of the unstable funding sources i.e. the inability to obtain new funding sources. On the other side, the liquidity risk is expressed also as the deficit of the liquidity reserves and hindered or impossible acquisition of liquid assets at acceptable market prices. With the aim of adequately managing the liquidity risk, during 2021 the Bank established the process of internal liquidity adequacy assessment process (ILAAP) which is implemented at least once a year. The Bank has established the internal limit system and the risk appetite framework, in accordance with the Group's standards for the structural liquidity indicators, as well as with the nature of the Bank's operation.

During 2021 the Bank was compliant with the regulatory and internally defined limits, as well as the Risk Management Framework, and the liquidity risk ranged within the controlled limits. The Bank actively undertakes preventive measures with the aim of minimizing the exposure to liquidity risk.

Market risk is the possibility of occurrence of the adverse effects on the Bank's financial result and equity due to the changes in the market variables and covers FX risk for all the business activities it performs and the price risk of the items in the trading book.

The Bank is exposed to ***FX risk*** which manifests as a possibility of occurrence of the adverse effects on the financial result and equity due to the volatility of exchange rates, the share, change in the value of the local currency against foreign currencies or the change in the value of gold and other precious metals. With the aim of minimizing the exposure to FX risk, the Bank diversifies the currency structure of its portfolio and liabilities, harmonizes the open positions for certain currencies, while observing the principles of maturity transformation of assets. During 2021, the Bank was compliant with the regulatory FX risk ratio which is expressed as 20% of the regulatory capital, as well as with the significantly more conservative internally set limits i.e. the defined Risk Management Framework.

Interest risk is the risk of occurrence of adverse effects on the Bank's financial result and equity in relation to the items from the Banking book due to adverse changes in the interest rates. The Bank establishes, in a comprehensive and timely manner, the causes of the current and assesses the factors of the future exposure to interest risk. The exposure to this type of risk depends on the ratio of interest sensitive assets and liabilities. Managing interest risk aims at maintaining the acceptable level of exposure to interest risk from the aspect of effect on the financial result and the economic value of equity, buy pursuing adequate policy of maturity match between the period of reestablishment of interest rates and adjustment of the funding sources according to the level of interest rate and maturity. During 2021 the Bank improved the interest risk management process.

During 2021 the Bank was compliant with eth regulatory and internally set limits, as well as with the Risk Management Framework.

Operational risk is the risk of loss that arises due to the lack or errors in the functioning of internal processes, systems and people or due to external events. Operational risk includes legal risk, but not also strategic and reputational risk. However, due to its importance, the reputational risk is taken into account when managing operational risk. Operational risk is defined as an event that has occurred as the result of inadequate or unsuccessful internal processes, employee actions and systems or systemic and other external events, internal and external fraud, employment practice and occupational safety, client's receivables, distribution of products, fines and penalties due to breaches, damage caused to material property, disturbances in the operation and systemic errors and process management.

Measurement or the assessment of the Bank's operational risk is carried out through quantitative and/or qualitative assessment of the identified operational risk. The Bank measures the exposure to operational risk through the record of events, monitoring the key risk indicators and determining the Bank's operational risk profiles.

The key risk indicators are an early warning for signaling changes in the Bank's risk profile. They relate to certain operational risk and show higher exposure in the occurrence of the operational risk event. Their purpose is to provide assistance in reducing the losses and operational risks through proactive analysis of the risk factors.

The Bank's operational risk profile is the Bank's exposure to operational risk and it serves as the basis for passing additional decisions that would improve the existing operational risk profile and draw it to the final profile. The existing profile of identified operational risks is the result of identification and assessment of operational risks within certain processes by the organizational units, which is performed at least once a year. The existing operational risk profile includes operational risks that the operational risk custodians (persons responsible for monitoring operational risks, as well as other employees) see within their organizational units or outside of them. During 2021, apart from the other assessments of operational risks in the processes, the Bank also assessed its exposure to operational risks in the environment of the Covid – 19 pandemic, as well as in the integration process and identified operational risks. For the identified operational risks appropriate risk mitigation measures were defined.

The Bank takes measures aimed at mitigating operational risks and reacting proactively to potential operational risk events through permanent monitoring of all activities, monitoring key risk indicators that are an early warning for signaling changes in the Bank's risk profile, application of adequate and reliable information system, whose implementation improves the business practice and optimizes the Bank's business processes. Due to the increase in the systemic risk related to the litigation against the Bank, in relation to collected fees for loans disbursement and the insurance premium for NMIC, during 2021 the Bank made timely provisioning for the legal claims against the Bank, and in accordance with the assessment of the future expected loss on those grounds, due to which it recorded and increase in the limits defined internally in the Risk Management Framework.

Investment risk of the Bank is the risk of investing in other legal entities and in fixed assets and investment property. In accordance with the regulations of the National Bank of Serbia, the level of permanent investment is monitored and the Bank's bodies and committees are informed about that. In this manner it is ensured that the Bank's investment in one entity that is not in the financial sector does not exceed 10% of the Bank's equity and that the Bank's investment into entities that are not in the financial sector and in fixed assets and investment property of the Bank does not exceed 60% of the Bank's equity.

Large exposure of the Bank to a single entity or a group of related entities, including the persons related to the Bank is the exposure that amounts to at least 10% of the Bank's equity. During 2021 the Bank was compliant with the regulatory and internally defined exposure limits.

Country risk is the risk relating to the country of origin of the entity the Bank is exposed to or the risk of the possibility of occurrence of adverse effects on the Bank's financial result and equity due to the Bank's inability to collect receivables from the borrower for reasons that are the consequence of political, economic or social circumstances in the borrower's country of origin. The Bank's exposure to the country risk is at an acceptable level.

A detailed presentation and the explanation of the risks the Bank is exposed to in its operation are given in item 4. Risk Management and the Notes to Financial Statements.

10.3.Statutory performance indicators

No.	ITEM	PRESCRIBED	2021	2020	2019	2018	2017
1.	CAPITAL ADEQUACY RATIO (CAPITAL / RISK ASSETS); *REQUIREMENT FOR A COMBINED CAPITAL BUFFER	Min 12.8%+rccb*	28.55%	32.50%	30.83%	29.18%	27.89%
2.	RATIO OF INVESTMENT IN ENTITIES OUTSIDE THE FINANCIAL SECTOR AND INTO FIXED ASSETS	max 60%	17.40%	11.53%	13.05%	13.18%	14.96%
3.	LARGE EXPOSURE RATIO	max 400%	17.14%	2.21%	26.62%	39.77%	34.96%
4.	FX RISK RATIO	max 20%	2.00%	1.95%	1.98%	1.87%	4.40%
5.	LIQUIDITY RATIO (monthly, last day of the month)	min 0.8	3.88	4.06	4.08	3.86	4.30

Note: In accordance with the NBS regulations, the Bank calculates the capital preservation buffer, capital buffer for systemically important banks and a capital buffer for structural systemic risk.

10.4. All important operations with related entities

As of December 31st 2021, the Bank's related entities are:

1. Nova Ljubljanska banka d.d. Ljubljana
2. NLB Banka a.d. Beograd
3. NLB Banka a.d. Banja Luka
4. NLB Banka a.d. Podgorica
5. KomBank Invest a.d. Beograd,
6. Six legal entities and a large number of private individuals, according to the provisions of Article 2 of the Law on Banks, in the part that regulates the notion of “entities related to a bank”.

The total exposure to entities related to the Bank, as of December 31st 2021, was RSD 11,199.3 million, which, compared to regulatory capital [92] of RSD 65,355.9 million was 17.1% (maximum value of total lending to all persons related to the Bank, in accordance with the Law on Banks, is 25% of equity).

The greatest individual exposure to entities related to the Bank (in accordance with the NBS methodology for the presentation of exposure to entities related to the Bank), as of December 31st 2021, is the exposure in the amount of RSD 1,489.5 million or 2.3% of the Bank's regulatory capital.
In accordance with Article 37 of the Law on Banks, entities related to the Bank, the Bank did not grant loans on terms more favorable than the terms for other entities that are not related to the Bank.

92 capital calculated in accordance with the NBS regulations

11. NON-FINANCIAL INFORMATION

11.1. The Bank's business model

Komercijalna banka ad Beograd is a universal commercial bank. In its operation, the Bank is equally focused on the work with retail customers, legal entities and registered farms.

The Bank operates independently, on market principles, with the application of the principles of liquidity, profitability and security, with the observance of the law, other regulations and the general principles of banking operation in achieving its targets in the socially responsible manner, in accordance with the basic values and business ethics.

The Bank's business model is defined as gathering, holding unemployed funds from legal entities and private individuals on defined terms (principle and interest) and investment of the gathered funds to legal entities and private individuals in the form of loans on different, defined terms (principal and interest), investment in securities and other registered activities.

11.2. Investment in environmental protection

Environmental and Social Governance Risk Management Policy

The Bank observes the highest international standards and values in crating financial products and services, develops and implements the activities on environmental protection and protection of human and workers' rights. With the adoption of the Environmental and Social Governance Risk Management Policy the Bank has defined standards for identification, monitoring and managing the environmental and social risks in the process of granting and monitoring loans.

The Environmental and Social Governance Risk Management Policy (ESG) ensures identification and management of risks that relate to environmental protection, issues related to healthcare, security, occupational health and safety and the problems of the community as a whole, in the process of lending activities and monitoring the Bank's loans and investments, in accordance with the law.
The environmental and social risk management system ensures that the Bank's risk profile is in compliance with the Bank's defined risk appetite, as well as risk tolerance.

The Environmental and Social Governance Risk Management Policy (ESG) defines in more detail:

- the manner of organizing the process of managing the environmental and social protection risks and clear lines of responsibility of all the stages of that process;
- the manner of assessing the Bank's risk profile i.e. the methodologies for identification and measurement, as well as the assessment of the risk of environmental and social protection;
- the manner of monitoring and controlling the environmental and social protection risks and establishment of a system of limits towards TAG activities;
- measures to mitigate the environmental and social protection risks and the rules for implementation of those measures;
- principles of operation of the internal control system;
- the manner of deciding and acting in cases of overstepping the established limits to TAG activities.

The key principles of organizing the environmental and social protection risk management system:

- the Bank has established a separate and independent organizational form whose responsibility is risk management, including the management of the environmental and social protection risk;
- the Bank has clearly separated the business activities, decision-making lines and responsibilities of the employees in the organizational units in charge of assuming the environmental and social risks (Front Office), from the environmental and social risk protection management (Middle Office) and support to the process of managing the environmental and social protection risk (Back Office);
- the Bank has established an organizational structure with the aim of controlling the risk using "four-eye principle";
- the Bank has established a special organizational unit whose responsibility is the independent control of the environmental and social risk protection system;
- the Bank has established an adequate information system that involves full familiarization of the persons involved in the environmental and social risk management system, with the implementation of the appropriate IT support and with the identification of the frequency of reporting to the Bank's management.

The aim of the environmental and social risk management system is to introduce this system in the lending activity process and the loan administration process and, in doing so, increase the possibility for acceptable and sustainable economic development from the viewpoint of environmental protection and minimize the possibility of occurrence of environmentally and socially adverse effects.
The Bank has defined also the process for resolving and answering complaints regarding the direct or indirect effect of the Bank's business activities on the natural and social environment.

The Bank requires from the clients to operate in accordance with the applicable regulations of importance for the environmental protection, the protection of health and safety, EU standards and other standards of good international practice, were applicable. With the aim of applying the standards consistently, the Bank applies a list of industries, projects and activities excluded from financing or it operates in accordance with the defined limits to certain industries. With the Environmental and Social Governance Risk Management Policy the Bank defined the manner and conditions for financing highly controlled entities that are involved in the activity of production of and trade in armaments and military equipment or goods of double purpose, production of and trade in alcoholic beverages (except for beer and wine).

Approaches to managing the environmental and social risks cover two management levels: on the level of an individual loan and on the level of the whole portfolio. For each business activity of a client, the Bank defines the level of risk or risk category, from the aspect of its effect on the natural and social environment.

In the process of granting the loan, on accordance with the laws of importance for environmental protection, the Bank categorizes the requests of the clients for approval of loans from the aspect of their effect on natural and social environment, using the List for Classification of the Environmental and Social Risk. The Bank applies a list of industries, projects i.e. activities that are excluded from the Bank's financing.

The Bank monitors the structure of portfolio i.e. the share of the risk categories from the aspect of their effect on natural and social environment. The Credit Committee, Executive Board, Audit Committee and ALCO are given reports on a monthly basis, while the Board of Directors is informed on a quarterly basis on the exposure to the environmental and social risk. Also, the Bank continuously monitors the extraordinary events at the clients where such events may have adverse effect on the environment, health and safety or the community as a whole, and regularly informs the Bank's management bodies about that.

Environmental protection

Komercijalna banka particularly cares for the protection of the natural environment and is committed to responsible operation that involves striving towards minimizing waste, optimizing the consumption of resources with the aim of reducing the environmental effect to the lowest possible level, as well as the appropriate management of potential environmental risks when lending. The measures that are taken in order to reduce the adverse effect on the environment are:

Printing/recycling paper and the environmental effect
Reducing printing is a constant and long-term process in Komercijalna banka that was initiated with the introduction of DMS as early as in 2012. During the past several years the Bank has introduced electronic post office where the total incoming post is scanned and sent, in digital form, to the organizational units in the Bank. Lately, the documents have been signed with a certified electronic signature and the Bank constantly works on digitizing its business processes, which results in constant reduction of paper consumption (in the period 2019-2020 by 20%, and in the period 2020-2021 by additional 19%). One of the targets of the project of relocating the Bank's headquarters is the introduction of paperless manner of operation. After selecting the archives whose storage deadline has expired, it is separated to be destroyed and recycled in accordance with the strictest standards and procedures.

Waste recycling
Waste management means sorting waste into commercial waste and electric and electronic equipment waste. Disposal of electric and electronic waste is done after the completion of the annual inventory of fixed assets by handing this waste over to a company certified for managing this type of waste which, upon completed transport, submits to the Bank a verified certificate that the waste has been received.

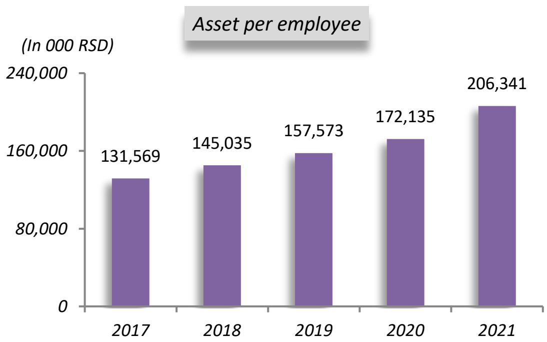
Use of light
With its daily activities, Komercijalna banka contributes to savings in electricity by keeping lights off in premises that are not used and that light is turned on only when needed. The Bank has also started installing LED bulbs in its premises. With the relocation of het Bank's headquarters, the Bank plans to implement the technological solutions that will make the headquarters a smart building with the implemented BMS (building management system) and solar panels that will additionally contribute to lower energy consumption.

Reduction in CO2 emission
Having recognized the importance and the adverse trend of increasing CO2 emission on a global level, Komercijalna banka has taken a whole set of measures aimed at limiting its own effect on CO2 emission. Starting from 2022 Komercijalna banka has ensured that all consumed electricity comes exclusively from renewable energy sources. In this manner, the indirect incentive for the greenhouse gases that are the result of coal burning has been avoided. Also, activities have been initiated on calculating the total emission of these gases due to the regular activities of Komercijalna banka and the results of these activities will be used in order to establish the strategies focused on further decrease in the emission of all harmful gases.

Environmental protection system
Komercijalna banka works actively on establishing the Environmental and Social Management System (ESMS) which will ensure daily analysis, limitation and management of all potential social or environmental risks, which might arise from lending to certain industries or projects. The Environmental and Social Management System will function in accordance with the principles and rules adopted by the European Bank for Reconstruction and Development (EBRD), Multilateral Investment Guarantee Agency (MIGA) and the legal frame of the republic of Serbia, which will ensure the highest standards when managing social and environmental risks.

11.3. Social and HR issues

HR management mission in Komercijalna banka is the development and maintenance of a high level of expertise and motivation of the employees, with the aim of achieving the Bank's business plans. With continuous optimization of the number and structure of employees, over the past years, the Bank's efficiency has also grown, measured as asset per employee.



The development approach is primarily based on identification of the development needs of employees, defining and adjusting the contents of the training, creating and executing internal training, organization of internal and external training, measuring and improving the quality of training and the process of training and employee development.

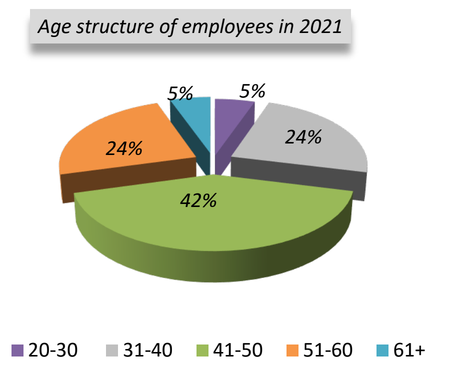
During 2021 the Human Resources Division participated in organizing employee training, with 99% of employees joining the training online. With the outbreak of the COVID – 19 epidemic in the Republic of Serbia, with the aim of increasing health safety, the employees were mostly sent to training sessions that did not require physical presence.

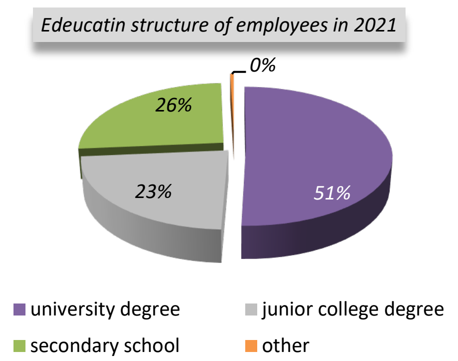
According to the criteria of importance of the topic and the comprehensiveness of the training in terms of the number of trainees, the most important external professional training sessions in 2021 included: Obligatory continuous education of the authorized bancassurance agents, Sale of the Fund's investment units, Training for acquiring a license of the authorized insurance agent, Training in cash flow and the National Bank of Serbia and Electronic invoicing. According to the criteria of importance of the topic and comprehensiveness of training in terms of the number of trainees, executed by the employees from the Bank's organizational units in cooperation with the Human Resources Division, the following training sessions were organized in 2021: Personal data protection law, Code of conduct, Conflict of interest, Prevention of fraudulent activities, cyber crime and social engineering, Anti-money laundering and terrorism financing, etc.

Out of the total number of trainees, women account for 72.6%, while men account for 27.4% of the trainees.
Out of the total number of employees as of December 31st 2021, women account for 72.8%, while men account for 27.2%.

As of 2008 the Bank performs an annual evaluation of the work of employees on the basis of the set annual targets, monitoring the achievement of those targets, as well as the skills the employee has shown when achieving the targets. The annual evaluation of the work of employees is also the basis for the bonus, career planning and the planning of the budget and employee training. In 2021 the process of setting targets, monitoring the results and awarding bonus to employees was compliant with the standards on the level of the Group.

The principles of employee bonus are clearly defined in the Remuneration Policy for the employees on special tasks and with the Instruction – monitoring, evaluating and rewarding the work success of the employees of Komercijalna banka Beograd. The aim of these documents is not only to adequately award the employees, but to motivate them to achieve better work results.





The Collective Agreement of Komercijalna banka ad Beograd, in accordance with the Labor Law, ratified international conventions and other regulations, regulate the rights, obligations and responsibilities of the Bank's employees, the mutual relations between the Bank and the Union and other issues of importance for the employees and the signatories of the Collective Agreement of Komercijalna banka ad Beograd.

The key items of the Bank's Collective Agreement are:

- onboarding,
- amendments to the employment contract,
- professional training and development,
- working hours,
- holidays and leaves,
- occupational health and safety,
- salaries, allowances and other benefits,
- damages,
- termination of employment
- conditions for the work of the Union.

The Bank's employees have the freedom to be unionized. Since 2010 the Bank has had the Independent Union of Komercijalna banka ad Beograd. The union is independent in its operation and provides adequate support to all the employees, not just its members, so that the working conditions of all the employees are at an adequate level.

The role and activities of the Bank's Union are:

- participation in negotiations, consulting, informing and expressing views on the important issues from the labor-legal relations of the employees,
- mandatory membership of the Bank's bodies and commissions (Occupational health and Safety Committee, Damages Commission, persons providing support, initiation of the process and mediation in the process of protection against mistreatment at work…),
- continuous action with the proposals to the Bank regarding the increase in the price of labor,

- participation of the Union's representatives at the sessions of the Bank's bodies, where the union's proposals are considered, as well as opinions and requests,
- in accordance with its legal authorization, the Union has the freedom to publicly express its opinions and to address government and other bodies if they are not satisfied with the Bank's actions regarding certain issues.

The average salary in the Bank is above the national average of the month it is paid for.

Men and women are equal in the Bank regarding the amount of salary they receive for the job that requires the same qualification and of the same complexity i.e. they receive the same salary for the same type of work they perform.

The Bank's employees are allowed to report the cases of mobbing at work. During 2021 there were no reported cases of mobbing at work.

In accordance with the law and the secondary legislation:

- when starting employment in the Bank the employee is given the Notification of prohibition of mistreatment at work, the employee's rights, obligations and responsibilities (this Notification has been signed by all the employees in the Bank within 30 days from the day when the Law on Prevention of Mistreatment at Work started applying),
- a person for support has been appointed,
- persons have been appointed who may, apart for the employee who believes they are exposed to mistreatment, initiated the process for protection against mistreatment,
- a person who performs the process in the Bank has been appointed,
- persons who can be mediators in the process in the Bank have been appointed.

In order for the employees to be capable of recognizing the causes, forms and consequences of mistreatment, the Bank's intranet presentation the Portal contains the presentation with the definition of mistreatment, what behaviors should be refrained from, what is not considered mobbing, what the rights, obligation and responsibilities of the Bank and the employees are, the steps prior to initiating the process, the manner of initiating the process…).

With the aim of fulfilling its obligations defined in the Law on Professional Rehabilitation and Employment of Disabled Persons, Komercijalna banka ad Beograd:

- employees a certain number of disabled persons and
- makes a monthly payment of a certain amount for each unemployed disabled person into the appropriate budget fund as the Bank's participation in financing the salaries of the disabled persons at the company for professional rehabilitation and employment of disabled persons or to a welfare company and organization.

With the aim of occupational health and safety of the Bank's employees, from the start of the COVID – 19 pandemic, the Bank has taken a wide range of measures, some of which are:

- the employees are allowed to work from home in cases where it is possible to organize such work;
- disinfectants and protective masks were provided to the employees who continued to work on the Bank's premises;
- in accordance with the provisions of the Labor Law and the Bank's Collective Agreement, a temporary period off work was allowed to the employees with chronic diseases, at the employee's request). During the time off work the employees are entitled to the salary allowance in the amount of 80% of the salary they would otherwise have received;
- in accordance with the recommendations from the conclusion of the Government of the Republic of Serbia, the employees are paid salary allowance in the amount of 100% of the basis for the salary allowance in case of their temporary leave from work due to confirmed contagious disease COVID – 19. All the Bank's employees are entitled to this, regardless of the manner in which the employee was infected with COVID – 19, on condition that, before going on a temporary leave due to the diagnosed COVID – 19 disease, the employees had been vaccinated, as well as the employees who, due to health issues, cannot be vaccinated;
- support was given to the employees who expressed an interest in vaccination;
- employees who had fallen ill with COVID – 19 used the right to a sick leave.

11.4.Respect for human rights

The Bank respects all human rights guaranteed by the Constitution of the Republic of Serbia. In its operations, the Bank does not use or abuse children or minors.
Employed women in the Bank are allowed to use the right to maternity leave, childcare leave and special childcare leave, in accordance with the Labor Law and the Collective Agreement.

Komercijalna Banka respects the protection of personal data prescribed by the Law on Personal Data Protection. The Bank also adopted an internal act, the Rulebook on Personal Data Protection (Pr-03-02-BK).

The Bank respects the privacy of employees in accordance with the regulations on personal data protection.

When establishing an employment relationship, the employee fills in and signs the Bank's form:

- "Notice on the processing of personal data of employees" by which the Bank provides information on how to collect personal data, who has access to personal data, the rights of employees, the purpose and legal basis of data processing, categories of data, manner of processing personal data, security of personal data and the period of storage of personal data.

The Bank is making efforts to provide employees with safety at work, in which direction a number of acts and procedures have been adopted.

The Bank is obliged to, in accordance with the law and the Collective Agreement of the Bank:

- ensure the work of the employee at the workplace and in the work environment in which safety and health measures at work have been implemented,
- provide preventive measures to protect the lives and health of employees as well as the necessary financial resources for their implementation,
- trains employees for safe and healthy work,
- adopt appropriate instructions for safe and healthy work and to acquaint the employee with it when establishing an employment relationship, i.e. transfer to other jobs and in other cases determined by law,
- provide employees with the use of means and equipment for personal protection at work, as well as to control their use in accordance with the purpose,
- prominently warn warnings and / or labels for the safety and / or health of employees,
- in a prominent place, highlight the notice on the results of the assessment of risks in the workplace, which relate to employed women during pregnancy and employees with reduced working capacity, as well as information on measures to eliminate these risks.

In accordance with the provisions of the Collective Agreement, the Bank collectively insures all employees in the event of serious illness and surgical interventions and in the event of death due to accident and disability (24/7/365).

The employee is obliged to comply with the regulations on safety and protection of life and health at work, and non-compliance with these regulations and failure to inform the Bank of any potential danger that could affect the safety and health at work of employees or other employees is a violation of work discipline according to provisions of the Collective Agreement of Komercijalna banka ad Belgrade.

The Bank has a Committee for Safety and Health at Work which has competencies regulated by law and the Collective Agreement of Komercijalna banka ad Belgrade.

The Bank is obliged to provide the Occupational Safety and Health Committee with:

- insight into all acts related to safety and health at work, and
- to participate in the consideration of all issues related to the implementation of safety and health at work.

The Bank is obliged to inform the Occupational Safety and Health Committee about all data related to occupational safety and health.

Committees for safety and health at work and the Trade Union are obliged to cooperate with each other on issues of safety and health at work so as to ensure the uninterrupted use of services; the Bank invests significant efforts in the physical and technical provision of all working premises, as well as all branches.

11.5.Fight against corruption and bribery

The Bank has implemented the document Policy for Conflict of Interest Management and Prevention of Corruption of Komercijalna Banka AD Belgrade - NLB Group (hereinafter: the Policy), which regulates the issue of the fight against corruption and bribery. [93]

In applying the Policy, the Bank adheres to:

- applicable legal regulations;
- Business Compliance Standards and Integrity Strengthening of the NLB Group and
- NLB Group Code of Conduct.

In accordance with the Policy:

- conflict of interest means a conflict between the private interests of an individual and persons related to him (including members of their immediate family) and the interests of NLB dd or members of the NLB Group, which the individual is obliged to protect, which could have negative consequences for business activities. decision-making, performance of work tasks and fulfillment of obligations
- corruption means any abuse of position for private purposes. This includes obtaining financial and non-financial benefits for oneself or others. Examples of corruption are blackmail, bribery, fraud, nepotism, payment of benefits.
- bribery means seeking or accepting, for oneself or for someone else, an illegal reward, gift or any other benefit or promise or offer of such benefit that would, in order to acquire or retain a transaction or other illegal benefit, disregard the interests of an NLB Group member or other individual or harmed them. Bribery also means promising, offering or giving an illicit reward, gift or any other benefit to a person or someone else in order to give oneself or someone an unjustified advantage in obtaining or retaining a transaction or other illegal benefit, also in exchange for obtaining or retaining a transaction or other benefits.

Prohibited actions related to corruption

In the NLB Group, any form of corruption is strictly prohibited. The NLB Group prohibits the use of any resources of any member of the NLB Group for any illegal purposes or purposes that are not in accordance with the anti-corruption rules set out in the Policy. Employees are obliged to reject any corrupt behavior and immediately report it to the organizational unit responsible for compliance.

Within the fight against corruption, the Bank has developed procedures in order to combat illegal and undesirable activities and actions, especially in terms of:

- illegal acceptance and unauthorized giving of gifts (bribery) - it is strictly forbidden to illegally give or accept gifts to anyone / anyone, whether it is a business partner, supplier or public servant, in order to get a new job, keep an existing job or give preference to someone interests in the wrong way;
- payment of benefits, in the sense that a (small) amount of money is offered or promised to public officials or government representatives, in order to provide or expedite routine or necessary activities that are part of normal (official) procedures - this activity is prohibited so that benefits are not paid. we may neither perform nor receive;
- nepotism - forbidden activity;
- lobbying and political contributions - NLB Group members will not pay any political contributions - neither direct nor indirect;
- sponsorships and donations - approval of donations and sponsorships in a non-transparent manner for for-profit organizations must be avoided; associations or organizations or persons associated with the NLB Group, or without respecting the rules established for the approval of donations and sponsorships;
- standards for suppliers and / or external service providers - suppliers and external service providers must be informed in advance of compliance and integrity requirements, obtain links to access the published NLB Group Code of Conduct (for public use) while contracts with the Bank must contain standards in areas of compliance and prevention of corruption, as well as appropriate remedies (termination of contract due to non-compliance with NLB Group standards);
- use of intermediaries - intermediaries, agents, advisors, real estate agents, representatives and other persons acting in the name and on behalf of the Bank or other members of the NLB Group, must be notified in advance of compliance and integrity requirements, obtain links to access the published Code the conduct of the NLB Group (for public use) while contracts with the Bank must contain standards in the field of compliance and prevention of corruption, as well as appropriate remedies for termination of contracts due to non-compliance with NLB Group standards;
- employment or commissioning of services from former civil servants, state employees or their relatives - civil servants and officials, members of their immediate family and other persons closely related to them (e.g. friends, other close acquaintances) enjoy the same treatment as other (potential) employees or business partners, based on their

93 Incitement is also considered corruption - if someone promises or even rewards another person in exchange for an action that has signs of corruption. In that case, both the person who was given the incentive and the person who essentially performs such an act are involved in the corrupt act.

experience, skills and competences, and may never be given priority because of these links in recruitment procedures or processes for ordering services or purchasing goods;

- contacts with senior government officials - members of the governing bodies of NLB Group members who have contacts with the government or state representatives or representatives of diplomatic missions or international organizations must, in addition to respecting the rules of accepting and giving gifts, protect the integrity and reputation of NLB Group in these contacts they achieve the basic goal of the Policy, i.e. ensure business transparency; and
- contacts with other persons - NLB Group employees contacted by a representative or agent of a supplier, external service provider, client or third party in an attempt to improperly influence the business decisions of NLB Group members in an inappropriate or illegal manner, are obliged to immediately indicate organizational unit responsible for compliance.

Other illegal or prohibited actions in the performance of business activities of the Bank and the Group are described in the mentioned document - the Policy, and the Bank continuously undertakes activities in order to raise awareness in the area regulated by the Policy.

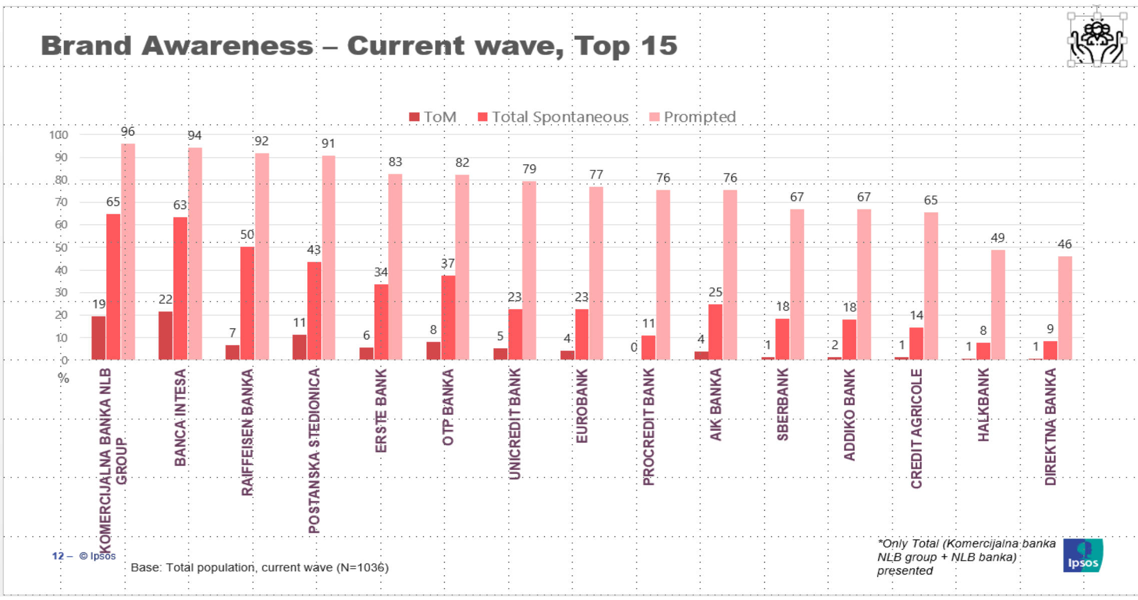
11.6. Research and development activities

During 2021, Komercijalna Banka closely and promptly monitored the developments in the financial market and successfully adapted to the conditions and changes in the financial market, in order to maintain its enviable position, as shown by the conducted research.

The market position of the Bank as a brand, its products and services were checked during 2021, through the Banking Omnibus, conducted by the research agency "IPSOS", specializing in this type of research. Research shows that the Bank has for a long time held one of the leading positions in the eyes of the public, measured by the criteria of brand recognition, quality and satisfaction with products and services used by customers. All research results are posted on the Bank's internal portal, and the target groups are introduced to them, in order to further strengthen the Komercijalna Banka brand.

The report of the last banking Omnibus (from November 2021) shows that, in the opinion of the respondents, Komercijalna banka is ranked at the very top in terms of brand recognition among the top 15 banks in Serbia.

Brand recognition of banks in Serbia (Banking Omnibus, November 2021)



Socially responsible operations

A special contribution to preserving and increasing the value of corporate image was made by activities in the field of corporate social responsibility (CSR), which the Bank carefully selected and supported and in which it actively cooperated with its partners. The successful action for equipping hospitals and maternity hospitals "Together for babies" continued. "

The humanitarian action from March 4 for GAK Narodni Front was the first public presentation of the President of the Executive Board Vlastimir Vuković. On that occasion, Mr. On behalf of the Bank, Vuković donated an ultrasound device to this well-known and reputable health institution.

Regular activities in the field of social responsibility have been hampered by the situation in the country caused by the corona virus pandemic. This year, the Bank responded to this challenge with procedures that enabled business in this situation, as well as by directing funds to extraordinary procurement and donations of medical materials and equipment for hospitals.
All implemented activities of Komercijalna banka ad Belgrade in this area are accompanied by appropriate PR support, without which modern market operations cannot be imagined, and which proved to be especially necessary in the extraordinary circumstances in which we found ourselves in 2021. The Bank communicated with its "stakeholders" in a quality, clear and targeted manner, in order to inform them in a timely manner about all the changes that accompanied the business, as well as the security procedures it implemented. Thus, mutual understanding was achieved and trust in the Bank was maintained, which contributes to the improvement of the acquired image and reputation.

Marketing activities of the Bank

Marketing activities in 2021 continued with the promotion of products and services, both existing and new, with constant reminding and refreshing the brand.
The previous year, 2021, was marked by campaigns related to the Bank's existing products and services, such as campaigns for cash loans and refinancing loans, agricultural loans, housing loans, payment cards, etc. In mid-March, we offered our clients a special offer of agrarian loans for working capital through a marketing and PR campaign.
At the end of the same month, a big campaign started through almost all electronic media, the Welcome Package.
We had particularly intensive activities in the Marketing Sector in May, when the public was informed about the start of the Organic Competition, as well as the campaign for the Entrepreneurship Support Framework.
This campaign also went through marketing channels, as well as through the media in numerous interviews given by the President of the Executive Board Vlastimir Vuković.
His great interview in "Nedeljnik" received special attention, where he answered a large number of questions from Mr. Vuković reminded of all the campaigns that Komercijalna and NLB Bank had started to conduct together until then, and especially about the single fee for payment operations within the NLB Group.
Let us remind you, in the same month, the receipts for subsidized agrarian loans started, which was especially sent through social networks.
Although the number of fairs and conferences was significantly reduced in the conditions of the global pandemic last year, the Kopaonik Business Forum, which was held at the end of May in Belgrade, was successfully used for the public appearance of the leaders of NLB Group and Komercijalna Banka.
Interviews Mr. Blaž Brodnjak, Vlastimir Vuković were significantly followed in most domestic and regional portals and media.
Another event that attracted record media attention, and which was organized in difficult circumstances during the pandemic, was a press conference on the occasion of the NLB Organic competition, where Komercijalna and NLB Bank successfully performed in a joint venture.
The NLB KomBank Organic competition ended, in the presence of the Minister of Agriculture Branislav Nedimović, with a solemn awarding of valuable prizes, and all Serbian media reported about this event with special attention.

Having in mind the state of emergency due to the corona virus pandemic during the first months of 2021, and further throughout 2021 due to the bad epidemiological situation, in addition to traditional communication channels, comprehensive communication continued through the Bank's website and social networks: "Facebook, Twitter, YouTube, Instagram, Viber, Linkedin.
The mentioned digital channels contributed to the maximum information of the clients during the emergency situation, because the information was updated on a daily basis. In this way, the effects of communication were at the highest level, considering that the advantages of both traditional and modern media were used. Communication messages are aimed at inviting clients to self-protection and reducing the presence of more people indoors, as the most important preventive measures, as well as the use of electronic services of the Bank - mobile and electronic banking, ATMs and payment cards.

Marketing and PR communication is in line with the Bank's overall business activities related to the pandemic.
The conducted campaigns, although on a significantly reduced scale, were integrated, which means that they coordinated numerous communication channels through which we sent a clear and attractive message about the Bank and its product.

12. PLAN OF FUTURE DEVELOPMENT OF THE BANK

In accordance with the policy of NLB Group Komercijalna banka ad Belgrade and NLB banka ad Belgrade, in the period July - October 2021, for the Bank created by the integration of two banks, made a Strategy and Business Plan 2022 - 2026. The Board of Directors of the Bank is at its session on December 17, 2021. adopted the Strategy and Business Plan of Komercijalna banka ad Belgrade for 2022 - 2026 and sent the material to the General Meeting of Shareholders of the Bank for final adoption.

The initial precondition for the development of the plan is to take into account the synergy effects, especially from April 2022, which are expected in the integration process. Successful completion of the integration process is the first major challenge in the coming period.

The main goals of the Bank that are to be achieved in the next five years are [94]:

- significant improvement of all key business indicators, so that the indicators are above expectations at the sector level, with the planned profit in line with the expectations of the NLB Group;
- change in the structure of assets, with high growth rates of credit activity in all segments and consequently significant growth of market share;
- continued, but at lower rates, growth of deposit potential in order to maintain market share, while reducing liquid assets, including investments in securities, which will be used to a significant extent for the growth of the loan portfolio. These changes will affect the loan-to-deposit ratio (LTD ratio), which is expected to grow significantly and bring it to the level of the average for the Banking sector;
- maximum use of committed capital, payment of dividends in all years, while maintaining the capital adequacy ratio at the prescribed levels;
- improving services and products in line with market trends, including the continued growth of market share in digital sales channels;
- reorganization and rebranding of the branch network in order to respond to the wishes and needs of clients;
- optimization of the number of employees in accordance with the best business practice.

The expected average annual growth during the planned period is 5%, so that the projected total assets at the end of 2026 would amount to over RSD 746 billion. In the first years of the planned period, the Bank is expected to gradually use the excess liquidity to finance the growth of the loan portfolio so that the growth rate of total assets will be lower than the average growth rate for the entire period.

The Bank assumed strong loan portfolio growth in all segments, in the period from 2022 to 2026, with double-digit average annual growth. Projected growth is significantly faster than expected market growth, so by 2026 the Bank will improve its market position in all segments. Credit growth will be financed in part by liquid assets, and partly from the expected growth of non-banking sector deposits.

On the liabilities side, the average annual growth rate of non-banking sector deposits follows the growth rate of total assets. Due to excess liquidity and low LTD ratio, the Bank does not expect to have financing needs on the interbank market, while, if necessary, funds in the form of credit lines from the parent bank, NLB dd Ljubljana, will be used.

Despite the pressure on interest rates, the planned strong growth of the loan portfolio is expected to result in a significant increase in interest income in the planning period, and the Bank plans to actively manage fee tariffs in order to achieve appropriate fee yields. In that part, the focus will be on payment-related banking services, as well as documentary work.

In the OPEX position, the reduction of total costs is expected in the next three years as a result of synergy effects and the completion of the project of integration of the two banks. In the last two years of the planning period, a slight increase in costs is projected as a consequence of the growth of the total volume of business.

Retail business plan

The key point of the retail strategy is the growth of the loan portfolio throughout the planning period - the continued growth of lending activities as a key driver of income, primarily on the basis of active customer relations.
The central point of the strategy is to put the client first, know the client better, know the client's changes, create solutions for all the client's financial needs, build a partnership with the client and create an appropriate experience based on physical

94 Strategy and business plan of Komercijalna banka ad Belgrade for 2022 - 2026

and digital channels. In addition, the Bank is open to researching new opportunities for growth (for example, bank insurance, cooperation with third parties, factoring, etc.).

Strategic goals in retail business will be possible only through a comprehensive transformation in the segment of sales and investment activities, which can be grouped into five groups:

- strengthen key infrastructure resources;
- rationalization of credit and other key processes;
- price optimization - fee tariff in accordance with market trends;
- improve sales and customer engagement;
- strengthen sales teams and organization.

Through strategic initiatives formed by the NLB Group headquarters and through various local initiatives that combine international best practices with local market knowledge, the Bank will be ready to achieve its goals and provide long-term sustainable results to its shareholders and other stakeholders.

For the planning period from 2022 to 2026, very ambitious goals of loans to households have been set especially for 2026. In the observed planning period, a significant increase in the amount of total loans is expected, especially in the area of cash, housing, consumer and microcredit loans, as well as a significant increase in “cross-selling” ratios for individuals.

For the next planning period, stable and slight growth of total household deposits is expected. Stable and mild growth of foreign currency deposits and slightly more significant growth of dinar deposits by the end of 2026 are expected.

In the planning period from 2022 to 2026, a stable growth of net interest income and net income from retail fees is expected, with a slightly higher growth of net interest income due to the planned growth of lending activity.

Corporate operations plan

Ambitious plans have been set with regards to corporate operations, in the light of the future position of an integrated bank and its market share, when it comes to large corporates, SMEs and trade financing. The goal is to strengthen the market position, ensuring constant growth and profit opportunities in these segments, which was passed into the future plan through defined, projected values of lending.

The key priorities in corporate operations are:

- introduction of new products, particularly in the segment of loan products;
- greater penetration of the existing base of active clients with loan products;
- enabling, through further implementation of Client Relationship Management, more efficient management of customer relations and sales efforts in the part that relates to „cross-selling“, which should result in keeping the existing and acquiring new clients;
- process optimization – reducing the time needed for approval and disbursement of loans through credit process optimization;
- amendments to the work organization with the aim of identifying a clear role, tasks and responsibility of employees.

For the upcoming planned period, from 2022 to 2026, ambitious targets for disbursed corporate loans have been set particularly for the year 2026. In the observed planned period, a significant increase in the amount of total loans is expected, coupled with a significant growth of loans to local self-governance (cities and municipalities), state-owned enterprises on the local level and other government institutions.
For the future planned period, it is expected that the amount of total corporate deposits will almost double, with a particularly significant growth in the segment of dinar corporate transaction deposits. Also, a significant growth in other corporate deposits is expected by the end of the planned period.

In the planned period from 2022 to 2026 a stable growth of net interest income and net corporate fee income is expected. A significant growth in the amount of net corporate fee income is expected, as the result of the expected growth in non-credit operations (L/Cs, guarantees, factoring).

Asset management plan and the plan for investment into securities

The Bank bases its strategy for the upcoming five-year period on the following assumptions:

- managing liquidity in accordance with the regulatory requirements and the development of operations i.e. business needs;
- active participation in the FX market with enhanced presence on the local interbank market;
- active management of the securities portfolio;
- active management and prediction of the liquidity coverage ratio;
- active member of the Belibor panel and
- participation in the financing strategy and partial participation in its implementation (FM, MFI, local funds, public sector, large corporates).

In accordance with the new trends in the market, the focus has shifted from financing in euros to financing in dinars, with the aim of enhancing the off of dinar loans.

In the next five-year plan, the Bank plans to decrease the investment of unemployed assets into securities, particularly dinar and FX securities of the Republic of Serbia, with the aim of investing more in loans and other operations.

The Bank will fund its operation and plans primarily from its own funds, while it will also draw down funds from the NLB Group members, as needed, in the form of credit lines, in order to finance a part of its future strategic plans.

13. SIGNIFICANT EVENTS AFTER THE END OF THE BUSINESS YEAR

From December 31st 2021 until the end of February 2022, two extraordinary General Meeting of the Bank's Shareholders were scheduled.
At the General Meeting of the Bank's Shareholders, scheduled and held for February 2nd 2022 the following decisions were adopted:
- Decision on amendments and supplements to the Memorandum of Association,
- Decision on adoption of the Articles of Association of NLB Komercijalna banka AD Beograd,
- Decision on supplement to the Decision on accepting the merger of NLB Banka AD Beograd to Komercijalna banka AD Beograd.

A new General Meeting of the Bank's Shareholders was scheduled for February 25th 2022, where the adoption of the following decision is planned:

- Decision on supplements to the Decision on acquisition of the Bank's treasury shares from dissenting shareholders.

Description of events after the end of the business year is presented in item 41. Events after the balance-sheet date in the Notes to Financial Statements for 2021.

14. PERFORMANCE OF THE BANK'S BUSINESS PLAN FOR 2021

14.1. Performance of the planned balance-sheet for 2021

Performance of the Bank's plan for 2021 is unfolding in now, already known operating environment, with the Covid – 19 pandemic, new problems in the interrupted global supply chains. The expenses, particularly the cost of international transport, have increased drastically compared to the pre-crisis period, with a growth in inflation on both the local and the international market. The program of economic measures for decreasing the adverse effects of the pandemic and support to the Serbian economy in 2020 and 2021 resulted in the recovery of the economic activity during 2021. According to the final data of the national Statistics Office, there was a decrease in GDP in 2020 of 0.9%. according to the preliminary assessment of the National Statistics Office, GDP growth for 2021 was 7.5%. [95] In accordance with the NBS decisions from 2020 (the first and the third moratorium), which were implemented also during 2021, during 2021 the Bank allowed for a delay in repayments made by borrowers and the users of guarantees, L/Cs, overdrafts and other loan products. In accordance with the legislation and the recommendations issued by the public health authorities and the Government of the Republic of Serbia, the Bank took all the necessary measures, in 2021 as well, so that all of the Bank's business activities are carried out with a full protection of the employees and the clients.

95 NBS, Macroeconomic trends in Serbia, January 2022

No.	ASSETS ITEM	REALIZED IN 2021	PLAN FOR 2021	INDICES
1	2	3	4	5
	ASSETS (in RSD million)			
1.	Cash and funds and the central bank (CB)	82.055	72.624	113,0
2.	Securities	149.589	139.480	107,2
3.	**Loans and receivables from banks and other financial organizations**	**29.114**	**29.768**	97,8
3.1.	Loans	9.279	17.355	53,5
3.2.	Other loans and receivables	19.835	12.413	159,8
4.	**Loans and receivables from customers**	**209.045**	**206.647**	101,2
4.1.	Corporate (loans)	89.222	84.570	105,5
4.2.	Retail (loans)	118.287	120.051	98,5
4.3.	Other lending and receivables (corporate+retail)	1.536	2.026	75,8
5.	Investment in subsidiaries and affiliations	1.628	3.434	47,4
6.	Fixed assets and investment properties	11.366	7.581	149,9
7.	Other assets	6.643	8.808	75,4
8.	**TOTAL ASSETS**	**489.440**	**468.341**	104,5

- Balance of cash and funds with the central bank is higher than the planned value partly because of the lower than planned volume of investment of funds in loans and lower investment into NBS repo operations.
- The item securities is higher than planned by RSD 10.109 million, as the result of increased investment activity in new securities by foreign countries with longer maturities.
- Loans and receivables from banks and other financial organization are lower than planned by RSD 654 million, primarily due to lower than planned amount of loans disbursed to banks and the good liquidity of the Banking sector and decreased demand.
- Corporate loans were realized at a higher level compared to the value planned of the end of 2021 by RSD 4,652 million, as the result of the economic recovery and increased demand, despite the adverse effects of the COVID – 19 pandemic on the operating conditions of enterprises.
- COVID – 19 pandemic and all the accompanying effects resulted in retail lending that is marginally lower at the end of the observed year, compared to the planned annual volume.
- Slower than planned growth of the loan portfolio at the end of 2021 was compensated for by the increase in investment of funds into securities, compared to the planned volume (7.2%).
- The value of the Bank's fixed assets and investment property is above the planned values for the end of 2021.
- Other assets were realized at a lower than planned level (24.6%).

No.	LIABILITY ITEM	REALIZED IN 2021	PLAN FOR 2021	INDICES
1	2	3	4	5
	LIABILITIES (in RSD million)			
1.	**Deposits and liabilities to banks, financial organizations and the CB**	**13.155**	**21.117**	**62,3**
1.1.	Deposits	12.539	20.500	61,2
1.2.	Credit lines	616	617	99,8
1.3.	Other liabilities	0	0	-
2.	**Deposits and other liabilities to customers**	**392.266**	**363.364**	**108,0**
2.1.	**Corporate**	**48.699**	**53.759**	**90,6**
2.1.1.	Deposits	48.646	53.642	90,7
2.1.2.	Other liabilities	53	117	45,0
2.2.	**Retail**	**343.568**	**309.605**	**111,0**
2.2.1.	Deposits	342.469	308.660	111,0
2.2.2.	Other liabilities	1.099	945	116,3
3.	Subordinated liabilities	0	0	-
4.	Provisioning	4.234	4.131	102,5
5.	Other liabilities	4.142	4.754	87,1
6.	**TOTAL LIABILITIES**	**413.798**	**393.366**	**105,2**
7.	Share capital and issue premium	40.035	40.035	100,0
8.	Reserves from profit and retained earnings	35.608	34.941	101,9
9.	**TOTAL CAPITAL**	**75.643**	**74.975**	**100,9**
10.	**TOTAL LIABILITIES**	**489.440**	**468.341**	**104,5**

- At the end of 2021, despite the adverse effects of the pandemic, retail deposits reached an amount above the values planned for the end of 2021 (11.0%).
- Corporate deposits are below the planned values by 9.3%.
- Deposits from banks and other financial organizations are below the values planned for the end of 2021 by 38.8%.
- The item “provisioning” (for court cases, long-term employee remuneration, loss from off-balance-sheet assets, other provisioning) recorded an increase at the end of the year, compared to the planned volume (2.5%), mostly due to the increase in other provisioning.
- The Bank’s total capital, at the end of 2021 was within the amount planned for the end of the year.

14.2. Performance of the Profit&Loss Account for 2021

No.	ITEM	REALIZED IN 2021	PLAN FOR 2021	INDICES
1	2	3	4	5
	(in RSD million)			
1.1.	Interest income	13.104	13.261	98,8
1.2.	Interest expenses	(959)	(1.119)	85,7
1.	**Interest gains**	**12.145**	**12.142**	100,0
2.1.	Fee and commission income	7.647	7.141	107,1
2.2.	Fee and commission expenses	(1.910)	(1.685)	113,4
2.	**Fee and commission gains**	**5.737**	**5.456**	105,2
3.	Net FX gains and the change in value (FX clause)	53	0	-
4.	Net cost of decreasing the impairment of financial assets not measured at fair value through P&L	16	(3.227)	-
5.	Other operating income	(2.574)	(1.571)	163,9
6.	Operating expenses	(11.913)	(12.121)	98,3
7.	**OPERATING PROFIT BEFORE TAX**	**3.463**	**679**	509,8

- Realized net interest loss in 2021 is at the planned level. Total interest income is marginally lower than planned by RSD 157million. The greatest effect on the decrease in interest income came from the decrease in interest income from securities operations, due to lower investment into securities and a decrease in interest rates. Total interest expenses in 2021 were, also, lower than planned by RSD 160 million.
- Net fee and commission gains, realized in 2021, were 5.2% higher than planned. A significant effect on the level of net fee and commission gains came from the growing retail fee income.
- At the end of 2021, realized net income from impairment of financial assets that are not measured at fair value through P&L amounted to RSD 16 million, while the planned amount of net expenses was RSD 3,227million.
- Realized operating expenses are lower than the planned values by RSD 207million.
- Net other operating expenses (RSD 2,574 million) were realized at the end of 2021. Net other operating expenses were also planned, but at a lower volume (RSD 1,571 million).
- In the period January – December 2021, marked by the COVID-19 pandemic, profit before tax was realized in the amount of RSD 3,463 million, which is above the planned amount.

Signed on behalf of Komercijalna banka a.d. Beograd

Dejan Janjatović	Vlastimir Vuković
Deputy Chief Executive Officer	Chief Executive Officer

Interno

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KOMERCIJALNA BANKA
NLB Group

Pursuant to Article 50 of the Law on Capital Market (RS Official Gazette No. 31/2011, 112/2015, 108/2016, 9/2020) Komercijalna banka AD Beograd issues the following

STATEMENT

I hereby state that, according to my best knowledge and based on the opinion of an external auditor, the annual financial statements for 2021 have been prepared using the appropriate international financial reporting standards and provide truthful and objective information about the assets, liabilities, financial position and operations, profits and losses, cash flows and changes in equity of the public company.

KOMERCIJALNA BANKA AD BEOGRAD

Dejan Janjatović	Vlastimir Vuković
Deputy Chief Executive Officer	Chief Executive Officer

GENERAL MEETING OF THE BANK'S SHAREHOLDERS
No. 196/1
Belgrade, 18.04.2022

Pursuant to Article 14 of the Articles of Association of Komercijalna banka AD Beograd, on 18.04.2022 the General Meeting of Shareholders of Komercijalna banka AD Beograd passed the following

DECISION
on adopting the Annual Report and Regular Financial Statements for Komercijalna banka AD Beograd for 2021, with the external auditor's opinion

Article 1

The Annual Report for Komercijalna banka AD Beograd for 2021, with the external auditor's opinion (PKF d.o.o. Beograd) is hereby adopted in the wording that forms an integral part of this decision.

Article 2

Regular Financial Statements for Komercijalna banka AD Beograd for 2021, with the external auditor's onion (PKF d.o.o. Beograd) are hereby adopted:

1. Balance-sheet as of 31.12.2021;
2. Profit&Loss for the period from 01.01. to 31.12.2021;
3. Statement of Other Comprehensive Income for the period from 01.01. to 31.12.2021;
4. Statement of Changes in Equity for the period from 01.01. to 31.12.2021;
5. Cash Flow Statement for the period from 01.01. to 31.12.2021;
6. Notes to Financial Statements for 2021

in the wording that forms an integral part of this decision.

Article 3

This decision becomes effective on the day it is passed.

CHAIRPERSON OF THE GENERAL MEETING
OF THE BANK'S SHAREHOLDERS

Igor Stebernak

GENERAL MEETING OF BANK'S SHAREHOLDERS
Number: 196/3
Belgrade, April 18, 2022

Pursuant to Article 14 of the Statute of Komercijalna Banka AD Beograd, the General Meeting of Bank's Shareholders of Komercijalna Banka AD Beograd on April 18, 2022 makes the following

DECISION
ON DISTRIBUTION OF PROFITS FROM 2021 AS WELL AS RETAINED PROFITS FROM PREVIOUS YEARS

Article 1.

Net profit realized in 2021 in the amount of 3,645,699,183.29 RSD is distributed and transfers to retained earnings from the previous years.

Article 2

The cumulative retained earnings of previous years after the transfer of the net profit from 2021 from Article 1 of this Decision amounts to RSD 9,573,620,314.

Article 3

The Executive Board of the Bank will take care of the execution of this decision.

Article 4

This decision becomes effective on the day it is passed..

CHAIRMAN
OF THE GENERAL MEETING OF BANK'S SHAREHOLDERS
Igor Stebernak