PROCREDIT BANK AD BELGRADE

Financial Statements as of and for the Year Ended 31 December 2021

and

Independent Auditor's Report

CONTENT

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This is an English translation of Independent Auditor's Report originally issued in the Serbian language

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER AND THE BOARD OF DIRECTORS OF PROCREDIT BANK AD BELGRADE

Opinion

We have audited the financial statements of PROCREDIT BANK AD BELGRADE (hereinafter: the "Bank"), which comprise the balance sheet as of 31 December 2021 and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Other Matters

The financial statements of the Bank as of and for the year ended 31 December 2020 were audited by another auditor who expressed an unqualified opinion on those financial statements on 13 April 2021.

Other Information

Management is responsible for the other information. The other information comprises the Annual Business Report for the year ended 31 December 2020, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information 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.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER AND THE BOARD OF DIRECTORS
OF PROCREDIT BANK AD BELGRADE (Continued)

Other Information (Continued)

In respect of the Annual Business Report, we conducted procedures in accordance with the Law on Accounting. These procedures include verification whether the Bank's Annual Business Report has been prepared in accordance with the applicable provisions of the Law on Accounting.

Solely based on the work we have performed during the audit of the financial statements, in our opinion:

- The information provided in the Annual Business Report for the year ended 31 December 2021, is consistent, in all material respects, with the financial statements of the Bank as of and for the year ended 31 December 2021; and
- The Annual Business Report for the year ended 31 December 2021 has been prepared in accordance with the provisions of the Law on Accounting.

In addition, if based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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 the Law on Audit and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER AND THE BOARD OF DIRECTORS
OF PROCREDIT BANK AD BELGRADE (Continued)

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

As part of an audit in accordance with the Law on Audit and ISAs, we exercise professional judgment and maintain professional scepticism 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.

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, 8 March 2022

Ksenija Ristic Kostic
Certified Auditor

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021	2020
		In RSD thousand	
Interest income	5.1, 7	4,167,303	3,937,213
Interest expenses	5.1, 7	(958,028)	(1,014,387)
Net interest income	7	**3,209,275**	**2,922,826**
Fee and commission income	5.2, 8	1,834,203	1,423,222
Fee and commission expenses	5.2, 8	(452,091)	(366,669)
Net fee and commission income	8	**1,382,112**	**1,056,553**
Net gains from changes in fair value of financial instruments	5.3, 9	64,623	5,840
Net foreign exchange (losses)/gains and effects of contracted foreign currency clause	4, 10	(66,590)	139,578
Net losses from impairment of financial assets not measured at fair value through profit or loss	5.3, 11	(743,403)	(462,834)
Net gains from derecognition of the financial instruments measured at amortised cost	5.3, 12	-	110,712
Other operating income	13	81,376	86,348
TOTAL NET OPERATING INCOME		**3,927,393**	**3,859,023**
Salaries, compensations and other personal expenses	14	(994,826)	(951,961)
Amortization and depreciation expenses	15	(232,259)	(261,223)
Other income	16	74,826	92,563
Other expenses	17	(2,211,349)	(1,911,100)
PROFIT BEFORE TAX		**563,785**	**827,302**
Income taxes	5.17, 18	(94,033)	(139,578)
PROFIT FOR THE YEAR		**469,752**	**687,724**

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

In Belgrade, 8 March 2022

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Igor Anic
Executive Board Chairman

STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021	2020
			In RSD thousand
PROFIT FOR THE YEAR		**469.752**	**687.724**
Other comprehensive income:			
Items that will not be subsequently reclassified to profit or loss			
Increase in revaluation reserves from intangible assets and property, plant and equipment	38	-	838
Net valuation gains in fair value through other comprehensive income equity instruments	38	82	73
Items that will or may be subsequently reclassified to profit or loss			
Net valuation (losses)/gains in fair value through other comprehensive income on debt instruments	38	(16,390)	28,181
Deferred taxes related to items of other comprehensive income r	18	(12)	(137)
Total (negative)/positive other comprehensive income, net of tax		**(16,320)**	**28,955**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**453,432**	**716,679**

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In Belgrade, 8 March 2022

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Igor Anic
Executive Board Chairman

BALANCE SHEET
AS OF 31 DECEMBER 2021

In RSD thousand

	Note	31 December 2021	31 December 2020
ASSETS			
Cash and balances with Central Bank	5.7, 20	18,757,005	16,022,819
Derivatives	5.3, 24	699	340
Securities	5.3, 21	7,156,940	5,292,086
Loans and placements to banks and other financial organizations	5.3, 22	9,745,021	13,592,196
Loans and placements to customers	5.3, 23	116,200,545	110,212,639
Investments in subsidiaries	5.8, 25	127,752	127,752
Intangible assets	5.11, 26	278,156	285,850
Property, plant and equipment	5.9, 27	1,724,443	1,816,396
Investment property	5.10, 28	370,785	380,813
Current tax assets	5.17	33,974	-
Non-current assets held for sale and assets from discontinued operations	5.20, 29	47,370	47,370
Other assets	30	897,007	752,257
TOTAL ASSETS		**155,339,697**	**148,530,518**
LIABILITIES AND EQUITY			
Liabilities			
Derivatives	5.3, 31	-	7,261
Deposits and other liabilities due to banks, other financial institutions and Central Bank	5.4, 32	37,988,582	39,586,794
Deposits and other liabilities due to other customers	5.4, 33	96,331,145	88,432,861
Subordinated liabilities	34	1,895,568	1,895,491
Provisions	5.14, 35	365,659	205,200
Current tax liabilities	18	-	33,777
Deferred tax liabilities	5.17, 36	42,543	52,032
Other liabilities	37	990,767	1,045,101
Total liabilities		**137,614,264**	**131,258,517**
Equity			
Share capital	5.18, 38	6,439,757	6,439,757
Retained earnings	5.18, 38	8,950,776	8,481,024
Reserves	5.18, 38	2,334,900	2,351,220
Total equity		**17,725,433**	**17,272,001**
TOTAL LIABILITIES AND EQUITY		**155,339,697**	**148,530,518**

Notes on the following pages
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In Belgrade, 8 March 2022

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Ivan Smiljkovic Executive Board Member	Igor Anic Executive Board Chairman

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

In RSD thousand

	Share capital	Share premium	Reserves from profit	Revaluation reserves	Retained earnings	Total equity
Balance as of 1 January 2020	**3,663,012**	**2,776,745**	**1,643,864**	**678,401**	**7,793,300**	**16,555,322**
Increase in revaluation reserves from intangible and property, plant and equipment	-	-	-	838	-	**838**
Positive effects of changes in value of equity instruments measured at fair value through other comprehensive income	-	-	-	73	-	**73**
Positive effects of changes in value of debt instruments measured at fair value through other comprehensive income	-	-	-	28,181	-	**28,181**
Deferred tax expense related to items of other comprehensive income r	-	-	-	(137)	-	**(137)**
Profit for the year	-	-	-	-	687,724	**687,724**
Balance as of 31 December 2020	**3,663,012**	**2,776,745**	**1,643,864**	**707,356**	**8,481,024**	**17,272,001**
Balance as of 1 January 2021	**3,663,012**	**2,776,745**	**1,643,864**	**707,356**	**8,481,024**	**17,272,001**
Positive effects of changes in value of equity instruments measured at fair value through other comprehensive income	-	-	-	82	-	**82**
Negatives effects of changes in value of debt instruments measured at fair value through other comprehensive income	-	-	-	(16,390)	-	**(16,390)**
Deferred tax expense related to items of other comprehensive income r	-	-	-	(12)	-	**(12)**
Profit for the year	-	-	-	-	469,752	**469,752**
Balance as of 31 December 2021	**3,663,012**	**2,776,745**	**1,643,864**	**691,036**	**8,950,776**	**17,725,433**

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

In Belgrade, 8 March 2022

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Executive Board Chairman

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	2021	In RSD thousand 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash flows from operating activities	**6,478,304**	**4,664,899**
Interest receipts	4,384,389	2,981,065
Fee and commission receipts	1,849,541	1,419,381
Receipts from other operating income	244,374	264,453
Cash used in operating activities	**(4,827,035)**	**(4,607,996)**
Interest paid	(993,630)	(993,381)
Fee and commission paid	(448,260)	(366,956)
Salaries, compensations and other personal expenses	(996,436)	(963,271)
Taxes, contributions and other duties paid	(325,072)	(301,552)
Payments for other operating expenses	(2,063,637)	(1,982,836)
Net cash flows from operating activities before an increase/decrease in financial assets and liabilities	**1,651,269**	**56,903**
Decrease in financial assets and increase in financial liabilities	**3,775,391**	**21,176,898**
Decrease in receivables for securities and other financial assets not intended for investment	3,946	-
Increase in deposits and other financial liabilities to banks and other financial institutions, central bank and customers	3,771,445	21,176,898
Increase in financial assets and decrease in financial liabilities	**(4,523,925)**	**(19,055,814)**
Increase in loans and advances to banks, other financial institutions, central bank and customers	(4,521,905)	(13,989,754)
Increase in receivables for securities and other financial assets not intended for investment	-	(5,066,060)
Decrease in other financial liabilities	(2,020)	-
Net cash generated from operating activities before income tax	**902,735**	**2,177,987**
Income taxes paid	(137,508)	(87,337)
Net cash flows from operating activities	***765,227***	***2,090,650***
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash flows from investing activities	**6,829**	**6,935**
Proceeds from the sales of intangible assets, property, plant and equipment	6,829	6,935
Cash used in investing activities	**(1,831,725)**	**(33,211)**
Purchase of investment securities	(1,823,240)	-
Purchase of intangible assets, property, plant and equipment	(8,485)	(33,211)
Net cash used in investing activities	***(1,824,896)***	***(26,276)***
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash flows from financing activities	**11,423,884**	**79,244,886**
Proceeds from subordinated liabilities	-	6,110
Proceeds from granted loans	11,423,884	16,530,910
Other proceeds from financing activities	-	62,707,866
Cash used in financing activities	**(9,065,685)**	**(80,118,877)**
Repayment of subordinated liabilities	-	(6,312)
Repayment of borrowings	(9,025,233)	(17,434,558)
Other outflows from financing activities	(40,452)	(62,678,007)
Net cash from/(used in) financing activities	***2,358,199***	***(873,991)***
TOTAL CASH INFLOWS	**21,684,408**	**105,093,618**
TOTAL CASH OUTFLOWS	**(20,385,878)**	**(103,903,235)**
NET INCRESE IN CASH	**1,298,530**	**1,190,383**
Cash and cash equivalents at beginning of year	10,957,124	9,776,810
Foreign exchange gains/(losses) on cash and cash equivalents	62,485	(10,069)
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 44)	**12,318,139**	**10,957,124**

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

In Belgrade, 8 March 2022

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Executive Board Chairman

PROCREDIT BANK A.D. BELGRADE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

Contents

1. CORPORATE INFORMATION

ProCredit Bank a.d. Belgrade (hereinafter “the Bank”) was established based on the Contract on Incorporation of Micro Finance Bank a.d. Belgrade concluded on 31 March 2001 among five founders - foreign financial institutions.

The Bank obtained an operational licence according to the Decision no. G. 538 passed by the National Bank of Yugoslavia on 5 April 2001. The Bank acquired the status of a legal entity after being registered with the court register of the Commercial Court in Belgrade under the number V Fi-3571- 01, dated 9 April 2001 (registration folder 3-135-00).

Pursuant to the Law on Banks, the Contract on Incorporation and Articles of Association, the Bank is registered for performing the following activities:

- accepting all types of cash deposits;
- granting and taking all types of loans;
- foreign exchange operations, foreign currency operations and exchange transactions;
- issuing securities and payment cards;
- custody and management of assets and securities;
- purchase and sale of securities;
- issuing sureties, guarantees and other types of warranties;
- payments transactions;
- securities brokerage; and
- purchase and collection of receivables, and provision of other financial services.

According to the Avals Decision of the National Bank of Yugoslavia No. 85/2001 of 10 April 2001, the Bank was granted a license for performing payment transactions and foreign credit transactions (the “significant authorisation“).

In 2003, Micro Finance Bank a.d. Belgrade changed its name to ProCredit Bank a.d. Belgrade, which was registered with the Commercial Court’s registry in Belgrade on 12 September 2003 under the number XVI-Fi-8824/03.

The Bank is a member of the ProCredit Group. ProCredit Holding AG & CO KGaA, Frankfurt, Germany owns 100% of the Bank's capital and it is the ultimate parent company of the Group.

The Bank performs its operations at its head office in Belgrade, situated at 17 Milutina Milankovica, and in 6 branches located in Belgrade, Novi Sad, Kragujevac, Nis, Subotica and Pancevo.

The Bank founded ProCredit Leasing d.o.o. Belgrade, which was registered with the Serbian Business Registers Agency in Belgrade under registration no. 1973/2005 on 17 February 2005. The Bank has 100% of equity interest in ProCredit Leasing d.o.o. Belgrade (hereinafter “Leasing“).

Pursuant to the Law on Bankruptcy and Liquidation of Banks and Insurance Companies, the General Meeting of ProCredit Leasing d.o.o. passed a Decision on 1 January 2018 on Terminating Operations and Initiating a Liquidation Procedure, which was submitted to the National Bank of Serbia, as the official regulator, within the legal deadline, which consented to the initiation of the liquidation procedure. The liquidation proceedings of ProCredit Leasing d.o.o. Belgrade commenced on 30 April 2018 and have not been finalised yet.

Since the Bank meets the requirements disclosed in Article 8 of the National Bank of Serbia’s Decision on the Supervision of the Banking Group on a Consolidated Basis, the Bank does not compile consolidated financial statements as of and for the year ended 31 December 2021.

As at 31 December 2021 the Bank had 388 employees (31 December 2020: 391 employees).

The Bank’s tax identification number is 100000215.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

The accompanying financial statements for the year ended 31 December 2021 have been prepared in accordance with the International Financial Reporting Standards (“IFRS”), published by the International Accounting Standards Board, and regulations of the National Bank of Serbia governing the financial reporting of banks.

The Bank, as a large legal entity, is obliged to apply IFRSs pursuant to the Law on Accounting ("RS Official Gazette", No. 73/2019 and 44/2021 - hereinafter the "Law"). In addition, the Law on Banks ("RS Official Gazette", No. 107/2005, 91/2010 and 14/2015) stipulates that banks apply IFRSs when preparing annual financial statements from the date set by a competent international body as the date of their application. IFRSs comprise the Conceptual Framework for Financial Reporting, International Accounting Standards - IAS, International Financial Reporting Standards - IFRS and related interpretations, subsequent amendments to these standards and related interpretations, published by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC).

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

- buildings stated at market and/or revalued value;
- financial assets stated at fair value through other comprehensive income; and
- derivative financial instruments stated at fair value.

The accompanying financial statements are presented in the format prescribed under the National Bank of Serbia’s Decision on the Forms and Contents of the Items in the Forms of the Financial Statements of Banks ("RS Official Gazette", No. 93/2020).

The Bank’s financial statements are stated in thousands of Dinars, unless otherwise stated. The Dinar (RSD) is the functional and official reporting currency in the Republic of Serbia. All transactions in currencies that are not functional currency are considered to be transactions in foreign currency.

In the preparation of the accompanying financial statements the Bank used accounting policies disclosed in Note 5.

The accounting policies and estimates adopted in the preparation of these financial statements are consistent with those followed in the preparation of the Bank’s annual financial statements for the year ended 31 December 2021, except for the adopted and amended IAS, IFRS and interpretations (IFRIC) presented below.

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

(a) New Standards, Amendments and Interpretations to Existing Standards Mandatory for the First Time for the Financial Year Beginning on 1 January 2021

The following amendments to existing standards published by the IASB are mandatorily applicable for the first time to financial periods beginning on or after 1 January 2021 and they are therefore applicable to the Bank's financial statements for the year ended 31 December 2021.

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform" – Phase 2**

  In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market interest rate.

  In addition, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods.

- **Amendments to IFRS 16 "Leases" – Covid-19-Related Rent Concessions beyond 30 June 2021 (effective for annual reporting periods beginning on or after 1 April 2021).**

  This amendment extends, for one year, the May 2020 amendment - Covid-19-Related Rent Concessions (effective for annual periods beginning on or after 1 June 2020), which provides for an exemption from the assessment whether the lease concession under the influence of the COVID-19 epidemic is a modification of the lease contract.

The adoption of the aforementioned amendments to existing standards did not result in a significant change in the Bank's accounting policies, nor did it have an effect on the Bank's accompanying financial statements.

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

(b) New Standards, Amendments and Interpretations to Existing Standards that are Not Yet Effective and Have Not Been Early Adopted by the Bank

There are a number of new and amended standards and IFRIC interpretations, which have been issued by the IASB that are not effective for the annual periods beginning on 1 January 2021, and have not been early adopted by the Bank. The Bank intends to apply them when they become effective.

- Amendments to IFRS 3 “Business Combinations” updating a Reference to the Conceptual Framework (effective for annual reporting periods beginning on or after 1 January 2022).
- Amendments to IAS 16 “Property, Plant and Equipment” – Proceeds before Intended Use (effective for annual reporting periods beginning on or after 1 January 2022).
- Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” – Onerous Contracts – Cost of Fulfilling a Contract (effective for annual reporting periods beginning on or after 1 January 2022).
- Annual improvements to IFRS Standards “2018-2020 Cycle” – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (effective for annual reporting periods beginning on or after 1 January 2022).
- IFRS 17 “Insurance Contracts” and subsequent amendments (effective for annual periods beginning on or after 1 January 2023).
- Amendments to IFRS 4 “Insurance Contracts” – Extension of the Temporary Exemption from Applying IFRS 9 “Financial Instruments”, which extend the fixed period for the temporary exemption from applying IFRS 9 and IFRS 4, whereby entities are required to apply IFRS for annual reporting periods beginning on or after 1 January 2023.
- Amendments to IAS 1 “Presentation of Financial Statements” and IFRS Practice Statement 2 – Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” – Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 12 “Income Taxes“ – Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective for annual periods beginning on or after 1 January 2023).
- Amendments to IAS 1 “Presentation of Financial Statements” – Classification of Liabilities as Current or Non-current (effective for annual periods beginning on or after 1 January 2024).

The Bank’s management estimates that the application of the above-mentioned standards, interpretations and amendments to existing standards that are not yet effective and have not been early adopted by the Bank will have no material impact on the financial statements of the Bank in the period of their initial application.

3. ESTIMATES AND JUDGEMENTS

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements for the next financial year. Estimates and judgments are subject to a regular review and are based on the historical cost principle and other factors, including expectations of future events, which are deemed to be reasonable under the given circumstances. Actual amounts may differ from these estimates.

Estimates and assumptions that have a risk of causing material adjustments to the carrying values of assets and liabilities in the next financial year are addressed below.

Measurement of Expected Credit Losses (ECLs)

The Bank reviews its loan portfolios in order to assess impairment at least once a month. The methodology includes recognition of expected credit losses (ECL) at any time so that the amount of ECLs recognised at each reporting date reflects changes in the amount of credit risk of financial instruments.

Impairment allowances are based on ECLs related to the probability of default in the following 12-month period unless a significant increase in credit risk ensues. The necessity to make an allowance for impairment over the useful life occurs when a significant increase in credit risk is detected from the date of recognition of the exposure. The objective of the impairment request is to recognise ECLs on all financial instruments, taking into account all reasonable and available data, including those related to future periods. This model is future-oriented and changes the model of incurred losses for the recognition of credit losses, in the sense that it is no longer necessary for an unforeseen event (trigger) to take place in order for credit losses to be recognised.

Measurement of ECL is based on all reasonable and reliable data available without unnecessary costs, whereby historical and current data as well as data envisaged for the future period are also included. The average applied PD rates per level are disclosed in Note 6.1.1 - Classification of Loan Receivables and Credit Risk Provisions. Impairment losses on individually significant loans are based on an assessment of discounted future cash flows of individual loans, taking into account repayments and the realisation of assets that serve as collaterals for said loans.

Provisions

Provisions are, to a large extent, a matter of judgment, especially when it comes to litigations. The Bank estimates the probability of occurrence of an unfavourable event resulting from a past event, and if it is estimated that the event will occur with a probability greater than 50%, the Bank makes a provision in the total amount of the liability.

Fair Value of Financial Assets and Liabilities

The fair value of investments quoted on active markets is based on the current prices of supply (financial assets) or demand (financial liabilities). If a market for a financial asset is not active, the Bank determines the fair value using valuation techniques, which include recent transactions between independent parties, an analysis of discounted cash flows and other techniques used by market participants.

Valuation models reflect current market conditions on the measurement date and they do not necessarily reflect market conditions before or after the measurement date. At each reporting date, the Bank's management reviews the models to ensure that they properly reflect current market conditions, including relative market liquidity and interest margins.

3. ESTIMATES AND JUDGEMENTS (Continued)

Useful Lives of Intangible Assets and Property, Plant and Equipment

Determination of useful lives of intangible assets and property, plant and equipment (fixed assets) is based on past experience with similar assets, technological development and changes affected by a large number of economic or industry factors.

The adequacy of a certain useful life is reviewed annually, or when there is an indication that there has been a significant change in the underlying factors representing the basis for the use of the useful life.

Assessment changes may result in significant changes in the present value of non-current assets and amounts that are recorded in the income statements of certain periods.

Impairment of Non-financial Assets

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

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

Classification of financial assets

The Bank assesses the business model within which assets are held. Additionally, the Bank assesses if contractual cash flows of financial assets are solely payments of principal and interest (Note 5.3).

Leases

The incremental borrowing rate used as the discount rate in the measurement of the present value of lease payments is determined by analysing internal sources of information on borrowings and it is adjusted to reflect contractual lease terms and the type of a leased asset.

The incremental borrowing rate is determined based on the financing costs of a liability of a similar duration and a similar collateral as the one envisaged by the lease contract.

Retirement Benefits

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

As these plans are long-term ones, significant uncertainties influence the outcome of the assessment. Additional information is disclosed in Note 39 to the financial statements.

Were the discount rate used to differ by 0.5% percentage point (higher/lower) from management's estimates, the provision for retirement benefits would be by an estimated RSD 482 thousand lower or RSD 535 thousand higher than the provision stated in the Bank's financial statements for the year ended 31 December 2021.

4. FUNCTIONAL AND PRESENTATION CURRENCY

The items included in the Bank's financial statements are valued by using currency of the Bank's primary economic environment (functional currency). The financial statements are presented in dinars (RSD), which is the functional and presentation currency.

Transactions denominated in foreign currency are translated into Dinars at the official middle exchange rate of the National Bank of Serbia prevailing at the reporting date.

Monetary assets and liabilities denominated in foreign currency at the balance sheet date, as well as those incorporating a currency clause, are translated into Dinars at the official median exchange rates published by the National Bank of Serbia, prevailing at the reporting date.

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

Exchange rates of major currencies used in the translation of balance sheet items denominated in foreign currencies, established by the National Bank of Serbia, were as follows:

In RSD	31/12/2021	31/12/2020
USD	103.9262	95.6637
EUR	117.5821	117.5802
CHF	113.6388	108.4388
CNY	16.3037	14.6001
GBP	140.2626	130.3984

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1. Interest Income and Expense

Interest income and expenses for all interest-bearing financial instruments, except those classified at FVTPL, are recognised as interest income and interest expense in the income statement by applying the effective interest rate method.

The effective interest method is used for calculating the costs of the repayment of financial assets or financial liabilities, and the costs of allocation of interest income or interest expense over a certain period. The effective interest rate is a rate that accurately discounts the estimated future payments or receipts through the expected life of the financial instrument or, when appropriate, over the shorter period, to the net carrying amount of the financial asset or financial liability.

When the effective interest rate is calculated, the Bank assesses cash flows taking into account all contracted terms of the financial instrument (e.g. advance payment option), but it does not take into consideration future credit losses. The calculation includes all fees and commissions paid or received between two contracting parties, which are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees under granted loans are accrued and amortised as interest income on a straight-line basis over the term of the loan. The straight-line accrual of fees is not materially different from the application of the effective interest rate method.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.2. Fee and Commission Income and Expense

Fee and commission income and expenses are recognised on an accrual basis at the moment of service provision.

Other fees and commissions are mainly generated based on payment transactions, issuance of guarantees and letters of credit, and other services.

5.3. Financial Assets and Liabilities

Classification

The Bank classifies financial assets into one of the following categories: financial assets that are measured at amortised cost, financial assets at fair value through other comprehensive income financial assets at fair value through profit or loss. The Bank classifies a financial asset depending on a business model used to manage financial assets and characteristics of the contracted cash flows. The Bank's management classifies financial investments upon initial recognition.

The Bank classifies its financial liabilities as liabilities measured at amortised cost or liabilities at FVTPL.

Initial recognition

All financial instruments are initially recognised at fair value including any directly attributable incremental costs of acquisition or issue for all financial assets or liabilities that are not carried at FVTPL. Financial assets and financial liabilities are recognised in the Bank’s balance sheet on the date upon which the Bank becomes counterparty to the contractual provisions of a specific financial instrument.

Purchase or sale of financial assets is recognised by applying calculation on the date of settlement, i.e. the date when the asset is delivered to the other party.

Subsequent measurement

Financial assets and financial liabilities at amortised cost are measured at amortised cost upon initial recognition by applying the effective interest rate method.

Financial assets at FVOCI, financial assets at FVTPL and financial liabilities at FVTPL are carried at fair value upon initial recognition.

The fair value of financial assets that are listed on the stock exchange is determined based on effective selling prices. If a market of a financial asset (and a market of securities not quoted on the stock exchange) is not active, the Bank determines the fair value by applying valuation techniques.

These include the use of recent transactions between independent parties, reference to other instruments that are substantially the same, a discounted cash flow analysis, and the pricing model option by maximally using market information.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.3. Financial Assets and Liabilities (Continued)

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows of the given financial asset have expired or when the Bank transfers the financial asset via a transaction in which basically all the risks and rewards of ownership over the asset are transferred to the buyer or in which it neither transfers nor retains risks and rewards arising from ownership, but it does not retain control over the financial asset.

Upon the derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of received commissions and any potential cumulative income or expenses that were previously recognised within other comprehensive income is recognised in the income statement.

The Bank derecognises a financial liability when the contractual obligation has been is fulfilled, cancelled or expired.

Impairment of Financial Assets

The objective of the impairment request is to recognise ECLs on all financial instruments, taking into account all reasonable and available data, including those related to future periods.

Thus, the necessity of providing for expected losses over the useful life occurs when significant credit risk is detected from the date of the exposure detection.

Stages of IFRS 9 correspond to the following Bank categories:

- Stage 1
- Stage 2
- Stage 3

A regular assessment of objective evidence of impairment is applicable to all balance and off- balance credit exposures regardless of their size.

The Bank recognises provisions for ECLs (Expected Credit Losses) which reflect changes in the credit quality from the initial recognition of financial assets measured at amortised cost (AC) and at FVOCI, including loans, debt securities, financial guarantee agreements and commitments for approved credit facilities.

Expected credit losses are defined as the probability-weighted estimate of credit losses that takes into account the time value of money. Subsequent to the initial recognition of financial assets included in the impairment policy, the Bank records a loss provision (provision for a financial asset) that equals 12-month ECLs arising from events that might cause the default status in the next 12 months.

Subsequently, for financial assets for which a significant increase in credit risk from initial recognition has been determined, a provision for loss (provision for a financial asset) is recognised as equal to ECLs over the useful life of the financial asset, which arise from events that might cause the default status during the expected life of the financial asset.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.3. Financial Assets and Liabilities (Continued)

Measurement of expected credit losses

The measurement of ECLs is the objective (impartial) probability-weighted average estimate of credit losses that reflects the time value of money, which is determined by evaluating a number of possible outcomes. Credit loss is the difference between the cash flows that the Bank claims under the agreement and the cash flows that the Bank expects to receive (i.e., a cash shortfall) discounted by the initial effective interest rate of a particular financial instrument.

When measuring ECLs, the information on past events, current conditions and reasonable and substantiated estimates of the future situations are considered. The credit conversion factors (CCF) are applied for undrawn funds and financial guarantees in the calculation of ECLs.

ECLs are calculated for the maximum agreed period of credit risk exposure based on a specific financial instrument.

When a loan is uncollectible, it is impaired through the loan impairment account. Such loans are impaired after all necessary procedures have been completed and the amount of loss determined.

If, in the coming period, the amount of the impairment loss decreases, and the decrease can be objectively related to an event occurring after the impairment has been recognised (such as improvement of the borrower’s credit rating), the previously recognised impairment loss is adjusted by changes made to the allowance for impairment account. The adjusted amount is presented in the income statement.

Business model

The Bank’s business model for loans and receivables from customers is based on the “hold to collect” model or to hold financial assets to collect their contractual cash flows:

- The Bank's approach to banking is both simple and traditional;
- There is a clearly defined target group (SMEs);
- The Bank offers simple credit services, including loans, overdrafts, credit facilities; credit cards and documentary business facilities, and
- There is no compensation system based on performance at any level.

The business model includes key activities of simple and traditional banking, whereby the Bank specialises in satisfying the needs of SMEs, including their owners and business partners. At the same time, the Bank offers banking services to private individuals in the form of simple and easily accessible deposit facilities, thus promoting the development of a savings culture and contributing to the greater economic stability of private households.

The Bank does not offer complex financial products or asset management services, but it is rather focused on transparent and simple products sought after by small- and medium-sized enterprises and private households. Its primary source of income is interest accrued on the loan portfolio. Interest rates are transparently determined and competitive in terms of the market.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.3. Financial Assets and Liabilities (Continued)

Business model (Notes)

The sale of portfolios does not necessarily change the business model i.e., if sales are not frequent (even if they are materially significant in terms of value) or their value is immaterial either at individual or total level (even if they are frequent). These types of sales may be:

- Regular sale for the following reasons:
  - Increased credit risk (non-performing/defaulted exposures), and
  - Other reasons - when annual sales are less than 5% of the total average annual loan portfolio, the portfolio is considered materially insignificant and does not conflict with the business model - “hold to collect” model.
- Irregular sales - as a result of a change in the business strategy:
  - Sale of a financial asset as it no longer fulfils the credit conditions provided in the Bank’s Business Strategy.

The business model is assessed on an *ad hoc* basis if there are significant changes in the business activity and/or strategy.

SPPI test

The SPPI (*Solely Payment of Principal and Interest)* criterion is fulfilled if the contracted terms of the financial asset initiate cash flows on the indicated dates, which are solely payments of the principal and interest on the outstanding principal amount.

The principal is defined as the fair value of a financial asset during initial recording. It has been accepted that the principal can change over time if there are repayments of the principal.

Interest rate should contain only the following elements:

- Time value of money,
- Credit risk related to the outstanding principal amount;
- Other basic lending risks and costs – liquidity risk, administrative costs; and
- Profit margin.

Measuring financial assets at amortised cost is adequate only for simple cash flows with low variability, such as simple credit products, receivables and debt securities. Contracted cash flows that fulfil the SPPI criterion are in line with basic lending arrangements, i.e. Bank’s products.

The Bank performs a SPPI test at least in the following circumstances:

- Initial test,
- When introducing new loan facilities, the Bank should include an SPPI test as part of the New Risk Approval (NRA),
- When introducing a new agreement model,
- When introducing a new individual agreement;
- When introducing new provisions which are not confirmed or documented to fulfil the SPPI criterion, and
- When the Bank decides to exercise a contractual right, which may include an interest rate increase due to the deterioration of the macroeconomic market situation. The Bank should provide evidence and document that the changes which arise from exercising the said right meet the SPPI criterion.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.3. Financial Assets and Liabilities (Continued)

Reclassifications

Financial assets are reclassified only in case when the business model for managing financial assets is changed. Reclassification is performed in line with the principles defined by IFRS. Financial liabilities are not reclassified.

5.3.1. Financial Assets at Amortised Cost

Financial assets at amortised cost are non-derivative financial assets with fixed or determinable payments which are not traded on an active market.

Financial assets at amortised cost are recognised when assets are transferred to the borrower. After the initial recognition, and based on the business model solely aimed at collecting contracted cash flows and the characteristics of contracted cash flows for the purpose of solely collecting interest and principal, subsequent measurements are performed at amortised cost using the effective interest rate, less the allowance for impairment. Amortised cost is calculated by taking into account all costs of the loan approval as well as all discounts and premiums with regard to the settlement of liabilities.

5.3.2. Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)

Financial assets are measured at FVOCI when the following conditions are met:

- The business model defines that a financial asset is to be held to collect agreed cash flows and sales, and
- Contractual cash flows are exclusively related to the collection of the principal and interest.

After the initial recognition, financial assets at FVOCI are carried at fair value.

Unrealised gains and losses on financial assets at FVOCI are recorded under revaluation reserves, until the financial asset is sold, collected or realised in some other manner, or until it is impaired.

When financial assets classified as financial assets at FVOCI are disposed or impaired, accumulated fair value adjustments recognised within equity are recorded in the income statement.

5.3.3. Financial Assets at Fair Value through Profit or Loss (FVTPL)

Financial assets that have not fulfilled the criterion to be measured at amortised cost or at FVOCI are classified as financial assets at FVTPL.

Derivative financial instruments are also classified as instruments measured at FVTPL unless they have been designated as hedging instruments. Gains and losses that arise from fair value changes of derivatives are included in net gains from changes in the fair value of financial instruments.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.4. Financial Liabilities

Deposits, borrowings and subordinated liabilities are the main sources of the Bank's financing, and are initially measured at fair value, including any directly attributable transaction costs.

Deposits, borrowings and subordinated liabilities are subsequently carried at amortised cost. All differences between cash inflows, less transaction costs and the redemption value, are recognised in the income statement and deferred over the useful life of the financial instrument using the effective interest rate method.

5.5. Off-setting of Financial Instruments

Financial assets and liabilities are offset, and the difference between their sums is recognised in the balance sheet when there is a legal right to offset the recognised amounts and the intention to perform settlement on a net basis, or to simultaneously realise both the asset and the liability.

5.6. Sale and Repurchase Agreements

Securities purchased under a repurchase agreement (‘reverse repos’) are recognised as Loans and receivables from banks and other financial institutions. Repo transactions are included in the position Loans and receivables from banks and other financial institutions if their maturity is less than three months from the date of purchase. The difference between the sale price and the repurchase price is treated as interest and accrued over the contract term.

5.7. Cash and Balances with Central Bank

Cash and balances with central bank are carried at amortised cost in the balance sheet and comprise balances with maturities of less than three months from the date of acquisition, including cash in the gyro account, cash in the vault and cash on hand, both in RSD and foreign currencies, the required reserve held with the National Bank of Serbia, and deposited surpluses of liquid assets with the National Bank of Serbia.

5.8. Investments in Subsidiaries

Investments in subsidiaries initially recognised at cost. Investments in subsidiaries are subsequently measured at cost, less any accumulated impairment loss.

5.9. Property Plant and Equipment

Property, plant and equipment comprise property, equipment, other fixed assets and construction in progress.

All fixed assets, except for property, are stated under historical cost convention less accumulated depreciation and total impairment losses. Historical cost includes expenses that are directly attributable to the acquisition of these items.

Property is initially recognised at cost. Subsequent to the initial recognition, property is measured at cost using the revaluation model (fair value). Subsequent to the initial recognition of property, the recording at revalued cost, which represents its fair value on the date of revaluation, is reduced by the total subsequent accumulated depreciation. Revaluation is conducted every 5 years in order to ensure that the carrying amount does not significantly differ from the value that would be achieved if the fair value as of the balance sheet date were used. The valuation of property may be conducted by authorised appraisers only.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.9. Property Plant and Equipment (Continued)

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

Depreciation is calculated on the revalued amount of the property, i.e. the cost of other fixed assets on a straight-line basis, using depreciation rates which are set to make their full depreciation over the estimated useful life. Calculation of depreciation commences in the following month after these assets have been put in use.

Applied annual depreciation rates are as follows:

Description	% for 2021	% for 2020
Commercial buildings	2.50%	2.50%
Computer equipment	20%	20%
Furniture	10%	10%
Safes	15.50%	15.50%
ATMs	14.30%	14.30%
Leasehold improvement	Based on the lease term of business premises	Based on the lease term of business premises
Right to use assets	Based on the duration of a specific right to use an asset	Based on the duration of a specific right to use an asset

The residual value of assets and useful life are reviewed and adjusted accordingly as of each respective balance sheet date.

Gains and losses arising from the disposal of assets are determined by comparing a cash inflow with the carrying amount, and are recognised in the income statement within other operating income/other expenses.

5.10. Investment Property

Investment property is property held by the owner or a lessee in order to generate rental income or increase the value of equity or both, and it is not held a) to be used for manufacturing or the procurement of goods or services or for administrative purposes; or b) to be sold in the ordinary course of business.

Investment property is recognised as assets when it is probable that the Bank will have future economic benefits from these assets and when their cost can be reliably measured.

Investment property is initially measured at cost. The measurement of investment property after initial recognition is done according to the cost model. After the initial recognition, investment property is stated at historical cost, less accumulated depreciation and total impairment losses.

Subsequent costs are included in the presented amount of investment property only when it is probable that the future economic benefits will flow to the Bank and when its value can be reliably measured. All other repairs and maintenance are charged to the income statement during the financial period in which they arise.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.10. Investment Property (Continued)

Depreciation is calculated on the cost of investment property on a straight-line basis, using depreciation rates, which are set to make their full depreciation over the estimated useful life. Calculation of depreciation commences in the following month after these assets have been put in use.

Investment property is depreciated using the straight-line method and the annual rate that the Bank applies during the depreciation of commercial buildings.

5.11. Intangible Assets

Intangible assets acquired through purchase are carried at cost, less allowance for impairment and any potential accumulated impairment losses. Intangible assets include software, licenses and other intangible assets under construction.

Acquired computer software licences are capitalised in the amount of the costs incurred to acquire and put the software into use. These costs are amortised over their estimated useful lives and the period for which the licences have been granted.

Costs associated with developing or maintaining computer software programmes are recognised as an expense when incurred. Costs that are directly associated with the identifiable and unique software products controlled by the Bank, which will probably generate economic benefits exceeding the costs longer than one year, are recognised as intangible assets.

Amortisation is calculated on the cost of an intangible asset on a straight-line basis, using amortisation rates, which are set to make their full amortisation over the estimated useful life. Calculation of amortisation of intangible assets commences in the following month after these assets have been put in use.

The estimated useful life of intangible assets is five years, the amortisation rate is 20% except for assets whose useful life is determined based on a contract, when the amortisation is done within the contracted terms.

Intangible assets also include non-amortisable software under construction since it is not in use yet.

5.12. Impairment of Non-financial Assets

Assets that are subject to depreciation/amortisation are reviewed for impairment when some events or changed circumstances indicate that the carrying value might not be recoverable. An impairment loss is recognised in the amount by which the carrying amount of an asset exceeds its recoverable amount.

The recoverable amount is an amount larger than the fair value of an asset, less the selling costs and the value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels at which separate identifiable cash flows (cash generating units) can be determined.

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.13. Leases

When concluding a lease agreement, the Bank assesses whether it includes lease components.

An agreement is a lease agreement which includes lease elements if it cedes the right of control of using certain property during a given period in exchange for compensation, which:

1. May be identified;
2. The lessee acquires all economic benefits from the use of the identified asset; and
3. The lessee has the right to control the use of the identified asset.

The Bank appears as a lessee in lease agreements. If the value of a new identified asset in the agreement is not above EUR 5,000 or a short-term lease is in question (the lease term does not exceed 12 months), the Bank uses the possibility of the exemption for short-term leases and low-value leases, and does not recognise such agreements as leases in line with IFRS 16. Additionally, IT equipment rental agreements are not classified as leases as the value of individual new assets listed in the agreement are below EUR 5,000. The Bank assesses the term of the lease in line with its business plans in future periods for agreements that do not include an explicit lease term.

The Bank recognises lease agreements in the balance sheet as assets (right-to-use assets) and liabilities (lease liability). The initial value of the right-to-use identified lease assets is equal to the present value of future lease liabilities plus direct lease costs.

The Bank states the cost of depreciation and interest expense in the income statement, which comprise the total cost of lease. Depreciation is recognised in the income statement according to the straight-line method from the time of recognition until the end of the lease period.

For low-value lease assets and short-term leases the Bank recognises the cost of using these assets in the period when the service was provided.

Costs included in the initial recognition of lease liabilities are fixed or indexed payments (instalments), the cost of early termination if the Bank assesses that it will terminate a lease agreement prior to its expiry, the cost of exercising the agreement renewal option if the Bank estimates it will implement this option. Tax expenses, insurance and other administrative costs are not lease components and are directly charged to expenses for the period in which they are incurred.

The modification of lease agreements is a change in the contracted lease terms and conditions (e.g. an increase/a decrease in the lease scope, a change in the lease term or price, etc.). Modification may be in the form of a separate lease agreement or an amendment to an existing lease agreement. Amendments to an existing lease agreement shall be treated as a new lease in case of a significant change in the lease scope or price. If the modification is not in the form of a separate lease, the Bank will again estimate the value of the agreement with its amended terms and make a correction to the existing agreement by recognising gains or losses in the income statement.

Incremental Borrowing Rate

Based on available data, in order to determine the incremental borrowing rate, the Bank used the interest rates that apply to government bonds closest to the period of lease agreement conclusion, i.e. the period of the first adoption increased by the Bank’s credit risk, with a maturity equal or closest to the lease term.

In line with the aforementioned, the Bank assesses its incremental borrowing rate as a yield rate achieved from the first issuance of treasury bonds of the Republic of Serbia, increased by the Bank’s credit risk which is 1%.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.13. Leases (Continued)

Accounting Treatment

The Bank records the right to use identified lease assets under Property, plant and equipment. The initial value of the right to use assets is equal to the present value of future lease liabilities discounted by the incremental borrowing rate.

Lease liabilities are recognised under Other liabilities.

The Bank records interest expense and amortisation/depreciation charges, which constitute the total lease cost, in the income statement.

For low-value assets and short-term leases, the Bank recognises the cost of using these assets in the period when the service was provided.

5.14. Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

When there is a larger number of similar liabilities, the probability that a cash outflow will be required to settle a liability is determined by considering the type of liabilities as a whole. Provisions for legal risks are recognised in the full amount if the probability of cash outflows is higher than the probability that a cash outflow will not occur.

Provisions are measured at the present value of expected expenses required to settle the liability, using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks incidental to the liability. An increase in the provision due to lapse of time is recognised as the provision cost.

As regards the provision for litigations, the Bank uses the average interest rate for the Bank loans in EUR and RSD (depending on the currency of calculation) as a discount rate, from its current price list in accordance with the average provision amount per dispute and the average estimated duration of a lawsuit. The discount is not performed for those disputes that are expected to be completed in the next accounting period.

Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognised in the financial statements. They are disclosed in the notes to the financial statements (Note 39), unless the possibility of an outflow of resources embodying economic benefits is remote.

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

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.15. Financial Guarantees

Financial guarantees are agreements that require that the issuer make payments in order to reimburse the holder for a loss incurred because a borrower has failed to make payments on time, and in accordance with the debt instrument terms. Financial guarantees are issued to banks, financial institutions and other bodies on behalf of customers for the purpose of collateralising loans, overdrafts and other banking services.

Financial guarantees are initially recognised in the off-balance sheet records at fair value on the date of the guarantee issuance. Subsequent to the initial recognition, Bank’s liabilities arising from financial guarantees are carried at a value higher than the initial measurement, adjusted for depreciation that is calculated for the purpose of recognising fee and commission income in the income statement generated on a straight-line basis over the guarantee term and the calculation of an allowance for impairment in line with IFRS 9.

5.16. Employee Benefits

Employee benefits include liabilities arising from salaries defined under the employee contract and payroll contributions.

(a) Payroll Taxes and Contributions for Social Security

The Bank and employees pay mandatory contributions to state pension funds. These liabilities include contributions on behalf of employees and the employer in the amounts calculated using the statutory rates. Once the contributions are paid, the Bank is no longer obliged to pay them.

Contributions are recognised as employee benefit expenses when they become due. Overpaid contributions are recognised as an asset in the amount that can be refunded or in the amount by which the future payment of liabilities is reduced.

(b) Other Employee Benefits

Pursuant to the Labour Law of the Republic of Serbia, the Bank is obligated to pay retirement benefits to its employees when they retire. The entitlement to these benefits is usually conditioned by the employee’s obligation to stay at the company until the retirement age limit and the fulfilment of the minimum prescribed service. The expected costs of these benefits are accumulated over the period of employment.

The defined pension liability is estimated annually by independent, certified, actuaries using the projected credit unit method.

The present value of the liability based on the defined benefits is determined by discounting the expected future cash outflows using the interest rates of high-quality bonds that are denominated in the currency in which the retirement benefits will be paid and whose maturities approximate the maturities of the related retirement benefits.

Actuarial gains and losses, if they are material, are credited or charged to equity, whereas costs of the current work and past work and interest are charged or credited to the income statement.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.17. Corporate Income Tax and Deferred Taxes

Current Income Tax

Income tax is an amount calculated at the rate of 15% (2020: 15%) on the profit before tax, after deducting the effects of permanent differences that reduce the prescribed tax rate to the effective tax rate.

The total amount of income tax liabilities is determined by applying the statutory tax rate on the tax base stated in the tax balance sheet. Estimated monthly instalments are calculated by the Bank and paid in advance on a monthly basis.

The Corporate Income Tax Law of the Republic of Serbia does provide for the possibility that any tax losses of the current period are used to recover taxes paid within previous periods. However, losses recognised in the tax return in the current accounting period may be used to reduce the tax base of future accounting periods, but not longer than five ensuing years.

Deferred Income Tax

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is measured against the income tax rate (15%) and the law that are effective until the balance sheet date, which are expected to be applied in the period in which the deferred tax assets will be realised or the deferred tax liabilities settled.

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

The principal temporary differences arise from depreciation of property, revaluation of certain financial assets and liabilities, including derivative agreements, provisions for retirement benefits and other post-retirement employee benefits, and carry forwards of tax credits.

Deferred income tax related to re-measurement of the fair value of investments in securities at FVOCI, which are directly charged or credited to equity, is also directly charged or credited to equity and subsequently recognised with deferred profit or loss in the income statement.

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

Current and deferred taxes are recognised as income or expense and are included in net profit for the period other than those amounts that are recorded directly in equity in the current or other accounting period.

Indirect Taxes and Contributions

Taxes and contributions that do not rely upon the operating result include property taxes, value added tax, payroll contributions on behalf of the employer, and other taxes and contributions payable in accordance with national and local tax regulations. These taxes and contributions are disclosed within Other expenses (Note 17).

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5.18. Equity

The Bank's equity includes share capital, share premium, revaluation reserves, reserves of fair value and accumulated profit.

Gains and losses arising from changes in the market value of securities measured at fair value through other comprehensive income, as well as the allowance for impairment of these securities in accordance with IFRS 9, are recorded within unrealised gains/losses on the indicated securities.

5.19. Repossessed Property (Acquired following the Foreclosure on Loans)

Repossessed assets following the foreclosure on impaired loans are included in Other Assets unless otherwise stated. Such assets are held temporarily for the purpose of liquidation and carried at the cost lower than the cost or market value less the costs to sell.

All gains or losses on disposal of assets are included under Other operating income/Other expenses.

5.20. Non-current Assets Held for Sale

In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the Bank classifies non-current assets as held for sale if the carrying amounts thereof can be recovered principally through a sale transaction rather than through continuing use. For this to be the case the assets must be available for immediate sale in their present condition and the sale must be highly probable.

For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, there is an expectation that a sales transaction will be realised within a period of one year from the date of classification of the asset as held for sale.

Events or circumstances out of the Bank's control may cause extension of the sale completion period to a period of over one year, which does not prevent assets from being still classified as assets held for sale.

Non-current asset held for sale is initially measured at the lower of:

- the carrying value or
- fair value less costs to sell.

The Bank does not depreciate non-current assets classified as assets held for sale.

5.21. Related Party Disclosures

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

Relations between the Bank and its related parties are regulated at contractual basis. Outstanding balances of receivables and liabilities at the reporting date, as well as transactions occurred during the reporting periods with related parties are disclosed separately in notes to the financial statements (Note 43).

6. FINANCIAL RISK MANAGEMENT

The Bank's operations are exposed to various types of risks. The objective of risk management is to establish an adequate system for identifying, measuring, assessing and monitoring the risks to which the Bank is exposed in its operations, as well as an appropriate response in order to pre-empt possible adverse effects on the Bank's capital or financial result.

The Executive Board of the Bank defines risk management policies and procedures, which are consistent with the common strategy and risk management policy adopted at the level of ProCredit Group, as well as with the laws and by-laws applicable in the territory of the Republic of Serbia. The Board of Directors of the Bank approves the risk management strategy and policies, as well as the capital management strategy. The Board of Directors of the Bank reviews and evaluates said strategies and policies, as well as the adequacy and efficiency of the risk management process in the Bank. The Executive Board implements the risk management strategy and policy in accordance with decisions passed by the Board of Directors. In addition, the Executive Board approves risk management procedures.

The risk management process is organised through a system of risk management committees, which regularly meet according to a pre-determined schedule stipulated by the operating procedures for these committees, and mandatorily attended by the members of the Bank's Executive Board. The committees are:

- Credit Risk Committee;
- Asset-Liability Committee (ALCO); and
- Operational Risk Committee.

Identifying, measuring, analysing, and reporting on the risk exposure is entrusted to a separate organisational unit of the Bank, i.e. Risk Management Department.

Types of Risk

The Bank is especially exposed to the following risks, which are inherent to its activities:

6.1. Credit risk;
6.2. Market risks:
  6.2.1. Interest rate risk,
  6.2.2. Foreign exchange risk,
  6.2.3. Fair value of financial assets and liabilities;
6.3. Liquidity risk;
6.4. Bank's risk exposure to one related party or a group of related parties;
6.5. Risk of investment in other legal entities and fixed assets;
6.6. Country risk;
6.7. Operational risk, including inadequate IT risk management and inadequate management of other technologies important for the Bank's operations; and
6.8. Capital management.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk

In its ordinary course of business, the Bank is exposed to credit risk, which can be defined as the likelihood that a borrower will not settle their obligations to the Bank in the contracted amount and on the due date. The credit risk exposure primarily results from lending to customers.

In order to maintain credit risk at an acceptable level, the Bank:

– evaluates the creditworthiness of each borrower based on their total indebtedness under loans, guarantees, and other credit products;
– analyses risks arising from the very investment that is the subject of lending;
– determines borrowing limits of customers based on a risk assessment;
– increases the credit exposure only for creditworthy clients and provides appropriate collaterals; and
– has clearly defined loan approval policies, processes and procedures, an adequate organisational structure for credit risk management with a clear division of duties regarding the customer relations and evaluation of customers' creditworthiness.

In order to control credit risks, the Bank has adopted a prudential credit policy. Those customers that are extended loans are carefully and thoroughly assessed. Decisions on granting loans to clients are made based on the borrower's repayment capacity and the corresponding collateral.

The credit exposure decision is based on the following four criteria:

a) **Reliability, reputation and stability of client's operations**: results of a client profile analysis and how well the client mitigates operational risk, management risk, organisational risk, market risk and political and legal risk. It also includes the client's credit history with the Bank and other financial institutions, and a breakdown of used services offered by the Bank; client's decisions made in the past and client's legal history. For exposures which require the results of the classification of risk, said results will also be taken into account.
b) **Customer's liquidity:** the results of an evaluation conducted by Bank's competent employees on customer's ability to repay the loan.
c) **Pledge:** structure and value that meets the Bank's requirements.
d) **Business potential**: the client's needs as a supplement to the request which is currently being processed and potential future collaboration with the Bank.

6.1.1 Classification of Loans and Placements and Credit Risk Provisions

The Bank has developed procedures for classification of loans and other Bank's receivables in line with the assessed level of collectability.

Internal Provisioning Policy

The Bank calculates an allowance for impairment of loans (provisions) on a monthly basis for customers for which provisions are formed at the portfolio level (group provisions) and for individual provisions – allowances for impairment that are established for an individual client.

The central element of the IFRS 9 impairment approach for the Bank is the expected loss model for impairment recognition and measurement.

This model requires the timely identification of ECLs in order to ensure that the amount of identified ECLs reflects changes in the credit risk of financial instruments on each reporting date.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

As such, this model is based on the forward-looking approach and replaces the incurred loss model used to identify credit losses by identifying credit losses that have not been exclusively triggered yet by loss driven events.

The objective of the impairment model is to identify ECLs during useful lives considering all realistic and supporting information, including the forward-looking.

Therefore, the necessity to make a provision for ECLs over the loan useful life occurs when a significant credit risk increase has been identified since the exposure occurrence date.

The methodology for determining a significant increase in credit risk is based on comprehensive forward-looking information and historical information.

This model has three stages which are based on changes in the credit risk exposure occurred since the date of initial recognition.

Stage 1 (12-month ECLs)	**Stage 2** (Lifetime ECLs)	**Stage 3** (Lifetime ECLs)
Usually newly disbursed exposures Exposures without any signs of a significant credit risk increase	Significant credit risk increase PAR30-90 Multiple restructurings Watch restructurings Standard restructurings	PAR90 Impaired restructured exposures Judicial proceedings Bankruptcy Credit fraud Risk classification 8 Other signs
Loan portfolio management process		
Performing portfolio without a significant credit risk increase since the occurrence	Loan portfolio with an increased credit risk since the occurrence. It may be subject to intense monitoring depending on the risk level.	Loan portfolio where NPL management is applied, i.e. debt collection procedures

A significant credit risk increase is typically identified during an analysis/monitoring of the client's financial position or by detecting any ad-hoc cases that indicate a risk increase. Bothe events trigger an update of customer's risk classification. On the other hand, historical data are taken into account considering that exposures are transferred to Stage 2 and Stage 3 depending on the days in default as a criterion.

This method involves a comprehensive analysis of various sources of information, including an analysis of the borrower's financial position, historical data, restructuring information and an analysis of expected macroeconomic movements (through a risk classification).

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Stage 1

Stage I includes financial assets that have not experienced a significant increase in credit risk since the initial recognition as well as those assets that show low credit risk at the reporting date or those assets for which there are no triggers indicating a need for allocation to Stage 2 or Stage 3. Assets are allocated to Stage 1 after the initial recognition, except for POCI assets treated and reported separately within Stage 3. For assets in Stage 1 an expected credit loss arising from a possible default within a 12-month period from the reporting date (12-month ECL) is recognised as expense. For exposures with a residual maturity of less than 12 months, the applied PD reflects the residual maturity.

Credit exposures are not considered to have a low credit risk solely due to the collateral value, nor do loan agreements have low credit risk solely because they have a lower default risk than other credit services.

All exposures in this stage comprise a portfolio that does not show any signs of increased credit risk.

Stage 2

Stage 2 includes financial assets that have experienced a significant increase in credit risk since the initial recognition, but for which there is no objective evidence of impairment. This assessment is based on adequate and verifiable information. An allowance for impairment is determined in the amount equal to lifetime expected credit losses (not impaired).

Significantly increased credit risk is determined on the basis of quantitative and qualitative information:

- Based on a comparison of the remaining lifetime PDs at the reporting date with their remaining lifetime PDs at the date of occurrence. Loss parameters are based on an internal risk classification system for exposures that can be rated. Significantly increased credit risk occurs if the difference in PDs is above the defined threshold, when the assets will be transferred from Stage 1 to Stage 2. Otherwise, the transfer from Stage 2 to Stage 1 is possible if credit risk is significantly reduced.

- When one of the following events occurs:
  - A customer is overdue more than 30 days, but less than 90 days; and
  - Standard or watch restructuring.

The lifetime ECL has to be determined once it has been transferred to Stage 2.

Stage 3

Stage 3 includes all exposures that are impaired as at the reporting date. The calculation of the allowance for impairment is based on lifetime ECLs taking into account 100% of PD (lifetime ECL credit impaired).

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Stage 3 (Continued)

The Stage 3 default credit exposures (default status) include all exposures where at least one of the following events has occurred:

- A client is overdue more than 90 days;
- Qualitative and quantitative criteria based on which the Bank has determined that there is a small probability that a client will repay their obligations in full without activating the collateral;
- A client is classified under risk classification 8;
- Case(s) of impaired restructuring;
- Bankruptcy proceedings have been initiated;
- The Bank has initiated a lawsuit against a client;
- Credit fraud; and
- Other signs of impairment.

The lifetime ECL has to be determined once it has been transferred to Stage 3.

Contamination Principle

There is no direct contamination between credit services of the same client/group of related parties for the purpose of classification per stages and the formation of a provision. The contamination is applied to the client status (restructured or non-restructured) and functions at the client level through risk classification. In this regard, the contamination principle is applied to all balance sheet credit exposures and all off- balance sheet exposures to clients.

Non-financial guarantees, such as a performance bond, are treated separately because of their nature, therefore losses incurred or expected losses from this type of service do not contaminate parallel services. If a client uses multiple parallel credit services (loan instalments, an overdraft, a revolving credit, credit cards, etc.), the highest default category and the worst restructuring category will determine the client’s risk classification. In addition, signs of impairment of client’s balance sheet credit exposure are a trigger for re-reviewing all client’s balance and off-balance sheet exposures.

The contamination principle does not apply to the Bank’s receivables generated by non- lending transactions, such as account maintenance fees, other fees and commissions and the like.

Allowance for Impairment and Provision for Credit Exposures

Balance sheet credit exposure – the gross carrying amount of the sum of all disbursed loans, the withdrawn portion of an overdraft, credit facilities and credit cards of customers or a group of related parties that are in repayment on the reporting date. These are typically calculated as: matured and undue principal + accrued interest + accrued default interest – non-amortised fee for the loan disbursement.

Exposures obtained in this manner, including the effect of full and partial prepayments, is the basis for the calculation of allowances for impairment (EAD).

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Off-balance sheet exposure – a sum of all Bank's receivables to clients or groups of related parties on the reporting date in the following categories:

a) Bank guarantees
   - Sureties and guarantees

b) Letters of credit

c) Borrowings, including contingent liabilities such as: the unused portion of the overdraft, credit facilities, credit card limits, approved but undisbursed loan tranches or other credit products. Borrowings may be:

   - revocable and they include liabilities which meet at least the following criteria:
     - may be cancelled at any time and for any reason by the Bank without a prior notification and unconditionally (the Bank has full authority over making decisions and is not obliged to take into consideration any terms/conditions, for example, a cancellation period or penalties prior to the loan cancellation);
     - borrowing/loan agreement envisages an immediate enforceable cancellation due to the deteriorated financial position of the borrower, in which case the Bank has to actively monitor the borrower's financial position; moreover, the Bank's internal control system should promptly identify the deterioration of the borrower's creditworthiness;
   - irrevocable and they include all borrowings that do not meet the aforesaid criteria.

The Credit Conversion Factors (CCF) that are based on the characteristics of financial services and, if applicable, on empirical data, are used to determine provisions for off-balance sheet exposures. The CCFs based on empirical data were implemented for certain financial services, while regulatory factors were applied to the rest of financial services.

Type of credit product	Credit conversion factor
Credit facility - revolving	27.84%
Undisbursed credit tranches (undrawn amounts of approved loans)	0%
Overdraft	70.31%
Credit cards	12.86%
Payment guarantees	100%
Letter of credit	50%

Expected Credit Loss (ECL) - an objective and probability-weighted amount, calculated as a difference between cash flows in line with contracted terms and cash flows that the Bank expects to receive. ECL is based on reasonable and substantiated information available without unnecessary expenses or effort on the date of reporting on past events, current conditions and a forecast of future economic conditions.

ECL is calculated based on the following parameters: exposure at default (EAD), probability of default (PD) and loss given default (LGD) and it is discounted on the present value.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

A time series of macroeconomic factors is taken from the IMF database on the expectations regarding economic trends in Serbia when assessing PDs and LGDs based on the statistical significance of the following values:

- GDP growth;
- Inflation change rate; and
- Unemployment rate.

These values are a direct reflection of the development of the business cycle and, as such, provide a valid potential input for cut-off date models. Final PiT parameters are weighted average forecast values based on various scenarios of macroeconomic factors in the future (forward-looking). In that regard, basic, optimistic and pessimistic scenarios are generated for each macroeconomic factor.

- The basic scenario is based on IMF's current forecasts.

- Pessimistic and optimistic scenarios:
  - Based on a historical distribution of changes in macroeconomic variables.
  - Scenarios are formed based on the distribution from the 25th and 75th.
  - Depending on the variable value, a higher (or lower) quintile can be interpreted as a pessimistic or an optimistic scenario. For example, for an inflation rate, the 75th percentile defines a pessimistic scenario, whereby the same percentile defines an optimistic scenario for GDP.

Pessimistic, basic and optimistic scenarios have the following weights: 0.25, 0.5 and 0.25.

The scenarios are generated for the observed period (usually for the current or following year) and for the coming period.

Covid-19 Impact

On 11 March 2020, the World Health Organisation declared COVID-19 a global pandemic. In order to suppress the epidemic within the country, the Government of the Republic of Serbia declared a state of emergency on 15 March 2020 that restricted the movement of the population. Certain types of economic activities involving gatherings of a larger number of people, such as restaurants, cafes, gyms, shopping centres, stadiums and theatres, were closed for business. In addition, on 17 March 2020 the National Bank of Serbia (NBS) adopted a set of measures to preserve the stability of the financial system, which included a mandatory loan moratorium offer.

Measure 1 - The Decision on Temporary Measures to Preserve the Stability of the Financial System envisaged a delay in the repayment of borrowings, implying that customers that accept the moratorium are not obliged to pay their liabilities arising from borrowings, both interest and principal, in the following 90 days.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Covid-19 Impact (Continued)

The moratorium on housing loans, consumer and cash loans, credit cards and current account borrowings was used by companies, entrepreneurs and private individuals. Furthermore, all collection and enforcement activities and the use of court-ordered payment instruments for a period of 90 days i.e. during the state of emergency, were postponed. The receivables from borrowers that were not in default over 90 days when the regulator's decision became effective were neither automatically considered restructured nor non-performing receivables, but it was individually reviewed whether a default status occurred.

According to the Decision on Temporary Measures to Preserve the Stability of the Financial System passed by the National Bank of Serbia, the Bank undertook all necessary measures and introduced a moratorium within the set deadline for all customers that did not oppose it.

Measure 2 – Pursuant to the regulations of the National Bank of Serbia, in August 2020 customers were granted an additional delay in the repayment of their liabilities maturing between 1 August and 30 September 2020 inclusive, as well as a delay in the repayment of liabilities that had matured in July 2020, but were not paid by the borrowers.

Measure 3 – Unlike the first two moratoriums, when all banks' customers were entitled to the delay in the repayment of their liabilities, in December 2020 the National Bank of Serbia's third measure (facilities involving a 6-month grace period) was intended for individuals, farmers, entrepreneurs and companies that were to decide individually whether they wanted to use the measure and send an application to their bank along with the supporting documentation confirming they have meet the criteria listed in the National Bank of Serbia's Decision.

The table below provides the results of the applied measures i.e. the share of the loan portfolio to which the NBS measures applied in the Bank's total gross exposure, as well as the share of customers:

	Share of the portfolio to which the measures applied in the total gross exposure	Share of customers that the measures were applied to
Measure 1	81%	76%
Measure 2	45%	67%
Measure 3*	1%	1%

* *Until 31 December 2021 inclusive*

Apart from the aforesaid measures passed by the regulator, the Bank categorised the SME loan portfolio with the aim of adequately identifying clients that are considerably affected by the pandemic and/or its negative impact.

The loan portfolio categorisation principle is a combination of the expected Covid-19 impact on the sector in which a customer operates and the pre- and post-pandemic financial key performance indicators. The portfolio is classified under four impact categories: very high, high, medium and low.

Based on the pandemic impact, each client category was assigned monitoring frequency and a type of a credit risk assessment process. More frequent monitoring was established for the customers that were significantly affected by the pandemic. The Bank chose an individual approach to assessing the pandemic impact on clients' repayment capacities, which involve necessary financial monitoring used to assess a potential credit risk increase.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Covid-19 Impact (Continued)

Low Covid-19 impact – the pandemic has no impact on client's operations or a client has been slightly affected; the client may overcome the situation with the help of general measures (moratorium, grace period, etc.); a default in the settlement of liabilities in not expected; a request for working capital may be expected.

Medium Covid-19 impact – the pandemic affects a client regardless of the approved moratorium; potential defaults may be expected; no need for restructuring; a request for working capital may be expected.

High Covid-19 impact - the pandemic affects a client regardless of the approved moratorium, usually for a period of over 6 months; the client may be able to overcome the situation with the help of funds approved by the bank and/or by selling fixed assets; a request for working capital and potential defaults may be expected; restructuring is an option.

Very High Covid-19 impact – the necessity of restructuring is highly likely.

The following matrix provides a portfolio categorisation taking into account the sectoral impact and client's financial performance before the pandemic:

Sectoral impact	Financial criteria		
	Low	Medium	High
Low	Low	Low	Medium
Medium	Low	Medium	High
High	Medium	High	Very high

Based on this categorisation, a greater pandemic impact is expected in clients whose financial performance is not satisfactory and that operate in a sector that is estimated to be heavily affected.

Adjusting Macroeconomic Factors for 2020 and Onwards

The adjustment procedure remains unchanged in relation to the previous year, i.e. macroeconomic factors for the period between 2020 and 2023 are to be replaced by the average of macroeconomic factors for a period between 2019 and a relevant year. Since the values for 2022 and 2023 become relevant for some of the forecast models, they are also included in the averaging process. The values for the years after 2023 remain unchanged.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Covid-19 Impact (Continued)

The following table provides a gross loan portfolio categorisation[1], monitoring implementation and its effects.

Loan portfolio	Loan portfolio as of 31 December 2021		Effects			
			Deteriorated risk class due to deteriorated financial position		Restructured	
	Gross amount	Number	Gross amount	Number	Gross amount	Number
Very high risk	2,433,585	27	2,009,844	13	-	-
High risk	17,569,139	355	8,023,331	98	-	-
Medium risk	3,341,165	1,146	9,717,024	170	-	-
Low risk	57,492,488	4,238	7,935,319	329	14,987	1
Uncategorised*	5,989,789	3,995	-	-	-	-
Total	**117,826,166****	**9,761**	**27,685,518**	**610**	**14,987**	**1**

* *Refers to the retail and unrated customers portfolios.*
*** The gross amount includes gross loans and interest, excluding fees receivable*

The monitoring results have shown substantial resilience of our clients to the crisis, which is mainly contributed by a large share of farmers and manufacturers (especially exporters), which account for a majority portion of the portfolio.

[1] The portfolio does not include commissions and receivables from the Development Fund

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

The Bank assesses impairment at individual and group levels.

Individual impairment assessment (known as **individual assessment)** – is an individual assessment of impairment losses for individually significant exposures, which is based on pre-defined quantitative and qualitative signs of impairment. Individually significant exposures are credit exposures whose sum of the balance sheet and off-balance sheet items exceed EUR 150,000 on the reporting date.

The assessment is based on an estimate of expected future cash flows of credit exposures, discounted at the original effective interest rate of credit exposures in order to calculate the net present value (NPV) of expected future cash flows derived from credit exposures. The level of placement impairment is determined by comparing the present value of expected future cash flows with gross carrying amounts.

An estimate of future cash flows is based on the following assumptions:

a) Regular cash repayments by a client include the assumption that the client, either a related party and/or guarantor, will be able to repay the loan from regular operating income.

b) Cash flows from the collection through collaterals include the assumption that the client, either a related party and/or guarantor, will not be able to repay the loan in full without initiating repayment through collaterals. A collateral collection does not necessarily entail the initiation of a civil proceeding after the Bank assumes the collaterals. This assumption includes the sale of collaterals regardless of which party exercise the right to the collateral.

Various probability-weighted scenarios have been introduced to calculate expected losses. An individual assessment is conducted at least quarterly.

In case of a **group impairment assessment**, financial assets are firstly classified according to portfolio quality indicators under impairment stages. Impairment stages differ according to a credit risk increase level since the initial recognition. According to IFRS 9, an appropriate LLP rate will depend on the portfolio segment accommodating the client’s exposure (Stage 3, Stage 2 and Stage 1).

In 2021 and 2020 there were no credit-impaired financial assets, whose contractual terms and conditions were considerably modified to result in the derecognition of the original asset and the recognition of a new financial asset (POCI). In order to calculate an allowance for impairment, these assets would remain in Stage 3 for their entire lifetime, i.e. calculation of lifetime ECLs.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Impairment Indicators

A regular assessment of objective evidence of impairment is applied to all balance and off-balance sheet exposures regardless of their amount. Therefore, the following indicators are treated as the signs of impairment:

- Impaired restructuring,
- The Bank has initiated a legal proceeding,
- Bankruptcy proceedings have been initiated;
- Maturity overdue for 90 days;
- Credit fraud;
- All clients with small or medium credit exposures with the risk classification 8;
- Impaired credit exposure (POCI) occurred on the initial recognition; and
- Other signs of impairment.

A regular assessment of objective evidence on off-balance sheet exposures is applied regardless of their amount. The following indictors are the signs of impairment:

- in bank guarantees – if a bank guarantee is presented for payment by the bank and if the client cannot directly settle the payment; and
- in letters of credit – letters of credit are presented to the bank for payment purposes or they are protested if a client cannot directly settle the payment.

In case of individually insignificant credit exposures showing the signs of impairment, an individual impairment test is not usually conducted as operational costs do not justify a comprehensive impairment test for each of these clients. Provisions are calculated using an LGD weight determined in case of forming a group provision. The Bank can only conduct an impairment test in exceptional cases for individually insignificant credit exposures by performing an individual impairment assessment.

Write-off Policy

The Bank's general rule is to write-off all loans which are overdue for more than 360 days and whose outstanding debt exceeds EUR 10,000, and loans which are overdue for more than 180 days for all loans whose outstanding debt is less than EUR 10,000. The write-off is conducted only is a loan is 100% provisioned for.

Modification of Financial Assets

Modifications are defined as any change in the loan agreement terms, whereby the said change impacts the gross carrying amount. This impact is measured by assessing the difference between the present value of future expected cash flows after the modification and the initial cash flow prior to the modification.

The type of modification is determined by testing the net present value, i.e. by comparing the present value of discounted expected cash flows after the modification in relation to the present value of the discounted initial cash flows of loans prior to the modification. The results may lead to significant or insignificant modifications based on a significance threshold of 10%.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.1 Classification of Loans and Placements and Credit Risk Provisions (Continued)

Modification of Financial Assets (Continued)

A classification, either significant or insignificant, will determine an accounting treatment which will then be applied to modified agreements.

Modifications below 1% are not even recognised as insignificant.

6.1.2 Loan Portfolio Quality

The table below provides an overview of the Bank's total exposure to credit risk as at 31 December 2021 and 2020. In addition to credit exposures based on loans to banks and loans to clients, the table also includes: placements to the National Bank of Serbia (NBS) based on repo transactions, NBS treasury bills, financial assets at FVOCI and off-balance sheet items that may generate credit risk for the Bank (broken down according to the items constituting the position).

Balance sheet items exposed to credit risk	Net exposure 31 December 2021	Net exposure 31 December 2020
Loans and receivables for business purposes	75,218,471	73,584,065
Loans and receivables for improving housing conditions and housing loans	5,737,082	4,666,578
Agricultural loans and receivables	34,414,169	31,101,518
Consumer loans and receivables	830,685	778,757
Other receivables from clients*	138	81,721
Loans and receivables from clients	**116,200,545**	**110,212,639**
Loans and receivables from banks and other financial institutions	**9,745,021**	**13,592,196**
Cash and balances with Central Bank	**18,757,005**	**16,022,819**
Securities	**7,156,940**	**5,292,086**
Other assets* **	**487,588**	**443,631**
Off-balance sheet items exposed to credit risk**	**14,236,193**	**15,021,630**
Balance as of (balance sheet and off-balance sheet items)	**166,583,292**	**160,585,001**

* *Receivables against subsidised interest from the Development Fund of the Republic of Serbia and the Ministry of Agriculture.*

** *The structure of all gross exposures of all off-balance sheet items is disclosed in Note 39, whereas the table above shows the amount of net exposures (a difference between gross and net exposures equals the provision for contingent liabilities in off-balance sheet items. The amounts off-balance sheet items do not include performance bonds.*

*** *The structure of other assets is disclosed in Note 30.*

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

The table above shows a total credit risk exposure scenario as of 31 December 2021 and 2020.

The Bank further analyses a credit exposure by loans and receivables from customers since the remaining stated financial assets do not carry a significant credit risk, as it can be seen from the structure of items.

The Bank's management deems that such an exposure structure adequately illustrates the existence of credit risk exposure control:

- 69.76% of the total exposure is related to loans and receivables from customers (31 December 2020: 68.63%), which reflects the Bank's core activity.
- Unlike the table breakdown that shows total balance sheet and off-balance sheet receivables for which impairment has been calculated, observed through the share of only balance sheet receivables (which implies the balance sheet item Loans and placements to customers), 97.08% of total balance sheet placements is classified under the most favourable risk category according to the Bank's internal classification, which reflects a high degree of receivable collectability (31 December 2020: 97.65%).
- 49.70% of the gross exposure of all loans and receivables from customers is collateralised with clients' deposits or mortgages on immovable property (31 December 2020: 51.26%).

The following tables show the quality of **loans and placements to customers** classified according to impairment stages:

31 December 2021	**Gross exposure**	**Allowance for impairment**	**Net exposure**
Impairment Stage 1	113,262,925	453,452	112,809,473
Impairment Stage 2	2,131,872	76,543	2,055,329
Impairment Stage 3	2,476,975	1,141,232	1,335,743
Total	**117,871,772**	**1,671,227**	**116,200,545**

31 December 2020	**Gross exposure**	**Allowance for impairment**	**Net exposure**
Impairment Stage 1	108,052,260	428,407	107,623,853
Impairment Stage 2	1,903,696	76,910	1,826,786
Impairment Stage 3	1,367,869	605,869	762,000
Total	**111,323,825**	**1,111,186**	**110,212,639**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

The following tables show **loans and placements to banks and other financial institutions** classified according to impairment stages:

31 December 2021	Gross exposure	Allowance for impairment	Net exposure
Impairment Stage 1	9,745,174	153	9,745,021
Impairment Stage 2	-	-	-
Impairment Stage 3	-	-	-
Total	**9,745,174**	**153**	**9,745,021**

31 December 2020	Gross exposure	Allowance for impairment	Net exposure
Impairment Stage 1	13,592,305	109	13,592,196
Impairment Stage 2	-	-	-
Impairment Stage 3	-	-	-
Total	**13,592,305**	**109**	**13,592,196**

The following tables provide **off-balance sheet items** classified according to impairment stages.

31 December 2021	Gross exposure	Provision	Net exposure
Impairment Stage 1	14,174,514	19,612	14,154,902
Impairment Stage 2	75,802	2,444	73,358
Impairment Stage 3	10,889	2,956	7,933
Total	**14,261,205**	**25,012**	**14,236,193**

31 December 2020	Gross exposure	Provision	Net exposure
Impairment Stage 1	14,962,674	18,850	14,943,824
Impairment Stage 2	75,965	670	75,295
Impairment Stage 3	3,338	827	2,511
Total	**15,041,977**	**20,347**	**15,021,630**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

The following table provides movements in the allowance for impairment according to the impairment stage of **loans and placements to customers** in 2021 and 2020:

Movements in IFRS provisions in 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance – 1 January 2021	**428,407**	**76,910**	**605,869**	**1,111,186**
Transfer to Stage 1	44,059	(43,991)	(68)	**-**
Transfer to Stage 2	(28,711)	28,732	(21)	**-**
Transfer to Stage 3	(3,550)	(12,444)	15,994	**-**
Changes in provisions due to credit risk changes	(127,481)	35,236	729,810	**637,565**
Allowance for impairment attributable to new loans *	160,518	2,688	104,854	**268,060**
Decrease due to collection	(19,790)	(10,588)	(79,249)	**(109,627)**
Write-offs - transfer to off-balance sheet items	-	-	(235,957)	**(235,957)**
FX differences and unwinding	-	-	-	**-**
Balance as of 31 December 2021	**453,452**	**76,543**	**1,141,232**	**1,671,227**

** Newly approved placements are classified per stage as at 31 December 2021, not at the time of the initial approval and/or purchase.*

Movements in IFRS provisions in 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance – 1 January 2020	**386,591**	**34,537**	**616,420**	**1,037,548**
Transfer to Stage 1	27,591	(27,000)	(591)	**-**
Transfer to Stage 2	(42,291)	43,785	(1,494)	**-**
Transfer to Stage 3	(15,342)	(38,156)	53,498	**-**
Changes in provisions due to credit risk changes	(133,265)	57,004	475,627	**399,366**
Allowance for impairment attributable to new loans *	233,654	26,387	25,744	**285,785**
Decrease due to collection	(28,531)	(19,647)	(194,290)	**(242,468)**
Write-offs - transfer to off-balance sheet items	-	-	(352,753)	**(352,753)**
FX differences and unwinding	-	-	(16,292)	**(16,292)**
Balance as of 31 December 2020	**428,407**	**76,910**	**605,869**	**1,111,186**

* *Newly approved placements are classified per stage as at 31 December 2020, not at the time of the initial approval and/or purchase.*

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

The following table provides movements in the allowance for impairment according to the impairment stage of **loans and placements to banks and other financial institutions** in 2021 and 2020:

Movements in IFRS provisions in 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance – 1 January 2021	**109**	**-**	**-**	**109**
Transfer to Stage 1	-	-	-	**-**
Transfer to Stage 2	-	-	-	**-**
Transfer to Stage 3	-	-	-	**-**
Changes in provisions due to measurement changes	-	-	-	**-**
Allowance for impairment attributable to new loans	45	-	-	**45**
(Decrease)/increase	(1)			**(1)**
FX differences	-	-	-	**-**
Balance as of 31 December 2021	**153**	**-**	**-**	**153**

* *Newly approved placements are classified per stage as at 31 December 2021, not at the time of the initial approval and/or purchase.*

Movements in IFRS provisions in 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance – 1 January 2020	**92**	**-**	**-**	**92**
Transfer to Stage 1	-	-	-	
Transfer to Stage 2	-	-	-	**-**
Transfer to Stage 3	-	-	-	**-**
Changes in provisions due to measurement changes	-	-	-	**-**
Allowance for impairment attributable to new loans	54	-	-	**54**
(Decrease)/increase	(37)	-	-	**(37)**
FX differences	-	-	-	**-**
Balance as of 31 December 2020	**109**	**-**	**-**	**109**

* *Newly approved placements are classified per stage as at 31 December 2020, not at the time of the initial approval and/or purchase.*

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

The following table provides movements in the **gross exposures of loans and placements to customers** through stages in 2021 and 2020:

Movements in gross exposures of loans and placements to customers in 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance – 1 January 2021	**108,052,260**	**1,903,696**	1,367,869	**111,323,825**
Transfer to Stage 1	1,610,262	(1,600,278)	(9,984)	**-**
Transfer to Stage 2	(3,753,399)	3,754,843	(1,444)	**-**
Transfer to Stage 3	(938,691)	(1,205,544)	2,144,235	**-**
Changes in the exposure level of existing placements	(20,103,063)	(326,665)	(965,694)	**(21,395,422)**
New placements	39,335,037	153,690	441,494	**39,930,221**
Collection	(10,939,481)	(547,870)	(263,544)	**(11,750,895)**
Write-offs - transfer to off-balance sheet items	-	-	(235,957)	**(235,957)**
Balance as of 31 December 2021	**113,262,925**	**2,131,872**	**2,476,975**	**117,871,772**

Movements in gross exposures of loans and placements to customers in 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance – 1 January 2020	**95,155,609**	**817,434**	**1,395,790**	**97,368,833**
Transfer to Stage 1	4,898,511	(4,836,700)	(61,811)	**-**
Transfer to Stage 2	(7,388,158)	7,434,618	(46,460)	**-**
Transfer to Stage 3	(85,400)	(736,531)	821,931	**-**
Changes in the exposure level of existing placements	(14,576,787)	(545,123)	(227,825)	**(15,349,735)**
New placements	44,053,602	521,249	9,391	**44,584,242**
Collection	(14,005,117)	(751,251)	(166,453)	**(14,922,821)**
Write-offs - transfer to off-balance sheet items	-	-	(356,694)	**(356,694)**
Balance as of 31 December 2020	**108,052,260**	**1,903,696**	**1,367,869**	**111,323,825**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

The following table provides an average 12-month probability of default per **gross loan portfolio segment** as of 31 December 2021 and 2020:

	One-year PD	Stage 1	Stage 2	Stage 3	Total 31 December 2021
Risk class 1-5	0.74%-3.09%	100,717,462	-	-	100,717,462
Risk class 6-7	7.34%-18.90%	78,358	2,090,740	-	2,169,098
Risk class 8	100%	-	-	1,913,096	1,913,096
No rating*	1.62%-14.12%	12,467,105	41,132	-	12,508,237
No rating*	100%	-	-	563,879	563,879
Total		**113,262,925**	**2,131,872**	**2,476,975**	**117,871,772**

* *Risk class is assigned to businesses with small and medium credit exposures over EUR 50 thousand (principal+off-balance sheet), all other exposures have no rating.*

	One-year PD	Stage 1	Stage 2	Stage 3	Total 31 December 2020
Risk class 1-5	0.74%-3.48%	97,522,612	60,202	-	97,582,814
Risk class 6-7	8.28%-21.32%	54,020	1,560,439	-	1,614,459
Risk class 8	100%	-	-	1,071,454	1,071,454
No rating*	2.16%-24.3%	10,475,628	283,055	-	10,758,683
No rating*	100%	-	-	296,415	296,415
Total		**108,052,260**	**1,903,696**	**1,367,869**	**111,323,825**

* *Risk class is assigned to businesses with small and medium credit exposures over EUR 50 thousand (principal+off-balance sheet), all other exposures have no rating.*

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

The following table provides an average 12-month probability of default on gross exposure of **off-balance sheet items** as of 31 December 2021 and 2020:

	One-year PD	Stage 1	Stage 2	Stage 3	Total 31 December 2021
Risk class 1-5	0.74%-3.09%	8,739,886	2,000	-	8,741,886
Risk class 6-7	7.34%	1,000	4,261	-	5,261
Risk class 8	100%	-	-	3,774	3,774
No rating*	2.52%	5,433,628	69,541	-	5,503,169
No rating*	100%	-	-	7,115	7,115
Total		**14,174,514**	**75,802**	**10,889**	**14,261,205**

* *Risk class is assigned to businesses with small and medium credit exposures over EUR 50 thousand (principal+off-balance sheet); all other exposures have no rating.*

	One-year PD	Stage 1	Stage 2	Stage 3	Total 31 December 2020
Risk class 1-5	0.74%-3.48%	13,807,873	34,062	-	13,841,935
Risk class 6-7	8.28%-21.32%	-	36,560	-	36,560
Risk class 8	100%	-	-	3,037	3,037
No rating*	2.16%-2.87%	1,154,801	5,343	-	1,160,144
No rating*	100%	-	-	301	301
Total		**14,962,674**	**75,965**	**3,338**	**15,041,977**

* *Risk class is assigned to businesses with small and medium credit exposures over EUR 50 thousand (principal+off-balance sheet); all other exposures have no rating.*

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Loan Portfolio Quality (Continued)

An analysis of **loans and placements to customers** by default days and impairment stages as of 31 December 2021 and 2020 is presented below:

	Loan portfolio			Gross exposure
	Stage 1	**Stage 2**	**Stage 3**	**31 December 2021**
Undue receivables	**111,341,214**	**1,086,337**	**603,291**	**113,030,842**
Overdue receivables	**1,921,711**	**1,045,535**	**1,873,684**	**4,840,930**
01-30 days	1,921,711	229,330	38,246	2,189,287
31-60 days		805,991	16,021	822,012
61-90 days		10,214	31,446	41,660
>90 days			1,787,971	1,787,971
Total	**113,262,925**	**2,131,872**	**2,476,975**	**117,871,772**

	Loan portfolio			Gross exposure
	Stage 1	**Stage 2**	**Stage 3**	**31 December 2020**
Undue receivables	**106,441,085**	**1,151,368**	**229,383**	**107,821,836**
Overdue receivables	**1,611,175**	**752,328**	**1,138,486**	**3,501,989**
01-30 days	1,611,175	118,687	30,166	1,760,028
31-60 days	-	208,394	2,424	210,818
61-90 days	-	425,247	3,973	429,220
>90 days	-	-	1,101,923	1,101,923
Total	**108,052,260**	**1,903,696**	**1,367,869**	**111,323,825**

Loans and placements to banks and other financial institutions in the amount of RSD 9,745,174 thousand as of 31 December 2021 (31 December 2020: RSD 13,592,196 thousand) are related to undue receivables classified under Stage 1.

Out of the indicated amount, a largest portion is related to the funds held with the National Bank of Serbia in the amount of RSD 6,599,366 thousand (31 December 2020: RSD 10,052,572 thousand). The credit rating agency Fitch assigned the BB+ credit rating and Moody’s assigned Ba2 to the Republic of Serbia.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Portfolio Quality (Continued)

Analyses of **off-balance sheet items** per days in default and stage of impairment of 31 December 2021 and 31 December 2020 are presented in the tables below:

	Loan portfolio			Gross
	Stage 1	Stage 2	Stage 3	31 December 2021
Undue receivables	**14,169,986**	**10,861**	**10,848**	**14,191,695**
Overdue receivables	**4,528**	**64,941**	**41**	**69,510**
01-30 days	4,528	62,836	1	67,365
31-60 days	-	2,105	-	2,105
61-90 days	-	-	-	-
>90 days	-	-	40	40
Total	**14,174,514**	**75,802**	**10,889**	**14,261,205**

	Loan portfolio			Gross
	Stage 1	Stage 2	Stage 3	31 December 2020
Undue receivables	**14,927,473**	**72,713**	**3,273**	**15,003,459**
Overdue receivables	**35,201**	**3,252**	**65**	**38,518**
01-30 days	35,201	-	-	35,201
31-60 days	-	3,250	-	3,250
61-90 days	-	2	65	67
>90 days	-	-	-	-
Total	**14,962,674**	**75,965**	**3,338**	**15,041,977**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.2 Portfolio Quality (Continued)

Analyses of **allowance for impairment on loans and receivables from clients** per days in default and stage of impairment as of 31 December 2021 and 31 December 2020 are presented in the tables below:

	Allowance for impairment and provisions			Total
	Stage 1	Stage 2	Stage 3	2021
Undue receivables	**441,200**	**45,407**	**167,112**	**653,719**
Overdue receivables	**12,252**	**31,136**	**974,120**	**1,017,508**
01-30 days	12,252	7,344	13,891	33,487
31-60 days	-	23,628	6,195	29,823
61-90 days	-	164	11,231	11,395
>90 days	-	-	942,803	942,803
Total	**453,452**	**76,543**	**1,141,232**	**1,671,227**

	Allowance for impairment and provisions			Total
	Stage 1	Stage 2	Stage 3	2020
Undue receivables	**420,419**	**49,443**	**76,114**	**545,976**
Overdue receivables	**7,988**	**27,467**	**529,755**	**565,210**
01-30 days	7,988	2,473	9,118	19,579
31-60 days	-	7,334	821	8,155
61-90 days	-	17,660	1,345	19,005
>90 days	-	-	518,471	518,471
Total	**428,407**	**76,910**	**605,869**	**1,111,186**

6.1.3 Analysis of Impaired Loans

The following tables present the Bank's impaired loan portfolio including allowance for impairment as of 31 December 2021 and 31 December 2020, respectively:

31 December 2021	Gross exposure	Allowance for impairment	Net exposure
Individually impaired	1,406,352	593,210	813,142
Group-based impaired	1,070,623	548,022	522,601
Total	**2,476,975**	**1,141,232**	**1,335,743**

31 December 2020	Gross exposure	Allowance for impairment	Net exposure
Individually impaired	721,354	320,574	400,780
Group-based impaired	646,515	285,295	361,220
Total	**1,367,869**	**605,869**	**762,000**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.3 Analysis of Impaired Loans (Continued)

Restructured Receivables

Restructuring measures include concessions granted to a client who has or will have difficulty in meeting financial obligations. Concessions are granted to the debtor on the basis of an agreement between the Bank and the client. Concessions may result in losses for the Bank and relate to any of the following procedures:

- Amendments to previous contractual terms that the debtor is deemed unable to meet due to financial difficulties that result in insufficient debt service capacity and that would not have been approved if the client had not had financial difficulties; and
- Full or partial refinancing of the debt contract, which would not have been approved if the client had no financial difficulties.

The criteria based on which the classification of restructured credit exposures is performed are explained below:

Standard restructured credit exposures are defined as credit exposures which at the moment of their restructuring meet the following criteria:

- Are rated as Distressed Restructuring with DO <=1%;
- Based on the performed assessment (including additional indicators for Unlikeliness to Pay), it was concluded that the client will be able to fulfil the obligation in full without foreclosure; and
- Are not already in default status (Level 3)/not-performing category based on any default/not-performing indicator

The terms of the Restructured Credit Exposure Standard reflect the current economic reality and, in general, the client's satisfactory ability to repay. They aim to reduce credit risk after credit exposure restructuring, and create a basis for later returning the client's credit exposure to the regular loan portfolio.

Impaired restructured credit exposures are defined as those credit exposures that at the time of restructuring indicate serious repayment issues which will probably have an impact on credit risk.

These are credit exposures that meet any of the following criteria at the time of restructuring:

- Exposure is already in default / non-performing status due to any default indicator (Level 3) / non-performing status;
- Based on the performed assessment (including additional indicators of Unlikeliness to Pay), it is unlikely that the liability will be paid in full without the realization of collateral, due to serious repayment problems faced by the client; and
- The restructuring measure applied results in Diminished financial Obligation (DO) >1%.

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.3 Analysis of Impaired Loans (Continued)

The following tables present the classification of **restructured credit exposures**:

31 December 2021	Gross exposure	Allowance for impairment	Net exposure
Standard restructuring	487,927	47,667	440,260
Impaired restructured	455,868	153,060	302,808
Total	**943,795**	**200,727**	**743,068**

31 December 2020	Gross exposure	Allowance for impairment	Net exposure
Standard restructuring	89,360	11,803	77,557
Watch restructuring	602,168	38,535	563,633
Impaired restructured	510,801	209,594	301,207
Total	**1,202,329**	**259,932**	**942,397**

6.1.4 Analysis of Collaterals

Collaterals used by the Bank in its operations include deposits, mortgage on commercial and residential buildings, pledge on movable property, sureties of legal entities and private individuals, guarantees issued by other banks, etc. Determining the fair value of a collateral is in accordance with the applicable Bank policy for assessing the value of a pledge (collateral).

An overview of the Bank's loans and receivables from clients, according to collateral and stage of impairment, whereby collateral is disclosed up to the gross receivables amount as of 31 December 2021 and 31 December 2020, respectively, is presented in the following tables:

	Stage 1	Stage 2	Stage 3	Gross exposure 31 December 2021
Secured by deposit	1,662,675	64,733	4,815	1,732,223
Secured by guarantee	15,749,428	367,233	271,502	16,388,163
Secured by mortgage	54,423,680	1,111,836	1,309,059	56,844,575
Unsecured	41,427,142	588,070	891,599	42,906,811
Total	**113,262,925**	**2,131,872**	**2,476,975**	**117,871,772**

	Stage 1	Stage 2	Stage 3	Gross exposure 31 December 2020
Secured by deposit	1,685,274	4,273	2,533	1,692,080
Secured by guarantee	14,073,380	126,453	47,617	14,247,450
Secured by mortgage	53,470,506	1,181,635	723,183	55,375,324
Unsecured	38,823,100	591,335	594,536	40,008,971
Total	**108,052,260**	**1,903,696**	**1,367,869**	**111,323,825**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.4 Analysis of Collaterals (Continued)

An overview of the Bank's loans and placement to customers according to collateral type, whereby collateral is disclosed up to the gross receivables amount, as of 31 December 2021 and 31 December 2020, respectively, is presented in the following table:

	Gross exposure 31 December 2021	Gross exposure 31 December 2020
Business purpose loans	**77,785,605**	**74,171,372**
Secured by deposit	1,568,237	1,548,389
Secured by mortgage	30,732,400	30,660,061
Secured by guarantee	14,159,946	12,796,938
Unsecured	31,325,022	29,165,984
Home improvement and housing loans	**5,981,848**	**4,738,398**
Secured by deposit	63,066	30,370
Secured by mortgage	5,499,255	4,265,366
Secured by guarantee	-	-
Unsecured	419,527	442,662
Agricultural loans	**32,985,095**	**31,485,308**
Secured by deposit	89,713	80,230
Secured by mortgage	20,517,540	20,277,085
Secured by guarantee	2,228,216	1,450,511
Unsecured	10,149,626	9,677,482
Consumer loans	**1,013,233**	**814,257**
Secured by deposit	11,208	33,092
Secured by mortgage	95,380	172,812
Unsecured	906,645	608,353
Development Fund and the Ministry of Agriculture	**105,991**	**114,490**
Unsecured	105,991	114,490
Total	**117,871,772**	**111,323,825**

An overview of ratio of the gross balance of housing loans to collateral value (LTV ratio) as of 31 December 2021 and 2020, respectively, is presented in the table below:

Housing LTV	31/12/2021	Housing LTV	31/12/2020
<50%	2,186,697	<50%	1,261,105
51%-70%	1,617,680	51%-70%	1,612,972
71%-90%	1,302,811	71%-90%	1,054,295
91%-100%	208,589	91%-100%	235,223
>100%	78,584	>100%	140,632
Total	**5,394,361**	**Total**	**4,304,227**

6. RISK MANAGEMENT (Continued)

6.1. Credit Risk (Continued)

6.1.5 Structure and Diversification of Loan Portfolio

Breakdown of the Bank's loans and placements to customers per industry sector as of 31 December 2021 and 2020 is presented below:

	Loans to customers	
	31 December 2021	31 December 2021
Agricultural	32,705,381	31,114,100
Industrial and other manufacturing	32,060,326	29,155,802
Trade	21,448,901	23,711,273
Construction	8,508,929	6,273,899
Other services	6,429,405	5,531,289
Private individuals	6,720,906	5,075,884
Transport	4,345,706	4,538,895
Tourism	3,973,439	3,558,881
Other	7,552	1,252,616
Total	**116,200,545**	**110,212,639**

The geographical distribution of the Bank's loans and placements to customers as of 31 December 2021 and 2020 is presented below:

	31 December 2021		31 December 2020	
	Loans to customers	Share (%)	Loans to customers	Share (%)
Belgrade region	50,011,754	43,04%	43,833,798	39,77%
Central region	11,508,534	9,90%	10,800,357	9,80%
Southern region	13,649,299	11,75%	13,551,610	12,30%
Northern region	41,030,958	35,31%	42,026,874	38,13%
Total	**116,200,545**	**100.00%**	**110,212,639**	**100.00%**

The structure of the loan portfolio is constantly monitored through meetings of the Credit Risk Committee in order to identify any form of concentration risk.

Events which may have an impact on a large segment of the portfolio, whether in terms of geographic region or industry, may result in the Bank establishing limits for certain client groups who belong to these segments which have been exposed to this common risk factor.

6. RISK MANAGEMENT (Continued)

6.2. Market Risk

6.2.1 Interest Rate Risk

The Bank is exposed to changes in market interest rates, which have an effect on its financial position and cash flows. As a result of these changes the interest margin either increases or decreases. Interest rates are based on market interest rates and are regularly adjusted by the Bank. Interest rate risk management is an activity whose goal is to optimise the net income from interest, maintaining market interest rates at a constant level in accordance with the Bank's business strategy. The Assets and Liabilities Management Committee manages maturity compatibility of assets and liabilities on the basis of: macroeconomic analysis and forecasting, forecasting conditions for achieving liquidity, as well as analysis and forecasting interest rate trends on the market for various segments of assets and liabilities.

Interest rate risk is the risk that changes in market interest rates will adversely affect the Bank's economic value, interest income and possibly the Bank's capital.

The following tables summarize the effects of potential changes in interest rates on the Bank's income for the year ended December 2021 and 2020, respectively. The effects of potential changes in interest rates are based on interest-bearing assets and liabilities in the Bank's balance sheet, as well as on the position Interest bearing assets and liabilities from the Bank's sub-balance linked to the EUR and the sub-balance linked to the RSD. In comparison to the previous reporting period, there have been no changes in the methodology used to calculate the effects of changes in interest rates on income and capital.

	Effects on income (cumulative throughout a 12-month period)					
	2% increase in interest rates			2% decrease in interest rates		
	TOTAL	EUR	RSD	TOTAL	EUR	RSD
2021	**164,523**	**241,447**	**(76,924)**	**(164,523)**	**(241,447)**	**76,924**

	Effects on income (cumulative throughout a 12-month period)					
	2% increase in interest rates			2% decrease in interest rates		
	TOTAL	EUR	RSD	TOTAL	EUR	RSD
2020	**72,736**	**149,415**	**(76,679)**	**(72,736)**	**(149,415)**	**76,679**

The duration gap between interest-bearing assets and liabilities is primarily due to the overall classification of foreign exchange mandatory reserves in non-interest-bearing assets, as well as the Bank's capital in non-interest-bearing liabilities.

The Bank carefully monitors exposure to interest rate risk. As of 31 December 2021 and 2020, the Bank did not have valid agreements on swap interest rates. On the other hand, the Bank's loan portfolio includes a variable interest rate loan portfolio, linked to 3 and 6-month EURIBOR rates, which as of 31 December 2021 amounted to RSD 52,973 million, while, as of 31 December 2020 the portfolio linked to the 3 and 6-month EURIBOR amounted to RSD 46,514 million. The Bank's loan portfolio also includes a variable interest rate loan portfolio, linked to the key policy rate of the NBS and BELIBOR, which as of 31 December 2021 amounted to RSD 17,415 million, while as of 31 December 2020, it amounted to RSD 13,624 million.

The Bank's exposure to interest rate risk as of 31 December 2021 and 31 December 2020 is presented in the following tables. The tables contain assets and liabilities exposed to interest rate risk by the earlier of the interest repricing date (*Repricing Date*) and the maturity date.

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.1 Interest Rate Risk (Continued)

31 December 2021	Total	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Non-interest bearing
ASSETS								
Cash and balances with Central Bank	18,757,005	-	-	-	-	-	-	18,757,005
Financial assets measured at FVOCI	7,156,940	-	-	1,172,377	-	5,735,520	1,424	247,619
Loans and placements to banks and other financial institutions	9,745,021	9,744,406	-	-	-	-	-	615
Loans and placements to customers	116,200,545	56,779,932	8,147,290	11,061,766	17,535,455	19,465,833	2,479,909	730,360
TOTAL ASSETS	**151,859,511**	**66,524,338**	**8,147,290**	**12,234,143**	**17,535,455**	**25,201,353**	**2,481,333**	**19,735,599**
Off-balance sheet items	***914,551***	*914,551*	-	-	-	-	-	-
LIABILITIES								
Deposits and other liabilities due to banks, other financial institutions and Central Bank	37,988,582	1,881,315	3,923,336	1,622,713	13,467,957	15,091,623	1,420,134	581,504
Deposits and other liabilities due to other customers	96,331,145	3,130,877	4,734,039	15,344,227	17,896,017	12,909,045	3,233,151	39,083,789
Subordinated liabilities	1,895,568	-	-	-	-	1,881,314	-	14,254
TOTAL LIABILITIES	**136,215,295**	**5,012,192**	**8,657,375**	**16,966,940**	**31,363,974**	**29,881,982**	**4,653,285**	**39,679,547**
Off-balance sheet items	***19,657,806***	*914,248*	-	-	-	-	-	*18,743,558*
Maturity mismatch		**61,512,146**	**(510,085)**	**(4,732,797)**	**(13,828,519)**	**(4,680,629)**	**(2,171,952)**	
Cumulative gap		**61,512,146**	**61,002,061**	**56,269,264**	**42,440,745**	**37,760,116**	**35,588,164**	

* *Loans and placements are shown on a net basis i.e., gross amounts less allowance for impairment. Off-balance sheet items in assets arise from derivatives, while in liabilities they arise from derivatives, unused credit liabilities and contingencies from guarantees.*

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.1 Interest Rate Risk (Continued)

31/12/2020	Total	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years	Non-interest bearing
ASSETS								
Cash and balances with Central Bank	16,022,819	-	-	-	-	-	-	16,022,819
Financial assets measured at FVOCI	5,292,086	-	676,760	-	-	4,400,000	1,342	213,984
Loans and placements to banks and other financial institutions	13,592,196	13,592,196	-	-	-	-	-	-
Loans and placements to customers	110,212,639	49,131,837	8,101,570	11,197,702	17,804,372	19,798,574	3,033,563	1,145,021
TOTAL ASSETS	**145,119,740**	**62,724,033**	**8,778,330**	**11,197,702**	**17,804,372**	**24,198,574**	**3,034,905**	**17,381,824**
Off-balance sheet items	***2,206,324***	*1,030,522*	*1,175,802*	-	-	-	-	-
LIABILITIES								
Deposits and other liabilities due to banks, other financial institutions and Central Bank	39,586,794	2,913,707	5,132,151	1,799,058	6,697,448	19,729,150	2,724,503	590,777
Deposits and other liabilities due to other customers	88,432,861	3,672,574	5,900,444	7,149,013	24,662,609	10,603,953	2,731,311	33,712,957
Subordinated liabilities	1,895,491	1,881,283	-	-	-	-	-	14,208
TOTAL LIABILITIES	**129,915,146**	**8,467,564**	**11,032,595**	**8,948,071**	**31,360,057**	**30,333,103**	**5,455,814**	**34,317,942**
Off-balance sheet items	***20,792,229***	*1,034,706*	*1,176,498*	-	-	-	-	*18,581,025*
Maturity mismatch		**54,256,469**	**(2,254,265)**	**2,249,631**	**(13,555,685)**	**(6,134,529)**	**(2,420,909)**	
Cumulative gap		**54,256,469**	**52,002,204**	**54,251,835**	**40,696,150**	**34,561,621**	**32,140,712**	

* *Loans and placements are shown on a net basis i.e., gross amounts less allowance for impairment. Off-balance sheet items in assets arise from derivatives, while in liabilities they arise from derivatives, unused credit liabilities and contingencies from guarantees.*

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.1 Interest Rate Risk (Continued)

The following tables show the impact of changes to interest rates on the Bank's net income and net impact on the economic value of the Bank's net assets by applying the standard scenario. The standard scenario implies parallel movement of the yield curve by 100bps and 200 bps.

Sensitivity of the Bank's net assets on changes in interest rates	100bp upward shock	100bp downward shock	200bp upward shock	200bp downward shock
2021				
As of 31 December 2021	83,403	(83,403)	166,807	(166,807)
Period average	37,335	(37,335)	74,669	(74,669)
Period maximum	95,481	(95,481)	190,961	(190,961)
Period minimum	(5,344)	5,344	(10,687)	10,687
2020				
As of 31 December 2020	37,802	(37,802)	75,604	(75,604)
Period average	67,843	(67,843)	135,686	(135,686)
Period maximum	190,695	(190,695)	381,390	(381,390)
Period minimum	16,239	(16,239)	32,477	(32,477)

Sensitivity of the economic value of the Bank's capital on changes in the interest rates	100bp upward shock	100bp downward shock	200bp upward shock	200bp downward shock
2021				
As of 31 December 2021	(252,358)	252,358	(504,715)	504,715
Period average	(154,613)	154,613	(309,226)	309,226
Period maximum	(252,358)	252,358	(504,715)	504,715
Period minimum	(73,780)	73,780	(147,559)	147,559
2020				
As of 31 December 2020	(134,746)	134,746	(269,491)	269,491
Period average	(103,914)	103,914	(207,827)	207,827
Period maximum	(134,746)	134,746	(269,491)	269,491
Period minimum	(45,907)	45,907	(91,815)	91,815

6.2.2 Foreign Exchange Risk - Risk from Changes in Currency Exchange Rate

Foreign exchange risk arises from the potential adverse effects of changes in the foreign exchange rate on the Bank's financial results or capital.

The Bank manages foreign exchange risk through careful planning and evaluation of the open foreign exchange position, and its compliance with the limits prescribed by the National Bank of Serbia (the limit on the open foreign exchange position is 20% of the regulatory capital) and observance of limits prescribed by the National Bank of Serbia, as well as limitations in the internal policies prescribed by the Board of Directors and the Assets and Liabilities Management Committee (open foreign exchange position limit of 10% of capital in total). The Bank actively manages foreign currency risk by adjusting the foreign currency structure of assets and liabilities. The Bank maintains its foreign exchange position by approving loans with foreign currency clauses (loans indexed in EUR) and concluding agreements on foreign exchange swaps.

The following table shows the potential effects in case of an increase or decrease in exchange rates of 1500 basis points on profit or loss and capital as of 31 December 2021 and 31 December 2020, respectively. In comparison to the previous accounting period there have not been any changes in the methodology used to calculate the potential effects of changes in foreign exchange rates.

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.2 Foreign Exchange Risk - Risk from Changes in Currency Exchange Rate (Continued)

	Balance of the open foreign exchange position based on balance sheet items		Effect of RSD depreciation by 15%		Effect of RSD appreciation by 15%	
	2021	2020	2021	2020	2021	2020
USD	16,274	54,623	2,441	8,193	(2,441)	(8,193)
EUR	166,963	349,957	25,044	52,494	(25,044)	(52,494)
Other currencies	11,148	8,603	1,672	1,290	(1,672)	(1,290)

The following table presents the calculated exposure to foreign exchange risk as of 31 December 2021. The table includes assets and liabilities according to their carrying values per currency.

31 December 2021	EUR (including indexing)	USD	Other currencies	RSD	Total
Cash and balances with Central Bank	10,422,911	36,309	45,262	8,252,523	18,757,005
Derivatives	-	-	-	699	699
Securities	1,424	-	-	7,155,516	7,156,940
Loans and placements to banks and other financial institutions	2,752,995	294,168	163,826	6,534,032	9,745,021
Loans and placements to customers	92,800,669	-	-	23,399,876	116,200,545
Investments in subsidiaries	-	-	-	127,752	127,752
Intangible assets	-	-	-	278,156	278,156
Property, plant and equipment	-	-	-	1,724,443	1,724,443
Investment property	-	-	-	370,785	370,785
Current tax assets		-	-	33,974	33,974
Non-current assets held for sale and assets from discontinued operations	-	-	-	47,370	47,370
Other assets	48,092	-	-	848,915	897,007
TOTAL ASSETS	**106,026,091**	**330,477**	**209,088**	**48,774,041**	**155,339,697**
Deposits and other liabilities due to banks, other financial institutions and Central Bank	37,289,101	39,102	14,338	646,041	37,988,582
Deposits and other liabilities due to other customers	65,392,783	1,179,690	176,280	29,582,392	96,331,145
Subordinated liabilities	1,895,568	-	-	-	1,895,568
Provisions	12,280	-	-	353,379	365,659
Deferred tax liabilities	-	-	-	42,543	42,543
Other liabilities	355,148	9,962	10,100	615,557	990,767
Equity	-	-	-	17,725,433	17,725,433
TOTAL LIABILITIES	**104,944,880**	**1,228,754**	**200,718**	**48,965,345**	**155,339,697**
Net spot line item	**1,080,211**	**(898,277)**	**8,370**		
Net forward line item	**(914,248)**	**914,551**	**-**		
Open FX position	**166,963**	**16,274**	**8,370**		

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.2 Foreign Exchange Risk - Risk from Changes in Currency Exchange Rate (Continued)

The following table presents the calculated exposure to foreign exchange risk as of 31 December 2020. The table includes assets and liabilities according to their carrying values per currency.

31 December 2020	EUR (including indexing)	USD	Other currencies	RSD	Total
Cash and balances with Central Bank	9,267,886	33,314	77,498	6,644,121	16,022,819
Derivatives	-	-	-	340	340
Securities	1,342	-	-	5,290,744	5,292,086
Loans and placements to banks and other financial institutions	8,270,023	193,324	128,741	5,000,108	13,592,196
Loans and placements to customers	85,145,066	-	-	25,067,573	110,212,639
Investments in subsidiaries	-	-	-	127,752	127,752
Intangible assets	-	-	-	285,850	285,850
Property, plant and equipment	-	-	-	1,816,396	1,816,396
Investment property	-	-	-	380,813	380,813
Non-current assets held for sale and assets from discontinued operations	-	-	-	47,370	47,370
Other assets	27,341	334	-	724,582	752,257
TOTAL ASSETS	**102,711,658**	**226,972**	**206,239**	**45,385,649**	**148,530,518**
Derivatives	-	-	-	7,261	7,261
Deposits and other liabilities due to banks, other financial institutions and Central Bank	39,153,358	48,234	9,259	375,943	39,586,794
Deposits and other liabilities due to other customers	61,100,243	1,147,987	180,322	26,004,309	88,432,861
Subordinated liabilities	1,895,491	-	-	-	1,895,491
Provisions	-	-	-	205,200	205,200
Current tax liabilities	-	-	-	33,777	33,777
Deferred tax liabilities	-	-	-	52,032	52,032
Other liabilities	353,100	6,650	8,055	677,296	1,045,101
Equity	-	-	-	17,272,001	17,272,001
TOTAL LIABILITIES	**102,502,192**	**1,202,871**	**197,636**	**44,627,819**	**148,530,518**
Net spot line item	**209,466**	**(975,899)**	**8,603**		
Net forward line item	**141,096**	**1,030,522**	**-**		
Open FX position	**350,562**	**54,623**	**8,603**		

6. Market Risk (Continued)

6.2. Market Risk (Continued)

6.2.3 Fair Value of Financial Assets and Liabilities

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

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

The fair value of financial assets and financial liabilities traded in an active market is based on market prices. For all other financial instruments, the Bank determines fair value using the valuation techniques.

The following tables present the values of financial assets and liabilities recorded in the fair value hierarchy as of 31 December 2021 and 2020:

31 December 2021	Carrying value	Fair value	Stage 1	Stage 2	Stage 3
Receivables arising from derivatives	699	699	-	-	699
Securities	7,156,940	7,156,940	-	7,156,940	-
Financial assets	**7,157,639**	**7,157,639**	**-**	**7,156,940**	**699**
Liabilities arising from derivatives	-	-	-	-	-
Financial liabilities	**-**	**-**	**-**	**-**	**-**

31 December 2020	Carrying value	Fair value	Stage 1	Stage 2	Stage 3
Receivables arising from derivatives	340	340	-	-	340
Securities	5,292,086	5,292,086	-	5,292,086	-
Financial assets	**5,292,426**	**5,292,426**	**-**	**5,292,086**	**340**
Liabilities arising from derivatives	7,261	7,261	-	-	7,261
Financial liabilities	**7,261**	**7,261**	**-**	**-**	**7,261**

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.3 Fair Value of Financial Assets and Liabilities (Continued)

The following tables present the carrying values and fair values of financial assets and liabilities which are not carried at fair value, as of 31 December 2021 and 2020, respectively:

31 December 2021

Financial assets	**Carrying value**	**Fair value**	**Stage 1**	**Stage 2**	**Stage 3**
Cash and balances with Central Bank:	18,757,005	18,757,005	-	18,757,005	-
- Cash	*1,848,363*	*1,848,363*	-	*1,848,363*	-
- Cash held at Central Bank	*16,908,642*	*16,908,642*	-	*16,908,642*	-
Loans and placements to banks and other financial institutions	9,745,021	9,745,021	-	-	,745,021
Loans and placements to customers	116,200,545	119,420,263	-	-	119,420,263
Investments in subsidiaries	127,752	127,752	-	-	127,752
Total	**144,830,323**	**148,050,041**	**-**	**18,757,005**	**129,293,036**

Financial liabilities	**Carrying value**	**Fair value**	**Stage 1**	**Stage 2**	**Stage 3**
Deposits and other liabilities due to banks, other financial institutions and Central Bank	37,988,582	37,363,698	-	5,249,216	32,114,482
- Liabilities to financial institutions	*32,739,366*	*32,114,482*	-	-	*32,114,482*
- Deposits and other liabilities due to banks and Central Bank	*5,249,216*	*5,249,216*	-	*5,249,216*	-
Deposits and other liabilities due to other customers	96,331,145	95,955,086	-	-	95,955,086
- Liabilities to financial institutions	*21,470,452*	*21,191,646*	-	-	*21,191,646*
- Deposits and other liabilities due to other customers	*74,860,693*	*74,763,440*	-	-	*74,763,440*
Subordinated liabilities	1,895,568	1,895,568	-	-	1,895,568
Total	**136,215,295**	**135,214,352**	**-**	**5,249,216**	**129,965,136**

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.3 Fair Value of Financial Assets and Liabilities (Continued)

31 December 2020

Financial assets	**Carrying value**	**Fair value**	**Stage 1**	**Stage 2**	**Stage 3**
Cash and balances with Central Bank	16,022,819	16,022,819	-	16,022,819	-
- Cash	*1,782,651*	*1,782,651*	-	*1,782,651*	-
- Cash held at Central Bank	*14,240,168*	*14,240,168*	-	*14,240,168*	-
Loans and placements to banks and other financial institutions	13,592,196	13,592,196	-	-	13,592,196
Loans and placements to customers	110,212,639	113,031,895	-	-	113,031,895
Investments in subsidiaries	127,752	127,752	-	-	127,752
Total	**139,955,406**	**142,774,662**	**-**	**16,022,819**	**126,751,843**

Financial liabilities	**Carrying value**	**Fair value**	**Stage 1**	**Stage 2**	**Stage 3**
Deposits and other liabilities due to banks, other financial institutions and Central Bank	39,586,794	36,410,846	-	4,856,656	31,554,190
- Liabilities to financial institutions	*34,730,138*	*31,554,190*	-	-	*31,554,190*
- Deposits and other liabilities due to banks and Central Bank	*4,856,656*	*4,856,656*	-	*4,856,656*	-
Deposits and other due liabilities to other customers	88,432,861	87,809,577	-	-	87,809,577
- Liabilities to financial institutions	*13,313,245*	*12,763,547*	-	-	*12,763,547*
- Deposits and other liabilities due to other customers	*75,119,616*	*75,046,030*	-	-	*75,046,030*
Subordinated liabilities	1,895,491	1,895,491	-	-	1,895,491
Total	**129,915,146**	**126,115,914**	**-**	**4,856,656**	**121,259,258**

6. RISK MANAGEMENT (Continued)

6.2. Market Risk (Continued)

6.2.3 Fair Value of Financial Assets and Liabilities (Continued)

The fair value is the price that would be received for the sale of an asset or the price paid to transfer liabilities during regular transactions between market participants, on the measurement date. The fair value best reflects the current market price. The estimated fair value of financial instruments is determined by the Bank based on existing available market information, appropriate assessment methodology and the necessary judgment to interpret data in determining fair value.

Loans and Placements to Banks and Other Financial Institutions

The fair value of loans and receivables from banks and other financial institutions is equal to their carrying amounts, as the maturity of these loans is up to six months considering that highly liquid, short-term financial instruments are in question.

Loans and Placements to Customers

The fair value of receivables arising from loans granted to customers is calculated based on expected cash flows using market interest rates as of the balance sheet date.

Deposits and Other Liabilities due to Banks, Other Financial Institutions and Central Bank and Deposits and Other Liabilities due to Other Customers

The estimated fair value of demand deposits equals to their carrying amount.

The fair values of term deposits are calculated by discounting the cash flows on agreed dates by applying the valid interest rates for the deposits with maturity of over six months in which the present interest rates from the pricelist are not equal to the agreed interest rates for these deposits.

Borrowings include borrowing from banks and other international financial institutions. Fair value of liabilities to banks is equal to their carrying amounts, as the maturity of these loans is up to six months.

Fair value of loans from other international financial institutions is calculated for loans contracted with fixed and variable interest rates and by discounting the cash flows on agreed dates, by applying the interest rate set by ProCredit Group for Serbia (*ProCredit Group Funding Interest Rates*). The aforesaid interest rates of the Group are regularly compared with the rates in third-party transactions in order to determined their compatibility with market rates.

The fair value of subordinated liabilities is calculated using the interest rates set by ProCredit Group in the manner described in the previous paragraph.

The fair value of financial derivatives is determined using the official middle exchange rates of the National Bank of Serbia, as well as the official interest rate for the given maturity of derivatives.

The fair value of investment in the subsidiary is equal to the fair value of the net assets of the subsidiary.

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk

Liquidity risk arises from the inability of the Bank to meet its due obligations which can have a negative effect on the Bank’s financial result and its capital. The Bank manages this risk by providing an adequate and diverse structure of its funding base, which includes the following:

- government securities;
- customers’ deposits with wide ranges of maturity;
- money market deposits;
- loans from foreign banks and international financial institutions;
- subordinated loans; and
- share capital.

The liquidity management policy is in place to secure sufficient assets for the payment of all liabilities within due time and to satisfy clients’ demands for new loans.

The Bank manages liquidity risk through the constant monitoring of the duration gap between assets and funding, as well as analysing expected cash flows in order to ensure that the Bank is able to meet its obligations at all times.

In addition, the Bank allocates funds into the mandatory reserve with the National Bank of Serbia in accordance with applicable legislation, which is a measure used as protection from deposit bank runs, i.e. the withdrawal of other sources of funds.

The level of liquidity is expressed through the liquidity ratio, the narrow liquidity ratio as well as the liquidity coverage ratio (LCR).

The Bank’s liquidity ratio is the sum of the Bank’s Tier I + II liquid receivables, on the one hand, and the sum of the Bank’s demand liabilities or those without contractual maturity and the Bank’s liabilities with fixed maturity within the next month, as of the date of the calculation of the liquidity ratio, on the other.

The Bank’s narrow liquidity ratio is the sum of the Bank’s Tier I liquid receivables, on the one hand, and the sum of the Bank’s demand liabilities or those without contractual maturity and the Bank’s liabilities with fixed maturity within the next month, as of the date of the calculation of the liquidity ratio, on the other.

Tier I liquid receivables consist of cash, gyro account balances, gold and other precious metals, balances held with banks with an available credit rating of selected credit rating agencies to which a credit quality rating corresponds to a step 3 or higher, or is determined in accordance with the Decision on Capital Adequacy of Banks (investment grade); deposits held with the National Bank of Serbia; cheques and other monetary receivables in the process of realisation; irrevocable credit lines approved to the Bank, shares and debt securities quoted on the stock exchange; 90% of the fair value of securities denominated in RSD, without a foreign currency clause, issued by the Republic of Serbia and whose minimum maturity is no less than three months i.e., 90 days, which the Bank has classified according to the business model for trading and ‘hold for collection and sale’.

The Bank’s Tier II liquid receivables are all of the Bank’s other receivables which mature within the following month from the date of the calculation of the liquidity ratio.

The Bank’s demand liabilities or those without contractual maturities are obligations of the Bank, namely: 40% demand deposits by banks, 20% demand deposits from other clients, 10% savings deposits, 5% guarantees and other forms of sureties, 20% approved but undisbursed irrevocable lines of credit. All of the Bank’s other liabilities which mature within the following month from the date of the calculation of the liquidity ratio are the Bank’s liabilities with contractual maturities.

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk (Continued)

The liquidity coverage ratio (LCR) is the relationship between the Bank's liquidity buffer and net liquidity outflows of its liquid assets which would arise in the following 30-days period from the day of calculating this ratio under assumed stress conditions. The calculation of the elements of the given ratio and therefore the actual ratio, is done in accordance with the requirements of the Decision on Risk Liquidity Management by Banks of the National Bank of Serbia ("RS Official Gazette", No. 103/2016).

The Bank's liquidity ratios in 2021 and 2020 are summarized in the following table:

	31 December	Average	Maximum	Minimum
Liquidity ratio				
2021	2.35	2.28	2.46	2.05
2020	2.33	2.21	2.71	1.92
Narrow liquidity ratio				
2021	2.10	1.99	2.17	1.72
2020	2.14	1.97	2.33	1.67
LCR (%)				
2021	171	159	194	139
2020	165	150	170	124

As part of managing liquidity risks which arise from financial obligations, the Bank has liquidity reserves in the form of cash and cash equivalents, such as debt securities issued by the state, which can be easily sold in line with liquidity requirements.

The Bank also has liquidity reserves in the form of approved, but unwithdrawn credit lines and the aforementioned liquidity reserve as of 31 December 2021 amounted to RSD 1,175 million (31 December 2020: RSD 1,175 million).

The following table discloses the breakdown of total liquidity reserves of the Bank as of **31 December 2021**, presented by the corresponding EDP parts:

	Carrying amount / fair value	Available amount
Exposure to central banks - Loans and placements to banks and other financial institutions (part 0005)	6,604,706	6,604,706
Exposure to the Republic of Serbia - Securities (part 0004); Loans and placements to customers (part 0006)	7,293,572	7,293,572
Banknotes and coins - Cash and balances with Central Bank (part 0001)	1,858,711	1,858,711
Reserves held with the National Bank of Serbia (above the required amount for the period) - Cash and balances with Central Bank (part 0001)	556,042	556,042
Stand-by-Line (credit line) - Off-balance sheet items	1,175,821	1,175,821
Total	**17,488,852**	**17,488,852**

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk (Continued)

The following table discloses the breakdown of total liquidity reserves of the Bank as of **31 December 2020:**

	Carrying amount / fair value	Available amount
Exposure to central banks - Loans and placements to banks and other financial institutions (part 0005)	9,121,230	9,121,230
Exposure to the Republic of Serbia - Securities (part 0004); Loans and placements to customers (part 0006)	5,435,172	5,435,172
Banknotes and coins - Cash and balances with Central Bank (part 0001)	1,819,704	1,819,704
Reserves held with the National Bank of Serbia (above the required amount for the period) - Cash and balances with Central Bank (part 0001)	797	797
Stand-by-Line (credit line) - Off-balance sheet items	1,175,802	1,175,802
Total	**17,552,705**	**17,552,705**

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk (Continued)

The following tables summarize financial assets and liabilities allocated according to maturity into appropriate time buckets according to the remaining contractual maturity at the reporting date. The largest maturity mismatch in the period of one month arises from the fact that the Bank's current accounts (which form a significant portion of the deposit portfolio) are allocated to the ‘up to one month’ bucket.

31 December 2021	Total	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years
ASSETS							
Cash and balances with Central Bank	18,757,005	18,757,005	-	-	-	-	-
Financial assets measured at FVOCI	7,156,940	-	-	-	1,214,402	5,941,114	1,424
Loans and placements to banks and other financial institutions	9,745,021	9,745,021	-	-	-	-	-
Loans and placements to customers	116,200,545	4,044,348	7,554,956	10,730,735	24,746,449	52,938,995	16,185,062
TOTAL ASSETS	**151,859,511**	**32,546,374**	**7,554,956**	**10,730,735**	**25,960,851**	**58,880,109**	**16,186,486**
Off-balance sheet items**	***914,551***	*914,551*	-	-	-	-	-
LIABILITIES							
Deposits and other liabilities due to banks, other financial institutions and Central Bank	37,988,582	2,462,819	3,923,336	1,622,713	13,467,957	15,091,623	1,420,134
Deposits and other liabilities due to other customers	96,331,145	42,214,666	4,734,039	15,344,227	17,896,017	12,909,045	3,233,151
Subordinated liabilities	1,895,568	14,254	-	-	-	1,881,314	-
TOTAL LIABILITIES	**136,215,295**	**44,691,739**	**8,657,375**	**16,966,940**	**31,363,974**	**29,881,982**	**4,653,285**
Off-balance sheet items**	***19,657,806***	*2,788,603*	*2,442,461*	*3,010,566*	*4,014,088*	-	-
Maturity mismatch (other assets and off-balance sheet items excluded)		**(12,145,365)**	**(1,102,419)**	**(6,236,205)**	**(5,403,123)**	**28,998,127**	**11,533,201**
Cumulative gap (other assets and off-balance sheet items excluded)		**(12,145,365)**	**(13,247,784)**	**(19,483,989)**	**(24,887,112)**	**4,111,015**	**15,644,216**

* *Loans and placements are shown on a net basis i.e., gross amounts less allowance for impairment.*

** *Off-balance sheet items in assets arise from derivatives, while in liabilities they arise from derivatives, unused credit facilities and contingencies from guarantees.*

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk (Continued)

31 December 2020	Total	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years
ASSETS							
Cash and balances with Central Bank	16,022,819	16,022,819	-	-	-	-	-
Financial assets measured at FVOCI	5,292,086	-	742,291	-	-	4,548,453	1,342
Loans and placements to banks and other financial institutions	13,592,196	13,592,196	-	-	-	-	-
Loans and placements to customers	110,212,639	4,225,203	6,535,205	8,460,600	20,956,272	53,801,952	16,233,407
TOTAL ASSETS	**145,119,740**	**33,840,218**	**7,277,496**	**8,460,600**	**20,956,272**	**58,350,405**	**16,234,749**
Off-balance sheet items*	***2,206,324***	*1,030,522*	*1,175,802*	-	-	-	-
LIABILITIES							
Deposits and other liabilities due to banks, other financial institutions and Central Bank	39,586,794	3,504,484	5,132,151	1,799,058	6,697,448	19,729,150	2,724,503
Deposits and other liabilities due to other customers	88,432,861	37,385,531	5,900,444	7,149,013	24,662,610	10,603,953	2,731,310
Subordinated liabilities	1,895,491	14,208	-	-	-	1,881,283	-
TOTAL LIABILITIES	**129,915,146**	**40,904,223**	**11,032,595**	**8,948,071**	**31,360,058**	**32,214,386**	**5,455,813**
Off-balance sheet items*	***20,792,228***	*2,124,473*	*3,356,032*	*3,269,302*	*4,359,069*	-	-
Maturity mismatch		**(7,064,005)**	**(3,755,099)**	**(487,471)**	**(10,403,786)**	**26,136,019**	**10,778,936**
Cumulative gap		**(7,064,005)**	**(10,819,104)**	**(11,306,575)**	**(21,710,361)**	**4,425,658**	**15,204,594**

* *Loans and placements are shown on a net basis i.e., gross amounts less allowance for impairment.*

** *Off-balance sheet items in assets arise from derivatives, while in liabilities they arise from derivatives, unused credit facilities and contingencies from guarantees.*

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk (Continued)

The Bank defines gap limits per currencies (RSD and EUR, as well as in total amounts) in buckets up to 90 days, given the conservativeness of the assumptions applied in allocating time buckets as defined by the Bank's Risk Management Strategy and other respective policies, and in line with this definition, initiates measures in case a negative gap should arise. Furthermore, the Bank's ALCO is familiar with the gaps which are regularly considered together with the options available in order to make the necessary timely decisions.

The following table presents the carrying amount of non-derivative financial assets and financial obligations expected to be settled within **the 12-month period** following the reporting date.

	2021	2020
ASSETS		
Cash and balances with Central Bank	18,757,005	16,022,819
Financial assets measured at FVOCI	1,214,402	742,291
Loans and placements to banks and other financial institutions	9,745,021	13,592,196
Loans and placements to customers	47,076,488	40,177,280
LIABILITIES		
Deposits and other liabilities due to banks, other financial institutions and Central Bank	21,476,825	17,133,141
Deposits and other liabilities due to other customers	80,188,949	75,097,598
Subordinated liabilities	14,254	14,208

The following table presents the carrying amount of non-derivative financial assets and financial liabilities expected to be settled within the **period exceeding 12 months** following the reporting date.

	2021	2020
ASSETS		
Financial assets measured at FVOCI	5,942,538	4,549,795
Loans and placements to customers	69,124,057	70,035,359
LIABILITIES		
Deposits and other liabilities due to banks, other financial institutions and Central Bank	16,511,757	22,453,653
Deposits and other liabilities due to other customers	16,142,196	13,335,263
Subordinated liabilities	1,881,314	1,881,283

The Bank does not engage in speculative transactions - transactions of purchase or the sale of securities or currencies whose main objective is to maximise profits on the expected movement of their prices. Agreements on the sale of securities and currencies are concluded only with the aim of closing the liquidity position, i.e. reducing exposure to financial and market risks. At the end of 2021, the Bank had exposures arising from swap and spot transactions which have no significant impact on the overall liquidity of the Bank.

6. RISK MANAGEMENT (Continued)

6.3. Liquidity Risk (Continued)

The following tables present derivatives at fair value, which the Bank had as of 31 December 2021 and 31 December 2020, respectively:

31 December 2021	Total	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years
ASSETS - SWAP	**699**	699	-	-	-	-	-
LIABILITIES	**-**	-	-	-	-	-	-

31 December 2020	Total	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	From 1 to 5 years	Over 5 years
ASSETS - SWAP	**340**	340	-	-	-	-	-
LIABILITIES -SWAP	**7,261**	7,261	-	-	-	-	-

6.4. Exposure Risks

The Bank's exposure risks are monitored at the individual entity level as well as at the group level of related entities in accordance with the Bank's procedures and regulations of the National Bank of Serbia (NBS).

The credit risk management policy defines the assessment of the Bank's exposure to one person or group of related parties and to a person related to the Bank. The policy is a set of all activities related to identifying, measuring and assessing this risk, defining clear guidelines for finding and understanding the forms of connection, determining the responsibility of persons in charge of collecting documentation relevant to identifying forms of connection, in order to comply with defined limits and legislation.

The management of the Bank's risk exposure to a single entity, a group of related entities as well as to a person related to the Bank is controlled during the approval procedure and the usage of Bank's placements in the Credit Risk Department in accordance with the adopted/prescribed exposure limits in such a manner that:

- The Bank's exposure to a single entity or a group of related parties is maximum 25% of the Bank's regulatory capital; and
- The sum of all large exposures of the Bank and the Bank's exposure to entities related to the Bank does not exceed 400% of the Bank's regulatory capital.

The Bank controls its exposure risk by establishing exposure limits that enable it to diversify its loan portfolio, as well as by using material and non-material credit protection instruments, in accordance with the NBS Decision on the Bank's Capital Adequacy.

As of 31 December 2021, the Bank's maximum exposure to one single entity or the group of related parties was 12.23%, while the sum of large exposures was also 12.23% and was significantly below the prescribed maximum.

6. RISK MANAGEMENT (Continued)

6.5. Investment Risk

Pursuant to the effective laws and by-laws, the Bank is obligated to ensure preconditions for its successful business operations under conditions of acceptable risk parameters in order to achieve its business objectives and positive financial result, as well as to preserve the equity.

The risk inherent in the Bank's investments in other legal entities and property, plant and equipment and investment property relates to the following:

(a) Investment of the Bank in a single non-financial sector entity; and

(b) The total investment of the Bank in non-financial entities and property, plant and equipment and investment property of the Bank.

In accordance with the Decision of the National Bank of Serbia, investments in non-financial entities, property, plant and equipment and investment property are a regulatory indicator, which the Bank must maintain at a level not exceeding 60% of its regulatory capital, while the Bank's investment in a non-financial sector may not exceed 10% of its regulatory capital, provided that this restriction does not apply to the acquisition of shares for resale within six months from the date of such acquisition. Risk appetites of the Bank have lower limits calibrated.

The Bank's investments in the non-financial sector entities do not include purchase of shares for the purpose of their resale within six months from the share acquisition date.

The Procedure for identifying risks in the Bank's investments enables timely and comprehensive identification of risks the Bank is exposed to, as well as the analysis of causes of its occurrence.

The Bank is exposed to investing risk and risk from potential fluctuations in the value of investments in other non-financial legal entities and in property, plant and equipment and investment property.

The Bank's exposure to investment risk in 2021 was within the prescribed limits, and as of 31 December 2021, the Bank's investment indicator amounted to 12.81% of capital.

The Bank's investment indicator as of 31 December 2020 was 13.14%, which is significantly below the prescribed and internally determined indicator.

6.6. Country Risk

Country risk is defined by the Bank as the risk related to the country of origin of the counterparty to which the Bank is exposed, i.e. the risk that the Bank will not be able to exercise rights over certain assets in another country or that the other party in a foreign country is unable to fulfil its obligation because there are restrictions on transfers and convertibility or expropriation imposed on cross-border exposure (due to political, economic or social circumstances in the counterparty's country of origin), and there is a possibility of negative effects on the bank's financial result and capital.

The Bank implements the internally adopted Country Risk Management Policy, as well as the Country Risk Management Rule in order to protect its operations from this risk. In order to control the country's risk, the Bank has defined the limits and triggers for the limits that are established at the local level. The level of limits defines tolerance to this risk. The trigger zone serves as an early warning signal to avoid violating the limit, but does not necessarily mean taking certain measures.

In 2021, the Bank's exposure to country risk ranged within the prescribed limits. ProCredit banks are generally not significantly exposed to country risk because they do not have relevant cross-border exposures. The largest part of exposures to non-residents relates to funds on nostro accounts with banks abroad.

6. RISK MANAGEMENT (Continued)

6.7. Operational Risk

Operational risk is the risk of possible adverse effects on the Bank's financial results and capital due to staff failures, inadequate internal procedures, inadequate management of information and other systems in the Bank, as well as due to unforeseen external events, including legal risk.

The Bank's operational risk management policy is fully compliant with local regulations, as well as ProCredit Holding's operational risk management policy and the Fraud Prevention Policy.

In order to reduce the risk of operational risks and prevent fraud, all processes are precisely documented and control mechanisms are in place. The Risk Monitoring Database (RED) established at the Bank level enables continuous and systematic monitoring of all operational risks, as well as defining corrective and preventive actions in order to avoid these events in the future or reduce the possibility of their occurrence or effect on the Bank. The analysis of these events is presented at the Operational Risk Management Committee, which is the main body for operational risk management at the Bank level.

Once a year, the Bank conducts a risk self-assessment using a defined self-assessment questionnaire that is applied at the Bank level. The assessment allows us to consider the impact of each individual scenario on the Bank's loss, as well as the level and implementation of controls and the ways in which controls reduce risk exposure.

The Bank pays special attention to the analysis of the introduction of new products (activities) which includes new products, services, business processes, financial instruments, IT systems and organizational structure. The definition of "new product/activity" includes significantly modified material products (activities).

The calculation of the capital requirement for operational risk is performed by applying the basic indicator approach, in accordance with the prescribed methodology. As of 31 December 2021, the capital requirement for operational risk amounts to RSD 610,152 thousand.

6.8. Capital Management

The Bank’s objectives in regard to capital management can be reduced to the following conditions:

- Are in accordance with the capital requirements prescribed by the National Bank of Serbia;
- Are in accordance with the capital requirements of international financial institutions abroad on the basis of long-term loan agreements; and
- Adequate capital management on behalf of the Bank’s management should provide for the expected stable growth and development of the Bank, as well as a strong foundation for the development of the Bank’s business opportunities.

Capital adequacy is planned in detail during the drafting of the business plan. The National Bank of Serbia is reported to on a quarterly basis regarding achieved adequate capital ratios.

The National Bank of Serbia requires that all banks maintain a minimum of EUR 10 million in core capital, and at the same time, banks are obliged to calculate the following ratios:

1. Common Equity Tier 1 capital ratio i.e., the Bank’s CET1 capital, expressed as a percentage of the total risk exposure amount;
2. Tier 1 capital ratio, i.e., the Bank’s T1 capital, expressed as a percentage of the total risk exposure amount; and
3. The Bank’s capital adequacy ratio i.e., capital expressed as a percentage of the capital and risk-weighted assets of the Bank.

6. RISK MANAGEMENT (Continued)

6.8. Capital Management (Continued)

The Bank is obliged to maintain these ratio levels above the following:

1. 4.5%, for the Common Equity Tier 1 capital ratio;
2. 6%, for the Tier 1 capital ratio; and
3. 8%, for the capital adequacy ratio of the Bank.

The capital adequacy ratio of the Bank is the ratio between capital and risk-weighted assets and are the sum of the following:

- total credit risk weighted assets; and
- capital requirements for market risks and the capital requirements for operational risk, multiplied by the reciprocal value of capital adequacy ratio defined by the Decision on Capital Adequacy of Banks of 8%.

In addition to the minimum capital adequacy ratios defined by the NBS, within the aforementioned ratios and in terms of its regular operations, the Bank has implemented significant buffers above the regulatory minimum and within the Bank's risk appetite defined in the Bank's Risk Management Strategy.

The Bank’s capital is equal to the sum of Tier 1 capital (Core Capital) and Tier 2 capital (supplementary capital - most often subject to debt (subordinated liabilities) and cumulative preferred shares), where the Bank’s Tier 1 capital is the sum of Common Equity - Tier 1 (most often owner shares) and additional Common Equity - Tier 1 capital (most often non-cumulative preferred shares).

Capital buffers prescribed by the National Bank of Serbia are as follows:

1. The capital conservation buffer (2.5%);
2. Countercyclical capital buffer (0%);
3. Capital buffer for a systemically important bank (ProCredit Bank is not on the NBS list of systemically significant banks);
4. Globally systemically important Banks 1-2%; and
5. Systemic risk buffer (3%).

The Bank’s capital adequacy ratios as of 31 December 2021 and 2020 were as follows:

	2021	2020
Common equity Tier 1 capital ratio (min. 4.5%)	15.46%	15.41%
Tier 1 capital ratio (min. 6%)	15.46%	15.41%
Capital adequacy ratio of the Bank (min. 8%)	16.53%	16.85%

In 2021, the capital adequacy ratio was above the prescribed regulatory limit of 8%.

The amount and structure of the Bank’s capital always need to provide coverage of the minimum capital requirements and internal capital requirements regarding the risks that the Bank is exposed to in its operations.

The capital structure is presented in Note 38, while the capital adequacy ratio and other performance indicators of the Bank are presented in Note 42. - Compliance with the performance indicators prescribed by the National Bank of Serbia.

7. INTEREST INCOME AND EXPENSES

Interest income and expenses by type of financial instrument are presented in the following table:

	2021	2020
Interest income		
Loans and placements	4,012,526	3,783,530
Deposits and required reserves	8,429	28,041
Securities	133,863	114,084
Other placements and assets	12,485	11,558
Total	**4,167,303**	**3,937,213**
Interest expense		
Borrowings	(368,184)	(441,326)
Deposits	(583,215)	(565,922)
Other liabilities	(6,629)	(7,139)
Total	**(958,028)**	**(1,014,387)**
Net interest income	**3,209,275**	**2,922,826**

Interest income and expenses relate to:

	2021	2020
Interest income		
Banks and other financial institutions	13,128	52,693
Public sector	259,526	207,589
Legal entities	2,754,118	2,566,172
Retail sector	968,349	951,842
Entrepreneurs	172,040	158,793
Foreign banks	142	124
Total	**4,167,303**	**3,937,213**
Interest expenses		
Banks and other financial institutions	(27,461)	(25,993)
Public sector	(16,303)	(18,038)
Legal entities	(161,664)	(148,726)
Retail sector	(232,700)	(226,038)
Entrepreneurs	(368)	(184)
Foreign entities	(2,388)	(2,626)
Foreign banks	(75,634)	(100,509)
Foreign financial institutions	(434,885)	(485,137)
Interest expenses on lease liabilities - IFRS 16	(6,625)	(7,136)
Total	**(958,028)**	**(1,014,387)**
Net interest income	**3,209,275**	**2,922,826**

8. FEE AND COMMISSION INCOME AND EXPENSES

	2021	2020
Fee and commission income		
Domestic payment transactions	801,619	734,298
Banking services per credit transactions	64,914	48,020
Card transactions	384,930	307,935
Issued guarantees	153,294	137,423
Foreign payment transactions	195,496	155,464
Other banking services	42,972	40,082
Foreign currency purchase and sale	190,978	-
Total	**1,834,203**	**1,423,222**
Fee and commission expenses		
Loans and borrowings	(121,419)	(111,417)
Domestic payment transactions	(36,368)	(33,707)
Foreign payment transactions	(141,805)	(112,962)
Card transactions	(127,354)	(100,102)
Other commissions and fees	(7,922)	(8,481)
Foreign currency purchase and sale fees	(17,223)	-
Total	**(452,091)**	**(366,669)**
Net fee and commission income	**1,382,112**	**1,056,553**

9. NET GAINS FROM CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

	2021	2020
Gains from derivatives		
Gains from currency swap	182,245	13,137
Gains from spot transactions	-	6
Total	**182,245**	**13,143**
Losses from derivatives		
Losses from currency swap	(117,622)	(7,303)
Total	**(117,622)**	**(7,303)**
Net gains	**64,623**	**5,840**

10. NET FOREIGN EXCHANGE (LOSSES)/GAINS AND EFFECTS OF CONTRACTED FOREIGN CURRENCY CLAUSE

	2021	2020
Net foreign exchange rate (losses)/gains	(66,674)	146,983
Net gains/(losses) from contracted foreign currency clause	84	(7,405)
Net (losses)/gains	**(66,590)**	**139,578**

In 2021, pursuant to the NBS request, the Bank reclassified gains/(losses) incurred in realized transactions of purchase and sale of foreign currency and effective foreign currency with individuals and legal entities, from Net foreign exchange gains/(losses) and effects of contracted foreign currency clause to Fees and commission income and expenses in the total net amount of RSD 145,999 thousand (2020: RSD 42,005 thousand). The Bank performed the reclassification with the balance as of 24 September 2021.

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

(a) Net gains and losses on impaired financial assets and credit risk off-balance sheet items not measured at fair values through profit or loss include the following:

	2021	2020
Net losses arising from individual impairment	(626,312)	(449,070)
Net losses from impairment of loans	(130,451)	(86,951)
Net losses from impairment of overdrafts and credit cards	(10,674)	(12,819)
Net losses from impairment of loans and placements to banks	(44)	(10)
Net losses from impairment of placements with NBS	(1,199)	(631)
Net losses from impairment of other placements - discounting bills of exchange	(11)	(120)
Net losses from impairment of other receivables	(1,089)	(1,324)
Net losses from release of allowance for impairment on account maintenance fees	(18,400)	(14,783)
Net provision for off-balance sheet items	(23,387)	(928)
Net losses from impairment of financial assets through other comprehensive income	(859)	(3,035)
Net (losses)/gains from release of provisions on documentary transactions	(10,197)	1,405
Total net losses from impairment of assets	**(822,623)**	**(568,266)**
Recovery of written-off receivables	102,664	114,264
Unrecoverable receivables written-off	(23,444)	(8,832)
Net gains from written-off receivables	**79,220**	**105,432**
Net impairment losses	**(743,403)**	**(462,834)**

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

(b) Movements in allowance for impairment accounts during the year were as follows:

2021	Cash and balances with Central Bank (Note 20)	Loans and placements to banks and other financial institutions (Note 22)	Loans and placement to customers (Note 23)	Other assets (Note 30)	Total
Balance as of 1 January 2021	**9,141**	**109**	**1,111,186**	**20,691**	**1,141,127**
Increases	3,321	414	1,907,117	3,346	1,914,198
Decreases	(2,122)	(370)	(1,111,072)	(2,257)	(1,115,821)
Write-off and sales	-	-	(235,957)	(685)	(236,642)
Unwinding	-	-	-	473	473
FX gains/losses	-	-	(94)	-	(94)
Balance of allowance for impairment as of 31 December 2020	**10,348**	**153**	**1,671,227**	**21,554**	**1,703,282**
Net expenses arising from impairment allowance	1,199	44	796,045	1,089	798,377
Net expenses on off-balance sheet items (Note 38)	-	-	-	-	23,387
Net from a decrease in the impairment of financial assets through OCI	-	-	-	-	859
Total net losses from impairment for the period (Note 11(a))	**1,199**	**44**	**796,045**	**1,089**	**822,623**

2020	Cash and balances with Central Bank (Note 20)	Loans and placements to banks and other financial institutions (Note 22)	Loans and placement to customers (Note 23)	Other assets (Note 30)	Total
Balance as of 1 January 2020	**8,519**	**92**	**1,037,548**	**16,187**	**1,062,346**
Increases	2,506	196	2,553,767	3,473	2,559,942
Decreases	(1,875)	(186)	(1,991,429)	(2,149)	(1,995,639)
Write-off	-	-	(352,753)	(1,999)	(354,752)
Sales	-	-	(119,648)	5,215	(114,433)
Unwinding	-	-	(16,159)	-	(16,159)
FX gains/losses	(9)	7	(140)	(36)	(178)
Balance of allowance for impairment as of 31 December 2020	**9,141**	**109**	**1,111,186**	**20,691**	**1,141,127**
Net expenses arising from impairment allowance	631	10	562,338	1,324	564,303
Net expenses on off-balance sheet items	-	-	-	-	928
Net from a decrease in the impairment of financial assets through OCI	-	-	-	-	3,035
Total net losses from impairment for the period (Note 11(a))	**631**	**10**	**562,338**	**1,324**	**568,266**

12. NET GAINS FROM DERECOGNITION OF FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

In 2021, the Bank did have any gains/(losses) from derecognition of financial instruments measured at amortised cost (2020: net gains of RSD 110,712 thousand).

13. OTHER OPERATING INCOME

	2021	2020
Income from fees for bills of exchange	3,221	2,905
Reimbursement of expenses from related parties	6,615	26,164
Income from collected expenses from sued clients	5,681	4,845
Other operating income	1,085	8,360
Income from lease of investment property	43,010	39,723
Gains from sale of assets acquired by debt collection	21,764	4,351
Total	**81,376**	**86,348**

Reimbursement of expenses from related parties in 2021 includes:

- Accommodation costs, transportation costs and other services paid by the Bank and compensated to the members of the ProCredit Group and ProCredit Holding in the amount of RSD 4,891 thousand (2020: RSD 24,440 thousand); and
- Income from the lease of office space to ProCredit Leasing in the amount of RSD 508 thousand (2020: RSD 508 thousand), the Collaboration Agreement with ProCredit Leasing in the amount of RSD 823 thousand (2020: RSD 823 thousand) and reimbursement of IT costs totalling RSD 393 thousand (2020: RSD 393 thousand).

Income from the lease of investment property mostly relates to the lease of a part of the business premises located at 17, Milutina Milankovica Street in the amount of RSD 41,643 thousand (2020: RSD 37,782 thousand).

14. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

	2021	2020
Net salaries and compensations	592,807	570,987
Payroll contributions	299,876	288,204
Payroll taxes	75,463	73,444
Other personal expenses - other staff benefits	20,774	13,498
Cost of engaging workers on temporary jobs	5,499	7,090
Cost/(income from release) of provisions for unused other employee benefits	407	(1,262)
Total	**994,826**	**951,961**

15. AMORTISATION AND DEPRECIATION EXPENSES

	2021	2020
Amortisation of intangible assets (Note 26)	16,008	15,511
Depreciation of property, plant and equipment (Note 27)	170,860	197,470
Depreciation of right-of-use assets (Note 27)	35,363	38,654
Depreciation of investment property (Note 28)	10,028	9,588
Total	**232,259**	**261,223**

16. OTHER INCOME

	2021	2020
Release of provisions for litigations (Note 35)	17,298	43,595
Release of other provisions	-	2,958
Gains from sale of property, plant and equipment	6,079	4,920
Income from changes in value of property, plant and equipment, investment property and intangible assets	1,096	-
Sundry income	50,353	41,090
Total	**74,826**	**92,563**

Income from the release of provisions for litigations relates to the decreased amount of individual provisions attributable to legal disputes in the total amount of RSD 17,298 thousand (2020: RSD 43.595 thousand).

Sundry income in 2021, for the most part (RSD 40,050 thousand), relates to income from surpluses on advance loan accounts older than 10 years.

17. OTHER EXPENSES

	2021	2020
Cost of leases	41,650	37,526
Marketing costs	69,076	43,047
Cost of materials	30,748	31,569
Communication costs	53,776	48,152
Cost of authorisation of payment cards Dina, Master and Visa	279,306	230,729
Insurance premiums	220,513	206,219
Consulting services	208,884	196,792
Security services	47,041	44,022
Employee insurance costs	18,612	18,120
Cost of seminars	41,430	39,687
Hospitality and entertainment expenses	9,052	6,240
Cost of licences	395,384	369,532
E-banking costs	69,104	66,180
Cost of contributions	6,104	6,572
Provisions for litigations (Note 35)	190,425	165,221
Maintenance costs	73,088	60,647
Non-production costs	80,254	68,711
Cost of debt collection agency services	1,643	1,831
Business travel expenses	4,048	5,615
Transportation services	6,235	6,915
Tax expenses	73,875	21,334
Shortages and damages	124,177	36,322
Auditing costs	8,606	7,949
Impairment of property, plant and equipment and assets held for sale	389	58,809
Losses on sale of property, plant and equipment	-	6,633
Losses on sale of assets acquired by debt collection	2,870	3,006
Cost of legal representation	28,530	17,205
Tax expenses	25,706	27,404
Losses on the impaired value of property and assets acquired by debt collection	4,859	5,557
Other operating costs	95,964	73,554
Total	**2,211,349**	**1,911,100**

In addition to the printing of promotional materials, marketing expenses include the development of marketing solutions, radio campaigns and broadcasting TV reports, as well as donations.

The costs of insurance include: property insurance, vehicle insurance, transportation insurance and compulsory insurance premium of deposits of private individuals, entrepreneurs, and small and medium-sized legal entities, in accordance with the Law on Deposit Insurance.

Consulting services costs mostly relate to services stipulated by the Management Service Agreement with ProCredit Holding totalling RSD 182,637 thousand (2020: RSD 173,703 thousand), as well as other advisory services totalling RSD 26,247 thousand (2020: RSD 23,089 thousand).

Licence costs include costs of one-year use of software and related maintenance, which are not owned by the Bank (Microsoft licence, SQL, Quipu, EMC, Siron, Sophos, etc.)

17. OTHER EXPENSES (Continued)

Non-production costs include:

	2021	2020
Maintenance of business premises	18,252	18,675
Maintenance of IT equipment and software	10,657	4,626
Utilities	40,795	35,799
Other expenses	10,550	9,611
Total	**80,254**	**68,711**

18. INCOME TAXES

Components of Income Taxes

	2021	2020
Income tax	103,534	150,008
Deferred tax income	(9,501)	(10,619)
Deferred tax expenses	-	189
Total income tax expense	**94,033**	**139,578**

Numerical Reconciliation of Income Tax Recognised in the Income Statement and Profit for the Year Before Tax Multiplied by the Statutory Income Tax Rate

	2021 rate	2021	2020 rate	2020
Pre-tax profit		**563,785**		**827,302**
Income tax calculated at statutory tax rate	**(15%)**	**(84,568)**	**(15%)**	**(124,095)**
Expenses not recognized for tax purposes		(42,527)		(49,754)
Income not recognized for tax purposes		23,561		23,841
Effective tax rate	***(18.36%)***	***(103,534)***	***(18.13%)***	***(150,008)***
Deferred tax income		9,501		10,619
Deferred tax expenses		-		(189)
Total income tax expense		**(94,033)**		**(139,578)**

18. INCOME TAXES (Continued)

Deferred Tax Income/(Expenses)

	2021	2020
Difference between tax and carrying value of property, plant and equipment and intangible assets	4,670	5,852
Deferred tax income based on revaluation of property	2,993	2,990
Deferred tax income/(expense) on retirement benefits	61	(189)
Deferred tax expense based on the first-time adoption of IFRS 9	1,777	1,777
Deferred tax income, net	**9,501**	**10,430**

As of 31 December 2021, the Bank has no current income tax payable (31 December 2020: RSD 33,777 thousand).

Deferred Tax Income/(Expenses) related to Other Comprehensive Income

	2021	2020
Deferred tax expenses based on revaluation	-	(126)
Deferred tax expenses on securities valuation	(12)	(11)
Deferred tax expenses	**(12)**	**(137)**

19. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

The classification of financial instruments according to IFRS 9 is presented in the table below:

31 December 2021	Measured at amortised cost	Measured at FVOCI - debt instruments	Measured at FVOCI - equity instruments	Must be measured through profit and loss	Total
ASSETS					
Cash and balances with Central Bank (Note 20)	18,757,005	-	-	-	18,757,005
Derivatives (Note 24)	-	-	-	699	699
Securities (Note 21)	-	7,155,516	1,424		7,156,940
Loans and placements to banks and other financial institutions (Note 22)	9,745,021	-	-	-	9,745,021
Loans and placements to customers (Note 23)	116,200,545	-	-	-	116,200,545
Investments in subsidiaries (Note 25)	127,752	-	-	-	127,752
Other assets (Note 30)	487,588	-	-	-	487,588
TOTAL ASSETS	**145,317,911**	**7,155,516**	**1,424**	**699**	**152,475,550**
LIABILITIES					
Deposits and other liabilities due to banks, other financial institutions and Central Bank (Note 32)	37,988,582	-	-	-	37,988,582
Deposits and other liabilities due to other customers (Note 33)	96,331,145	-	-	-	96,331,145
Subordinated liabilities (Note 34)	1,895,568	-	-	-	1,895,568
TOTAL LIABILITIES	**136,215,295**	**-**	**-**	**-**	**136,215,295**

19. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (Continued)

31 December 2020	Measured at amortised cost	Measured at FVOCI - debt instruments	Measured at FVOCI - equity instruments	Must be measured through profit and loss	Total
ASSETS					
Cash and balances with Central Bank (Note 20)	16,022,819	-	-	-	16,022,819
Derivatives (Note 24)	-	-	-	340	340
Securities (Note 21)	,	5,290,744	1,342		5,292,086
Loans and placements to banks and other financial institutions (Note 22)	13,592,196	-	-	-	13,592,196
Loans and placements to customers (Note 23)	110,212,639	-	-	-	110,212,639
Investments in subsidiaries (Note 25)	127,752	-	-	-	127,752
Other assets (Note 30)	443,631	-	-	-	443,631
TOTAL ASSETS	**140,399,037**	**5,290,744**	**1,342**	**340**	**145,691,463**
LIABILITIES					
Derivatives (Note 31)	-	-	-	7,261	7,261
Deposits and other liabilities due to banks, other financial institutions and Central Bank (Note 32)	39,586,794	-	-	-	39,586,794
Deposits and other liabilities due to other customers (Note 33)	88,432,861	-	-	-	88,432,861
Subordinated liabilities (Note 34)	1,895,491	--	-	-	1,895,491
TOTAL LIABILITIES	**129,915,146**	**-**	**-**	**7,261**	**129,922,407**

Notes to the Financial Statements for the Year Ended 31 December 2021
(All amounts are expressed in RSD thousand, unless otherwise stated)

20. CASH AND BALANCES WITH CENTRAL BANK

	31 December 2021	31 December 2020
Gyro account	7,377,424	5,631,544
Treasury	879,349	1,015,950
Undue interest based on required reserves with the NBS	266	242
Cash assets in RSD	**8,257,039**	**6,647,736**
Treasury in foreign currency	979,362	775,842
Required reserves with the NBS in foreign currency	9,530,952	8,608,382
Cash assets in foreign currency	**10,510,314**	**9,384,224**
Less: Allowance for impairment on cash and assets held with Central Bank (Note 11(b))	(10,348)	(9,141)
Balance as of	**18,757,005**	**16,022,819**

A summary of cash and cash equivalents included in the Statement of Cash Flows is presented in Note 44.

21. SECURITIES

	31 December 2021	31 December 2020
Securities measured at FVOCI – equity securities in EUR	1,424	1,342
Securities measured at FVOCI – debt securities in RSD	7,155,516	5,290,744
Balance as of	**7,156,940**	**5,292,086**

In 2021, the Bank invested the amount of RSD 2,500,000 thousand in government bonds of the Republic of Serbia.

22. LOANS AND PLACEMENTS TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2021	31 December 2020
Regular foreign currency accounts	3,082,004	3,533,787
Repo transactions with the NBS	6,500,271	5,000,027
Cash balances with the Central Registry	5,346	5,349
Loans to financial institutions	58,106	-
Short-term deposits - related banks and the NBS	99,095	5,052,545
Fees receivable	45	70
Accrued commission receivable from banks	449	532
Deferred fee income on loans	(142)	(5)
Gross loans and placements	**9,745,174**	**13,592,305**
Less: Allowance for impairment (Note 11(b))	(153)	(109)
Balance as of	**9,745,021**	**13,592,196**

23. LOANS AND PLACEMENTS TO CUSTOMERS

	31 December 2021	31 December 2020
Loans and placements	116,757,444	109,853,864
Interest and fees receivable	1,211,138	1,543,208
Receivables from guarantees protests	275,268	276,927
Gross loans and placements	**118,243,850**	**111,673,999**
Deferred loan origination fee	(372,078)	(350,174)
Less: Allowance for impairment (Note 11(b))	(1,671,227)	(1,111,186)
Balance as of	**116,200,545**	**110,212,639**

Breakdown of Loans and Placements to Customers per Sector

31 December 2021

	Public sector	Legal entities	Entrepre-neurs	Retail sector	Agricultural producers	Foreign entities	Total 2021
Interest and fees receivable	105,989	684,255	51,791	106,872	262,106	124	1,211,137
Protests	-	266,799	8,468	-	-	-	275,267
Short-term loans	-	15,201,926	486,798	115,760	3,584,856	-	19,389,340
Long-term loans	-	70,914,716	4,262,075	6,809,264	15,382,049	-	97,368,104
Gross loans to clients	**105,989**	**87,067,696**	**4,809,132**	**7,031,896**	**19,229,011**	**124**	**118,243,848**
Deferred loan origination fee	-	(201,706)	(13,403)	(36,845)	(120,123)	-	(372,077)
Allowance for impairment	(105,854)	(1,036,575)	(114,130)	(176,152)	(238,489)	(26)	(1,671,226)
Balance as of 31 December 2021	**135**	**85,829,415**	**4,681,599**	**6,818,899**	**18,870,399**	**98**	**116,200,545**

31 December 2020

	Public sector	Legal entities	Entrepre-neurs	Retail sector	Agricultural producers	Foreign entities	Total 2020
Interest and fees receivable	114,497	933,883	70,242	114,543	309,637	406	1,543,208
Protests	-	266,575	10,352	-	-	-	276,927
Short-term loans	-	14,078,126	452,895	52,039	3,161,694	-	17,744,754
Long-term loans	-	67,150,867	3,940,472	5,419,046	15,598,725	-	92,109,110
Gross loans to clients	**114,497**	**82,429,451**	**4,473,961**	**5,585,628**	**19,070,056**	**406**	**111,673,999**
Deferred loan origination fee	-	(194,196)	(12,913)	(29,203)	(113,862)	-	(350,174)
Allowance for impairment	(32,770)	(699,431)	(71,726)	(107,288)	(199,880)	(91)	(1,111,186)
Balance as of 31 December 2020	**81,727**	**81,535,824**	**4,389,322**	**5,449,137**	**18,756,314**	**315**	**110,212,639**

24. DERIVATIVES

	31 December 2021	31 December 2020
FX swaps with foreign banks	699	340
Balance as of	**699**	**340**

Receivables arising from derivatives in the amount of RSD 699 thousand as of 31 December 2021 (31 December 2020: RSD 340 thousand) relate to changes in fair value of FX swaps with ProCredit Bank Germany.

25. INVESTMENTS IN SUBSIDIARIES

	31 December 2021	31 December 2020
Investment in subsidiaries in RSD - ProCredit Leasing d.o.o. Belgrade	127,752	127,752
Balance as of	**127,752**	**127,752**

The Bank is the founder and the sole owner of ProCredit Leasing d.o.o. Belgrade.

In accordance with the Bankruptcy and Liquidation of Banks and Insurance Companies Law, on 1 January 2018 the Assembly of ProCredit Leasing d.o.o. Belgrade passed the Decision to cease operations and initiate voluntarily liquidation procedure. The process of liquidating of ProCredit Leasing d.o.o. Belgrade commenced on 30 April 2018 and is still ongoing.

26. INTANGIBLE ASSETS

	Intangible assets under development	Software licences	Total
Cost			
Balance as of 1 January 2020	230,687	494,356	725,043
Direct increases	32,373	-	32,373
Transfer (from)/to	(32,614)	32,614	-
Balance as of 31 December 2020	**230,446**	**526,970**	**757,416**
Accumulated amortization			
Balance as of 1 January 2020	-	456,055	456,055
Amortisation expense (Note 15)	-	15,511	15,511
Balance as of 31 December 2020	**-**	**471,566**	**471,566**
Carrying value as of 1 January 2020	**230,687**	**38,301**	**268,988**
Carrying value as of 31 December 2020	**230,446**	**55,404**	**285,850**
Cost			
Balance as of 1 January 2021	230,446	526,970	757,416
Direct increases	8,314	-	8,314
Transfer (from)/to	(381)	381	-
Disposals and sales	-	(27,165)	(27,165)
Balance as of 31 December 2021	**238,379**	**500,186**	**738,565**
Accumulated amortization			
Balance as of 1 January 2021	-	471,566	471,566
Amortisation expense (Note 15)	-	16,008	16,008
Disposals and sales	-	(27,165)	(27,165)
Balance as of 31 December 2021	**-**	**460,409**	**460,409**
Carrying value as of 31 December 2021	**238,379**	**39,777**	**278,156**

The major portion of intangible assets under development relates to licences for transfer to new banking application, whose activation is expected in 2022.

The Bank does not have intangible assets estimated to have an indefinite useful life.

As of 31 December 2021, the Bank has ownership over the assets at its disposal and no encumbrance over the property.

As of 31 December 2021, intangible assets under development were tested for impairment and there were no indications of impairment thereof.

27. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (PP&E) include:

	31 December 2021	31 December 2020
Leasehold improvements	28,979	34,011
Equipment	117,679	207,558
Other fixed assets	5,747	17,623
Commercial building	1,333,643	1,373,805
Right-of-use assets	185,055	179,747
Construction in progress	53,340	3,652
Balance as of	**1,724,443**	**1,816,396**

Movements in PP&E during 2021 and 2020 were as follows:

	Leasehold improve-ments	Equipment	Other PP&E	Commercial building	Constru-ction in progress	Right-of-use assets	Total
Cost							
Balance as of 1 January 2020	109,306	1,489,996	116,059	1,931,663	44,655	289,788	3,981,467
Direct increases/(decreases)	-	-	-	(33,469)	4,741	5,552	(23,176)
Revaluation	-	-	-	838	-	-	838
Transfer (from)/to	-	37,780	516	7,448	(45,744)	-	-
Disposal and sales	(6,262)	(47,112)	(472)	-	-	(45,542)	(99,388)
Balance as of 31 December 2020	**103,044**	**1,480,664**	**116,103**	**1,906,480**	**3,652**	**249,798**	**3,859,741**
Accumulated depreciation							
Balance as of 1 January 2020	63,736	1,192,179	82,487	484,610	-	43,731	1,866,743
Depreciation expense (Note 15)	7,686	125,254	16,465	48,065		38,654	236,124
Disposal and sales	(2,389)	(44,327)	(472)	-	-	(12,334)	(59,522)
Balance as of 31 December 2020	**69,033**	**1,273,106**	**98,480**	**532,675**	**-**	**70,051**	**2,043,345**
Carrying value as of 1 January 2020	**45,570**	**297,817**	**33,572**	**1,447,053**	**44,655**	**246,057**	**2,114,724**
Carrying value as of 31 December 2020	**34,011**	**207,558**	**17,623**	**1,373,805**	**3,652**	**179,747**	**1,816,396**
Cost							
1 January 2021	103,044	1,480,664	116,103	1,906,480	3,652	249,798	3,859,741
Direct increases	-	-	-	-	74,000	71,334	145,334
Transfer from/to	2,645	12,079	2,072	7,516	(24,312)	-	-
Disposal and sales	-	(28,657)	(183)	-	-	(46,037)	(74,877)
Balance as of 31 December 2021	**105,689**	**1,464,086**	**117,992**	**1,913,996**	**53,340**	**275,095**	**3,930,198**
Accumulated depreciation							
Balance as of 1 January 2021	69,033	1,273,106	98,480	532,675	-	70,051	2,043,345
Depreciation expense (Note 15)	7,677	101,557	13,948	47,678		35,363	206,223
Disposal and sales	-	(28,256)	(183)	-	-	(15,374)	(43,813)
Balance as of 31 December 2021	**76,710**	**1,346,407**	**112,245**	**580,353**	**-**	**90,040**	**2,205,755**
Carrying value as of 31 December 2021	**28,979**	**117,679**	**5,747**	**1,333,643**	**53,340**	**185,055**	**1,724,443**

External appraisals of the fair value of business premises are performed by certified appraisers every 5 years. At the end of each reporting year, internal appraisals are made to determine whether there are any departures from the carrying value at the reporting date. As of 31 December 2021, the Bank has no property whose appraisal is older than 5 years.

27. PROPERTY, PLANT AND EQUIPMENT (Continued)

The total carrying value of commercial buildings owned by the Bank as of 31 December 2021, which the Bank uses for its own needs, amounts to RSD 1,333,643 thousand (31 December 2020: RSD 1,373,805 thousand). Commercial buildings are measured according to the revaluation model. The most significant amount of RSD 730,549 thousand (31 December 2020: 759,800 thousand) relates to the part of the Head Office building that the Bank uses for its own needs. The last external appraisal for the Head Office building was performed during December 2017, and the next one will be performed at the end of 2022. In the period from 2018 to 2021 internal estimates of the fair value of the aforesaid building were made, so as to confirm that the current carrying value of the building, based on the 2017 appraisal, does not depart significantly from its current fair value. The remaining amount of business premises relates to other buildings with carrying value of RSD 603,094 thousand (31 December 2020: RSD 614,005 thousand). The last external appraisals of these buildings were made I the period from 2017 to 2021, and appraisals by external appraisers are performed every 5 years. At the end of each year, internal fair value estimates were made to confirm that the current carrying value of these buildings, based on the latest external appraisal, does not depart significantly from their current fair value.

During October 2018, it was decided that the part of the Head Office building (entrance B), which is included in the above-mentioned external appraisals from 2017, should be leased. Accordingly, this part of the building was reclassified to investment property and since then that part of the building has been measured according to the cost model (Note 28).

The Bank has satisfactory title deed over its property and has no encumbrances on the assets.

As of 31 December 2021, the Bank has no contractual obligation for purchase of property, plant and equipment.

28. INVESTMENT PROPERTY

Cost	
Balance as of 1 January 2020	367,655
Direct increases	33,469
Balance as of 31 December 2020	**401,124**
Accumulated depreciation	
Balance as of 1 January 2020	(10,723)
Depreciation expense (Note 15)	(9,588)
Balance as of 31 December 2020	**(20,311)**
Carrying value as of 31 December 2020	**380,813**
Cost	
Balance as of 1 January 2021	401,124
Balance as of 31 December 2021	**401,124**
Accumulated depreciation	
As of 1 January 2021	(20,311)
Depreciation expense (Note 15)	(10,028)
Balance as of 31 December 2021	**(30,339)**
Carrying value as of 31 December 2021	**370,785**

The Bank performed an impairment test as of 31 December 2021 and there was no indication of impairment of investment property. The fair value of investment property as of 31 December 2021 amounts to RSD 393,589 thousand (31 December 2020: RSD 400,872 thousand).

29. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale in the amount of RSD 47,370 thousand as of 31 December 2021 (31 December 2020: RSD 47,370 thousand) relate to the building in Novi Pazar.

30. OTHER ASSETS

	31 December 2021	31 December 2020
Financial assets exposed to credit risk:		
Receivables based on payment cards	413,200	388,948
Transitional and temporary accounts	75,004	55,247
Other assets:		
Receivables for paid out compensations for maternity and sick leaves	-	276
Small inventory s	1,518	1,609
Advances paid	15,149	27,787
Prepaid expenses	161,724	91,822
Prepaid taxes and contributions	63	251
Deposits for flat (apartment) lease	1,241	2,681
Repossessed assets	146,943	129,188
Other receivables	103,719	75,139
Gross other assets	**918,561**	**772,948**
Less: Allowance for impairment (Note 11(b))	(21,554)	(20,691)
Balance as of	**897,007**	**752,257**

Repossessed assets include:

	31 December 2021	31 December 2020
Vehicles and equipment – older than 1 year	-	1,871
Property – up to three years	146,943	127,317
Balance as of	**146,943**	**129,188**

The Bank collects bad debts arising from loans from movable or immovable property of a client, in accordance with court decisions. Repossessed assets are included in Other assets, unless otherwise stated.

31. DERIVATIVES

	31 December 2021	31 December 2020
FX swaps with domestic banks	-	2,979
FX swaps with foreign banks (Note 43(a))	-	4,282
Balance as of	**-**	**7,261**

The Bank has no liabilities arising from derivatives as of 31 December 2021 (31 December 2020: RSD 7,261 thousand).

Notes to the Financial Statements for the Year Ended 31 December 2021
(All amounts are expressed in RSD thousand, unless otherwise stated)

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

	31 December 2021	31 December 2020
Transaction deposits	214,314	379,210
Specific-purpose deposits	1,539	1,751
Other deposits	5,057,353	4,492,562
Deposits from banks and financial institutions (b)	10,494,202	12,728,057
Borrowings from banks and financial institutions (a)	22,245,074	22,002,081
Other liabilities - interest and fees payable	2,349	2,384
Undue interest	65,642	90,616
Deferred fees on borrowings	(91,891)	(109,867)
Balance as of	**37,988,582**	**39,586,794**

In 2021, the effective interest rate on deposits in foreign currency from banks ranged from 0.30% to 1.22% per annum.

(a) Borrowings from Banks and Financial Institutions

Financial institution	Approved loans in EUR	Balance as of 31 December 2021 In EUR	Maturity	31 December 2021 In RSD 000	31 December 2020 In RSD 000
European Fund for South East Europe	15,000,000	15,000,000	2026	1,763,732	-
European Bank for Reconstruction and Development	100,000,000	65,809,523,80	2022-2025	7,738,022	11,556,454
European Bank for Reconstruction and Development	10,000,000	10,000,0000	2025	1,175,821	-
European Investment Bank 1	7,108,434	646,221,30	2019-2022	75,984	227,948
European Investment Bank 2	30,000,000	22,731,078,27	2027-2030	2,672,768	3,162,867
Good Governance Fund	20,000,000	20,000,000	2025	2,351,642	2,351,604
Council of Europe Development Bank	10,000,000	10,000,000	2027	1,175,821	1,175,802
Council of Europe Development Bank	30,000,000	30,000,000	2026	3,527,463	3,527,406
Council of Europe Development Bank	10,000,000	10,000,000	2026	1,175,821	-
Balance as of (I)	**212,108,434**	**184,186,823**		**21,657,074**	**22,002,081**

Financial institution	Approved amount in RSD	Balance as of 31 December 2021 In RSD	Maturity	31 December 2021 In RSD 000	31 December 2020 In RSD 000
European Bank for Reconstruction and Development	588,000,000	588,000,000	2026	588,000	-
Balance as of (II)	**588,000,000**	**588,000,000**		**588,000**	**-**
Total (I+II)				**22,245,074**	**22,002,081**

The Bank was granted loans at interest rates of up to 6M Euribor +1.5%.

The Bank has an obligation to align its operations with certain indicators defined in the loan agreements with the European Bank for Reconstruction and Development (EBRD) and the Good Governance Fund (GGF). As of 31 December 2021, according to the Bank's calculation, there was no non-compliance with all defined indicators.

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

(b) Deposits from Banks and Financial Institutions

Financial institutions	31 December 2021 In EUR	Maturity	31 December 2021 In RSD 000	31 December 2020 In RSD 000
ProCredit Bank Germany	49,250,000	2022	4,703,284	7,436,948
ProCredit Bank Bulgaria	-	-	-	1,763,703
Blue Orchard	40,000,000	2022	5,790,918	3,527,406
Balance as of	**89,250,000**		**10,494,202**	**12,728,057**

The table below presents cash flows from financing activities related to borrowings from banks and funds and changes during 2021 and 2020:

	Liabilities to foreign banks and funds
Net liabilities as of 1 January 2021	**22,002,081**
Increases - loan withdrawal	4,703,130
Decreases - loan repayment	(4,460,354)
FX differences	217
Net liabilities as 31 December 2021	**22,245,074**
Net liabilities as of 1 January 2020	**19,954,956**
Increases - loan withdrawal	8,230,799
Decreases - loan repayment	(6,181,397)
FX differences	(2,277)
Net liabilities as 31 December 2020	**22,002,081**

33. DEPOSITS AND OTHER LIABILITIES DUE TO OTHER CUSTOMERS

	31 December 2021	31 December 2020
Retail customers:		
- Transaction	5,730,558	3,893,839
- Savings	25,398,924	25,857,702
- Arising from loans	1,077,037	1,034,998
- Special-purpose	10,165	16,277
- Other financial liabilities	11,975	12,356
- Other	1	-
- Undue interest	4,357	4,595
	32,233,017	**30,819,767**
Corporate customers:		
- Transaction	28,452,197	24,482,068
- Arising from loans	1,506,630	1,748,479
- Special-purpose	212,879	154,115
- Other	13,681,231	12,835,174
- Loans received	15,468,905	13,313,246
- Other financial liabilities	116,699	174,001
- Interest payable	2,330	3,689
- Undue interest	110,880	101,431
- Callable deposits	4,546,377	4,800,891
	64,098,128	**57,613,094**
Balance as of	**96,331,145**	**88,432,861**

Unused credit lines are presented in the table below:

Financial institution	Contracted amount	Currency	Unused balance as of 31 December 2021 In RSD 000	Unused balance as of 31 December 2020 In RSD 000	Maturity
ProCredit Holding	10,000,000	EUR	1,175,821	1,175,802	30/03/2022
European Investment Bank	20,000,000	EUR	2,351,642	2,351,604	Upon withdrawal
European Bank for Reconstruction and Development	40,000,000	EUR	-	4,703,208	15/11/2025
Council of Europe Development Bank	20,000,000	EUR	-	2,351,604	Upon withdrawal
Total			**3,527,463**	**10,582,218**	

For term deposits of private individuals in RSD, the Bank pays a nominal interest rate of up to 2.85% per annum, depending on the term period.

The interest rate on individuals' deposits in foreign currency range up to 1.4% per annum, depending on the term period.

For term deposits of legal entities in RSD, the Bank pays a nominal interest rate of up to 2.0% per annum, depending on the term period.

The interest rate on legal entities' deposits in foreign currency range up to 1.35% per annum, depending on the term period.

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

Borrowings are presented in the following table:

Financial institution	Approved amount in EUR	Balance as of 31 December 2021 in EUR	Maturity	31 December 2021 In RSD 000	31 December 2021 In RSD 000
APEKS	39,075,110	28,558,321	2022–2030	3,357,948	3,906,829
ProCredit Holding	53,000,000	53,000,000	2022–2024	6,231,852	9,406,417
Proparco	50,000,000	50,000,000	2027	5,879,105	-
Total	**142,075,110**	**131,558,321**		**15,468,905**	**13,313,246**

There are no covenants for the aforementioned borrowings from APEKS and ProCredit Holding. The Bank is obliged to harmonize its operations with certain indicators defined by the loan agreements with the lender Proparco. As of 31 December 2021, according to the Bank's calculation, there was no non-compliance with all of the defined indicators.

Interest rates on borrowings from ProCredit Holding, APEKS and Proparco range from 3M Euribor + 0.6% to 1.48% per annum.

34. SUBORDINATED LIABILITIES

Financial institution	Contracted amount	Currency	31 December 2021 In EUR	Maturity	31 December 2021 In RSD 000	31 December 2021 In RSD 000
ProCredit Holding	6,000,000	EUR	6,000,000	18/10/2023	705,493	705,481
ProCredit Holding	10,000,000	EUR	10,000,000	01/06/2025	1,175,821	1,175,802
Total					**1,881,314**	**1,881,283**
Undue interest					14,254	14,208
Balance as of					**1,895,568**	**1,895,491**

The interest rates on the subordinated liabilities range from 6M Euribor+6.25% to 6M Euribor+6.3% per annum.

The following below presents the cash flows from financial activities in respect of subordinated liabilities and changes during 2021 and 2020:

	Subordinated liabilities
Net liabilities as of 1 January 2021	**1,895,491**
FX differences	30
Other non-cash changes	47
Net liabilities as of 31 December 2021	**1,895,568**
Net liabilities as of 1 January 2020	**1,895,985**
Cash inflows	6,110
Cash outflows	(6,312)
FX differences	(192)
Other non-cash changes	(100)
Net liabilities as of 31 December 2020	**1,895,491**

35. PROVISIONS

	31 December 2021	31 December 2020
Provision for retirements benefits	5,532	5,126
Provision for litigations (Note 39.1)	311,414	174,751
Provisions for off-balance sheet items (Note 39.2)	48,713	25,323
Balance as of	**365,659**	**205,200**

Movements in the provisions during 2021 were as follows:

	Retirement benefits	Litigations	Off-balance sheet items	Total
Opening balance	5,126	174,751	25,323	205,200
Increase	406	190,425	71,809	262,640
Decrease		(17,298)	(48,422)	(65,720)
Utilised amount	-	(36,464)	-	(36,464)
FX differences	-	-	3	3
Balance as of 31 December 2021	**5,532**	**311,414**	**48,713**	**365,659**

Movements in the provisions during 2020 were as follows:

	Retirement benefits	Litigations	Off-balance sheet items	Total
Opening balance	6,387	85,230	24,410	116,027
Increase	-	165,221	49,677	214,898
Decrease	(1,261)	(43,595)	(48,749)	(93,605)
Utilised amount	-	(32,105)	-	(32,105)
FX differences	-	-	(15)	(15)
Balance as of 31 December 2020	**5,126**	**174,751**	**25,323**	**205,200**

Provisions for retirement benefits as of 31 December 2021 have been determined in accordance with the legal regulations and general acts of the Bank, by using a discount rate of 3.5% per annum (31 December 2020: 5.05% per annum) and assuming average salary growth at a rate of 6% per annum (31 December 2020: 6% per annum), as well as an employee turnover rate of 8% per annum (31 December 2020: 6% per annum).

The Bank calculates provisions for potential losses that may arise from litigations in accordance with the methodology explained in Note 3.

As of 31 December 2021, 10,506 court proceedings were pending before courts against the Bank (31 December 2020: 3,736). Based on the procedure established in the Bank for the calculation of potential losses for litigations, total provisions in the amount of RSD 311,414 thousand were estimated and recognised in the Bank’s books of account (31 December 2020: RSD 174,751 thousand). The Bank's management has approved the amount of calculated provisions for litigations and agrees with the assessment that no material losses will arise from the ongoing lawsuits other than those provided for.

36. DEFERRED TAX LIABILITIES

Deferred tax liabilities, net, relate to:

	31 December 2021	31 December 2020
Difference between the depreciation for accounting and tax purposes	46,616	41,946
Deferred tax liabilities - revaluation of property	(88,090)	(91,083)
Deferred tax liabilities - valuation of financial assets	(119)	(107)
Deferred tax assets - provision for retirement benefits	828	767
Deferred tax liabilities - effects of the first-time adoption of IFRS 9	(1,778)	(3,555)
Balance as of	**(42,543)**	**(52,032)**

Movements in Deferred Tax Assets and Liabilities during the Year

2021	1 January 2021	Recognised through profit and loss	Recognised through OCI	Total 31 December 2021
Difference between the depreciation for accounting and tax purposes	41,946	4,670	-	46,616
Deferred tax liabilities - revaluation of property	(91,083)	2,993	-	(88,090)
Deferred tax liabilities - valuation of financial assets	(107)	-	(12)	(119)
Deferred tax assets - provision for retirement benefits	767	61	-	828
Deferred tax liabilities - effects of first-time adoption of IFRS 9	(3,555)	1,777	-	(1,778)
Deferred tax liabilities, net	**(52,032)**	**9,501**	**(12)**	**(42,543)**

2020	1 January 2020	Recognised through profit and loss	Recognised through OCI	Total 31 December 2020
Difference between the depreciation for accounting and tax purposes	36,094	5,852	-	41,946
Deferred tax liabilities - revaluation of property	(93,948)	2,990	(125)	(91,083)
Deferred tax liabilities - valuation of financial assets	(96)	-	(11)	(107)
Deferred tax assets - provision for retirement benefits	956	(189)	-	767
Deferred tax liabilities - effects of first-time adoption of IFRS 9	(5,332)	1,777	-	(3,555)
Deferred tax liabilities, net	**(62,326)**	**10,430**	**(136)**	**(52,032)**

37. OTHER LIABILITIES

Other liabilities include:

	31 December 2021	31 December 2020
Trade payables	92,451	68,113
Liabilities for remittance payments abroad	1,229	2,007
Deferred fees for issuing guarantees and letters of credit	15,729	13,629
Accrued liabilities for unused vacations	26,870	24,546
Accrued overhead costs	7,563	8,515
Deferred income from subsidised interest	182,244	242,315
VAT payable	5,303	4,067
Other taxes payable	375	1,022
Other accounts payable	433,584	465,000
Lease liabilities – IFRS 16 (Note 40)	190,887	185,025
Accrued fees liabilities	16,409	13,500
Deferred commission in foreign currency from loans	18,123	17,362
Balance as of	**990,767**	**1,045,101**

Other Accounts Payable

	31 December 2021	31 December 2020
Closed accounts	121,489	135,901
Non-allocated accounts	47,441	46,470
Liabilities to the Development Fund	3,261	3,261
Liabilities to the National Mortgage Insurance Company	1,797	2,116
Liabilities for purchased property	11,464	4,150
Liabilities for property appraisal	2,429	3,405
Temporary accounts	11,273	41,653
Liabilities in calculation	219,648	215,537
Other liabilities	14,782	12,507
Balance as of	**433,584**	**465,000**

38. EQUITY

The Bank’s equity consists of:

	31 December 2021	31 December 2020
Share capital – ordinary shares	3,663,012	3,663,012
Share premium	2,776,745	2,776,745
Reserves from profit	1,643,864	1,643,864
Revaluation reserves	691,036	707,356
Accumulated result – retained earnings	8,481,024	7,793,300
Profit for the current year	469,752	687,724
Balance as of	**17,725,433**	**17,272,001**

As of 31 December 2021 and 2020, the Bank’s share capital consists of 3,663,012 ordinary shares with a nominal value of one thousand RSD per share, which makes a total of RSD 3,663,012 thousand. In 2021, there were no changes in the share capital.

The shareholders’ structure according to ownership interest and voting rights as of 31 December 2021 and 2020 is as follows:

	31 December 2021		31 December 2020	
	Number of shares	% of ownership	Number of shares	% of ownership
ProCredit Holding AG & CO, Frankfurt, Germany	3,663,012	100%	3,663,012	100%

The share premium in the amount of RSD 2,776,745 thousand as of 31 December 2021 and 2020 arose as the difference between the total nominal value of shares and the dinar equivalent of the amount paid by the Bank's shareholder at the middle exchange rate of the National Bank of Serbia prevailing at the date of payment. ProCredit Holding AG & CO KGaA is the ultimate owner of the Bank holding 100% interest. The shareholder has the right to manage the Bank, as well as the right to participate in the profit distribution. Holders of ordinary shares are liable for liabilities and bear the risk of the Bank’s operations in proportion to the number of shares at their disposal.

In accordance with the regulations of the National Bank of Serbia, the Bank has sufficient net capital to meet the minimal requirements of the National Bank of Serbia. In accordance with the Law on Banks, the contribution in cash of the Bank's share capital may not be less than EUR 10,000,000, calculated at the middle exchange rate at the balance sheet date.

Reserves from profit are established in accordance with the legislation for estimated losses.

38. EQUITY (Continued)

Revaluation reserves have been established from the revaluation of property and valuation adjustments of equity and debt instruments to market value:

	31 December 2021	31 December 2020
Revaluation reserves from property appraisals	678,570	678,570
Fair value reserves on equity instruments measured through OCI	675	605
Fair value reserves on debt instruments measured through OCI	11,791	28,181
Balance as of	**691,036**	**707,356**

Movements in Revaluation Reserves from Property Appraisals

	31 December 2021	31 December 2020
Opening balance as of 1 January	678,570	677,858
Revaluation reserves increase	-	838
Decreases on deferred taxes	-	(126)
Balance as of	**678,570**	**678,570**

Movements in Revaluation Reserves for Debt Instruments Measured through OCI

	31 December 2021	31 December 2020
Opening balance as of 1 January	28,181	-
(Decrease)/increase in revaluation reserves	(16,390)	28,181
Balance as of	**11,791**	**28,181**

Movements in Revaluation Reserves for Equity Instruments Measured through OCI

	31 December 2021	31 December 2020
Opening balance as of 1 January	605	543
Increase in revaluation reserves	82	73
Deferred tax expense	(12)	(11)
Balance as of	**675**	**605**

38. EQUITY (Continued)

Accumulated result includes cumulative retained earnings from previous years which arose from the difference between income and expenses. Profit from the current reporting period equals to the difference between income and expenses less income taxes, increased or decreased by deferred tax income, i.e. expenses.

	31 December 2021
Retained earnings from 2009	120,094
Retained earnings from 2011	500,000
Retained earnings from 2013	807,537
Retained earnings from 2014	1,080,758
Retained earnings from 2015	738,000
Retained earnings from 2016	1,621,259
Retained earnings from 2017	1,189,346
Retained earnings from 2018	996,082
Retained earnings from 2019	680,985
Retained earnings from 2020	687,724
Effects of the first-time adoption of IFRS 9	59,239
Accumulated result	**8,481,024**
Profit for the year	469,752
Total retained earnings	**8,950,776**

39. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET ITEMS

39.1. Litigations

As of 31 December 2021, the Bank acts as a defendant in a number of court proceedings. There are 10,506 (31 December 2020: 3,736) court proceedings against the Bank. The total estimated value of claims, including costs and interest, amounts to RSD 692,849 thousand (31 December 2020: RSD 304,316 thousand).

The final outcome of the ongoing litigation is uncertain. As disclosed in Note 35, the Bank has established provisions for potential losses that may arise from these court proceedings in the total amount of RSD 311,414 thousand (31 December 2020: RSD 174,751 thousand). The Bank's management estimates that no material losses will arise from the ongoing lawsuits other than those provided for.

The Bank is involved in lawsuits filed against third parties for the purpose of collecting its receivables. For all claims against corporate and retail customers, the Bank made an allowance for impairment, by charging provisions to the profit of the current and prior years.

39. CONTINGENT LIABILITIES AND OFF-BALANCE SHEET ITEMS (Continued)

39.2. Off-balance Sheet Items

Off-balance sheet items exposed to credit risk are presented in the table below:

Commitments	**31 December 2021**	**31 December 2020**
Payable guarantees:		
- in RSD	814,799	725,357
- in foreign currency	2,362,702	2,415,538
Customs guarantees	1,048,483	990,741
Approved unused credit facilities	10,035,221	10,897,672
Nostro covered short-term letters of credit	-	6,303
Other uncovered short-term letters of credit	-	6,366
Total off-balance sheet items exposed to credit risk	**14,261,205**	**15,041,977**
Performance guarantees in dinars	1,673,534	1,505,470
Performance guarantees in foreign currency	2,143,144	1,702,173
Total off-balance sheet items as of	**18,077,883**	**18,249,620**

The structure of approved **unused credit facilities** is as follows:

	31 December 2021	**31 December 2020**
Approved overdrafts on current RSD accounts	229,568	186,068
Approved loan facilities to legal entities and entrepreneurs in RSD	1,744,185	1,832,829
Approved loans in respect of credit cards in RSD	46,783	44,732
Approved indexed revolving loans	4,925,834	5,382,597
Approved RSD revolving loans	2,670,449	3,120,625
Loans approved for project financing	256,864	198,962
Approved unused cash limits	161,538	131,859
Balance as of	**10,035,221**	**10,897,672**

As of 31 December 2021, the Bank recognized provisions for contingent liabilities exposed to credit risk presented within off-balance sheet items in the amount of RSD 25,012 thousand (31 December 2020: RSD 20,347 thousand), as follows:

	31 December 2021	**31 December 2020**
Issued payable guarantees in RSD	5,941	3,963
Issued payable guarantees – indexed	9,125	6,226
Letters of credit – indexed	-	11
Unused credit facilities in RSD	6,791	6,791
Unused credit facilities – indexed	3,155	3,287
Issued payable guarantees – indexed – related bank	-	69
Total provisions for contingent liabilities within off-balance sheet items	**25,012**	**20,347**
Provisions for performance guarantees	23,701	4,976
Total provisions for off-balance sheet items (Note 35)	**48,713**	**25,323**

40. LEASING

Identified Assets and Lease Term

As of 31 December 2021, the Bank has 12 concluded lease agreements. All lease agreements relate to the rental of commercial space. In assessing the lease term for branches, the Bank estimates that early withdrawal from the agreements would carry economic consequences to its operations. Additionally, prior to entering into the lease, the plan was to remain in the leased property for the full term of the agreement. For this reason, when determining the term of the lease agreement for branches, the Bank opts for a period that is equal to the contracted term without deductions linked to the option of early withdrawal from the agreement.

In addition to the lease of commercial space, the Bank has 5 flat lease agreements for the needs of its employees, all contracted for a 12-month period. In assessing the lease term for flats, the Bank estimates that early withdrawal from the agreements would not carry economic consequences to its operations, therefore it treats the above mentioned in line with the contractual term of 12 months, i.e. as short-term leases. In addition, upon the expiry of the lease, the Bank's management makes a decision on whether to extend the term of flat leases, making it uncertain as to whether the contracted term of 12 months will be extended or not.

As of 31 December 2021, the Bank has a concluded lease agreement for IT equipment, however, considering that the value of each individual asset specified by the agreement is below EUR 5,000, the Bank applies the low-value asset lease exemption and does not recognise the lease in line with IFRS 16.

Lease liabilities recognised as of 1 January 2020	**248,898**
Lease liabilities paid in 2020	(76,531)
New lease agreements in 2020	5,551
Effect of discounting lease liabilities by the incremental borrowing rate - interest expense	7,136
FX differences	(29)
Total lease liabilities as of 31 December 2020	**185,025**
Lease liabilities paid in 2021	(40,452)
New lease agreements tin 2021	71,336
Terminated contracts during 2021	(31,649)
Effect of discounting lease liabilities by the incremental borrowing rate - interest expense	6,625
FX differences	2
Total lease liabilities as of 31 December 2021 (Note 37)	**190,887**
Lease liabilities with maturity up to 1 year	1,972
Lease liabilities with maturity from 1 to 5 years	107,830
Lease liabilities with maturity over 5 years	81,085
Right-of-use assets recognised as of 1 January 2021	**179,747**
Depreciation of right-of-use assets in 2021 - depreciation expense	(35,363)
Expired/terminated agreements in 2021	(30,663)
New lease agreements in 2021	71,334
Total right-of-use assets as of 31 December 2021 (Note 27)	**185,055**

41. RECONCILIATION OF OUTSTANDING BALANCES OF RECEIVABLES WITH COUNTERPARTIES

Pursuant to the Accounting Law, the Bank conducted the reconciliation of receivables by sending confirmations of outstanding items to all legal entities and entrepreneurs with the balance as of 30 November 2021.

Out of 11,880 (2020: 13,764) confirmations sent, 871 (2020: 1,048) has been confirmed, 32 (2020: 34) have been disputed, while the remaining portion has not been returned. The total value of disputed receivables of the Bank amounts to RSD 2,022 thousand (2020: RSD 14,931 thousand).

42. COMPLIANCE WITH THE PERFORMANCE INDICATIORS PRESCRIBED BY THE NATIONAL BANK OF SERBIA

Performance indicators	Prescribed values	Realized 31 December 2021	Realized 31 December 2020
Capital	EUR 10 million	EUR 139 million	EUR 142 million
Capital adequacy ratio	8% min	16.53%	16.85%
Tier 1 capital adequacy ratio	6% min	15.46%	15.41%
Common equity Tier 1 capital adequacy ratio	4.5% min	15.46%	15.41%
Investments in non-financial sector entities and property, plant and equipment	60% max	12.81%	13.14%
Aggregate large exposure ratio	400% max	12.23%	31.49%
Exposure to a single party or a group of related parties	25% max	12.23%	13.88%
Liquidity ratio	1 min	2.35	2.33
Narrow liquidity ratio	0.5 min	2.10	2.14
Liquidity coverage ratio (LCR)	100% min	171%	165%
Foreign exchange risk indicator	20% max	1.19%	2.47%
Concentration risk indicator	50% max	0.00%	0.01%

43. RELATED PARTY DISCLOSURES

The Bank is a member of the ProCredit Group, comprised of development-oriented banks operating in Eastern Europe, Africa, and the bank in Germany. The parent company of the Group is ProCredit Holding, Frankfurt - the company leading the ProCredit Group. ProCredit Holding also has two academies and the software development firm Quipu.

At consolidated level, the ProCredit Group is supervised by Bundesbank and BaFin. All members of the Group are majority owned by ProCredit Holding, and in the case of ProCredit Bank Serbia, ProCredit Holding (PCH) owns 100% of the Bank’s ordinary shares.

43. RELATED PARTY DISCLOSURES (Continued)

(a) Outstanding Balances of Receivables and Payables from/to Related Parties at End of Year

	Subsidiary (ProCredit Leasing)	Other related parties	Balance as of 31/12/2021	Balance as of 31/12/2020
Loans and placements to banks and other financial institutions	**-**	**1,967,062**	**1,967,062**	**2,248,276**
ProCredit Bank Germany	**-**	**1,966,670**	**1,966,670**	**2,247,806**
Other deposits in foreign currency	-	-	-	940,642
Nostro accounts	-	1,966,670	1,966,670	1,307,164
ProCredit Finance II SPV	**-**	**392**	**392**	**470**
Investments in subsidiaries	**127,752**	**-**	**127,752**	**127,752**
ProCredit Leasing (Note 25)	127,752	-	127,752	127,752

	Parent company (PCH)	Subsidiary (ProCredit Leasing)	Other related party	Balance as of 31/12/2021	Balance as of 31/12/2020
Other assets	**101**	**-**	**797**	**898**	**11,237**
ProCredit Leasing	-	-	-	-	1,291
ProCredit Bank Germany	-	-	379	379	166
Germany Academy	-	-	-	-	9,715
ProCredit Holding	101	-	-	101	65
ProCredit Bank Kosovo	-	-	259	259	-
ProCredit Bank Georgia	-	-	50	50	-
ProCredit Bank Ukraine	-	-	109	109	-
Liabilities arising from derivatives	**-**	**-**	**-**	**-**	**4,282**
ProCredit Bank Germany (Note 31)	-	-	-	-	4,282

	Parent company (PCH)	Subsidiary (ProCredit Leasing)	Other related party	Balance as of 31/12/2021	Balance as of 31/12/2020
Deposits and other liabilities due to banks and other financial institutions	-	**200,437**	**5,814,963**	**6,015,400**	**7,688,850**
ProCredit Bank Germany	-	-	**5,813,814**	**5,813,814**	**7,479,940**
Deposit	-	-	5,791,026	5,791,026	7,436,948
Other	-	-	22,788	22,788	42,992
ProCredit Finance II SPV	-	-	**1,149**	**1,149**	**291**
Deposit	-	-	1,149	1,149	291
ProCredit Leasing		**200,437**	-	**200,437**	**208,619**
Deposit - transaction	-	200,437	-	200,437	208,619
Deposits and other liabilities due to customers	**12,298,141**	**-**	**-**	**12,298,141**	**15,957,621**
ProCredit Holding	**12,298,141**	**-**	**-**	**12,298,141**	**15,957,621**
Deposit	5,996,688	-	-	5,996,688	6,466,911
Borrowings	6,231,852	-	-	6,231,852	9,406,416
Other	69,601	-	-	69,601	84,294

43. RELATED PARTY DISCLOSURES (Continued)

(a) Outstanding Balances of Receivables and Payables from/to Related Parties at End of Year (Continued)

	Parent company (PCH)	Subsidiary (ProCredit Leasing)	Other related party	Balance as of 31/12/2021	Balance as of 31/12/2020
Subordinated liabilities	**1,895,568**	**-**	**-**	**1,895,568**	**1,895,491**
ProCredit Holding (Note 34)	1,895,568	-	-	1,895,568	1,895,491
Other liabilities	**18,025**	**-**	**32,591**	**50,616**	**41,583**
QUIPU GMBH Germany	-	-	31,688	31,688	23,825
ProCredit Bank Kosovo	-	-	205	205	397
QUIPU Shpk Kosovo	-	-	518	518	-
Germany Academy	-	-	180	180	-
ProCredit Holding	18,025	-	-	18,025	17,361

(b) Income and Expenses from Related Party Transactions During the Year

	Parent company (PCH)	Subsidiary (ProCredit Leasing)	Other related party	2021 Total	2020 Total
Interest income	**-**	**-**	**141**	**141**	**99**
Procredit Bank Germany	-	-	141	141	99
Interest expense	**286,575**	**-**	**69,038**	**355,613**	**404,661**
ProCredit Bank Germany	-	-	65,870	65,870	89,884
ProCredit Holding	286,575	-	-	286,575	310,265
ProCredit Bank Bulgaria	-	-	3,168	3,168	4,512
Fee and commission income	**-**	**40**	**470**	**510**	**508**
SPV	-	-	470	470	470
ProCredit Leasing	-	40	-	40	38
Fee and commission expense	**62,097**	**-**	**82,285**	**144,382**	**135,327**
ProCredit Bank Germany	-	-	82,285	82,285	71,766
ProCredit Holding	62,097	-	-	62,097	63,561

43. RELATED PARTY DISCLOSURES (Continued)

(b) Income and Expenses from Related Party Transactions During the Year (Continued)

	Parent company (PCH)	Subsidiary (ProCredit Leasing)	Other related party	2021 Total	2020 Total
Net gains from financial assets intended for trade	**-**	**-**	**63,798**	**63,798**	**5,544**
ProCredit Bank Germany	-	-	63,798	63,798	5,544
Other operating income	**1,027**	**1,724**	**4,112**	**6,863**	**36,420**
ProCredit Bank BIH	-	-	514	514	2,629
ProCredit Bank Macedonia	-	-	514	514	4,927
ProCredit Bank Romania	-	-	514	514	5,117
ProCredit Holding	1,027	-	-	1,027	896
ProCredit Bank Bulgaria	-	-	514	514	3,368
ProCredit Leasing	-	1,724	-	1,724	1,724
ProCredit Bank Albania	-	-	514	514	969
ProCredit Bank Georgia	-	-	514	514	1,439
ProCredit Bank Kosovo	-	-	514	514	10,024
ProCredit Bank Moldova	-	-	-	-	60
ProCredit Bank Ukraine	-	-	514	514	5,267

	Parent company (PCH)	Subsidiary (ProCredit Leasing)	Other related party	2021 Total	2020 Total
Other expenses	**152.550**	**-**	**319.444**	**471.994**	**442.315**
GA	-	-	32,706	32,706	31,421
Macedonian Academy	-	-	1,082	1,082	-
ProCredit Holding	152,550	-	-	152,550	145,105
QUIPU GMBH Germany	-	-	280,680	280,680	260,474
QUIPU Shpk Kosovo	-	-	4,976	4,976	5,315

(c) Commitments and Contingent Liabilities

	Parent company (PCH)	Subsidiary (ProCredit Leasing)	Other related party	Balance as of 31/12/2021	Balance as of 31/12/2020
Issued payable guarantees	-	-	**12,000**	**12,000**	**-**
ProCredit Bank Kosovo	-	-	-	-	-
ProCredit Bank Bulgaria	-	-	12,000	12,000	-
Revolving loan	**1,175,821**	**-**	**-**	**1,175,821**	**1,175,802**
ProCredit Holding (Note 33)	1,175,821	-	-	1,175,821	1,175,802
Receivables for forward FX Swap purchases – ProCredit Bank Germany	**-**	**-**	**914,551**	**914,551**	**1,030,522**
Receivables for forward FX Swap sales - ProCredit Bank Germany	**-**	**-**	**914,248**	**914,248**	**1,034,706**

43. RELATED PARTY DISCLOSURES (Continued)

(d) Loans to Employees

In 2021, the Bank approved loans to its employees under terms and conditions that do not differ from those available on the market. In 2021, the Bank approved loans to employees totalling RSD 102,255 thousand (2020: RSD 80,605 thousand).

In 2021, no loans were approved to members of the Board of Directors.

(e) Remuneration to the Executive Board and the Board of Directors

Members of the Executive Board earn a salary. The gross salaries paid out to members of the Executive Board in 2021 amounted to RSD 31,664 thousand (2020: RSD 32.949 thousand).

The total gross earnings of members of the Board of Directors amounted to RSD 2,762 thousand in 2021 (2020: RSD 2,680 thousand).

44. CASH AND CASH EQUIVALENTS IN THE STATEMENT OF CASH FLOWS

A summary of cash and cash equivalents included in the Statement of Cash Flows is presented in the following table:

	31/12/2021	31/12/2020
In RSD:		
Gyro account	7,377,424	5,631,544
Cash on hand	879,349	1,015,950
Total	**8,256,773**	**6,647,494**
In foreign currency:		
Foreign currency accounts	3,082,004	3,533,788
Cash on hand in foreign currency	979,362	775,842
Total	**4,061,366**	**4,309,630**
Balance as of 31 December	**12,318,139**	**10,957,124**

45. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after the reporting date that would require adjustments or disclosures in the notes to the accompanying financial statements of the Bank as of and for the year ended 31 December 2021.

In Belgrade, 8 March 2022

Ivan Smiljković 100102484-1910981740025 Digitally signed by Ivan Smiljković 100102484-1910981740025 Date: 2022.03.24 09:33:56 +01'00'

Ivan Smiljkovic
Member of the Executive Board

Igor Anić 200005709 Digitally signed by Igor Anić 200005709 Date: 2022.03.24 09:32:31 +01'00'

Igor Anic
Chairman of the Executive Board

PROCREDIT BANK A.D. BELGRADE

ANNUAL BUSINESS REPORT
FOR THE YEAR ENDED 31 DECEMBER 2021

Content

1. Business Activities and Organisational Structure of ProCredit Bank a.d. Belgrade

ProCredit Bank a.d. Belgrade (hereinafter “the Bank“ or “ProCredit Bank“) was established based on the Contract on Incorporation of Micro Finance Bank a.d. Belgrade concluded on 31 March 2001 among five founders - foreign financial institutions.

The Bank obtained an operational licence according to the Decision no. G. 538 passed by the National Bank of Yugoslavia on 5 April 2001. The Bank acquired the status of a legal entity after being registered with the court register of the Commercial Court in Belgrade under the number V Fi-3571- 01, dated 9 April 2001 (registration folder 3-135-00).

The Bank performs its operations in accordance with the Law on Banks, the Contract on Incorporation and Articles of Association and has the “significant authorisation” for performing payment transactions and foreign credit transactions.

Who are the shareholders of ProCredit Bank in Serbia?

ProCredit Bank operates in Serbia as a part of the ProCredit Group, which is managed by ProCredit Holding, headquartered in Frankfurt am Main, Germany. ProCredit Bank is a member of the ProCredit Group. ProCredit Holding AG & CO KGaA owns 100% of the Bank's capital and it is the ultimate parent company of the ProCredit Group.

Key Features of the ProCredit Group

The Procredit Group is comprised of banks and financial institutions offering banking services in developing countries in Eastern Europe, Africa and Germany. All ProCredit Group banks adhere to the highest standards of responsible banking when performing their operations.

All ProCredit Group banks operate as “parent companies“ for small and medium-sized enterprises (SMEs), farmers and individuals, while fostering a business approach based on ethical values. The following five principles guide the operations of the ProCredit institutions:

Transparency: We provide transparent information to our customers, to the general public and to our employees. For example, For example, we endeavour to ensure that our clients fully understand the terms and conditions of the agreements they conclude with us and we are engaged in delivering financial education so as to raise public awareness of the dangers of non-transparent financial offerings.

Open communication culture: We communicate openly, fairly and constructively with each other. We deal with conflicts at work in a professional manner, working together to find solutions.

Social responsibility and tolerance: We offer our clients sound and well-founded advice. Before offering loans to our customers, we assess their economic and financial position, their business potential and repayment capacity in order to avoid over-indebtedness and provide appropriate financial services. In addition, we are committed to treating all clients and employees with fairness and respect, regardless of their origin, colour, language, gender or religious beliefs.

We also ensure that loan applications are evaluated based on the applicant’s compliance with our ethical business practices. Loans are not granted to enterprises or individuals if they are suspected of making use of unsafe, environmentally harmful or morally objectionable forms of labour, in particular child labour.

High professional standards: Our employees take personal responsibility for the quality of their work and always strive to grow as professionals.

1. Business Activities and Organisational Structure of ProCredit Bank a.d. Belgrade (Continued)

Personal integrity and commitment: The rights and personal integrity of all ProCredit Group employees are respected to the highest degree. At the same time, dedication and honesty are expected of all employees at all times.

In our daily operations, we are not focused on a short-term profit gain, but rather on establishing and maintaining long-term partnerships with our clients.

Related Party Transactions

The Bank is a member of the ProCredit Group, comprised of development-oriented banks operating in Eastern Europe and Africa, and a bank in Germany.

The Group's parent company, ProCredit Holding, Frankfurt – a company managing the ProCredit Group, is comprised of two academies and Quipu, a software development firm. At consolidated level, the Group is supervised by Bundesbank and BaFin. ProCredit Holding is a majority shareholder of all Group members, and in the case of ProCredit Bank Serbia, ProCredit Holding owns 100% of the Bank's ordinary shares.

The Bank is the founder of ProCredit Leasing d.o.o. Belgrade, which is registered with the Serbian Business Registers Agency in Belgrade under the registration no. 1973/2005 of 17 February 2005. The Bank is the sole owner of ProCredit Leasing d.o.o.

Pursuant to the Law on Bankruptcy and Liquidation of Banks and Insurance Companies, the General Meeting of ProCredit Leasing d.o.o. passed a Decision on 1 January 2018 on Terminating Operations and Initiating a Liquidation Procedure, which was submitted to the National Bank of Serbia, as the official regulator, within the legal deadline, which consented to the initiation of the liquidation procedure. The liquidation proceedings of ProCredit Leasing d.o.o. Belgrade commenced on 30 April 2018.

Since the Bank meets the requirements disclosed in Article 8 of the National Bank of Serbia's Decision on the Supervision of the Banking Group on a Consolidated Basis, the Bank does not prepare consolidated financial statements as of and for the year ended 31 December 2021.

Transactions performed among the Group members include lending, deposits, employee training and other transactions and are subject to a transfer pricing analysis for 2021.

A detailed breakdown of related party transactions is disclosed in Note 43 to the Bank's financial statements for the year ended 31 December 2021.

2. *Analysis of Financial Statements*

ANALYSIS OF THE BALANCE SHEET

A structure of total balance sheet assets and liabilities of the Bank and a share of individual categories are as follows:

ASSETS	In RSD thousand	Share in %	LIABILITIES AND EQUITY	In RSD thousand	Share in %
Cash and balances held with Central Bank	18,757,005	12.07	Deposits and other liabilities due to banks, other financial institutions and central bank	37,988,582	24.45
Derivatives	699	0.00			
Securities	7,156,940	4.61	Deposits and other liabilities due to other customers	96,331,145	62.01
Loans and placements to banks and other financial institutions	9,745,021	6.27	Subordinated liabilities	1,895,568	1.22
			Provisions	365,659	0.24
Loans and placements to customers	116,200,545	74.81	Deferred tax liabilities	42,543	0.03
Investments in subsidiaries	127,752	0.08	Other liabilities	990,767	0.64
Intangible assets	278,156	0.18	**Total liabilities**	**137,614,264**	**88.59**
Property, plant and equipment	1,724,443	1.11			
Investment property	370,785	0.24	Share capital	6,439,757	4.15
Non-current assets held for sale and assets from discontinued operations	47,370	0.03	Retained earnings	8,950,776	5.76
			Reserves	2,334,900	1.50
			Total equity	**17,725,433**	**11.41**
Current tax assets	33,974	0.02			
Other assets	897,007	0.58			
TOTAL ASSETS	**155,339,697**	**100.00**	**TOTAL LIABILITIES AND EQUITY**	**155,339,697**	**100.00**

The Bank's balance sheet sum as of 31 December 2021 increased by RSD 6,809,179 thousand or 4.56% in comparison to 31 December 2020, when it amounted to RSD 148,530,518 thousand.

The most significant growth was recorded in loans and placements to customers in the amount of RSD 5,987,906 thousand, i.e. 5.43%, in comparison to the same date in 2020. As regards the structure of granted loans and placements by sector structure, corporate customers dominate with a share in the total gross placements of RSD 85,829,415 thousand (69.56%), whereby long-term placements participate with 82.62%.

Securities also increased in 2021 by RSD 1,864,854 thousand (or 35.24%), relating to investments in government bonds issued by the Ministry of Finance of the Republic of Serbia.

On the other hand, loans and placements to banks recorded a decrease by RSD 3,847,175 thousand or 28.30% in comparison to 31 December 2020, primarily due to a reduced amount of the Bank's short-term deposits with the National Bank of Serbia.

In the liabilities structure, there was an increase in deposits of other customers in the amount of RSD 7,898,284 thousand, i.e. 8.93%, in comparison to 31 December 2020, which is mainly the result of an increase in time deposits, balances of customers' current accounts and borrowings. As of 31 December 2021, retail deposits account for 33.46% (31 December 2020: 34.85%), while corporate deposits account for 66.54% of the total customers' deposits (31 December 2020: 65.15%). Simultaneously, along with an increase in customers' deposits, there was a decrease in liabilities to other financial institutions by RSD 1,598,212 thousand, i.e. 4.01%, in comparison to 31 December 2020, mainly due to a decrease in foreign-currency deposits from related parties.

The total equity accounts for 11.41% and share capital accounts for 4.15% of the Bank's total liabilities and equity as of 31 December 2021 (31 December 2020: 11.63% and 4.34%, respectively). There were no changes in the shareholder structure in 2021 and no dividends were paid to the shareholder.

2. *Analysis of Financial Statements (Continued)*

ANALYSIS OF THE BALANCE SHEET (Continued)

The Bank is solely owned by one shareholder that holds 100% one shareholder. The structure of the Bank's shareholders as at 31 December 2021 and 2020 is provided in the following table:

In RSD thousand	Share capital	% of equity interest
ProCredit Holding AG & CO KGaA, Frankfurt, Germany	3,663,012	100.00
Total	**3,663,012**	**100.00**

A detailed structure of the balance sheet items and the information on the business policies of the Bank and the ProCredit Group in terms of funds placement, loan collection and an evaluation of the borrower’s financial position are disclosed in Notes 19 to 40 to the Bank’s financial statements for the year ended 31 December 2021.

Pursuant to Article 22 of the Law on Accounting, the Bank reconciled its receivables and payables with its debtors and there were no materially non-reconciled receivables and payables.

ANALYSIS OF THE INCOME STATEMENT

According to the financial statements for the year ended 31 December 2021, the Bank reported income in the amount of RSD 6,231,832 thousand and expenses in the amount of RSD 5,658,546 thousand. The Bank realized a profit in the current year in the amount of RSD 469,752 thousand (2020: RSD 687,724 thousand).

The structure of income and expenses in the income statement for the year ended 31 December 2021 is as follows:

Description	Total in RSD thousand
Income	
Interest income	4,167,303
Fee and commission income	1,834,203
Net gains from changes in fair value of financial instruments	64,623
Other operating income	81,376
Other income	74,826
Deferred tax income	9,501
Total income	**6,231,832**
Expenses	
Interest expenses	(958,028)
Fee and commission expenses	(452,091)
Net foreign exchange losses and effects of contracted foreign currency clause	(66,590)
Net losses from impairment of financial assets not measured at fair value through profit or loss	(743,403)
Salaries, compensations and other personal expenses	(994,826)
Amortisation and depreciation expenses	(232,259)
Other expenses	(2,211,349)
Income taxes	(103,534)
Total expenses	**(5,762,080)**
Net result - profit for the year	**469,752**

2. Analysis of Financial Statements (Continued)

ANALYSIS OF THE INCOME STATEMENT (Continued)

In spite of the growth in net interest income and fee and commission income in 2021 by 15.4% in comparison to 2020, profit after tax was reduced by 31.7% mainly due to the Bank's prudential impairment policy and an increase in impairment losses on loans and placements to customers (by 60.6%) and other expenses (by 15.7%) in 2021.

Interest income accounted for 66.87% of total income in 2021 and it increased by RSD 230,090 thousand in comparison to 2020, primarily due to an increase in interest income on loans to corporate customers and entrepreneurs.

Interest expenses accounted for 16.93% of total expenses in 2021 and they decreased by RSD 56,359 thousand in comparison to 2020. The most significant decrease relates to interest expenses on borrowings from domestic and foreign financial institutions.

An increase in net losses from impairment of financial assets not measured at fair value through profit or loss in 2021 by RSD 280,569 thousand or 60.6% in comparison to 2020 is the result of an increase in provisions for loans and placements to customers.

A detailed breakdown of income statement is disclosed in Notes 7 to 18 to the Bank's financial statements for the year ended 31 December 2021.

3. HR Information

As at 31 December 2021 the Bank had 388 employees (31 December 2020: 391 employees).

ProCredit Bank puts considerable effort and invests a significant amount of funds in continuous professional development of its staff. Over the last years, namely from 2012 until to the end of 2021, the Bank invested approx. EUR 8 million in various professional development training programmes for its employees. In 2021 all training programmes and seminars were still held online, which resulted in a further reduction in training costs and enabled a larger number of employees to attend training and actively participate at the same time.

The plan is to invest approximately EUR 500,000 in 2022. Online seminars will continue and investments will be made in the development of technical support to such courses. Depending on the epidemiological situation, training courses will be held live from the second quarter at the ProCredit-owned training centres – the Management and Banker academies in Furth, Germany. Intensive, multiannual, training programmes are organised and paid by the Bank for existing manages and for employees in whom this potential has been recognised. Apart from them, all employees interested in this form of professional development may apply for these programmes. 54 employees have successfully completed all courses at these academies, and currently 19 employees are attending courses at both academies.

Special attention is paid to English language learning. Six-week intensive English courses are organised for all employees, taught by native speakers. In 2021 seven four-week online courses were organised and a total of 15 employees attended. The plan is to continue with this practice in the first quarter of 2022, and then, depending on the epidemiological situation, to organise 6-week courses again at the ProCredit Academy in Furth.

Apart from the aforesaid training for permanent employees, an introductory training course on banking and finance ProCredit Onboarding Programme will be organised seven times a year over a six-month period for university graduates and all those who are interested and have practical experience. In case the circumstances do not permit otherwise, these training sessions will also be organised in the Microsoft Teams environment in 2022.

3. HR Information (Continued)

The ProCredit Onboarding Programme is an international programme held in the English language and attended by employees from all of the countries in which ProCredit Bank operates. This programme is an entry point for employment with the Bank and over the past eight years over 550 young graduates from all over Serbia have attended it, out of which about 280 found employment with the Bank, whereas 100 of them have remained in the Bank and are an important part of its team.

ProCredit Bank fosters a culture of open and direct communication at all levels. The performance of all employees is regularly evaluated on an annual basis by a team of evaluators comprised of top management members, including the members of the Executive Board. These evaluations began in 2013 and have had a significant impact on improving performance and on the management of resources.

Apart from a thorough annual evaluation, all employees have interviews with their line managers twice a year, allowing for continuous feedback that stimulates two-way communication and gives employees the chance to get a broader picture of the development strategy and their own personal contribution to Bank’s success.

4. Information on Environmental Protection Investments

ProCredit Bank tends to reduce a negative impact on the environment and the social community in which it operates through its business activities and the provision of services to its customers. Doing business in a way that ensures a sustainable environmental and social approach is a key component of all institutions that are members of the ProCredit Group. In that regard, all ProCredit institutions have defined and implemented high standards of environmental protection and the community in which they operate through an environmental management system.

The Bank adheres to the Group's Environmental Management Policy, which was implemented in 2011, when conducting its operations. The Policy was updated in 2016 and harmonized with the requirements of the ISO 14001 Standard. Furthermore, the Policy was also updated in 2019 and additionally harmonised with the requirements of ProCredit Holding. The Policy defines a Bank's approach based on which the institution systematically and comprehensively reduces an internal and external impact on the environment and the community. ProCredit Bank has fully adopted the Environmental Management System (EMS). The Bank has managed to reduce the negative environmental impact over the past year using this system, not only through internal measures for reducing energy consumption and resources, but also by financing energy efficiency projects, renewable energy sources and by implementing other environmental protection measures.

In order to institutionalise the EMS, the Bank established the Energy Efficiency and Environmental Protection Unit with two full-time employees whose tasks, among other things, include the monitoring of Bank’s compliance with the applicable environmental legislation and regular encouragement and raising awareness of employees to apply in their daily work the underlying rules and principles that guide companies towards the environmental management and protection.

In 2016, ProCredit Bank harmonised the EMS with the requirements of ISO 14001:2015 Standard and, thereby, was the first one to be awarded an environmental protection management certificate in the local financial sector. Having obtained this certificate, the Bank confirmed its compliance with the environmental protection legislation and a planned environmental impact reduction by involving the top management in EMS processes.

At the end of 2019, after the expiration of the original three-year certification period, the Bank successfully underwent a recertification process, which reaffirmed the Bank's compliance with the required ISO 14001 Standard. In 2020 and 2021, regular annual internal and external EMS reviews were performed and no incompatibilities with the standard were identified.

4. Information on Environmental Protection Investments (Continued)

A systemic and comprehensive approach to this topic at ProCredit institutions is conducted using the following three pillars:

Pillar 1 - Internal Environmental Protection System

This pillar refers to all measures taken in the Bank with the aim of improving environmental protection and reducing negative environment impact through energy and resources consumption. Measures applied by the Bank are related not only to those measures which affect employee habits, but also to the measures that refer to changes in business processes, including technical improvement of buildings and equipment that we use in our daily operations in order to track the consumption of energy and other resources, we use a special tool (iEMS tool) to manage and monitor the consumption of the following items: electric and thermal energy, gas, fuel, water, paper, paper and other waste, and greenhouse gas emissions.

The tool was updated in 2021 at the ProCredit Group level to include the monitoring of sustainable or “green” suppliers. All forms of consumption are analysed and based on that, goals are set for reducing consumption and saving these resources by defining the Annual Environmental Plan.

As regards employee education and raising awareness of environmental protection, our experts regularly attend training sessions on environmental protection, participate in conferences and numerous activities of the Bank, whose objective is to raise awareness of citizens in their daily lives, both at work and in their homes. Finally, the Bank applies the selection criteria for so-called green suppliers in its procurement procedures, based on which the Bank further seeks to reduce the negative environmental impact.

In 2019, on the basis of updated guidelines provided by ProCredit Holding, the Bank began applying sustainable development criteria for its suppliers. A screening process was introduced on existing processes. In addition, changes in procurement processes and procedures were initiated. A Bank’s short-term goal is to achieve a minimum of 50% of suppliers that meet the defined sustainability criteria, while in the long run we expect cooperation with fully sustainable suppliers. With this move, the Bank further promotes sustainable development in Serbia.

In 2020, out of 119 analysed suppliers, 42 met the defined sustainability criteria, which leads to 35% of ProCredit Bank's suppliers being sustainable. In 2021, out of 69 analysed suppliers, 43 suppliers meet the criteria, which results in an increase in the number compared to the previous year, i.e. 62% of suppliers.

In 2020 and 2021, the Bank continued to strictly adhere to the standards related to the Environmental Protection System, which entails the further implementation of technical and other measures in the Bank, which will further reduce negative environmental impacts. The bank has set a medium-term goal to become a carbon-neutral institution. In order to do so, it will continue to invest in a reduction in energy consumption and the use of renewable energy sources and material.

4. Information on Environmental Protection Investments (Continued)

Pillar 2 - Environmental and Social Risk in Lending

This pillar’s objective is to reduce Bank’s external impacts through lending to clients. All ProCredit banks have a List of Excluded Activities which comprises activities that the Group is unwilling to support, finance or promote as they are not in line with our principles and have a negative impact on both the environment and the community. We apply the *Standard for Managing the Impact of Lending Activities on Environmental Protection and Social Responsibility* to the activities we support. This Standard prescribes the conditions and method for assessing environmental and social risks in lending.

In applying the environmental aspect to the loan approval process, ProCredit Bank aims to improve the overall environmental awareness of its clients.

Therefore, on the one hand, the Bank endeavours to provide the most reliable assessment of the environmental and social impact of clients’ investments, and on the other hand, it estimates whether clients’ business operations comply with the Bank’s environmental protection principles and the effective laws and by-laws.

In addition, the Bank promotes investments in technologies and measures that are not harmful to the environment, help to reduce hazardous environmental impacts or improve environmental performance.

In 2020, the updated *Standard for Managing the Impact of Lending Activities on Environmental Protection and Social Responsibility* was implemented, which resulted in further improvement of this risk assessment aspect at the Bank and its compliance with current challenges triggered by climate and resource risks. The responsibilities of the Unit for Customers’ Operational Risk Assessment in terms of Environmental and Community Protection and the Energy Efficiency and Environmental Protection Unit were specified, the instruction for an external review of environmental and social risks was simplified and the protection zone risk assessment process was clarified, which were the most important changes in the Standard in 2020.

At the end of 2021, the *Standard for Managing the Impact of Lending Activities on Environmental Protection and Social Responsibility* was further updated, which additionally contributed to monitoring and analysing the activities that significantly affect the environment and social responsibility. Furthermore, the List of Excluded Activities was also updated to include explanations of existing items and new items.

Pillar 3 - Green Financing

Green financing is a significant part of the Bank's business development. Through this type of financing, the Bank strongly supports the green economy development in Serbia by supporting energy efficiency projects, renewable energy sources, as well as other green measures.

The benefits of such an approach and support are multiple for the domestic economy, since energy efficiency improvement provides entrepreneurs, companies and farmers in our country with an opportunity to enhance their competitive advantage, i.e. to reduce costs and increase their productivity and product quality.

Additionally, the Bank carries out numerous activities dedicated to raising awareness of clients about the importance of investing in energy efficient solutions and renewable energy sources, while interested clients are provided with credit support, based on which they can modernize their business activities, improve living comfort and ensure significant savings.

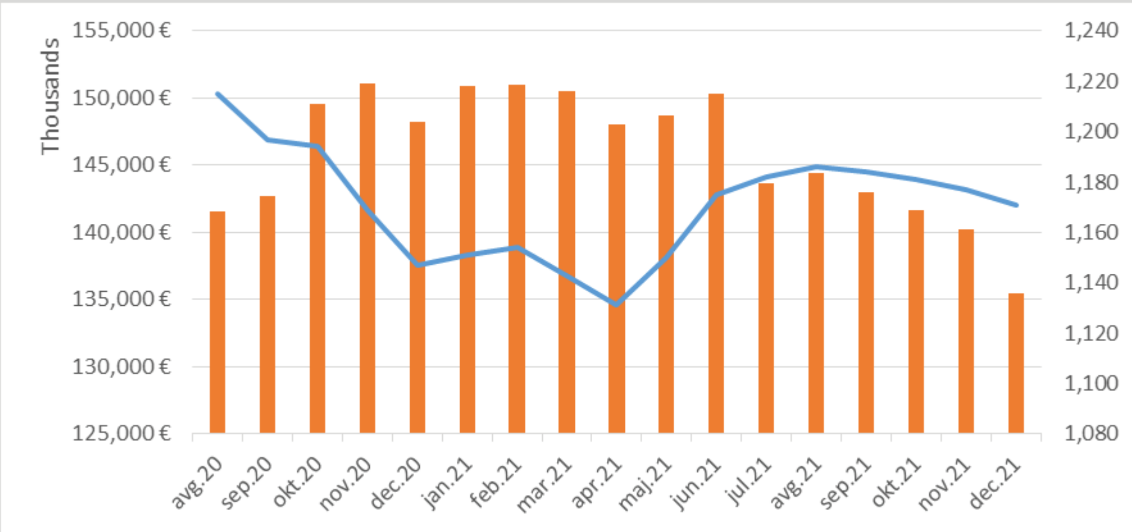
4. Information on Environmental Protection Investments (Continued)

Pillar 3 - Green Financing (Continued)

In 2020, the Bank disbursed almost EUR 40 million of green loans and thus achieved an 8% growth of this portfolio on an annual basis.

The share of green loans in the total portfolio reached almost 16%, while the Bank's medium-term goal is for the green portfolio to reach one fifth of total client exposures.

In 2021 the Bank disbursed over EUR 45 million of green loans, whereas the share of the green portfolio in the total portfolio was about 14%.



We are certain that only this type of a systemic and comprehensive approach to environmental protection demonstrates our true dedication to these values, and that, on the other hand, it can ensure sustainability in managing the Bank's environmental and community protection activities.

5. Planned Development in the Coming Period

ProCredit Bank is a development-oriented commercial bank specifically focused on small and medium-sized enterprises, farmers and salary recipients, while paying particular attention to the development and improvement of quality banking services, achievement of sustainable development and adequate operating performances.

The Bank plans to continue to increase its assets by growing the loan portfolio. The planned growth in 2022 is about 6%, and the main growth driver will be the non-retail lending segment with a share of over 90% in total lending.

Lending growth and the provision of support to those clients wishing to invest in projects are expected in all client categories serviced by the Bank. A significant portion of planned disbursements are loans that will be used to finance EE solutions, which is one of the Bank's strategic goals. In terms of lending to retail customers, long-term stable positioning towards clients with medium and higher income is expected, fully understanding their needs and habits through simple and quality services, with an emphasis on investment and housing loans. As in previous years, an important goal in the coming year will be to maintain the sound quality of the loan portfolio and the collection rates of overdue loans.

In building a customer deposit base, growth in RSD deposits on current accounts and a better use of the client base, predominantly through a larger volume of payment transactions with our current and new clients, have been determined as support to the expected growth of loans, and as a strategic goal where legal entities are concerned. The continued promotion of savings is planned for our retail segment, along with expected growth in deposits in accounts that are a combination of term and savings deposits of retail customers. As far as the retail segment is concerned, we are focused on clients who can and wish to perform their business transactions with the Bank electronically only, i.e. in 24/7 Zones. Since the Bank has opted for direct banking when dealing with retail customers, the target group in this segment is customers who keep up with new technologies, who value their time and see the Bank as a long-term partner. The focus will remain on clients who value the stability and security of their deposits, with a flexible approach to money at any time and the profitability of investments.

As regards liabilities, apart from the cooperation with its parent company, the Bank will continue to rely on the support of international financial institutions that see ProCredit Bank as a stable partner, successful in investing their funds on the Serbian market.

In terms of staff development, the Bank will continue to insist on identification with our institution through: the placement of emphasis on an approach that is characterised by a high sense of personal accountability, training, insistence on a higher number of independent initiatives and through the selection of staff who share the ProCredit Group's values. Investment in the training and professional development of its employees is still one of the Bank's biggest investments.

Efficiency increase remains one of the most important objectives for the coming year, which is expected through further optimisation of internal processes. The cashless operations concept directly results in an increase in the efficiency of both staff and processes. The promotion of eBanking, mBanking and the self-service zone has positioned our Bank as a modern institution that is available 24/7 to its clients. The aforementioned services are supported by a new programming solution (Core Software System), which will increase staff efficiency in working with customers.

Achieving targeted RoE is expected from an increase in the overall cooperation with both existing and new customers. Higher net interest income is expected from the loan portfolio growth. Increased fee and commission income from improved cooperation with existing customers and an increase in the total number of customers that the Bank cooperates with are also expected. The Bank plans to maintain the sound quality of the loan portfolio, as well as operational efficiency. Adequate operational cost management will allow the Bank to maintain a cost-to-income ratio at a rate of around 58%.

6. Research and Development Activities

The Bank has not been engaged in any activities relating to market research and development.

7. Information on Treasury Shares

The Bank does not have treasury shares and has not been engaged in any activities relating to purchase of treasury shares.

8. Existence of Branch Offices

The Bank does not have any branch offices in its organization.

9. Financial Risk Management and Protection

Risk Management is organised according to the provisions of the Law on Banks and relevant decisions of the National Bank of Serbia that define risk management and capital adequacy, as well as the provisions of the Articles of Association of the Bank.

According to current legislation, the Board of Directors is responsible for establishing a uniform system of risk management and supervision thereof, and is obliged to ensure that the Executive Board of the Bank is capable of identifying risks to which the Bank is exposed, and to ensure that the control of these risks is carried out in line with approved policies and procedures.

The responsibility of the Executive Board of the Bank, in terms of risk, is to implement risk management strategy and policies as well as the capital management strategy, to adopt procedures for identification, measurement and assessment of risk, and risk management, i.e. to analyse the effectiveness of their implementation and to report to the Board of Directors in connection with these activities. The Risk Management Department is responsible for the identification, measurement, assessment and management of the risks assumed by the Bank in its regular business, as well as providing opinions on new products generating risk and other general areas that imply risk.

The risk management policies applied by the Bank, approved by the Board of Directors, are in line with the applicable legal framework and requirements of the National Bank of Serbia.

In addition to compliance with local regulatory requirements, the Bank's policies comply with the requirements of the regulator of the Federal Republic of Germany. The Bank regularly notifies the competent risk management departments of the Group of its risk position, i.e. on a quarterly basis. The Group’s Risk Management Department regularly monitors key risk indicators, providing additional support in case of need.

Risk management at the Bank is governed by the Capital Management Strategy and Plan and the Bank's Risk Management Strategy which are defined via the Bank’s risk appetites, policies relating to all significant risks, the Capital Management Strategy, Capital Management Policy and the Capital Management Plan.

9. *Financial Risk Management and Protection (Continued)*

Indicators of risk appetite established at the Bank's level, are based on the following principles (criteria):

- Indicators describe in detail the high risk (limit) appetite by converting to quantitative and qualitative measurements, which cover principal (core) business areas;
- Indicators are integrated with the strategic objectives and reflect the structure of significant risks to which the Bank is exposed, and the level of risk required for the achievement of the Risk Appetite Business Plan which includes quantitative indicators, which can be assigned to levels of the business lines of the Bank, risk types, and other levels for effective control of the risk profile of the Bank and the ProCredit Group;
- Risk appetite indicators are targeted levels of risk established in the Bank's Strategy in correlation with the system of limits / thresholds applied to control of the risk profile at an operative level;
- The risk appetite includes indicators that define the amount of risk in stressful environments for an adequate assessment of the Bank's resistance to internal and external risk factors;
- Risk appetite indicators are integrated into all internal processes of the Bank, including its business planning, capital adequacy, liquidity and asset and liability management (ALM); and
- Risk appetite indicators include a risk matrix (risk assessment and risk impact) provided by the legal requirements of the national regulator.

Credit Risk

In its operations, the Bank is exposed to credit risk, which may be defined as the possibility of the debtor defaulting on their obligations towards the Bank in terms of the contracted amount and the due date. Exposure to credit risk arises primarily from lending to customers.

In order to maintain credit risk at an acceptable level, the Bank:

- Evaluates the creditworthiness of each individual debtor based on their total indebtedness under loans, guarantees, and other credit products;
- Analyses risks arising from the very investment that is the subject of lending;
- Specifies the limits of clients' credit indebtedness, based on risk assessment;
- Lends only to creditworthy clients and collects appropriate collateral; and
- Has separate processes for lending credit products, i.e. customer relationships that start with the process of analysing client creditworthiness and for all loans to medium and large clients.

In order to control credit risks, the Bank has developed a prudential credit policy. The clients to whom loans are granted are analysed carefully and in detail. Decisions on lending to clients are made based on the borrower's repayment capacity and the corresponding collateral.

The Decision on Credit Exposure is based on the following four criteria:

a) **Reliability, reputation and stability of the client's operations**: results of the client profile analysis and how well the client mitigates operational risk, management risk, organisational risk, market risk and political and legal risk. This includes the client's credit history with the Banka and other financial institutions, and the 'Hausbank' principle - utilising the services the Bank has on offer; the kinds of decisions the client made in the past, as well as the client's legal history. For exposures which require the results of the classification of risk, such results will also be taken into account.
b) **Ability to pay/liquidity**: results obtained by employees concerning the client's ability to repay their debt.
c) **Pledge**: structure and value that meets the Bank's requirements.
d) **Business/operational potential**: the client's needs as a supplement to the request which is currently being processed and potential future collaboration with the Bank.

9. Financial Risk Management and Protection (Continued)

Credit Risk (Continued)

Classification

The Bank has developed procedures for classification of loans and other Bank's receivables, in line with the assessed level of collectability.

Through the calculation of provisions, the Bank calculates impairment on a monthly basis on receivables where impairment is established at the portfolio level (group provisions), and for individual impairments - impairments determined at the level of an individual client.

In the event of group-based impairment assessment, firstly the classification of financial assets according to portfolio quality is conducted at the level of impairment. The stage of impairment differs according to the level of increase of credit risk from the moment of initial recognition. According to IFRS 9, an appropriate LLP rate will depend on the segment of the portfolio in which client exposure is located (Stage 3, Stage 2 and Stage 1).

In the event of insignificant individual credit exposures which indicate signs of impairment, usually an individual impairment test is not performed, as operational costs do not justify comprehensive impairment tests for each of these clients. Provisions are calculated by applying a general weight under the contamination principle, on the established principal in the event of group provisioning. Only in exceptional cases the Bank can perform an impairment test on insignificant individual credit exposures through individual impairment assessment.

Specific individual impairment is calculated on the individually significant exposures which show signs of impairment, for these, the impairment test is carried out on an individual basis.

Individually significant exposures – are credit exposures whose sum of the balance sheet and off-balance sheet portions exceeds EUR 150,000 at the reporting date.

The process of determining specific provisions on an individual bases aims to measure impairment loss at the level of clients with related parties. Individual impairment is determined based on the net current value of future inflows. In other words, provisions will be determined in the amount of individual receivables or portion of receivables for which collection is not expected.

9. *Financial Risk Management and Protection (Continued)*

Credit Risk (Continued)

Loan Portfolio Quality and Maximum Exposure before Collaterals

The table below presents an overview of the exposure to credit risk as of 31 December 2021 and 2020, respectively, which indicates the Bank's total exposure to credit risk.

In addition to credit exposures based on placements to customers and banks, the table also includes: placements with the National Bank of Serbia (NBS) per repo transactions, the NBS treasury bills, available-for-sale financial assets, available-for-trade financial assets, and off-balance sheet items that may generate credit risk for the Bank, broken down according to the items which make up the given position:

In RSD thousand

Balance sheet items exposed to credit risk	Net exposure 31 December 2021	Net exposure 31 December 2020
Business purpose loans and placements	75.218.471	73.584.065
Loans and receivables for home improvement and housing loans	5.737.082	4.666.578
Agricultural loans and receivables	34.414.169	31.101.518
Consumer loans and receivables	830.685	778.757
Other receivables from customers*	138	81.721
Loans and placements to customers	**116.200.545**	**110.212.639**
Loans and placements to banks and other financial institutions	**9.745.021**	**13.592.196**
Cash and balances with Central Bank	**18.757.005**	**16.022.819**
Securities	**7.156.940**	**5.292.086**
Other assets* **	**487.588**	**443.631**
Off-balance sheet items exposed to credit risk **	**14.236.193**	**15.021.630**
Balance as of 31 December (balance sheet and off-balance sheet)	**166.583.292**	**160.585.001**

* *Receivables from subsidised interest from the Development Fund of the Republic of Serbia and the Ministry of Agriculture.*

The table above presents the scenario of the Bank's total exposure to credit risk as of 31 December 2021 and 2020, respectively, where 69.76% (31 December 2020: 68.63%) relates to loans and placements to customers.

Observed through the share of balance sheet receivables only (includes balance sheet item Loans and placements to customers) 97.08% of total balance sheet placements are classified in the most favourable risk category according to the Bank's internal classification, reflecting high collectability of receivables (31 December 2020: 97.65%).

9. Financial Risk Management and Protection (Continued)

Credit Risk (Continued)

Loan Portfolio Quality and Maximum Exposure before Collaterals (Continued)

The following tables present the quality of loans and placement to customers, broken down according to their stage of impairment as of 31 December 2021 and 2020:

			In RSD thousand
31 December 2021	**Gross exposures**	**Allowance for impairment**	**Net exposures**
Impairment Stage 1	113.262.925	453.452	112.809.473
Impairment Stage 2	2.131.872	76.543	2.055.329
Impairment Stage 3	2.476.975	1.141.232	1.335.743
Total	**117.871.772**	**1.671.227**	**116.200.545**

			In RSD thousand
31 December 2020	**Gross exposures**	**Allowance for impairment**	**Net exposures**
Impairment Stage 1	108.052.260	428.407	107.623.853
Impairment Stage 2	1.903.696	76.910	1.826.786
Impairment Stage 3	1.367.869	605.869	762.000
Total	**111.323.825**	**1.111.186**	**110.212.639**

Collaterals

Collaterals used by the Bank in its activities include deposits, mortgages on commercial and residential buildings, pledges on movable property, sureties of legal entities and private individuals, guarantees issued by other banks, etc. Determining the fair value of collaterals is in accordance with the applicable Bank policy for assessing the value of a collateral.

The Bank mostly used mortgages as an instrument to secure the collection of its receivables - as of 31 December 2021, 48.2% of gross loans to customers were secured by mortgages.

Credit Risk Reporting and Analysis

In terms of its operations, the Bank has established a system of reporting on exposures to credit risk which aims to ensure timely identification, true assessment, monitoring and a comprehensive overview in line with domestic regulations and the Bank's internal rules.

Through reporting and analysis at the total portfolio level and at the level of individual receivables, the full, accurate and timely information pertaining to the situation, quality and movement of the loan portfolio is provided. This insures that the Board of Directors, the Executive Board and the Credit Risk Management Department are able to make sound decisions and provide information and analysis supported by risk decisions regarding the Bank's typical credit activities.

Credit risk monitoring at the portfolio level is prepared on a monthly basis. The report aims to provide an analysis of the structure and characteristics of the current portfolio, the specifics expressed through credit risk and comparison with previous periods, in order to gain a clear picture of trends and possible increase in credit risk levels.

9. Financial Risk Management and Protection (Continued)

Credit Risk (Continued)

Credit Risk Reporting and Analysis (Continued)

Important features of the report are:

- Breakdown of the portfolio according to types of loans;
- Overview of top exposures;
- Quality trends in the overall portfolio;
- Monitoring of risk parameters according to the portfolio structure in relation to internally set limits;
- Portfolio structure according to internal classification;
- Changes in provisions calculated according to the internal methodology;
- Portfolio coverage by collaterals;
- Restructured portfolio;
- Monitoring of set concentration limits; and
- Other analyses and reports that indicate changes in credit risk and deteriorating portfolio quality.

Detailed reviews and analyses regarding the Bank's exposure to credit risk are presented in Note 6.1. to the Bank's financial statements for the year ended 31 December 2021.

Liquidity Risk

Liquidity risk arises from the inability of the Bank to meet its due and future liabilities which can have a negative effect on the Bank’s financial result and its capital. ProCredit Bank manages this risk by providing an adequate and diverse structure of its funding base which include the following:

- Clients’ deposits with wide ranges of maturity;
- Money market deposits;
- Borrowings from foreign banks and international financial institutions;
- Subordinated loans;
- Share capital; and
- Government securities.

The liquidity management policy is in place to secure sufficient assets for the payment of all liabilities within due time and to satisfy clients’ demands for new loans. The Bank manages liquidity risk through the constant monitoring of the duration gap between assets and funding, as well as analysing expected cash flows in order to ensure that the Bank is able to meet its obligations at all times.

In addition, the Bank allocates funds into the mandatory reserve with the National Bank of Serbia in accordance with applicable legislation, which is a measure used as protection from sudden and significant withdrawal of deposits and other sources of funds.

The level of liquidity is expressed through the liquidity ratio, the narrow liquidity ratio, as well as the liquidity coverage ratio (LCR). The Bank’s liquidity ratio is the sum of the Bank’s Tier I + II liquid receivables, on the one hand, and the sum of the Bank’s demand liabilities or those without contractual maturity and the Bank’s liabilities with fixed maturity within the next month, as at the date of the calculation of the liquidity ratio, on the other.

The Bank’s narrow liquidity ratio is the sum of the Bank’s Tier I liquid receivables, on the one hand, and the sum of the Bank’s demand liabilities or those without contractual maturity and the Bank’s liabilities with fixed maturity within the next month, as of the date of the calculation of the liquidity ratio, on the other.

9. Financial Risk Management and Protection (Continued)

Liquidity Risk (Continued)

Tier I liquid receivables consist of cash, gyro account balances, gold and other precious metals, balances held with banks with an available credit rating of selected credit rating agencies to which a credit quality rating corresponds to a step 3 or higher, or is determined in accordance with the Decision on Capital Adequacy of Banks (investment grade); deposits held with the National Bank of Serbia; cheques and other monetary receivables in the process of realisation; irrevocable credit lines approved to the Bank, shares and debt securities quoted on the stock exchange; 90% of the fair value of securities denominated in RSD, without a foreign currency clause, issued by the Republic of Serbia and whose minimum maturity is no less than three months i.e., 90 days, which the Bank has classified according to the business model for trading and ‘hold for collection and sale’.

The Bank’s Tier II liquid receivables are all of the Bank’s other receivables which mature within the following month from the date of the calculation of the liquidity ratio. The Bank’s demand liabilities or those without contractual maturities are obligations of the Bank, namely: 40% demand deposits by banks, 20% demand deposits from other clients, 10% savings deposits, 5% guarantees and other forms of sureties, 20% approved but undisbursed irrevocable lines of credit. All of the Bank’s other liabilities which mature within the following month from the date of the calculation of the liquidity ratio are the Bank’s liabilities with contractual maturities.

During 2021 and 2020, the Bank’s daily liquidity ratio remained above the prescribed minimal indicators. In addition, as of 31 December 2021 and in 2020, the Bank’s narrow liquidity ratio remained above the statutory minimum. The daily liquidity ratio as of 31 December 2021 amounted to 2.35, and the narrow liquidity ratio amounted to 2.10.

The liquidity coverage ratio (LCR) is the relationship between the Bank’s liquidity buffer and net liquidity outflows of its liquid assets which would arise in the following 30-days from the day of calculating this ratio under assumed stress conditions. The Bank is obliged to maintain the liquidity coverage ratio aggregately for all currencies at a level not below 100%. As of 31 December 2021 the liquidity coverage ratio (LCV) stood at 171%.

The Bank's exposure to liquidity risk is described in detail in Note 6.3. to the Bank's financial statements for the year ended 31 December 2021.

Interest Rate Risk

The Bank is exposed to changes in the market interest rate levels which have an effect on its financial position and cash flows. As a result of these changes the interest margin either increases or decreases. Interest rates are based on market interest rates and are regularly adjusted by the Bank.

Interest rate risk management is an activity whose goal is to optimise the net income from interest, maintaining market interest rates at a constant level in accordance with the Bank’s corporate strategy. The Assets and Liabilities Management Committee manages maturity compatibility of assets and liabilities on the basis of: macroeconomic analysis and forecasting, forecasting conditions for achieving liquidity, as well as analysis and forecasting interest rate trends on the market for various segments of assets and liabilities.

In 2021, interest rates tended to fall as compared to 31 December 2020. The key policy interest rate as at 31 December 2021 was 1%. Six-month EURIBOR remained at a very low level (31 December 2021: -0.583%).

The share of interest-bearing assets in the total assets of the Bank as of 31 December 2021 was 87.0%, while the share of interest-bearing liabilities in the total liabilities was 70.86%.

The Bank's exposure to interest rate risk is detailed in Note 6.2.1. to the Bank's financial statements for the year ended 31 December 2021.

9. Financial Risk Management and Protection (Continued)

Foreign Exchange Risk

Foreign exchange risk arises from the potential adverse effects of changes in the foreign exchange rate on the Bank’s financial results and/or capital.

The Bank manages foreign exchange risk through careful planning and evaluation of the open foreign exchange position, and its compliance with the limits prescribed by the National Bank of Serbia and observance of limits prescribed by the National Bank of Serbia, as well as limitations in the internal policies prescribed by the Board of Directors and the Assets and Liabilities Management Committee.

The Bank actively manages foreign currency risk by adjusting the foreign currency structure of assets and liabilities. Furthermore, the Bank maintains its foreign exchange position by approving loans with foreign currency clauses (loans indexed in EUR) and concluding agreements on foreign exchange swaps.

The share of the foreign currency sub-balance sheet (including assets and liabilities indexed in EUR) amounts to 69.44% of the total assets, i.e. 68.48% of the total liabilities of the Bank as of 31 December 2021. The Bank's foreign exchange risk indicator was in compliance throughout 2021 and well below the prescribed maximum.

The Bank's exposure to foreign exchange risk is detailed in Note 6.2.2. to the Bank's financial statements for the year ended 31 December 2021.

Counterparty Risk

Counterparty risk is the risk of default on liabilities of the counterparty in transactions prior to the final settlement of cash flow transactions, i.e. settlement of cash liabilities per this transaction.

Depending on the source of risk exposures, counterparty risk and issuers risk may also be separated into the following types of risk:

- Default risk;
- Migration risk;
- Concentration risk; and
- Derivative risk.

The Bank manages counterparty risk by defining a set limit in accordance with the Bank’s policies and local regulations and constantly monitors exposures in line with defined limits.

Capital Adequacy

The Bank’s objectives with regard to capital management can be summarized as follows:

- Compliance with the capital requirements prescribed by the National Bank of Serbia;
- Compliance with the capital requirements of international financial institutions abroad on the basis of long-term loan agreements; and
- Adequate capital management on behalf of the Bank’s management should provide for the expected stable growth and development of the Bank, as well as a strong foundation for the development of the Bank’s business opportunities.

Capital adequacy is planned in detail during the drafting of the business plan. The National Bank of Serbia is reported to on a quarterly basis regarding the achieved adequate capital ratios. The National Bank of Serbia requires that all banks maintain a minimum of EUR 10 million in Tier 1 capital.

9. Financial Risk Management and Protection (Continued)

Capital Adequacy (Continued)

In addition, the Bank is obliged to maintain capital adequacy ratio levels above the following:

- 4.5% for the Common Equity Tier 1 capital ratio;
- 6% for the Tier 1 capital ratio; and
- 8% for the capital adequacy ratio.

In addition to the minimal capital adequacy ratios defined by the National Bank of Serbia, in its regular operations, the Bank implements significant buffers in terms of the aforementioned ratios, which are above those prescribed by regulations, within the framework of its risk appetite defined in the Bank's Risk Management Strategy.

The capital consists of:

- Tier 1 capital, where the Bank's Tier 1 capital is comprised of the sum of the Common Equity Tier 1 capital and Additional Tier 1 capital. The Bank does not have Additional T1 capital and its T1 capital fully comprises of CET1 capital; and
- Tier 2 capital, which relates to subordinated liabilities.

In line with the National Bank of Serbia's Decision on the Capital Adequacy of Banks, under the Bank's share capital deductible items are intangible assets, while, in the case of T2 capital (supplementary capital), the Bank does not have deductible items according to the requirements of the aforementioned Decision.

The Decision on Capital Adequacy of Banks prescribes in more details the manner of calculating regulatory capital, total credit risk weighted assets, market risks and operational risk, as well as capital requirements for credit, market and operational risks.

The capital adequacy of the Bank as of 31 December 2021 was:

- Common Equity Tier 1 capital ratio – 15.46%;
- Tier 1 capital ratio – 15.46%; and
- Capital adequacy ratio of the Bank – 16.53%.

Operational Risks

The Operational Risk Management Policy is in full compliance with local regulations and with the Operational Risk Management Policy of ProCredit Holding and the Fraud Prevention Policy.

In order to reduce the risk of operational risks and prevent fraud, all processes are precisely documented and control mechanisms are in place. The Bank bases its operations on a culture of transparency and risk awareness. The Bank organizes two-year trainings on operational risks and fraud prevention in order to maintain a high level of employee awareness.

The risk monitoring database (RED) established at the Bank level allows for continued and systemic monitoring of all operational risks, and defining corrective and preventative activities in order to avoid or mitigate the possibility of these events arising in future, or the effects on the Bank. Analyses of these events are presented to the Operational Risk Management Committee, which is the competent body that oversees operational risk management at the Bank's level.

9. Financial Risk Management and Protection (Continued)

Operational Risks (Continued)

Additionally, the competent department of the Bank is also notified of any/all significant operational risk events. In 2021, 39 operational risk events were recorded in the total amount of EUR 901,446.79 (gross amount).

The Bank conducts a self-assessment of the risk by applying the defined self-assessment questionnaire applied at the Bank's level on an annual basis. This assessment allows for the Bank to review the impact of each individual scenario on Bank losses, and the level of control implementation and the manner in which controls mitigate risk exposure. The annual self-assessment is conducted separate of operational risk and fraud prevention. Furthermore, since 2013, the Bank has been conducting a scenario analysis of extreme risks.

The Bank particularly focuses on the analysis of implementing new products (activities), which includes new products, services, business processes, financial instruments, IT systems and organisational structures. Significantly adjusted material products (activities) also fall under the definition of a 'new product/activity'.

Management approves the introduction of new products (activities), whereby the relevant departments/units of the Bank that participate in the process and analysis of risk are informed.

In the event that the Bank makes a decision to engage a third party to perform a certain activity on behalf of the Bank, prior to passing such a decision, it is assessed whether or not the supplier has the financial, technical and staffing capabilities to perform the given activity for the Bank. Moreover, the Bank analyses potential exist strategies, should any issue arise in realising the agreement with the supplier, in order to protect the Bank's interests.

The Bank notifies the National Bank of Serbia and ProCredit Holding of its outsourcing activities, in line with local regulations, policies of the Bank and ProCredit Holding, and its internal procedures.

The objectives and policies for managing the Bank's significant financial risks and capital are disclosed in detail in Note 6 to the Bank's financial statements for the year ended 31 December 2021.

10. Events after the Reporting Period

There have been no significant events after the reporting date that would require adjustments or disclosures in the notes to the financial statements of the Bank for the year ended 31 December 2021.

In Belgrade, 8 March 2022

Ivan Smiljković
100102484-191098
1740025
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Ivan Smiljkovic
Member of the Executive Board

Igor Anić
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Igor Anic
Chairman of the Executive Board

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