BANCA INTESA
Beograd

2021 Annual Report

Bank of INTESA SANPAOLO

2021 ANNUAL REPORT

Content:

Key Financial Indicators

RSD thousands

Banca Intesa Beograd	2021	2020
Income Statement		
Net interest income	21,320,487	20,796,217
Net fee and commission income	11,427,165	8,532,259
Profit before tax	11,847,961	10,833,517
Income tax	(1,503,828)	(1,257,729)
Net profit from deferred tax assets and liabilities	27,226	(94,231)
Profit after tax	10,371,359	9,481,557
Balance Sheet		
Cash and balances with Central Bank	135,704,230	142,071,319
Non-current assets held for sale and discontinued operations	22,439	22,741
Securities and receivables from derivatives	82,340,103	90,356,841
Loans and receivables from banks, other financial organisations and customers	505,875,568	462,543,282
Investments in subsidiaries	1,199,472	1,199,472
Intangible assets, property, plants and equipment and investment property	14,794,914	15,515,686
Other assets, current and deferred tax assets	5,633,721	5,476,313
Total assets	**745,570,447**	**717,185,654**
Financial liabilities based on derivatives	0	2,589
Deposits and other liabilities due to banks, other financial organisations, Central Bank and other customers	614,369,840	587,544,810
Provisions	2,401,265	1,383,450
Other liabilities and deferred tax liabilities	9,757,333	19,240,175
Total liabilities	**626,528,438**	**608,171,024**
Equity	**119,042,009**	**109,014,630**
Total liabilities and equity	**745,570,447**	**717,185,654**
Indicators		
Profit before tax/ Total assets	1.59%	1.51%
Profit before tax / Total equity	9.95%	9.94%
Interest income / Total assets	2.99%	3.10%
Interest expenses / Total liabilities	0.13%	0.20%
Capital adequacy ratio	19.29%	19.85%
Total assets per employee	246,144	234,298
Number of employees	3,029	3,061

Letter from the Chairman of the Board of Directors

Ladies and gentlemen,

It has been two years now since Covid-19 pandemic dramatically affected all aspects of our lives and made an unprecedented impact on economic activities worldwide. Even though all health and social distancing measures for containing the pandemic, coupled with raised uncertainty, continued to pressure overall economy, extensive measures taken by central banks and governments across the globe helped boost international economic flows. As the result, the global economy embarked on the strong recovery path during 2021, after an initial collapse caused by Covid-19 shock and restrictive measures imposed to contain virus spread. And while somewhat better out-lift in growth had been forecast for 2021 in previous year, the year still ended with a positive sentiment on the back of economic rebound, with general expectations that 2022 will bring better conditions and further growth.

In Serbia, GDP recorded a sharp decline in 2Q 2020, but economic activity started its upward path as of mid-2020 and continued throughout 2021 with better-than-expected results. The economy expanded 7.6% year-on-year on average during the first three quarters of the year, owing primarily to the recovery of external demand and economic incentives provided by authorities, and is expected to grow over 7% for the full year.

Prompted by the prolonged duration of the pandemic and uncertainty of the future prospects, the government adopted a third support package for companies in early 2021 in a bid to mitigate negative effects of Covid-19 on the economy. Furthermore, it decided to provide additional assistance to certain categories of citizens at the end of 2021, bringing the total value of fiscal stimulus since the beginning of the pandemic to EUR 8.7 billion, or about 18% of GDP.

On the other hand, impacted by a strong rise in demand caused by the re-opening of economies, higher energy prices as well as the low base effect, inflation began to accelerate both globally and in Serbia, trending well above the National Bank of Serbia's (NBS) inflation corridor as of September.

Following its assessment that inflationary pressures are temporary and that inflation will start a descending trend in the second quarter of next year, the NBS kept unchanged its key policy rate, which has been at an all-time low of 1.0% since December 2020. Financing conditions remained favorable for both households and the corporate sector, enabling growth in bank credit activity, which helped economic activity pick up pace.

Operating in such a challenging environment, Banca Intesa continued to provide stable support for the economy and households, while pressing ahead with its technological evolution that started with the overall upgrade of the core banking system and continued with the introduction of the new digital banking platform in 2021. Without a doubt, this contributed significantly to keeping its customer base stabile and strong and maintaining the trust of more than 1.3 million of customers. At the same time, the bank continued to lead the banking sector in total assets (15.4 %), customer deposits (16.5) and capital (16.2%).

The business year was completed with a low risk profile and a high liquidity position, with loan-to-deposit ratio at 78.4%, capital adequacy of 19.29%, and a level of non-performing loans at 3.06%, while cost-to-income ratio was reduced to 54.8%. Owing to its excellent performance, high adaptability, prudency in decision making and risk management, as well as a responsible governance model, Banca Intesa's net profit before tax in 2021 rose 9.4 % compared to the last year.

These good results and the overall success could not have been achieved without the dedication and hard work of our employees even amidst the challenging conditions imposed by the pandemic, and I would like to extend my sincere appreciation for their commitment. I would also like to use this opportunity to thank all members of the Executive Board and the Board of Directors for extraordinary managing the bank and leading the implementation of its strategic plans with upmost professionalism and cooperation.

With such strong fundamentals, I am confident that Banca Intesa will remain firmly on the path towards further growth while providing the best possible services and products to households and customers across all segments and industries, thus contributing to the overall economic development of the country and helping the community grow.

Sincerely,

Ignacio Jaquotot,
Chairman of the Board of Directors

Foreword by the President of the Executive Board

Dear readers,

The second year of the pandemic, which has, in many ways, shaped our ways of doing business, is behind us, during which we once again demonstrated our readiness to adapt to changes and crucial agility in our operation. Despite all the challenges, we remained fully committed to caring for the needs of our customers, partners and shareholders, maintaining overall financial stability and, above all, preserving our health. With the support of Intesa Sanpaolo Group, we jointly managed to realise all our plans and successfully complete another four-year strategic cycle. With all the major steps taken, we managed to consolidate the customer base in all segments of our business and to set the stage for further development. Our customers' satisfaction and loyalty are the confirmation of the success achieved, which is also demonstrated by the award as the best bank in Serbia, which we received from the renowned Global Finance magazine, as well as awards as the best bank service provider in foreign exchange operations and the best bank in the category of documentary operations from the same prestigious financial publication. In addition, according to an independent survey by the Employer Branding Agency, we were recognised as the best employer in the Banking and Insurance category.

After a slight decline in 2020 caused by the corona virus outbreak, the global economy embarked on a strong recovery in 2021, owing to the implementation of measures combating the negative effects of the pandemic. Serbia is on the same path, with much faster-than-expected GDP growth, which is projected to reach almost 7.5% by the end of 2021, while in 2022, most of the economy is expected to return to the pre-crisis growth rates. The protracted pandemic, as well as the positive effects of the previous two private sector support programmes, led the Government of the Republic of Serbia to adopt the third stimulus package in the first quarter of 2021, as well as new measures of assistance to certain categories of population at the end of the year, whereby the total value of the fiscal stimulus since the beginning of the pandemic reached EUR 8.7 billion, i.e. around 18% of GDP.

The National Bank of Serbia did not change the key policy interest rate, which remained at a historic minimum of 1% since December 2020, thus preserving favourable financing conditions for businesses and individuals, which stimulated the growth of overall economic activity. In addition to current challenges, constant adjustment to change and increasingly prominent digital transformation, the banking sector remained stable, well capitalised and highly liquid, continuing with the trend of further consolidation.

Despite the extraordinary circumstances, Banca Intesa's year was marked by further work on a comprehensive business model upgrade, as the period of transformation initiated by the implementation of the new core banking system was completed by the successful rollout of the new digital platform. Owing to the continued strengthening of our own capacities in all segments, we once again confirmed the bank's status as the most trusted bank for over 1.36 million customers, leading the market in total assets (15.4%), customer deposits (16.5%) and capital level (16.2%).

Through a number of novelties, such as the introduction of product packages and service model upgrade, in retail operations, we continued to build a relationship based on trust, which resulted in the preservation of the bank's market share in cash loans of 12.7% and the increase in market share in housing loans to 21.7%. When it comes to small business, we confirmed our leading position in the market – both in terms of the number of customers who placed their trust in us, and portfolio size, and a new service model was designed based on the management of satisfaction of both our customers and our employees.

In corporate operations, we remained committed to supporting local economy and overall economic development. While operating conditions were extremely complex, the Corporate Division continued with its stable operation and recorded a 6.8% increase in credit portfolio in 2021 compared to the previous year, with a market share in total corporate loans of 15.7 at the end of 2021.

The position of the digital business leader with the largest market share in online banking was also retained, given the largest market share of digital transactions conducted through Banca Intesa channels of as much as 49%, as well as the largest number of functionalities on the mobile application, according to a PWC study.

At the beginning of 2022, in which new challenges will lie ahead of us, the most important is the new business cycle framed by the Group Business Plan for the 2022-2025 period, when we will continue to implement transformation activities, based on innovation, openness and inclusiveness in all aspects of the Bank's operation. As Banca Intesa, as the market leader, is expected to lead the transition in the field of sustainable business as well, in the coming period, the Bank will work diligently on anticipating various climate and socio-economic risks and their impact on the business of both our customers and the Bank itself.

Taking into account the results achieved in what remains a challenging environment in all aspects of business, I would like to thank on behalf of the Banca Intesa Executive Board all employees for their responsibility, professionalism and great commitment to improving customer satisfaction. I would particularly like to thank the shareholders and members of the Board of Directors who have been a strong support to us in laying the foundations for the development of a modern, agile and efficient bank.

Respectfully,

Draginja Đurić,
President of the Executive Board

Macroeconomic Environment and the Banking Sector

- *Economic trends during 2021 were more favourable than expected, given that strong recovery of demand and monetary and fiscal stimuli amid weak epidemiological restrictions pushed GDP growth above 7%;*
- *Price and cost pressures intensified significantly in the second half of the year, and inflation became a hot topic globally. Assessing the surge in prices as temporary, the NBS kept the key policy rate unchanged, but it has started to tighten monetary conditions by using open market operations and increasing the repo rate within the unchanged interest rate corridor;*
- *In the conditions of increased inflationary pressures, the stable dinar policy was an important anchor for keeping inflation expectations within the NBS inflation target bands.*

The global economy embarked on the strong recovery path during 2021, after a collapse caused by Covid-19 shock and the restrictive measures imposed to contain the virus spread. In Serbia, following a sharp drop in GDP witnessed in 2Q20, the economic activity recovery, that had started as of mid-2020, continued broadly into 2021. After a mild recession of 0.9% recorded in a whole 2020, the pre-crisis level of GDP was reached earlier than expected, already in the first quarter of 2021, owing to the recovery of external demand and economic incentives provided by authorities. In the following quarters economic trends continued to be relatively favorable, and GDP in the third quarter of 2021 was around 4% higher relative to its pre-crisis level.

The labor market has avoided the severe consequences of the pandemic thanks to a generous package of economic support. There was a mild increase in registered employment, and the unemployment rate in the third quarter of 2021 was at a similar level as in the pre-crisis 2019. Solid nominal wage growth continued, but their real growth slowed down significantly in the second half of the year, due to rising inflation.

Impacted by a strong recovery in demand caused by re-opening of economies, higher energy prices as well as the low base effect, inflation began to accelerate both globally and in Serbia, trending well above the NBS inflation corridor as of September. Significant price growth in the food category, as well as cost pressures caused by disruptions in global supply chains also contributed to the higher-than-expected inflation levels in the second part of the year. On the other hand, core inflation remained relatively low and within the NBS target, supported by EURRSD exchange rate at a virtually fixed level.

On the back of its assessment that inflationary pressures are temporary and that inflation will start to slow down from the second quarter of next year, the National Bank of Serbia did not change the key policy rate, which has been at a historical low of 1.0% since December 2020. Favorable financing conditions for households and corporate sector have been preserved, supporting the growth of banks' credit activity which continued to be an important source of financing for investment and personal consumption, thus contributing to the growth of economic activity. The first steps to reduce monetary policy accomodation began in early October with the suspension of repo purchase auctions and a gradual increase in the average effective rate at securities repo sale auctions.

In the conditions of hightened price pressures, the stable dinar policy was an important anchor for maintaining inflation expectations within the inflation target bands. Gross FX reserves went up by around EUR 3 bn relative to previous year ro reach EUR 16,5bln at end-December 2021, whereby good part of this growth resulted from the FX purchase activities which the NBS carried out in the FX market.

The prolonged duration of the pandemic and uncertainty of its future course impelled the Government to adopt another, third support package to the private sector in 1Q21 to mitigate negative effects of the pandemic, while its decision to provide additional aid to some categories of citizens at the end of 2021 brought the total value of fiscal stimulus since the beginning of the pandemic to EUR 8.7bln, or about 18% of GDP. The adoption of an additional support package triggered the first budget revision in April with deficit increased from initially planned 3% to 6.9%. Owing to favorable fiscal developments during the year, primarily higher public revenues than foreseen by the budget revision, the targeted budget deficit was reduced to 4.9% of GDP in the second rebalance in November, all followed by strong rise in public investment that positively reflected on the economic growth. As a result of direct government borrowing to finance the deficit and secure funds to repay liabilities due in the coming period, public debt continued to rise, with its share in GDP remaining below the 60%-Maastricht limit. In September 2021, for the first time in history, Serbia issued a 7Y green bond in the amount of EUR 1.0bln, with the lowest coupon rate ever (1.0%), making it the only European country outside the EU that issued a green instrument to fund environmentally friendly projects. Also, three benchmark dinar government bonds were included in the renown JP Morgan GB-EM index at the end of June, which had a favorable effect on the portfolio demand and capital inflows to the country.

In June 2021, the International Monetary Fund approved a new 30-month advisory arrangement (Policy Coordination Instrument) to Serbia, aimed at maintaining macroeconomic and financial stability, as well as continuing structural reforms that have slowed down under the pandemic. After almost three years, EU accession negotiations have resumed at the end of 2021, as the European Commission approved the opening of Cluster 4, related to the green agenda and sustainable integration. Out of a total of 35 negotiating chapters, 22 chapters have been opened so far, two of which have been provisionally closed.

Due to demonstrated resilience to the coronavirus shock, preserved financial stability and the expectations that public finances will gradually return toward balance as of 2022, Serbia managed to keep its credit rating one notch below investment grade, while in December the rating agency Standar&Poor's revised upwards the outlook for obtaining investment rating from stable to positive.

Although the pandemic continues to impose a number of constraints, macroeconomic developments are less directly affected by the health crisis than in the previous year. GDP growth in 2021 is faster than originally envisaged and will hit c. 7,5%, while in the next year it is expected that the major part of the economy will return to its usual, pre-crisis growth rates, and some service sectors, which were hardest hit by the pandemic, should continue to recover fast. Still, the economic outlook remains clouded by high uncertainty, primarily related to the further course of the epidemic, inflation dynamic, as well as the pace of global economic recovery, especially the growth of the euro area as Serbia's key economic partner.

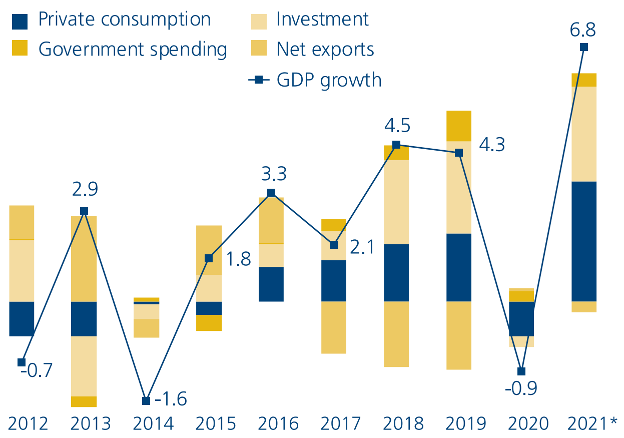
Macroeconomic environment

Economic activity

After exceeding the pre-crisis level in the first quarter of the year, GDP continued to grow at higher than initially projected pace, reaching 13.7% in 2Q 2021, supported by the re-opening of economies amid improved epidemiological situation, the effects of adopted monetary and fiscal measures, and accelerated implementation of infrastructure projects. As expected, y/y growth slowed down in 3Q 2021, standing at still high 7.7%. Although industry growth lost its steam, negatively impacted by higher raw material prices and weaknesses in supply chains that primarily affected the manufacturing sector, the performance of construction and especially the services sector was beyond all expectations.

During the first three quarters, the Serbian economy expanded by 7.6% y/y on average. Observing from the production side, construction, industry and recovery of services helped the economy to achieve better than expected results, while agriculture had a negative contribution to the growth, as unfavorable weather conditions during the summer caused a decline in activity after two excellent consecutive agricultural seasons. Aggregates on the expenditure side indicate that the growth was achieved primarily on account of the fast recovery of domestic demand after the relaxation of epidemiological measures and improved consumer confidence, as well as the investment growth and intensified implementation of large infrastructure projects. Additional fiscal and monetary stimulus sustained a rapid recovery, having also a positive impact on the lending dynamic.

Contribution to the annual GDP growth rate (in %)



Source: NBS *NBS projection

Overall, the full-2021 GDP growth is projected to exceed 7.0%, and the first estimate from the Statistical Office indicates that it has reached 7.5%.

As for the next year, it is expected that the largest part of the economy will return to pre-crisis growth rates, with GDP growth in the range from 4% to 5%, where private consumption and investment are seen as the main sources of economic expansion. The risks to the projection are numerous, and are primarily related to the further course of the pandemic, inflation movements, the pace of global economic recovery and in the EU countries, as well as the potentially faster monetary tightening by Fed and ECB.

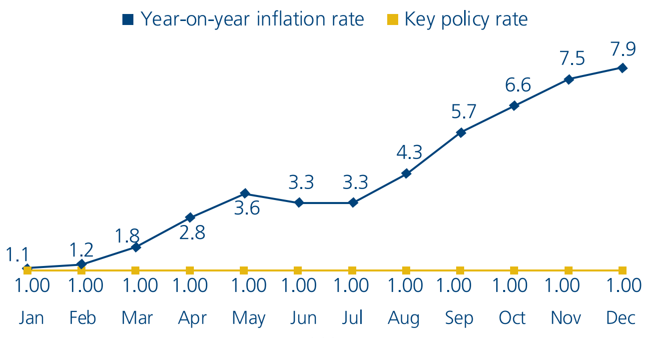
Inflation

Inflation is one of the macroeconomic variables that displayed a deterioration in 2021, given that, after an extremely low levels in 2020, it sped up more than anticipated both in Serbia and in almost all other countries in the world,

After moving below the lower limit of the NBS target corridor (3.0% ± 1.5 pp) during the first two months, annual inflation started to accelerate as of March, just to exceed the target midpoint in May 2021, reaching level of 3.6%. The surge of consumer prices was primarily a result of the recovery of oil prices, rising global food prices, but also higher utilities and electricity price for households. Core inflation (measured by CPI excluding volatile categories such as food, energy, alcohol and cigarettes) remained low, at around 2%. The headline inflation continued its run in the second half of 2021, breaking the upper bound of the target corridor in September. In December, a y/y increase in consumer prices of 7.9% was recorded, the highest level in the past eight years. In relation to 2020, consumer prices in 2021 increased by 4.1%, on average.

The National Bank of Serbia estimates that inflation dynamic in the second part of the year was largely determined by temporary factors, primarily strong growth in global energy and food prices, as well as elevated cost pressures caused by supply side bottlenecks. In addition, inflation was fueled by a drought that caused lower vegetable and fruit yields in the country and the region, as well as higher meat prices. On the other hand, although it also went up, core inflation remained relatively low averaging around 3.0% since September, signaling there is still no major pressures coming from the demand side.

Year-on-year inflation dynamics and key policy rate trends (in %)



Source: NBS

The government also decided to take an action in order to calm down the inflation by capping the prices on the key food products (sugar, T-400 flour, edible sunflower oil, pork meat and milk) at the level as of November 15. The decision is valid for 60 days, with the possibility of extension for a period of up to 6 months.

Under the current NBS projection, CPI is expected to strike a steady downward path starting from the second quarter of 2021 and return within the target band as of 3Q 2021. By the end of the year, inflation should move around the target midpoint (3.0%), though there is a chance that it will settle in the lower part of the target band given the high base from 2021. The risks to the projected inflation profile are mostly associated with the international environment, notably the duration of disruptions in global supply chains, further movements of global energy and agricultural commodity prices as well as the normalisation of monetary policies of leading central banks. As regards domestic risks, inflation will depend mostly on the next agricultural season, speed of demand recovery and movement in administered prices.

Monetary policy

National Bank of Serbia pursued monetary policy in accordance with the NBS Monetary Programme in 2021, keeping the necessary flexibility when using monetary policy instruments in order to support the economy's recovery, ensure efficient functioning of the monetary policy transmission mechanism and preserve an appropriate level of bank liquidity.

For most of the year, the NBS conducted expansionary monetary policy. After the last cut in December 2020, the key policy rate remained at a historical low of 1.0% throughout 2021, while the rates on lending and deposit facilities stood at 1.90% and 0.10%, respectively. Although inflation accelerated significantly in the second half of the year, breaking the upper limit of the target corridor in September, the National Bank underlined that its decision to keep the key policy rate unchanged was based on an assessment of the transitory nature of supply-side inflationary pressures. In the regular communication with the market, it was repeatedly pointed out that the reference rate will not be changed any time soon, as the focus is put at the economic recovery and preservation of employment, and low financing conditions are an important instrument for achieving this goal.

In October the central bank took the first steps towards reducing the level of monetary policy accommodation amid hightened inflationary pressures, without changing the main interest rates. Auctions of repo purchase of securities, through which dinar liquidity under very favourable conditions was provided to banks in the previous period, were suspended. Further, the NBS started to increase the average weighted rate on the auctions of the repo sale of securities. The repo rate went from 0.11% (which had been its average since the start of the year until early October) up to 0.5% at the last auction in December.

Owing to the effects of the previous monetary easing, the borrowing costs on the domestic market remained favorable throughout 2021, which continued to stimulate lending activity. Since the monetary relaxation cycle began in May 2013, the National Bank of Serbia has lowered its key policy rate by 10.25 pp. Dinar interest rate for corporate sector dropped by 13.4pp to 3.0%, while households dinar interest rates decreased by 12.3pp recording a new minimum of 8.3% in November 2021.

Under the 2021 Monetary Policy Programme, the NBS continued implementing the managed float exchange rate regime, and interventions in the FX market aimed to ease excessive short-term volatility of the exchange rate and safeguard price and financial stability. As a result, the value of the dinar against the euro remained virtually unchanged since the beginning of the year, around 117.6 dinars per euro. Its stability represented a powerful anchor to keep the inflation expectations within the target tolerance band, an important factor of keeping the core inflation at relatively low and stable level.

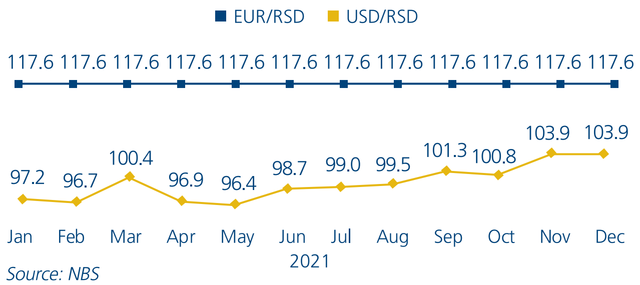
In the coming period, monetary policy will continue to face numerous challenges. The focus of monetary authorities will stay on maintaining price and financial stability in the medium run, as well as on supporting economic growth and a further rise in employment, expansion of the export sector and preservation of a favourable investment environment. Thus, it is expected that the NBS will continue to closely monitor movement of key factors from the domestic and international environment on inflation and to promptly react by using all available monetary instruments in case of materialisation of any of the risks that would keep inflation above the upper bound of the target band for a prolonged period of time.

Dinar exchange rate

Since the beginning of the year, the dinar stayed practically unchanged against the euro, at around 117.6 supported by solid FX inflows and active FX interventions policy. At the same time, due to the weakening of the euro against the dollar, the dinar depreciated by about 8% against the dollar during 2021.

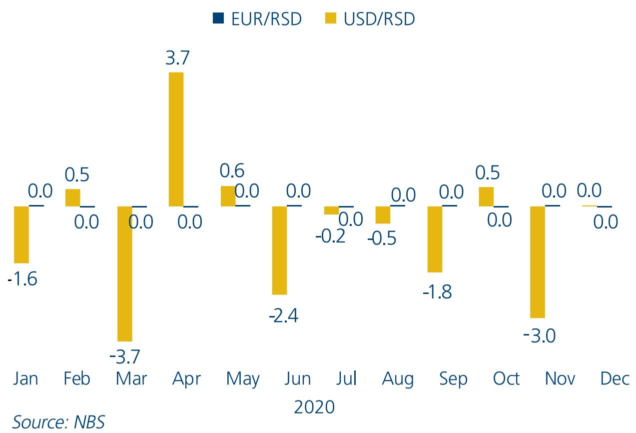
During the first three quarters of 2021, appreciation pressures on the local currency prevailed, thanks to a favorable balance of payments developments. The foreign currency supply exceeded demand, especially during the third quarter, as a result of higher foreign investments, remittances inflow, as well as the growth of FX-indexed banks asset. During that period the central bank actively prevented the strengthening of the dinar, net buying about EUR 1.1bln on the interbank FX market. Since October, depreciation pressures on the dinar have re-emerged as a result of higher risk aversion globally and consequent capital outflow from emerging markets, in addition to stronger demand for foreign currency coming from energy importers. The NBS again intervened to avoid higher volatility of the dinar by net selling EUR 455mln during the last three months of the year. According to official NBS data, in the period January-December, a total of EUR 645mln was net bought in order to maintain relative stability in the foreign exchange market, while at the end of December, gross foreign exchange reserves reached c. EUR 16.5 billion.

Dinar exchange rate trend



Source: NBS

Monthly exchange rate changes (in %)



Source: NBS

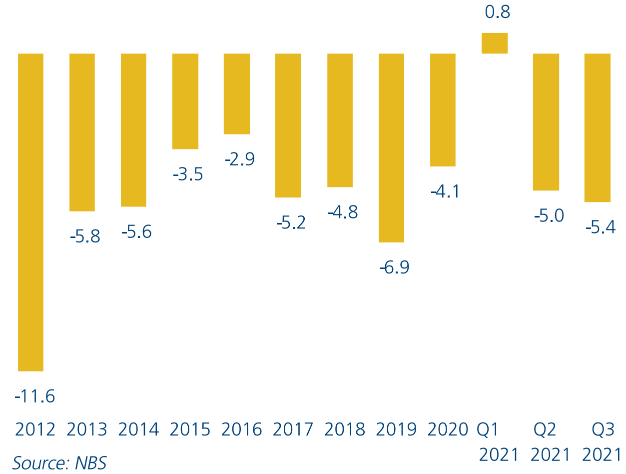
In the conditions of mounting inflationary pressures at the global level, keeping exchange rate stable represents a good policy as it helps to alleviate those pressures. Given the high level of FX reserves, monetary authorities have ample room to continue implementing such a policy, which will be needed as long as inflation stabilizes at a low level.

Current account deficit and external debt

After the first ten months of 2021, current account deficit amounted to EUR 1.6 bln, about 5% down from the same period last year. The main contribution to the year-on-year improvement in the external position came from the increased surplus on the services account and the secondary income surplus, while the trade deficit expanded by 8.4%, affected also by changes in import and export prices. Having in mind the jump in energy prices as well as the larger quantities that Serbia imported in the last few months of 2021, an increase in the current account deficit in the fourth quarter can be expected. At the level of the whole year, the National Bank of Serbia expects the current account deficit will be approximately at last year's level, at 4.1% of GDP, remaining fully FDI financed.

The share of CA deficit in GDP is expected to somewhat rise in the medium term, moving in a range from -4.0% to -5.0% GDP, driven by recovery in domestic demand and new investment cycle, while remaining fully covered by net FDI inflow, as in the past seven years.

Current account deficit (in % of GDP)



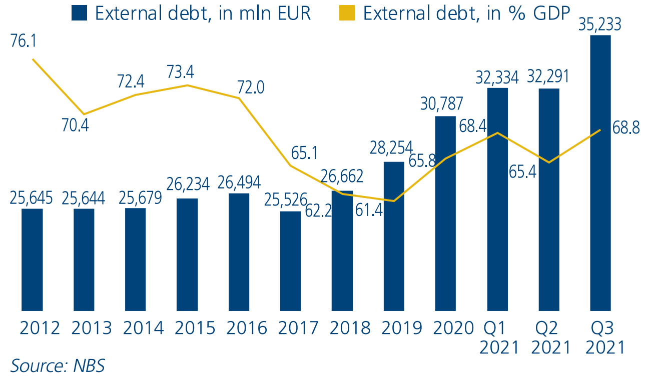
Source: NBS

After gradually decreasing in the period 2015-2019 (as % of GDP), total external debt recorded an increase in 2020 due to the COVID-19 pandemic, while additionally rising during 2021, primarily on the back of enlarged public sector debt. Based on the latest available data, Serbia's external debt amounted to EUR 35.2bln or 68.8% of GDP at the end of 3Q 2021, increasing by around EUR 4.5bln relative to 3Q 2020. It however still stands below the threshold of severe indebtedness, according to the World Bank criteria (80% of GDP), while sustainability of the current debt level is additionally supported by its favourable maturity structure, given that the bulk of the external debt stock is long term in its nature (96% at end-September 2021).

The ratio of external debt to exports of goods and services went slightly down from 138.8% at end-2020 to 131% in 3Q21, staying below the sustainability bound under the World Bank criterion (220%). Having this in mind, Serbia is on a good path to return to the group of less indebted countries according to this World Bank criterion, since the external debt to export ratio dropped slightly below the 132%-level.

Serbia's external debt is assessed to be sustainable over the medium term, according to the IMF. In its report published after the completion of the first review under the new Policy Coordination Instrument, total external debt is projected at 68.4% of GDP at end-2021, and it is seen gradually decreasing to below 60% by end-2024.

External debt



Source: NBS

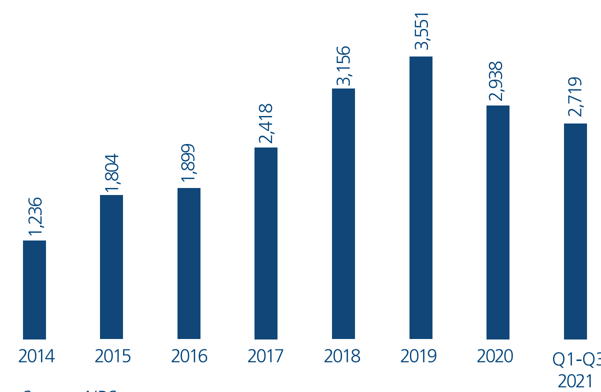
Foreign direct investment

In the first three quarters of 2021, the net inflow of foreign direct investment exceeded the level of EUR 2.7bln (c. 7% of GDP), which is about EUR 1bln more compared to the same period last year. FDI inflow was particularly strong in the third quarter, amounting to EUR 1.1bln, which is four times higher than in the third quarter of 2020. According to still unofficial data published by the National Bank, the whole year FDI is likely to reach EUR 3.6 bln in 2021, which is similar to the record inflow from the pre-crisis 2019 and well above the current account deficit (4% of GDP).

Sector-wise, one third of investments was channeled into manufacturing, followed by construction, as well as mining sector. As in the previous years, the bulk of FDI came from European countries (around 60%), followed by Asian countries (26.5%) with noticable rise of China's share that reached 23.5% in 2021.

Since 2015, CA deficit has been fully covered by net FDI inflow, which is expected in the forthcoming preiod as well.

Foreign direct investment (in EUR million)



Source: NBS

At this point, it is not expected that foreign direct investments will be higher next year. The National Bank of Serbia projects that the net FDI inflow will be around 5% of GDP in the medium term. Whether the good result from 2021 will be repeated will largely depend on the developments on the global capital market, since a significant increase in interest rates could cause a drop of investments globally, and probably in Serbia as well.

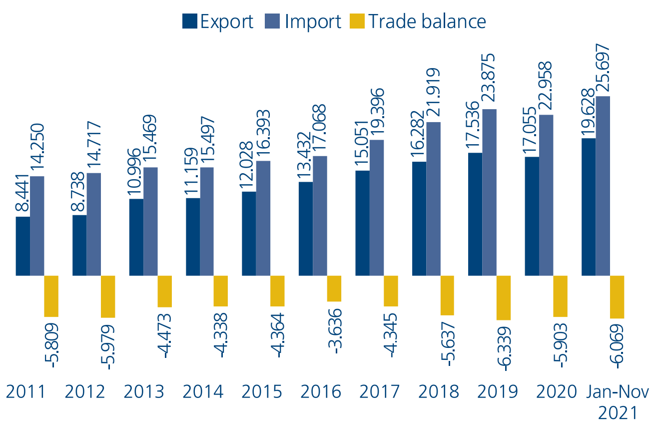
Foreign trade

Opening of economies and recovery of domestic and external demand led to a gradual increase in monthly volumes of external trade. Export results improved significantly, however the strengthening of domestic demand, increased imports of medical products and energy prices hike resulted in a strong growth in the total value of imports. In the first eleven months of 2021, Serbian foreign trade reached around EUR 45.3 billion, which is almost 25% higher compared to the same period in previous year, while the export-import coverage ratio stood at 76.4%. The exports of goods amounted to EUR 19.6 billion (+26.8%) in this period, while imports reached EUR 25.7 billion (+23.4%), resulting in a trade deficit of EUR 6.07 billion (+13.6%). Electrical machines and apparatus remained Serbia's top export product, with 12.2% share in total exports. Vegetables and fruit held the second position (5%), followed by Iron and steel (4.8%).

According to data available for the first eleven months of 2021, Zijin Copper (RTB Bor) took over No.1 spot at the list of country's largest exporters, whereas HBIS (Smederevo Steelmill) fell on the second position after being on the top of the list for two years in a row. NIS and Tigar Tyres took the third and fourth place respectively, while the once largest exporter – FCA Serbia, fell to the eighth place, continuing to face lack of demand and disruptions in supply chains.

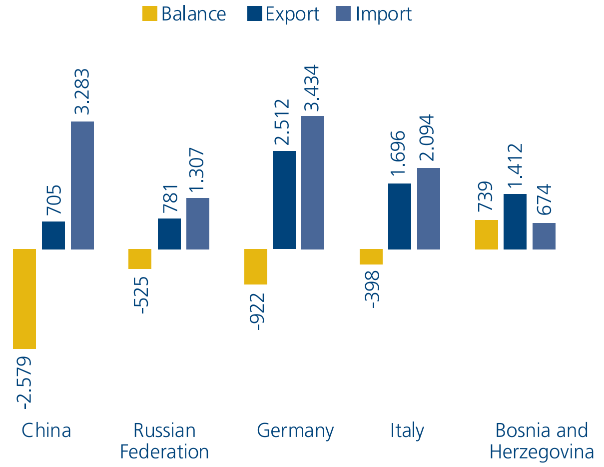
Around two-thirds of Serbia's foreign trade were directed towards EU countries, while CEFTA countries were the second most important trade partner with whom Serbia posted a high trade surplus (export-import coverage ratio of 282%. The most important foreign trade partners in exports were Germany (EUR 2.5bln), Italy (EUR 1.7 bln), and Bosnia and Herzegovina (EUR 1.4 bln), while the largest imports came from Germany (EUR 3.4 bln), China (EUR 3.3 bln) and Italy (EUR 2.1bln).

Foreign trade (EUR million)



Source: Statistical Office of the Republic of Serbia

Foreign trade with major partners (EUR million)



Source: Statistical Office of the Republic of Serbia

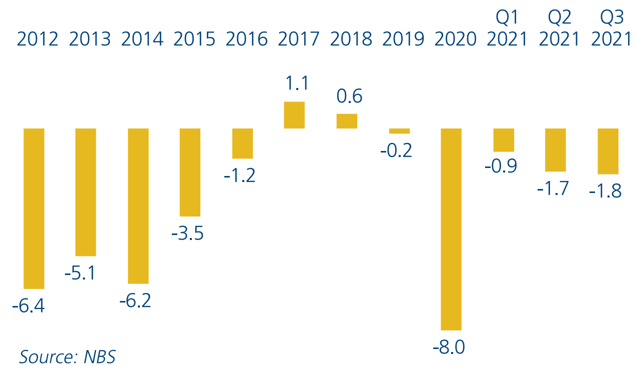
Fiscal policy

After a record high fiscal deficit of 8.1% of GDP in the crisis year 2020, the original 2021-budget adopted in December had envisaged the budget deficit reduction to 3% of GDP, as well as stabilization of public debt to GDP ratio. However, already in the first quarter of 2021, the government decided to provide an additional, third package of support to the economy and citizens, and the first budget rebalance was adopted in April, targeting deficit increase to 6.9% of GDP. In addition to the new package of anti-crisis measures, the deficit had also grown due to additional health care costs, planned higher capital expenditures and higher funds allocated to the Ministry of Defense.

Better than expected fiscal trends during the course of the year enabled the Government to reduce the planned deficit from 6.9% of GDP to 4.9% of GDP in the second budget revision from October. In the period January-November 2021, the state budget deficit amounted to RSD 149.6 billion, which is about RSD 16 billion better than envisaged in the October rebalance, so it is almost certain that the fiscal result by the end of the year will be better than planned 4.9% of GDP.

According to adopted 2022-budget, the planned fiscal deficit amounts to approximately EUR 1.7billion (3% of GDP) which is lower than deficit planned in 2021 (EUR 2.6bln). A 3%-fiscal deficit is agreed with the IMF and should lead to a small reduction of the share of public debt in GDP, from 58.2% at the end of 2021 to 56.5% at the end of 2022. Budget envisages 7.3% rise in public wages on average, 5.5% increase in pensions, while funds earmarked for capital investments continue to be at high level (over 7% of GDP). According to Fiscal Council, the budget was planned rather cautiously, suggesting that the 2022 fiscal trends may be better than projected. Thus, the recommendation of the Council is that these potentially better fiscal trends should be used to reduce the fiscal deficit to below 2% of GDP, in order to steer public finances towards relatively calmer waters already in 2022, with minimal effort.

Consolidated budget deficit (in % of GDP)



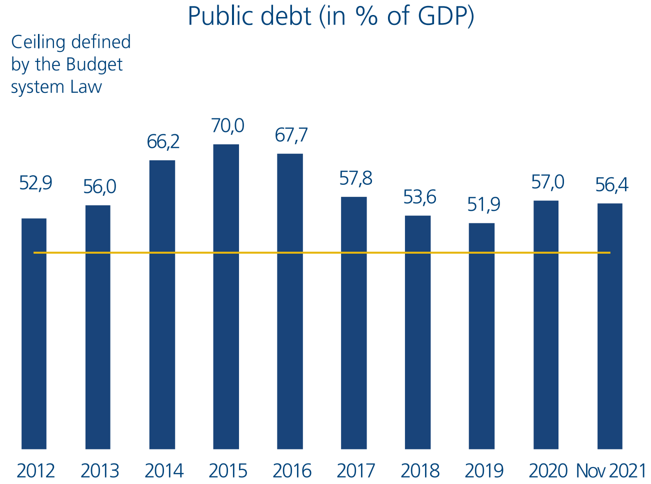
Source: NBS

At the end of November 2021, the public debt amounted to EUR 29.9bln, while the public debt/GDP ratio stood at 56.4%.

Looking at the currency structure, major share of public debt was in foreign currency (EUR 49.6%, USD 13.2%), while 30.5% of public debt is denominated in RSD. The currency structure is significantly improved however, given that dinar share is continuously increasing, making public debt dynamics less sensitive to exchange rate shocks compared to a few years ago.

Since the beginning of the year, public debt increased by c. EUR 3.2 bln. For the international financial market, in 2021, the Republic of Serbia issued three euro-denominated Eurobonds. To support the economy in the fight against coronavirus, a 12Y Eurobond in the amount of EUR 1.0 bln, with a coupon rate of 1.65% was issued in March. In September, two additional euro-denominated bonds were issued. The first one, so called green Eurobond in total nominal amount of EUR 1.0 bln was issued for the first time, with the maturity of seven years, and the lowest ever annual coupon rate (1.0%). At the same time, the conventional 15Y Eurobond was issued in the amount of EUR 750 mln and an annual coupon rate of 2.05% with funds collected for the repayment of liabilities that mature in the coming period.

Public debt (in % of GDP)



Source: Public Debt Administration

Public debt is expected to be at level of around 58% of GDP by the end of 2021. Fiscal deficit of 3% of GDP planned for the next year should enable the public debt to resume downward path as of 2022 (as % of GDP), as per the Government's plan. According to Fiscal strategy for 2022, public debt to GDP ratio is projected to decline to the level of 56.5% by the end of 2022.

Banking sector

As of September, the Serbian banking sector comprised of 24 banks. Compared to the previous year, the number of banks decreased by 2, which implies continued trend of banking sector consolidation.

In April 2021, consolidation of OTP and Vojvodjanska banka was completed, after which banks operated under the same name of OTP banka. Merger of Poštanska štedionica and MTS bank has been approved in April and finalized in July 2021. Consolidation of banking sector is expected to continue in the next period.

Total assets of the banking sector increased by 7.3% since the beginning of the year. At the end of third quarter, total assets reached RSD 4.9 trillion (EUR 42.0 billion).

National Bank of Serbia maintained key policy rate at the level of 1% during 2021.

Credit activity recorded increase despite large comparative base, due to moratorium from the previous year. Total customer loans increased by 9.9% y/y, reaching RSD 2.8 trillion (EUR 23.9 billion) at the end of the third quarter of 2021. Credit activity increased in both corporate and household sector.

Corporate loans reached RSD 1,436 billion at the end of the third quarter, increasing by 5.1% y/y. Corporate loans growth is mainly driven by working capital loans, supported by loans from the Guarantee Schemes, but also investment loans.

Observed by industry, placements to the manufacturing, transport and agriculture were the main driver of loan growth.

As of September, loans to individuals increased by 9.2% on the annual level, reaching RSD 1,337 billion. Although the highest contribution to growth comes from mortgages, which comprise 38% of individual loans, personal loans still holds the highest share (44%).

Dinarisation trend continued during 2021. Share of dinar loans in total placements to companies and individuals increased by 1.3 pp since the beginning of the year, to the level of 38.6% in September. In the corporate sector, the level of dinarisation rose to 23.8%, while placements in local currency to households slightly decreased to 55%.

Deposit base reached RSD 3,445 billion (EUR 29.3 billion) at the end of September 2021, recording annual growth of 11.3%. Deposit volumes increased in both households and corporate segments.

In 2021, NPL ratio also recorded low level, 3.55% in September. In corporate segment, NPL ratio stood at 2.9%, while in household sector NPL ratio reached 3.9%.

At the end of third quarter, 20 banks recorded positive result. Total net income before tax amounted to RSD 41.5 billion, which is RSD 1.9 billion (4.5%) below the same period last year. In spite of diminished provision expenses, result is lower due to increased operating costs.

Operating margin for banking sector is 14.6% lower in September 2021, than the same period prior year, reaching the level of RSD 50.0 billion. The main reasons for lower operating margin are operating costs, which are higher by 11.2% or RSD 9.2 billion in the absolute amount, due to higher administrative expenses (RSD +10.4 billion), while personnel expenses are lower by RSD 1.1 billion. Operating income noted mild increase of 0.5% or RSD 0.7 billion absolute compared to September previous year, reaching RSD 142.2 billion. Higher operating income is result of higher net fee and commission income (RSD +3.4 billion) and lower profit from trading and other operating income (RSD -2.4 billion).

As of September 2021, return on assets (ROA) was lower by 0.2 pp compared to the same period last year, standing at the 1.2%. At the same time, return on equity (ROE) declined by 0.8 pp y-o-y, reaching 7.4%.

The capital base of the banking sector amounted to RSD 721 billion at the end of third quarter 2021. Compared to the beginning of the year, capital rose by 0.6%. At the end of the third quarter, the capital adequacy ratio of the banking sector reached 21.7%, well above the regulatory threshold. At the end of September, the loan-to-deposit ratio reached 81.5%, while share of liquid assets in total assets equalled to 38.6%, thus confirming the liquidity of the banking sector.

In 2021, Banca Intesa has strengthened its leading position with the dominant market share in all key indicators. At the end of the third quarter, Banca Intesa recorded the higest market share in total assets (15.4%), customer deposits (16.5%) and capital (16.2%), while being second ranked regarding customer loans (15.6%). Furthermore, the Bank has a leading position in payment card and payment operations, with a growing client base of almost 1.37 million clients. The Bank has a wide-spread network with 147 branches, strongly supported by the largest network of ATMs and POS terminals in the market.

Highlights of the Bank's Strategy and Planned Development

In line with its strategic orientation, Banca Intesa Beograd continues to strengthen its leading position in the Serbian banking sector relying on stable growth and sustainable value creation and simulatniously actively supports growth of Serbian economy.

Strategic objectives of the Bank for the period 2018-2021 predominantly directed towards improving market position driven by digital transformation, and revenue growth through capturing new business opportunities, while simultaneously maintaining credit portfolio quality and cost discipline by simplifying business processes and increasing efficiency.

Accomplishment of the Bank's objectives is summarised in the following five initiatives:

I Driving digital transformation while reviewing the role of the physical network

By pursuing the digitalisation, the Bank continuously improves customer services providing various, innovated benefits to customers along with time savings. The Bank has successfully developed and implemented online products, services and experiences especially via upgrading mobile and online applications and introducing new platforms for corporate clients. Also, the Bank continues to work on physical network optimisation and digital process improvement.

II Increasing revenues in a very competitive environment while improving fee-based contribution

In a highly competitive environment, the Bank is focused on strong lending activity while also building a sound loan portfolio. Several activities are supporting this initiative such as active customers' boost and proactive sales approach. The Bank intends to enhance product cross-selling in cooperation with Intesa Sanpaolo Group, with the aim of further improving the promotion of hedging and structured finance products and joint approach to debt capital markets. The Bank has built new sources of fee-driven income by expanding into the wealth management market through its asset management company – Intesa Invest, as well as by expanding the range of insurance products and utilising the growing market potential for life insurance product sales. Leveraging COSME and InnovFin guarantee schemes with the EIF, the Bank responded successfully to the strong market demand for products with risk-sharing features.

III Improving cost discipline

Bearing in mind its commitment to improving efficiency and simplifying the business model, the Bank continues the process of cost optimisation through organisational and process review. Namely, the Bank aims to maximise the efficiency of the business network through network organisation analysis and automation of business processes, application standardisation and rationalisation. In terms of increasing productivity, saving time and guaranteeing higher service quality, while at the same time reducing non-value-added activities, the Bank continues with the automation and digitalisation of business operations and processes.

IV Improving credit quality

The Bank has significantly improved its credit quality through proactive credit portfolio management and timely NPL reduction initiatives. Moreover, the Bank works on credit risk management improvement through harmonisation with Group methodologies, as well as on internal credit rating models for the purpose of converging to the standards of advanced approaches to credit risk measurement. Processes for the identification of target industries are being improved with the aim of aligning credit quality and commercial efforts, especially in the segment of small business and SME, taking into account the credit potential and positive business prospects in this business segments. Also, further improvements of the redesigned, revised and enhanced credit and underwriting process for SB and SME clients is conducted, aiming at wider usage of internal ratings refined by credit criteria, by differentiating between types of credit processes and expanding the scope of clients. Proactive credit portfolio management and NPL management will be further strengthened.

V Strengthening the Group operating model in the key areas

The Bank is focused on strengthening its relationship with the Parent Group through several initiatives, primarily through the implementation of strategic projects that provide an adequate infrastructure for growing business needs and digitalisation era. These projects will enhance steering and monitoring in business, control and support areas, and also further develop standardisation and economies of scale in IT Operations. Recognised as the most important part of the Bank and one of the main drivers for the realisation of the Business Plan, further staff development will be supported by several initiatives of the Group. That said, the Bank will develop enablers to support performance through the new performance management assessment with the improved performance appraisal process and new incentive system and strive to assert the distinctiveness in employees.

Retail Banking

Individuals

- *New production in 2021 reached record levels regarding loans to individuals. In personal loans segment, the expansion of the AGDM project and increasingly available personal banking services which lead to better utilization of the Bank's internal potential have caused strong positive effects. In the case of mortgage loans, further improvement of the new service model which reduced the duration of the entire process and the engagement of clients to a minimum, as well as the positive market climate in this business segment, had a decisive impact.*
- *Introduction of the first Intesa Invest balanced fund with the support of the Parent Bank and Eurizon, one of the leading asset management companies in Europe.*
- *Start of contracting of the insurance against the inability to repay personal loans through the new digital platform.*
- *The new Digical application has entered into full production at the end of May 2021. In addition to basic digital banking functionalities, the new solution introduced a number of other innovative opportunities.*

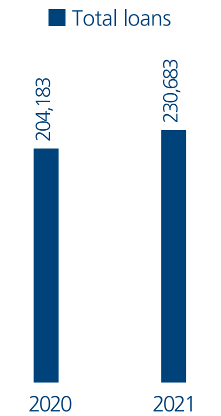
In the past year, in which unforeseen circumstances continued to shape the new reality of business in which flexibility is imperative, our Bank has once again shown excellent readiness for change in order to meet customer needs as adequately as possible with a high level of personalization. In order for this challenging task to be successfully completed, continuous investment has been made in improving the competencies and skills of the Bank's employees, but also in developing and increasing the quality of services on both physical and digital sales channels. Special focus has been placed on eBanking through further implementation of the Digical project. The trust that clients have put into this manner of doing business, with the introduction of improved payment account packages, is reflected in the growth of the base of active clients with a payment account of 1.49% year-on-year (YoY).

Even with extraordinary challenges, during 2021, the Bank has significantly improved the offer of innovative products meeting a wider range of sophisticated customers' financial needs, while maintaining the stability of all relevant business indicators and increasing market shares in all key products intended for individuals.

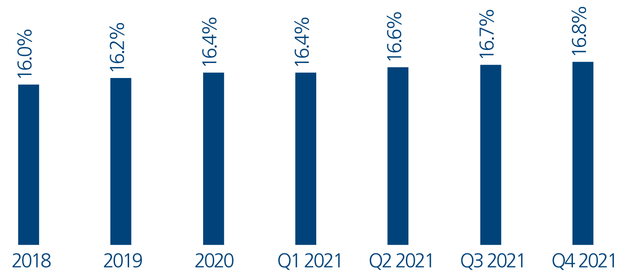
By maintaining stability in all business segments, Banca Intesa managed to successfully respond to the challenges of the dynamic market in the past year, defined by general uncertainty due to the circumstances. Through numerous novelties and improvements that are focused on customer satisfaction, as well as the transparent communication of both price and non-price elements, cash loan placement of 365.2 m EUR (42.9 billion dinars) was achieved. These business results contributed to maintaining the Bank's market share in cash loans of 12.7% with an increase in the number of customers with cash loans in use of 1.0%

In order to improve customer satisfaction, user experience and consequently further sales increase, a new process for applying and disbursing mortgage loans had been continuously improved in the previous period. These activities have resulted in the fact that Banca Intesa became the first choice in this market for a large number of clients. Compared to 2020, the increase in placements of 46.7% and the level of new sales of 254.5 m EUR (29.9 billion dinars) was reached, which is a record annual production. As a result of the extraordinary sales results in 2021, the trend of growth in the market share of mortgage loans continued, from 21.0% in December 2020 to 21.7% in November 2021. Consequently, there was an 14% increase in the number of clients with mortgage loans compared to the previous year. The perennial growth of active retail banking products placed to individuals indicates several conclusions: clients appreciate the high level of service accompanied by the Bank's business policy that is sincerely focused on their specific and real needs, as well as the positive effect of transparency in every aspect of business has on the increase in clients' trust in doing business with our institution.

Loans to individuals (in RSD million)

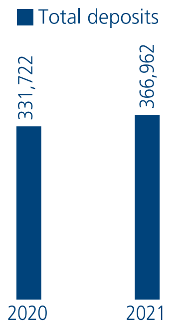


Market share in loans to individuals

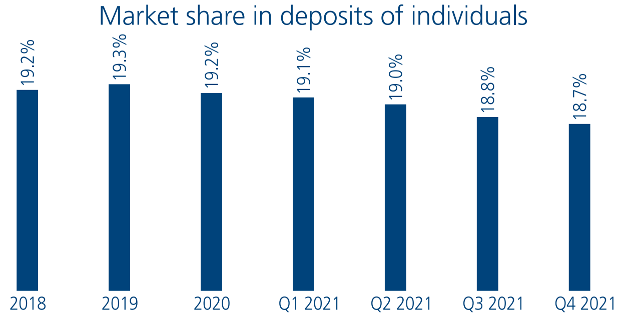


The growth trend of retail deposits from the previous period continued during 2021. Compared to the previous year, in this part of business, an increase of 10.6% was achieved. Total retail deposits at the end of the year amounted to 367 billion dinars, which is a Bank market share of 18.7%, despite the fact that from our deposit base is placed in investment funds 7.7 billion RSD.

Deposits of individuals (in RSD million)



Market share in deposits of individuals



The slight decline in the market share of individual deposits compared to the previous period was accompanied by an increase in clients' interest in investing the excess of liquid assets in one of the funds managed by Intesa Invest. In just 3 years of operating, the assets under the management of Intesa Invest reached over 150 million EUR with a market share of about 25% with some further growth trend in the period ahead. The support of the Parent Bank and cooperation with Eurizon, one of the largest asset management companies in Europe, contributed to the further development of this part of the Bank's business, but also to the expansion of the range of financial products available to clients. In the second half of 2021, the Bank introduced a new balanced fund of Intesa Invest - Intesa Invest Flexible Euro. With the introduction of the fourth fund in the distribution, different client profiles were given the opportunity to choose the fund that best suits their needs. At the end of 2021, assets under the management of Intesa Invest collected in the retail segment amount of EUR 111.2 million, which is an increase of 54% compared to December previous year.

Further improvement and expansion of the Bank's financial products offer is a fundamental prerequisite for an adequate response to the growing market demands and differentiated client needs. Insurance products are an essential part of this offer and great potential for the Bank. During 2021, the cooperation with the partner "Wiener Städtische osiguranje" was raised to a higher level in the part of Insurance of inability to repay personal loans. Record sales of this type of insurance in the Bank's branches gave impetus to further improvement and harmonization with customer requirements in the era of digitalization. Clients have been given the opportunity to contract this type of insurance remotely, through a new digital platform. In this way, in addition to the possibility of realizing an online loan, clients have the opportunity to simultaneously protect themselves and their families with one of the insurance packages against the inability to repay the loan. Work on improving and expanding cooperation with another partner, Generali osiguranje, has resulted in increased implementation of insurance policies related to mortgage loans - Risk Insurance and Insurance against the inability to repay mortgage loans. Adequate insurance products offer, accompanied by constant improvements, Bank network employees education and continuous licensing process have contributed to the achievement of record results in the field of insurance in 2021.

Payment card business

In 2021, Banca Intesa maintained its leading position in the card business segment, with a market share of 20% in the number of payment cards delivered, 25% in the number of POS terminals, 64% in the number of internet POS terminals and 25% in the total number of realized payment cards. transactions at home and abroad. Taking into account the achieved volumes, Banca Intesa has a 31% market share in the part of POS traffic, while in the part of internet traffic over 90% of the market share.

The number of transactions performed with Banca Intesa payment cards increased in 2021, achieving an annual growth of 11%, while the realized volume, due to the COVID-19 pandemic and the reduction in the share of international transactions, recorded a slight annual decline of 0.1%.

Regarding transactions at POS terminals, including Internet POS terminals, their number increased by 37%, while the volume of traffic increased by 41% compared to the previous year. In addition, Banca Intesa continued to improve its reception network, constantly expanding the number of new customers. In the middle of the year, the option of selling in installments for debit card users was introduced by Banca Intesa. Also, at the end of the year, the process of introducing the acceptance of Union Pay International cards in the bank's acceptance network began, as well as the implementation of modern models of receiving devices based on the Android operating system (Android POS and SoftPOS), which give merchants the ability to accept multiple payment instruments on one device and use other business applications.

The bank also continued to expand its credit card outlets to over 10,000 locations. Compared to 2020, the volume of turnover for installment transactions increased by almost 20%.

In 2021, activities continued in order to increase the consumption using payment cards on the Internet and expand the network of e-commerce merchants, which resulted in doubling the Bank's turnover in the e-commerce network, compared to the previous year.
In addition, in cooperation with merchants, activities aimed at providing significant discounts and benefits to Banca Intesa payment card users continued.

Digital channels and e-services

Client activity on digital channels

The Digical application, the new Mobi and Online application became available to a limited number of clients in March 2021, while the solution went into full production at the end of May 2021. The client migration process is organized in five waves, depending on the client segment, which are defined based on the type and frequency of client activities on digital channels (digital maturity).

In addition to the basic banking functionalities, the new solution enables the End to End process of submitting requests and approving cash loans and allowed overdrafts through the mobile banking application, to the Bank's clients as well as to clients without technical earnings. Also, clients can now negotiate a policy of insurance (CPI) against the inability to repay the loan through the process of applying for a loan through mobile and electronic banking applications. In cooperation with the National Bank of Serbia, the new "Prenesi" functionality has been implemented. The functionality allows you to transfer money to another person in just a few seconds, without entering an account number, using only their mobile phone number. Clients are also enabled to create a virtual copy of the payment card which enables online shopping in a safe and secure way, cash withdrawal functionality without using the card, insight into the payment card PIN in the mobile application and an overview of investment units owned by the client.

The total number of contracted clients by the end of 2021 is 207,762 clients, of which 55,714 clients refer to new clients, while 152,048 represent the number of migrated clients from the old to the new solution.

The total number of transactions of individuals on digital channels (old and new platform) in 2021 amounted to 19,877,263, which is an increase of 20% compared to the previous year.

The total number of sold cash loans in 2021 is 14,663 loans, which represents 13% of the total number of placed cash loans, or 5% of the total amount of placements. Compared to the previous year, when the share in the total number of placed loans was 7.5%, and in the amount of 3%, this represents almost twice the share.

The number of overdraft products sold by the end of 2021 is 8,709, which is 9% of the total number of placed products, and 14% of the total placed amount. The share of overdrafts placed on digital channels in the total number is at the level of the previous year.
The number of CPI products placed (cash loan insurance) is 46.

Based on a digital study conducted by PWC that includes an analysis of the entire banking market, 87% of all transactions initiated by the client relate to transactions made through Banca Intesa digital channels, representing the largest market share of 49% of all digital transactions in the market. Also, Banca Intesa has the largest number of M-banking functionalities (52 out of 100) while the market average is 40.

Digital Branch

Within the digital branch platform, it is possible to optimize sales and after-sales processes for direct channels as well as improve CR-ISP functionality by providing all customer information in one place and starting interactions with the customer from one page. Educational modules have been introduced that enable users of the application to easily and simply, in one place have available relevant information that they use in their work. A special dedicated section has been developed both on direct channels for clients and within the Digital Branch application for archiving all contracts contracted by the client through direct channels, statements, receipts for transactions performed through channels, and regulatory documents. The archived documents feature allows useful applications to quickly and clearly view documents with significant time savings, and with useful filtering and search options. A Register of Changes has also been introduced that allows the user to easily and quickly view, filter and search data related to actions performed by the banker through the Digital branch application.

Public Portal
The new website of the Bank has become a point of generating leads through the options "Book a call" and "Book a meeting", and thus contributes to the Bank's sales activities, providing management, conversion and monitoring of leads through loan calculators on the bank's website for cash, housing and car loans. The introduction of analytical tools enables a better understanding of client behavior. With the support of Contentsquare and Google Analytics 360, it is possible to monitor and analyze the behavior of site visitors and their interaction with site content. Usabilla, an application for collecting customer opinions and suggestions on the use of mobile and online applications, and the Bank's website is another important source of information on the impressions and use value of the Bank's applications. Based on customer feedback, the Bank plans further improvement activities based on the objective needs of customers. The introduction of the chat option on the new website of the Bank enabled another point of interaction with clients. Through the chat functionality, the contact center agents provide support to clients and gain insight into the preferences, dilemmas or problems that clients encounter in using the Bank's products and services.

Cash in/Cash out
By introducing the functionality for payment and withdrawal of euros at ATMs, we have made another significant step in the migration of "low value" transactions from branches to self-service devices. By introducing this option, we have enabled, on the one hand, a simpler process for clients, and on the other hand, additional time of colleagues from branches for sales activities has been freed up.

Since the release of the solution into production, transactions in the total number of 18,839, ie in the amount of 17,795,400 eur, have been migrated. When it comes to euro payment transactions, a number of 14,092 transactions was recorded, ie a total value of 5,848,990 eur.

SMART NOTIFICATION ENGINE (SNE)
In 2021, the implementation of the first phase of the SNE project was completed, which included the establishment of a smart notification engine solution, migration of dinar statements for legal entities from the old SNE solution, as well as integration of all notifications that accompanied the introduction of DigiCal solution.

By migrating dinar statements for legal entities, sending this notification was accelerated 6 times, which significantly optimized the process itself.

In 2021, work began on the second phase of the SNE project, which includes the migration of sending statements for payment accounts and credit cards for individuals, as well as for credit card statements for legal entities. An improved process for creating, verifying and sending excerpts has been defined, and the implementation itself is planned for the second half of 2022.

IPS- deep link
During 2021, the Bank, based on the NBS regulations, introduced an improvement of the IPS scan option, and implemented a new functionality within the Intesa Mobi application, deep link. Deep link is an advanced form of instant payment through the IPS scan option, where the client is enabled to make payments on the merchant's site using only one device, a mobile phone. The functionality allows scanning the QR code to make IPS payments in the background of the application, and the client does not need a desktop computer to scan the code and make the payment, but the entire process is done through the mobile application.

Activity of clients - legal entities on digital channels
The activity of legal entities on digital channels shows a stable growth trend in 2021 as well:
- Total number of contracted users: 76,313, 11% more than at the end of last year
- Number of clients with login, active clients: 52,466, 14% more than at the end of 2020
- Number of clients with transactions: 45,506, 13% more than last year
- The total number of payments made on digital platforms in 2021 was 27,334,808, which is 11% more than in the previous year.

In 2021, work began on the analysis and preparation of the implementation of DigiCal / Digi4Biz solutions for legal entities, in the first place for clients from the segment of Small Business and SMEs. The new applications will bring a new improved user experience, as well as new functionalities, and in the first place the introduction of the sales process for loans to digital banking applications. The pilot production of the mobile and online banking application is planned for November 2022.

Other improvements
In the next period, improvements related to the review of payment cards, display of the debit card installment, activation of cards through the application, introduction of a new product revolving credit and verification of e-mail address are planned on digital channels for individuals.

For legal entities, the focus is on the introduction of a new digital application that will provide insight into basic functionalities, then managing limits for business cards, selling overdrafts and unsecured loans, reviewing credit products and savings, as well as improving notifications.

Within the Digital branch application, it is planned to introduce a paperless process for individuals, while for legal entities it is planned to implement a portal for contracting and activating the digital banking service Digi4Biz, including after sales activities (blockade, unblock, deactivate).

On the new website of the Bank, it is planned to improve the process of housing loans - enabling the submission of applications for housing loans through the website of the Bank.

Business network
With adjustment of the branch network operations to official restrictive measures due to COVID-19 pandemic, the business network improvement continued in 2021 through further implementation of the AGDM (Adopting Group Distribution Model) standards, but also through structured approach to client migration to digital channels for most frequent (supported) transactions and intensive parallel expension of multifunctional devices (ATMs) network with RSD and EUR cash in/cash out functionality for individual clients. Since the beginning of the project, 34 branches have been fully aligned with modern trends in banking sector, while more than 70 was partially adapted.

New service model is implemented in 67 branches, covering 44% of the total number of branches in the network and more than 70% of Banca Intesa's network net operating margin. A total of 132 Upper Mass advisors cover 131,000 clients, representing more than 80% of total Upper Mass customer base. Employees in branches where the new service model is rolled out fully accept the AGDM related changes and, like before, recognise benefits for clients, but also for their own work efficiency, as well as carrier opportunities, fact that was positively affected also by movement of 138 employees do Service advisor role, key in process of migration of clients to digital channels in synergy with growing device network

Further implementation of ATS devices for depositing cash of legal entities continued, resulting in an ATS network of 59 devices. So far, 80% of total amount of legal entities' deposits is placed through these machines in ATS branches, accounting for 53% of total cash amount at the level of the entire network.

Banca Intesa has successfully enlarged number of multifunctional cash in enabled ATMs. At the end of 2021, the ATM network counts 355 devices, of which 123 external and 232 within Banca Intesa branches, out of which 71 cash in enabled.

Contact Center has been additionaly reinforced aiming at building its capactiy for the new and significantly changed role in providing one more touchpoint open for services and products to clients.

Small business and registered agricultural households
- Leading creditor of the domestic economy
- Support to the economy in difficult business conditions
- Continued and development of cooperation with renowned financial institutions

Pressure on economic activity caused by the impact of the global pandemic COVID 19 continued during 2021.

The business segment of micro, small and medium-sized legal entities, entrepreneurs and registered agricultural holdings, although flexible by it's nature, proved to be particularly vulnerable to global economic imbalances in 2021. In these conditions, the state and the banking sector played a key role in supporting the economy with the aim of maintaining and recovering business activities, primarily through providing access to more favorable sources of financing, as well as through the process of relaxing and rescheduling existing liabilities.

As one of the key pillars of economic activity and the leading creditor of the domestic economy, Banca Intesa maintained the role of market leader in 2021 with a share of 21% in the cluster of entrepreneurs. In the segment of registered agricurtural households, the market share of 11.6% puts the Bank in the position of leading banks in this market niche.

During 2021, the activity of agro clients and business entities in small business segment was supported through 247 mil EUR placements. Compared to 2020 loan activity of business clients increased by 4%, which gives us positive signal in terms of modest but evident recovery of the economy. The number of credited small business clients reached the level of 17.744, and 7.372 in the agricultural segment. The loan portfolio increased by 6% compared to 2020, reaching the level of 386 mln EUR.

Small Business Segment
In order to preserve liquidity, production and jobs in the economic crisis caused by the Covid-19 virus pandemic, Republic of Serbia continued to actively support the economy through a set of measures of which by its importance stand up a delay in repayment of credit obligations (moratorium) and loans with state guarantees for taken by companies from commercial banks in order to preserve liquidity and finance working capital (guarantee scheme).

Having in mind the difficult business conditions, uncertainty and market disturbances on both the supply and demand side, the moratorium, the delay in loan repayment, significantly contributed to curbing the domino effect of declining economic activity, while keeping NPLs at a controlled level. In the small business segment, Banca Intesa maintained a low level of NPLs of 3.8%, which is significantly below the average for this market segment.

Banca Intesa has achieved a dominant share in the state program under the post-Covid risk-sharing lending program, which enabled to micro, small and medium-sized enterprises to access additional funds at attractive interest rates of up to 25% of last year's revenues, repayment period up to 36 months and a grace period of 9 to 12 months. In the placement of this type of loan, in the cluster of entrepreneurs and micro enterprises Banca Intesa achieved a share of as much as 26% in the number of loans and 24% in volume.

The year 2021 was marked by the Continued of cooperation with renowned financial institutions. As a result of this cooperation, Banca Intesa was able to continue to support the economy with attractive credit options designed to finance both working capital and stable competitive support for long-term financial ventures. In cooperation with the EIF (European Investmen Fund), Banca Intesa has been offering credit products for a few years now, intended both for the purchase of working capital (COSME program) and for investment in long-term innovative business projects (InnovFin). Thanks to the attractive characteristics of these products (which is primarily reflected in a more favorable interest rate, extended repayment terms and relaxed requirements in terms of collateral), the businesses were placed through these loan products 1,136 loans, ie 23.2 million EUR.

Banca Intesa's has been also commited to its strategic orientation to support sensitive and particularly vulnerable market segments. Since 2015, as the first bank in the Serbian banking market, Banca Intesa has taken an active role within the European Bank for Reconstruction and Development (EBRD) - Women in Business in the Western Balkans Program to promote women's entrepreneurship, support women's participation in business, help small and medium-sized enterprises run by women to access finance, knowledge and non-financial services for business development. Since 2015, over 2,300 business ideas have been supported through 23.5 mil eur loans. Out of the stated amount, in 2021 492 loans were placed, ie 5.5 million EUR.

The bank's comprehensive offer for micro, small and medium-sized enterprises includes Intesa Invest Fund products that are an attractive alternative to traditional forms of savings, as well as the Leasing product offer. Intesa Invest Fund provides clients with the opportunity to cooperate with a team of professionals oriented towards stable returns, which is recognized by the market and is reflected in a final balance of 30.2 million euros, that represents growth of 27% compared to the 2020. Leasing placements in the small business segment recorded a new amount of EUR 5 million, which, despite the difficult business conditions in the economy, represents an increase of 46% compared to 2020.

Registered Agricultural Households segment (AGRO)

Since 2008, Banca Intesa has been actively present in the market segment consisting of registered agricultural holdings. Since 2008, our farmers have been supported with over 445 mil in placements, of which over EUR 45.5 million in 2021 alone. Such an active lending activity, with a portfolio of 68,000 clients, of which 7,372 are credit clients, positioned in Banca Intesa among the leading financial institutions in the field of cooperation with registered agricultural holdings.

Bearing in mind that agriculture is one of the key sectors and branches of the economy with significant potential for further expansion, Banca Intesa paid special attention to product and process innovation in this segment.

In the Bank's offer stands out EaSI Farmer Invest loan, a product developed in cooperation with the EIF (guarantee program with a capacity of 30 million euros). These are investment loans with a positive effect on improving the maturity structure of the agro portfolio, additional stabilization of the portfolio, strengthening cooperation with existing ones, as well as the acquisition of new clients. During 2021, over EUR 8.7 million of loans were disbursed through the said program through 546 placements.

At the end of 2021, SCAP Investment Loans, developed in cooperation with the Ministry of Agriculture, Forestry and Water Management (Ministry) and the International Bank for Reconstruction and Development, were introduced as an extremely attractive part of the offer to this market segment, and their main prupose was the purchase of new agricultural machinery. The financial construction of projects implemented through this type of product is a structure with the participation of the Ministry in the form of grants amounting 50% of the project value, while bank loan makes 40% and user participation 10% of the investment. Bearing in mind that the product was introduced in the last quarter of 2021, the full effects of its implementation are expected during 2022.

2021 was marked by the full implementation of the guarantee program of investment loans in cooperation with the American International Development Finance Corporation (DFC) with additional focus on underdeveloped municipalities and start-up loans. In the last quarter of 2021 alone, 35 of these loans were disbursed in total amount of over 1.3 mlnEUR.

The program of subsidized lending in cooperation with the Ministry of Agriculture, Forestry and Water Management, traditionally occupies a particularly important place in the Bank's offer intended for the segment of registered agricultural holdings. During 2021, Banca Intesa participated with about 14.6% in the total realized amount and with about 18.6% in the total number of approved loans. Also, the cooperation with a larger number of local self-governments throughout Serbia continued through the financing of farmers with loans from which municipalities subsidize a part of the loan interest.

As a result of all activities undertaken, the total AGR portfolio reached the level of 76 million euros.

Corporate Banking

- *Leader in digital business with the largest market share in online banking*
- *Support in financing circular economy projects*
- *Development of a new service model for SME clients in response to growing client financing and servicing needs*

After difficult business conditions during 2020, caused by the global pandemic of the COVID-19 virus, during 2021 there was a certain recovery of the economy, which resulted in an increase in economic activity by about 7.5%.

Annual exports grew by about 27% during 2021, while industrial production grew by about 7%. However, due to reduced production capacity, due to the pandemic and difficult supply chain, increased demand also caused an increased inflation rate, which in 2021 reached a level of about 7.9%.

Despite the trend of consolidation of the banking sector, a large number of commercial banks are still present on the financial market, which is reflected in extremely competitive conditions in the part of constant enrichment of products and services, as well as in the part related to pricing policy. Such conditions have significantly influenced the availability of banking products and thus enabled easier and more favorable access to additional financial resources, both from banks' own sources and from various credit lines provided by domestic commercial banks in cooperation with foreign creditors.

As in previous years, the State continued to provide support to the domestic economy, so that in 2021, in order to further preserve economic activity, the Ministry of Finance continued with the project of the State Guarantee Scheme. The goal of this state support program was to enable economic entities easier and more affordable borrowing from commercial banks, which Banka Intesa recognized as one of the priorities in its operations. Since the beginning of the implementation of this project, during 2020 and until 31.12.2021, a total of loans in the amount of around EUR 421 million has been placed at the bank level. During 2021, the Ministry of Finance continued with this project (GS2) and Banca Intesa invested around EUR 12.3 million in 2021 through this project.

During 2021, continuing the good practice from previous years, the Corporate & SME Division, in cooperation with consultants, conducted a benchmark analysis of certain aspects of its business in relation to the competition. A large number of different business indicators were observed, and the results of the analysis showed that Banca Intesa is a leading commercial bank in many aspects of business, both in terms of number of clients, placement amounts and different product categories, and in terms of profitability and efficiency.

Although the business conditions were still difficult, the Corporate & SME Division continued to operate steadily in 2021 and recorded a loan portfolio growth of about 6.8% compared to the previous year, providing a market share in total loans granted to the economy of 15.7% at the end 2021.

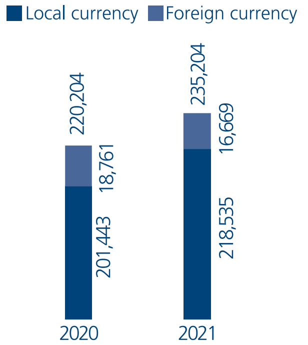
As far as deposit transactions with legal entities are concerned, the Bank also constantly records a dominant position on the market, which resulted in a market share of 15.1% at the end of 2021. In the total deposit structure, dinar deposits have a dominant position with about 61%. A vista dinar deposits make up to 78% of total dinar deposits.

As regards documentary activities related to issued bank guarantees and letters of credit, an increase was recorded of about 10.8%.

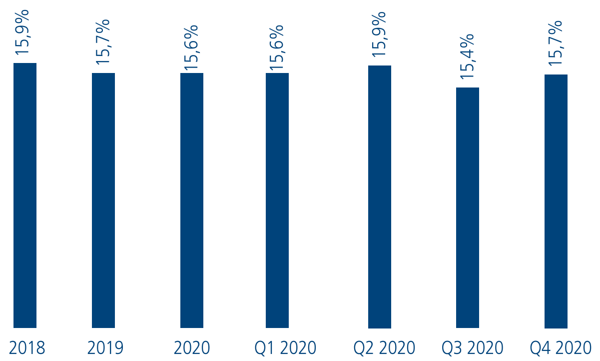
Stability has been preserved in the Segment for Large and Institutionall clients, strong and continuous support to the Public Sector, which has a dominant share in placements, has been confirmed, but also increased share of project financing in total placements of this client segment has been registered. With the support of the Parent Bank, a transaction in the field of circular economy was successfully realized to one of the reputable clients in this segment, which is the first transaction of this type at the level of the ISBD Group. The acquisition of new multinational companies, mainly from Western European countries (France, Spain) and the adaptation of products and services to their specific needs marked the activities in the Sector for International Business Entities. A portfolio growth of 16% was recorded, with support for clients investing in renewable energy sources as well as those oriented towards strategic infrastructure projects.

In the SME segment, in addition to growing and maintaining the quality of the portfolio, great attention is paid to the quality of service, primarily through the new SME service model in order to better identify market needs. SME clients are divided into three groups based on annual revenues: SMALL SME up to EUR 3 million, MID SME EUR 3-15 million and UPPER SME 15-50 million. In addition, the needs of clients for the most efficient and simplest credit process continued to be met through the improvement of business processes (focus on investment loans), as well as attractive credit lines provided in cooperation with foreign creditors (EIR; EBRD...) and the Ministry of Finance. Guarantee Scheme).

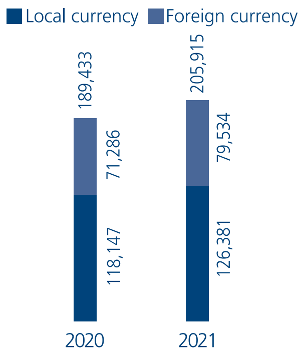
Corporate loans (in RSD million)



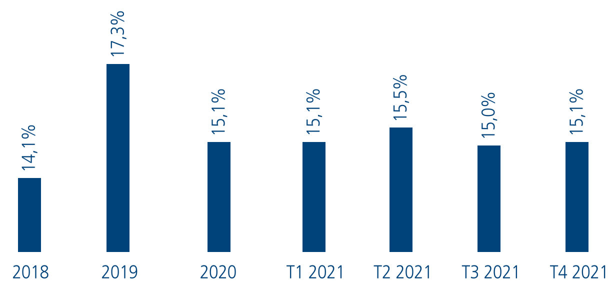
Market share of the Bank in corporate loans



Corporate deposits (in RSD million)



Market share of the Bank in corporate deposits



The Corporate & SME Division is still the largest in the market in terms of the number of clients, which was confirmed in various external surveys of the banking sector, with approximately 7,000 active clients, representing more than three quarters of the total client base available on the market.

During 2021, the demand of legal entities for additional sources of financing was lower, mainly caused by the previously mentioned pandemic, and also by moratoria on loan repayment, which contributed to lowering the financial needs of clients for new loans. On the other hand, the loan volumes at the end of 2021 remained relatively stable. Thus, the Corporate & SME division recorded an increase in loan placements by 7.1%, on yearly level.

Besides the stability in loan and deposit volumes, the Division also noted the stability of the number of both active and financed clients.

Transaction banking

By providing payment services to clients, Letter of Guarantees documentation operations, the Bank continues to deepen relations with corporate clients, while promoting various transactional banking services, both domestically and internationally, with the support of the ISP Group.

For the fourth year in a row, the Bank continues to improve the Payment Factory service by expanding products and functionalities aimed at continuously improving the quality of this unique service in our market. Banks and at the level of the ISP Group. This is a service that allows centralization of payments, billing and reporting.

The portfolio of users of the Payment Factoring service (100% of users from the MNK segment) is expanding from year to year and at the end of 2021 covers 20 clients (2019 - 11 clients, 2020 - 3 new clients, 2021 - 6 new clients) with a tendency of continuous growth.

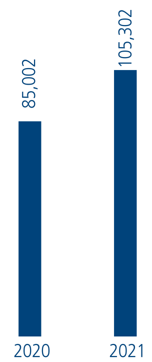
In 2021, the share of PF accounts in the total number of MNC commercial transactions is as follows:

- In dinar PP 13% in the number of orders and 10% in volume
- In foreign currency PP 60% in the number of orders and 33% in volume

Following new trends and continuously investing in the development of better products and better payment services, we strive to create solutions to customer needs and this full commitment further strengthens our partnership with them, taking into account the continuous improvement of service quality, in order to simplify and speed up their issuance in accordance with the needs of our clients and their partners

In this way, in 2021, we managed to acquire many targeting clients through transactional banking services, who decided to do business with Banca Intesa, relying on new services, a wide global network and rich experience.Advisory approach, knowledge of market trends and efficiency in the implementation of client requirements are the key to good business and results.

Guarantees and other commitments (in RSD million)



Factoring

During 2021, factoring operations significantly increased volumes of factoring turnover to the level of 195.5 million euros (in 2020 - 152 million euros). The increase in the volume of turnover contributed to the increase in the outstanding of factoring business, which as of 31.12.2021. amounted to 106 million euros (2020 - 67 million euros). Acquisition of new clients is expected to further increase the turnover and profitability during 2022.

From the development activities we would point out the following:

- A new transaction for the purchase of foreign receivables with the insurance of the same by the National Financing and Insurance Agency of AOFI has been implemented, and the same has been practically applied on the market through the acquisition of several clients.
- At the beginning of 2022, the process of developing the platform for the purchase of domestic receivables began, the implementation of which we expect in the last quarter of this year.
- A new product for the purchase of international receivables through the Confirming platform has been conceived, and its activation is expected in Q1 2022.
- The implementation of the new digital solutions of the above opens the way for positioning Factoring at No. 1 on the Serbian market.

Structured (project) finance

Banca Intesa strives to be recognized and proven on the market as a reliable partner that provides stable support to clients in project financing, ie financing projects with real estate and renewable energy sources.

The Bank has recognized the potential and advantages of this type of financing, with the orientation of business to market leaders, and the most relevant projects and real estate. Financing is realized in accordance with the rules and principles of project financing.

- The focus in 2021, which will remain in 2022, was the continuity of growth and improvement of the project financing portfolio, with careful monitoring of current projects due to the circumstances caused by the COVID-19 pandemic. These activities have resulted with portfolio growth accompanied with new projects for implementation in 2022 and confirmed the quality and stability of our portfolio:

- Quantitative indicators:
  Project finance portfolio is at the level of 2020. Earnings recorded a growth of 50% compared to the previous year.

  Project financing agreed in 2021 and ready for implementation in 2022: 79.3 million euros.

  Projects record a stable business result, on a strong foundation and sustainable repayment capacity, with regular settlement of obligations of all projects / clients to the bank and without problematic claims, with improved risk profile and diversification of project financing portfolio.

Considering all activities from previous years, the portfolio improved with new projects in the real estate segment, with good diversification (various projects in the field of housing and commercial real estate), as well as new projects from renewable energy sources (realized financing, the first wind farm in Banca Intesa). The total amount of financing in our portfolio has been raised to a record level of 204.7 million euros, the effects of which will be visible in the coming years.

In 2022, the Bank will strive to further increase its profitability and portfolio of project financing through the implementation of existing projects. At the same time, the Bank is increasing its market presence through quality new projects arising from the market potential and upgrading relations with domestic and international investors, as well as optimizing internal processes. The focus will also remain on continuous close monitoring of existing projects during the pandemic.

In addition, the Bank in its operations respects and acts in accordance with the Equatorial and ESG principles.

EU Desk

During 2021, the Bank continued to use the available credit lines of international financial institutions to support the business of the economy, primarily small and medium enterprises.

In cooperation with the European Bank for Reconstruction and Development (EBRD), the Bank continued to use the previously agreed credit line for the competitiveness of small and medium enterprises, which in addition to financing provides free consulting assistance from experts provided by the EBRD, as well as investment incentives to end users after the successful implementation of the investment project. In co-operation with the European Investment Bank (EIB), the Bank has provided a new € 40 million credit line to recover and support the development of small and medium-sized enterprises, as well as mid-caps, by financing new investments. This line is a Continued of previously agreed and used credit lines for similar purposes.

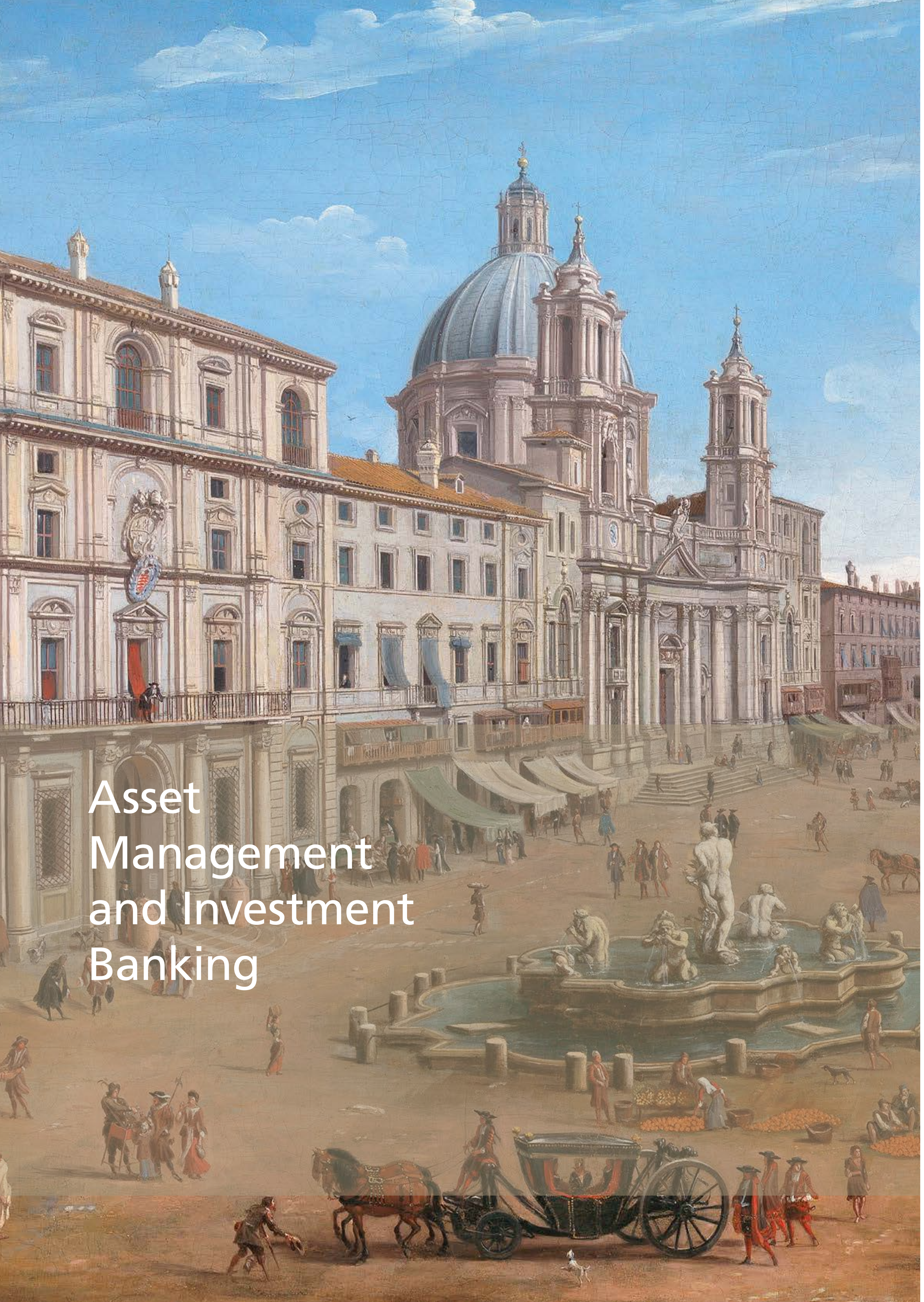
Banca Intesa, as a financial intermediary, continued its successful cooperation with the European Investment Fund (EIF) on the implementation of available European

Union programs, through which it provides SMEs with easier access to finance on more favorable terms.

With a total portfolio of 800 million euros (in four different programs implemented in cooperation with the EIF), Banca Intesa is the absolute leader in the domestic market in terms of available portfolio size, number of supported clients, total realized amount, but also the diversity of products available through EU Programs.

2020 was the last year of the Financial Perspective (2014-2020), and although there are Programs in the next Financial Perspective (2021-2027) that should inherit existing ones and ensure continuity in the implementation of similar guarantee schemes (such as Invest EU), these Programs remain they are not open to non-EU countries. Banca Intesa remains committed to undertaking all necessary activities that will enable it to take part in the announced Programs as soon as the conditions for it are created. In 2021, Banca Intesa continued the successful implementation of the first Guarantee Scheme. Since signing the initial Agreement with the Ministry of Finance and the National Bank of Serbia in May 2020, the Bank has successfully applied for 11 maximum increases in the Secured Portfolio, which enabled it to place over 9,200 loans totaling EUR 409 million through its Program, bringing Banca Intesa's total market share to 18%.

In May 2021, as a measure of additional support to the economy due to the prolonged negative impact of the COVID-19 pandemic, the Government of the Republic of Serbia adopted the Law on Guarantee Scheme 2, creating a legal framework for establishing a separate Program to support businesses most vulnerable. Under this Program, the Bank placed 130 loans in 2021, with a total value of over 12 million euros.



Asset Management and Investment Banking

- *The Bank continues to actively participate and support the development of the bond market and government fiscal policy*
- *Leading bank in terms of offering financial instruments for dinar and foreign currency liquidity management*
- *By using education and product promotion in a timely manner, the Bank strives to eliminate foreign exchange risk for its clients*

During 2021 the Ministry of Finance sold a total amount of RSD 148.315 billion of bonds denominated in domestic currency and EUR 134.8 million of bonds denominated in euros through primary auctions. Domestic bonds issued in euros in 2021 had initial maturities of 12 years and 20 years, while domestic bonds issued in dinars had initial maturities of 2 years, 5.5 years, 10 years and 12.5 years.

Republic of Serbia issued three Eurobonds on the international financial market during 2021.

The Republic of Serbia entered the international financial market in February 2021 - and successfully sold Eurobonds denominated in euros in the amount of EUR 1 billion with a coupon rate of 1.65%, a yield rate of 1.92% and a maturity of 12 years with the extension of the yield curve of the Republic of Serbia Eurobonds issued on the international market This is another signal that investors have confidence in the Republic of Serbia, despite the crisis caused by the pandemic, which has affected the whole world and especially the financial markets. In that way, investors showed that the Republic of Serbia reacted well during the pandemic and that the Republic of Serbia adopted appropriate economic measures, which should help the economy to overcome this period and post economic growth in the future.

In September 2021, Republic of Serbia moved the boundaries in the choice of financing its investments by entering the international green bond market - The - seven -year Green Eurobonds were issued exclusively for financing environmentally friendly projects - in the amount of EUR 1 billion at a yield rate of 1.262%, a coupon rate of 1% the lowest ever achieved in the international financial market. In the same time, Republic of Serbia, fifteen-year Eurobonds was issued, which enabled Serbia to provide financing on the international market for the longest time so far, in the amount of 750 million euros with an annual coupon rate of 2.05% at a yield of 2,305%.
During 2021, the Public Debt Administration organised sell-buy-back auctions and redeemed early bonds denominated in local currency on the domestic market in the amount of RSD 34.011billion.

In comparison to 2020, the total turnover on the secondary market of government securities – was higher. Regarding activities in the secondary market, investors mainly concentrated on RSD bonds. Total turnover in both currencies (RSD and EUR) in the secondary market exceeded the amount of bonds sold in the primary auctions.

During 2021, Banca Intesa participated in primary auctions and secondary market of government securities of the Republic of Serbia for its own account and on behalf of its customers, actively supporting the development of this key segment of the bond market and government fiscal policy. In this regard, Banca Intesa applied a proactive approach in informing clients about the possibilities of investing in government securities and introduced its brokerage services to all interested institutional and individual investors.

During 2021, the portfolio of the Bank remained diversified, so, apart from debt securities issued in the domestic market in the Republic of Serbia, it included dollar-denominated Eurobonds of the Republic of Serbia.

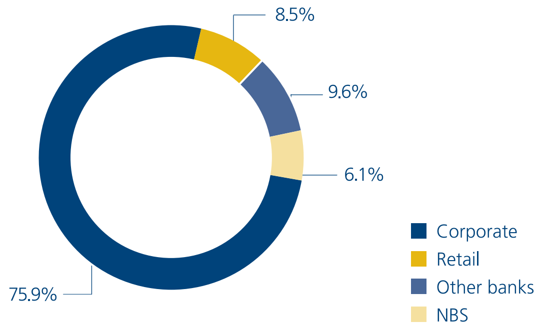
In 2021 Banca Intesa continued to be the leading bank regarding the offer of financial instruments for dinar and foreign currency liquidity management. Currency swap contracts and dinar-denominated bonds of the Republic of Serbia are available to customers, primarily intended for investors who prefer to completely or partially hedge the foreign exchange risk.

Banca Intesa retained its leading position in foreign exchange trading operations, with a market share of 15.19% in 2021. The Bank provided the EUR-NET Exchange Rate to its clients, which applies in transactions through the Intesa Mobi application and Intesa On-line e-banking service and represents the most favourable exchange rate since it follows trends in the interbank foreign exchange market in real time. During 2021, the volume of EUR-NET transactions posted a significant increase of 8.72%.

Foreign exchange trading (in EUR million)

	2019	2020	**2021**
Corporate	4,418	4,004	**5.591**
Retail	492	545	**623**
Other banks	754	676	**708**
NBS	183	187	**448**
Total	5,847	5,412	**7.370**

Customer shares in foreign exchange trading



The Bank continued to educate clients in the field of modern banking services, as well as to promote products that aim to enable timely management of financial risks in business, primarily the foreign exchange risk.

Research and Development Activities

Customer satisfaction management
From the perspective of customer satisfaction, and witnessing new, changed circumstances affecting the market and real life, 2021 represented Continued of the strategic commitment of Banca Intesa, to be fully committed to improving the experience and satisfaction of its customers.

Pursuant to this commitment, in 2021 Banca Intesa continued research on customer satisfaction and loyalty in accordance with a scientifically tested and affirmed approach based on the model of the European Customer Satisfaction Index (ECSI). This model enables comparison of Banca Intesa Belgrade with banks in the domestic market, but also with other banks, members of the Intesa Sanpaolo Group.

The implementation of the new "Instant Feedback" approach in the analysis of customer experience and consequently customer loyalty has been successfully completed. The specificity of this approach is reflected in the way it is conducted. Namely, the client is contacted immediately after interacting with the Bank's products and services, so feedback is obtained while the experience is still "fresh", allowing the Bank to react quickly in order to eliminate potential causes of dissatisfaction, but also improve the satisfaction of each individual client. The difference from other applied types of customer satisfaction and experience related researches, lies in the quick reaction of the Bank in contacting clients who gave a lower grade or a negative comment. In this way causes that led to dissatisfaction are handled in more efficient manner and at the same time prevention of further escalation of dissatisfaction in the direction of potential complaints is made possible. As of this year, using a comprehensive platform, this research has been applied to the Retail clients segment, with the aim of covering all relevant "points of contact" between clients and the Bank. In the coming period, this type of research will be applied to business clients, as well.

As in previous years, the Bank continued its strategic direction on intensive digitalization and constant improvement of electronic banking services. However, following the needs of her clients, the Bank remained committed to improving the quality of service in the business network, and continued research based on the "mystery shopper" methodology. This research is important, among other things, because it provides the opportunity for each branch to be considered as a separate entity, and on based on results, to initiate and implement activities that improve the quality of service and, consequently, directly affect experience and satisfaction of clients who visit those branches most often.

During 2021, the bank received 9,126 written complaints, 14,816 claims and 4 appeals. There were no customer complaints regarding privacy violations in any segment.

During 2021, the Bank's development activities in the individuals payment accounts area, were directed towards redesigning the current account packages of individuals, with the aim of better positioning of the Bank at the market, with the offer of services that is customozed to the needs of all segments of indivuduals clients. One of the primary focuses was to create an offer of integrated functionalities within separate packages, which is aimed at increasing customer satisfaction, through the opening of possibilities for choosing the most adequate package exclusively according to the clients' needs.

With the aim to expand the offer and to satisfy all segments of clients, the Bank has also introduced a new current account class 'Intesa Hit Plus', in May. Additionally, the Bank also improved the existing account packages, with their price differentiation depending on the service and functionality they include. Accordingly, it is enabled to issue cheques on the Basic Current Account, while the clients who use Intesa Magnifica and Intesa Hit Plus payment account are enabled to maintain one foreign currency payment account in EUR, as well as apply for a debit card related to that account, without fee.

In order to enhance the offer of debit cards functionalities, the Bank has introduced the service Debit cards installments for individuals. The functionality represents the modernization of the current check payments, which improves the user experience and increases the attractiveness of the new current account packages, that include the conditions of use of this service. Debit card installments is available at points of sale in the Bank's acceptance network (POS terminals and e-commerce) with which the Bank has contracted the possibility of payment in installments by debit cards.

With the introduction of the Mastercard Platinum card, the Bank has created a unique offer of Premium products, where now, in addition to debit cards, a credit card is also offered. Beside standard card functionalities, this exclusive credit card gives customers access to unique benefits and personalized services. In addition to the global benefits provided by Mastercard, customers are able to choose one benefit from the local benefits offered by the Bank in cooperation with its partners.

During 2021, the Bank also improved its offering for customers in the small business and registered farming households segment through the introduction of several products, continuing the trend of adapting its offering to the needs of its customers with the aim of improving customer satisfaction and further strengthening its market position and competitiveness.

In the registered farming households segment, the Bank introduced new long-term investment loans enabling it to establish and maintain high quality customer relations in the long run as well as to increase Bank portfolio with regards to loans with longer repayment period:

- DFC Farmer Invest – investment loans in cooperation with U.S. International Development Finance Corporation (DFC) covered by a DFC guarantee that enabled the Bank to offer the loans under more favorable pricing terms and with more flexible collaterals compared to standard investment loans. The loans are intended for underdeveloped areas and startups.
- In late 2021, the Bank introduced investment loans with the Ministry of Agriculture, Forestry and Water Management and the International Bank for Reconstruction and Development (IBRD), primarily intended for the purchase of farming machinery and equipment. The main benefit of these loans is that the Ministry is providing 50% of the new investment as a grant, the Bank is ensuring 40%, while customers need to secure only 10% of down payment, which allows them to invest in fixed assets without overburdening their current operations.

In the small business segment, the Bank took part in state programs of support for the economy with the aim of maintaining and recovering business activities during the global COVID 19 pandemic, mainly by enabling access to favorable sources of finance:

- The Bank continued to offer loans from the guarantee scheme for the financing of working capital and current liquidity covered by state guarantee with the aim of preserving liquidity, production and jobs.

Furthermore, in 2021, the Bank continued cooperation with the Ministry of Agriculture, Forestry and Water Management and local self-governments in the small business and registered farming households segment through the signing of new agreements on financing primarily registered farming households, but also legal entities and entrepreneurs, with partially subsidized interest rate.

Risk Management System

- *The credit portfolio quality remained stable comparing to the December 2020, if measured by NPL ratio. NPL ratio slightly increased (from 2.53% to 2.67%) considering principal only, but it is still significantly below banking sector average.*
- *A new section of the Risk Appetite Framework (RAF) has been introduced, dedicated to Enviromental, Social and Governance (ESG) risks, considering the growing importance among all stakeholders of environmental and ethical themes; moreover, the ISP Group approach to Climate Change (CC) is becoming relevant particularly for its impact on credit risk, therefore dedicate limits have been introduced for exposures towards Coal Mining and Oil & Gas sectors*
- *In accordance with the new situation, the Bank has successfully supported its clients through the promotion of working capital loans under the government support scheme, in order to optimise the Bank's collateral position and to minimise risks undertaken*
- *After the outbreak of COVID-19 pandemic and measures adopted to mitigate the negative consequences of the pandemic, the Bank has met the requirements (individual and joint at the level of the banking sector) for a 3-year postponement of compliance with MREL*
- *Conclusions of Supervisory Review Evalutation Process (SREP) obtained at the end of 2021 are very favorable for the Bank. After analysis of all relevant areas, it was determined that the Bank complied with the given recommendations regarding credit, market and operational risk, therefore, the Bank is not given recommendations for qualitative improvements for these segments in this cycle while for the following cycle two minor recommendations are defined*

Banca Intesa continuously identifies, assesses, monitors and controls risks in compliance with the national and international banking, supervisory and accounting regulations, and ISP Group guidelines, providing an integrated, prudent and consistent risk management system. The Bank's Board of Directors established by its enactments an appropriate risk management and internal control system, which includes different corporate governance bodies and committees: – the Board of Directors, Executive Board, Audit Committee, Risk Management Committee, Problem Asset Committee (PAC), Credit Risk Governance Committee (CRGC), Credit Committee, Assets and Liabilities Committee (ALCO), Operational Risk Committee (ORC) and Integrated Control Coordination Committee (ICCC). The functioning of the system is regulated by the policies, procedures and rulebooks adopted individually for each material risk type.

In order to maintain a system that complies with the highest quality standards and supports the decision-making process of governing bodies, during 2021 the risk management system was enhanced. This process continues to rely on the axioms of independence of the risk management function from risk-taking centres, promptness of information flows that support the decision-making process, as well as transparency and accuracy of submitted information.

Main objectives of the risk management process are related to the protection of the Bank's capital and its optimal allocation, increase in economic value for shareholders, monitoring of risk limits and/or risk measures for all identified risks. The existing system of limits, defined in the Risk Appetite Framework (RAF), gives the highest priority to the monitoring and controlling of minimum requirements related to capital adequacy, liquidity and operational risks. In addition, the RAF system covers credit concentration limits, limits of exposure to interest rate risk and funding limits. The indicators of profit stability, market and macroeconomic stability, asset quality and compliance and AML risks of the Bank represent additional RAF measures. As a part of ISP Group initiatives, reporting focus of RAF in year 2021 has included exposure toward ESG sensitive sectors, and recognized sensitive clients, especially Coal Mining and Oil & Gas, as those industries were limited by the ISP Group risk framework. In addition, locally monitored RAF limits (SREP requirement) were revised in RAF 2021 in terms of VaR indicators. The Bank ensures the compliance of the strategic guidelines defined in the business strategy, capital plan, operating plan – budget and recovery plan, with the Bank's risk profile defined in the RAF system. The RAF limits also make an important part of the Internal Capital Adequacy Assessment (ICAAP) Report/Book, Stress Test Book and other strategic documents of the Bank.

SREP (Supervisory Review Evaluation Process) is a regular activity of the Supervisor performed according to Pillar 2 requirements of Basel Capital Accord (Basel 3). SREP report presents results of comprehensive risk assessment of a bank. The ultimate result of a SREP process is a specific requirement for additional capital buffer for a bank which should cover Pillar 2 risks and risks of all identified deficiencies in corporate governance, controls, information system, data quality and so forth.

The supervisory assessment was conducted as of 31 December 2020, taking into account all material information and events before and after that date and focusing on the following areas:

- Business model analysis,
- Analysis of corporate governance and internal control systems,
- Capital adequacy analysis,
- Solvency risk analysis,
- Liquidity risk analysis.

The supervisory assessment also included the assessment of the Bank's compliance with the recommendations for eliminating material deficiencies identified in the previous version of the Recovery Plan.

The supervisory assessment also included the assessment of the Bank's compliance with the recommendations for eliminating material deficiencies identified in the previous version of Recovery Plan (adopted at BoD meeting held on 29.09.2020).

After analyzing all relevant areas, the overall Supervisory Assessment is very positive. It was determined that the Bank complied with the given recommendations regarding credit, market and operational risk, therefore, the Bank is not given recommendations for qualitative improvements for these segments in this cycle. The last determined additional regulatory capital requirement, i.e. SREP rate for Banca Intesa ad Beograd was 1.71% (1.75% in the previous estimate).

Main conclusions of the supervisory assessment were the following:

- The Bank's business model is sustainable in the short and long term, given the satisfactory financial position, moderate growth of lending activity supported by stable financial resources, stable indicators and results of the Bank's operations. Potential risks stem from changes in the quality of the loan portfolio, due to the spillover of the negative effects of the COVID-19 pandemic;
- The Bank has improved the work of management bodies and established committees. The established organizational structure is in line with the size and complexity of the Bank's operations. The established risk appetite framework (RAF), as well as the Risk Management Strategy, comprehensively define risk appetite. ICAAP is granular enough. System of internal controls is adequate, as well as the recovery planning process. The successful implementation of the new core business application has created the conditions for the introduction of new functionalities. The established framework for information system risk management is adequate;
- Satisfactory level and structure of capital. In accordance with the Capital Management Plan, the Bank will not increase its capital in the next three-year period;
- Credit risk (medium low): An increase in credit activity was recorded. The NPL ratio is below the banking sector average, while the NPL coverage is at the average level. The credit risk strategy is in line with the level of credit risk appetite and the Bank's overall risk appetite. The Bank is moderately exposed to concentration risk. The Bank recognized interest rate induced credit risk and foreign exchange induced credit risk as material risks. The Bank has eliminated all irregularities identified by inspection of the process of approving housing and cash loans and credit cards.
- Market risk (medium low): medium low exposure. Market risk management and control are adequate. The standardized approach is used for the calculation of regulatory capital requirements and the VaR approach is used for the calculation of internal capital requirements.
- Interest rate risk in the banking book (medium low): for the assessment, the Bank uses the NII sensitivity approach, the EVE sensitivity approach and VaR.
- Operational risk (medium low): In 2020, the number of operational risk events based on client lawsuits and the amount of loss based on operational risk events increased. The performed inspection did not identify any irregularities related to the process of entrusting activities to third parties. The most frequently entrusted activity is in the field of information technology and providing legal representation services in order to collect the Bank's receivables. Operational risk management and control are generally adequate. The Bank separately calculates internal capital requirements for legal risk using an adequate Monte Carlo simulation for unexpected losses;
- The liquidity position of the Bank is satisfactory, having in mind the liquidity indicators and the amount and structure of liquid assets. The most important source of financing are deposits. The ratio between loans and deposits is below the banking sector average. The Bank has adopted a Funding Plan for 2021 and ILAAP Book for 2020. The Bank has also defined the Contingency Liquidity Plan, which includes a set of indicators aimed at identifying signs of potential liquidity stress.

The National Bank of Serbia issued two recommendations regarding the following:

- Corporate governance – it is necessary for the Bank to define qualitative indicators of vulnerability within the Recovery Plan and to show the impact of recovery options on all its recovery indicators in the second and third scenario as well, until reaching the value of recovery indicators above threshold levels, i.e. until return to regular business;
- Liquidity risk - it is necessary for the Bank to provide regular reporting to the Board (Board of Directors) within whose scope is the adoption and amendment of the Contingency Liquidity Plan, on the performed testing of the same.

The AIRB Implementation project, whose aim is to develop and implement an advanced internal credit measurement system, is being conducted under the supervision of the Parent Bank. During the development, the models are subjected to the approval process comprised of several steps (formalised through pre-defined milestones), controlled by the ISP Foreign Banks Credit Risk Management Department (FBCRM). The Bank has already covered most of its credit portfolio by the internal credit rating system (corporates, small businesses, individuals). The Bank is in last stages of development of LGD and EAD models for Legal Entities and Entrepreneurs, whose implementation will enable the Bank to have the full insight and apply for the approval by the supervisor to use models for regulatory purposes as well.

Risk management policies and procedures have been revised and updated for the purpose of their alignment with amendments to the domestic and international (EU) regulations, as well as the amended guidelines and policies of the Parent Group, recommendations/ findings of the Bank's Internal Audit, Internal Validation and the National Bank of Serbia.

Credit risks

Credit risk is monitored on a number of levels: by assessing customers' creditworthiness prior to loan approval, monitoring regular settlement of their liabilities and creditworthiness during the whole credit lifecycle and also by collecting and managing due receivables.

During the year, the Bank performed regular monitoring and reporting activities, the annual review of internal acts regulating the credit risk area and activities related to supporting the governing bodies in the decision-making process. During 2021 the Bank continued to make improvements to the risk management system.

During 2021 the Bank has completely implemented (including regular reporting) Calendar Provisioning rules related to non-performing loans (NPL) in accordance with EU regulation. The regulation splits NPLs depending on their origination date. Non–performing loans originated before April 26, 2019 are in the scope of Pillar 2 methodology of Calendar Provisioning framework, while NPLs originated after April 26, 2019 belong to Pillar 1 methodology of Calendar Provisioning. For exposures belonging to Pillar 1 scope, the minimum loss coverage (MLC) is defined depending on the duration of NPL status and presence of collaterals. If the impairment allowances are not sufficient to cover the prudential minimum loss coverage, the difference is to be directly deducted from CET1 capital. As of December 31, 2021, the amount of the deductable item from capital on this basis is not material and amounts to RSD 350 thousand. Methodology for Pillar 2 scope assumes similar approach by defining minimum coverage expectations (MCE) for non – performing loans.

Internal reassessment and monitoring of the value of real estate collaterals has been carried out. The Bank has performed internal reassessment and statistical monitoring of residential real estate. In 2021, 3,098 of real estate collaterals have been reassessed internally (with total underlying exposure in the amount of EUR 209 million) enabling them to be used for credit risk mitigation which results in decrease in provision expenses and increase in Capital adequacy of the Bank (through decrease of risk weighted assets). Internal appraiser determines the market, construction and liquidation value of the real estate by applying a "desk-top" model of revaluation to each individual real estate in the portfolio that is the subject of the revaluation. Statistical monitoring of the value of real estate collaterals is performed by applying the index of change in the value of real estate to the market value of residential real estate from the valuation of authorised appraisers. After quality controls, the final value of the property from statistical monitoring is adopted. Properties that do not pass controls are subject to revaluation by a certified appraiser. In addition to this, the Bank performed monitoring of commercial real estate collateral by applying the index of change in the value of real estate to the market value of commercial real estate from the valuation of authorized appraisers. The purpose of monitoring is to determine whether there is a significant impairment of the market value of the property that serves as collateral in Banca Intesa Beograd. If available data indicates that the value of the property may have declined materially relative to general market prices, properties are subject to revaluation by a certified appraiser.

Also, improvement of IT system for consolidated credit risk and financial reporting (Finrep and Corep) to the Parent Company has been conducted.

Improvement of the first and second-level credit controls performed by the Credit Quality Monitoring and Control Office, Credit Portfolio Analysis and Administration Department and Rating Desk, has been performed. In 2021, new tool for the second-level controls has been introduced in order to further strengthen effectiveness of these controls. In addition to this, a more granular assessment grid is implemented for each individual customer outcome within single name controls, and, a scoring model for calculating the overall control assessment is introduced in order to have a synthetic and homogeneous view on control results.

During 2021 the Bank continued working on resolving remaining 27 recommendations of the National Bank of Serbia based on the diagnostic review of the Banca Intesa Corporate FIRB request, included in the Action Plan. Most of the recommendations relate to the methodological framework for model development and implementation, which was been implemented by updating internal regulations, and were resolved in 2019 and 2020. The main reason for initial postponement and longer time to complete those particular recommendations, is their dependence on the implementation of the new Core System completed in late 2019. In August 2021. the Bank sent a confirmation on resolving the remaining 27 recommendations and in December 2021 the Bank submitted to NBS updated mitigation actions and package with reference documentations for all 150 recommendations from Action Plan. At the beginning of 2022 the Bank expects from NBS to define next steps for official FIRB application process.

In October 2021 the bank successfully completed the RADAR project, met the aim of alignment of internal risk data aggregation and reporting systems with the BCBS standard 239 (Principles for Effective Aggregation and Risk Reporting), covered the most important risk processes and reports and implemented corresponding controls and manualities are documented during 2019 through the completion of defined templates that show the connections between risk data. Process and report templates are reviewed and approved by HO team. Defining, determination of ownership and inserting main risk business terms in Data Governance Tool (DGT) were completed. Data control system over data of significance for the calculation risk measures has been improved (RWA, expected loss, ratings, default status, IRB segmentation, RAF limits, ICAAP). In the coming period, the Bank will continue to implement and improve these activities through regular operations.

As a reminder, during H2 2020 and 2021 Data Governance Tool (DGT) was upgraded, within separate project Data Governance Tool phase II&III, in order to support RADAR functionalities for inserting process and report catalogs and for creation data lineage. The update of process and report templates in DGT will be regular annual/semi-annual activity.

For main AIRB processes (related to IRB segmentation, default calculation and rating calculation) data control system was established and includes the identification, definition and entering data controls in DGT, implementation and monitoring of controls. Data quality is implemented through two dimensions: Accuracy (coherence, consistency and stability) and completeness (coverage and existence) and in accordance with the Rulebook "Data quality guideline". In order to check the outcome of the performed controls and data quality, the notion of data quality score is introduced, which represents the accuracy of the results of the performed controls.

In 2021, Banca Intesa continued developing and updating its internal credit rating models for the purpose of converging to advanced credit risk measurement standards. Calibration of the Corporate PD (SME&LC) model was implemented in May included appropriate margins of conservatism (MoC) as PD add-on, in order to address the identified deficiencies in data or methodological choices during the estimated PDs values and to address the difference between the new and old default definition. During November 2021 re-estimation SME Retail model has started in order to extend the domain of the SME Retail model to SB-SE clients. Slotting SL model was revised and SL questionnaires were updated additionally in order to provide fully regulatory compliance. New version of SL questionnaires will be implemented during Q1 2022. Individulas PD model was re-estimated keeping the current variables, and for the first time two calibrations were done for Mortgage and Other class with unique Master Scale.

LGD database has been established with most of the required data having been retreived and the process of gathering data being set in place. EAD and LGD Individuals models for performing and in default clients were developed during 2020 and 2021. Development of EAD and LGD models for Legal Entities and Entrepreneurs was started in 2021 and it is expected to be completed during Q1 2022. EAD and LGD model development for Legal Entities and Entrepreneurs will be in line with new methodology for development credit risk models that was defined by Parent Company (FBCRM) In July 2021.

In addition to PD models that are in the roll-out plan for AIRB approach, the Bank has developed and updated the managerial models. During 2021 IFRS 9 PDs were updated in July and December on the request of the Parent Company. The changes that have been implemented since July 2021 are related to the following: update migration matrices with snapshot December-December, using internal default rate for deconditioning of migration matrices instead of external default rate of the Serbian banking sector and PD adjustment with the effect of a new default definition.

In December 2021 IFRS 9 PDs were updated in order to apply new EBA generator for 2021 for macroeconomic conditioning. PD satellite models were developed during 2021 at internal default rates, for three client segments, and in relation to macroeconomic variables defined by the Parent Bank. The validation process of these models is underway while their application will be considered during H1 2022. Quarterly monitoring of EWS Corporate and Small Business models was established in December 2021. These models will be re-developed in H2 2022 as agreed with Parent Company. Credit Risk Modeling Office is involved in the project BFD refactoring initiated by local Data Office with goal to simplify data feeding from main source (datawarehause tables), to provide data with higher frequency and to improve data quality that are source for EWS indicators. RPG model for Registered Agricultural Households (developed in 2019) was validated by Banca Intesa Internal Validation, a positive opinion for the model used in credit process approval was received from ISP Validation in December 2020. Model was implemented in June 2021. Initiation of rating calculation and rating results are incorporated into MAPS (Master Application Processing System) application that serves as a working environment for credit process lifecycle for agricultural loans. Implementation of RPG model required significant engagement company BFC - Business & Finance Consulting (outsourcing company that maintains MAPS application) and the Bank's resources from Data & Warehousing Applications and Credit Risk Modeling Offices.

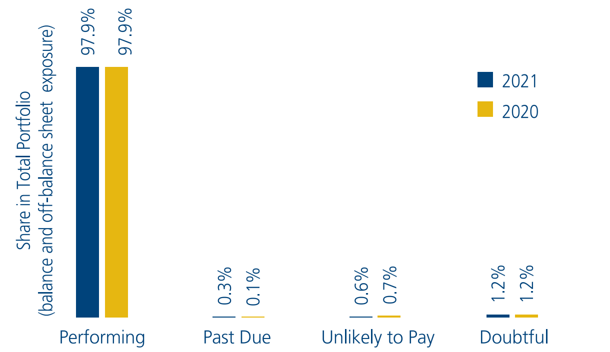
A new methodology for calculating Cost of Risk as a component of interest rates for loans to Corporate, SME and SB clients, was implemented. The most important change in the new methodology is the use of Probability of Default (PD) for the purposes of IFRS 9, including forward-looking elements in the PD estimation in order to consider the expectations of change of PD linked to macroeconomic environments that can occur in the future years with respect to the reporting date. IFRS 9 PD multiplied by LGD is used for calculating an estimation of average expected losses during the repayment period. The second relevant change in the new methodology is the inclusion of the Cost of Capital component also for MNK, LC and SME clients (in addition to SB clients who already have this component) through which unexpected losses are included in the final interest rate.

The credit portfolio quality remained stable comparing to the December 2020, if measured by NPL ratio considering both on balance and off balance sheet exposure (2.1%), while the NPL ratio slightly increased (from 2.53% to 2.67%) considering only principal only, and it is still below banking sector average. NPL inflow (over the course of the year) mostly refered to private individuals (EUR 43.7 million, out of EUR 56.7 million). On the other hand, the inflow is mainly offset by NPL collection activities (EUR 18.5 million), return to performing status (EUR 11.1 million) and transferring to off-balance sheet (EUR 13.7 million). In addition, in 2021, the level of NPL exposures in Probation period that are potentially eligible for returning to Performing status after the expiration of the defined time period, increased from EUR 9.4 million to EUR 12.7 million.

Credit portfolio quality by class (balance and off-balance sheet exposure)

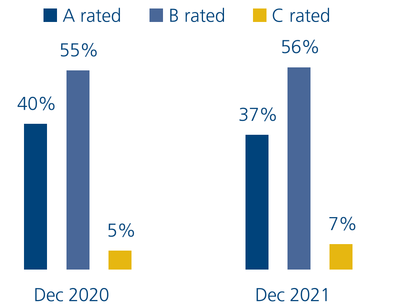
Apart from NPL reduction, the Bank also posted a large increase in new production. Credit portfolio growth was not achieved at the expense of higher credit risk. Low-risk clients account for 40%, medium-risk clients account for 55%, while high-risk clients account for 5% of all internally rated clients. If compared to the previous year, the share of exposure related to categories with good ratings (A and B) remained at almost the same level.

Credit portfolio quality by class (balance and off-balance sheet exposure)

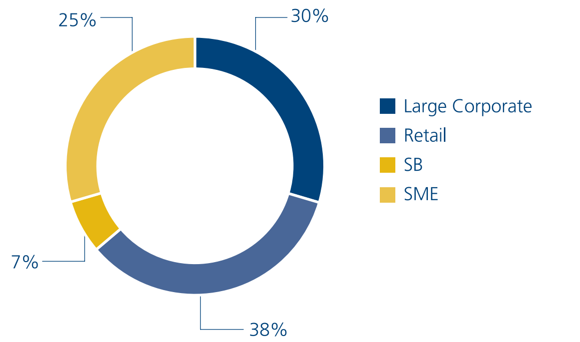


In addition, the Bank also posted a large increase in new production, predominantely in Retail segment. Credit portfolio growth in the amount of RSD 35.2 bln was achieved keeping adequate level of credit risk in terms of rating distribution. Low-risk clients account for 37%, medium-risk clients account for 56%, while high-risk clients account for 7% of all internally rated clients.

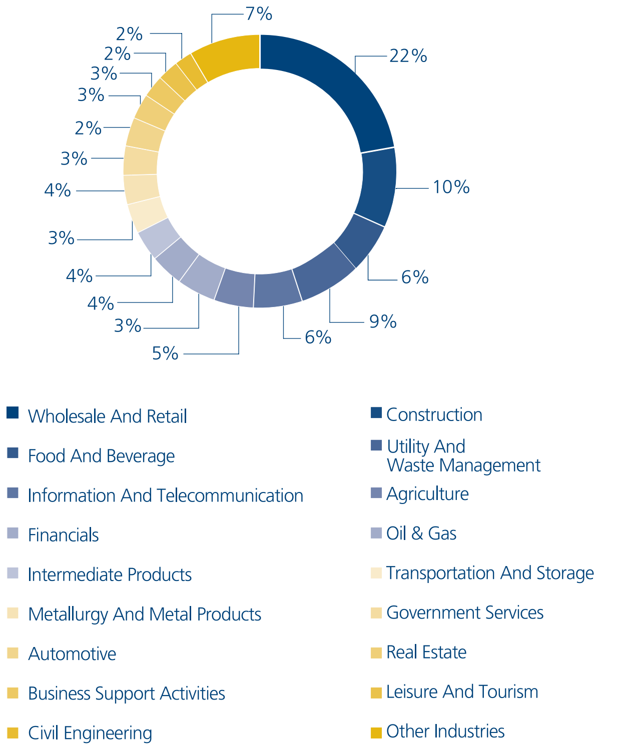
Credit portfolio quality based on internal rating zones



Portfolio distribution by segment



Portfolio distribution by industry



Credit portfolio distribution by industry points to relatively good portfolio diversification. In accordance with the official industry classification (NACE), the largest portion of credit portfolio belongs to Wholesale and Retail (22%), Construction (10%) and Utility And Waste Management (9%).

During 2021, all RAF indicators were within the prescribed limits with the exception of one AML early warning indicator. The Risk Appetite Framework in 2021 showed that the Bank is stable in terms of solvency, liquidity and exposure to operational risks. In addition, concentration and interest rate risk limits, as well as indicators related to credit quality, profitability, and macroeconomic trends, were in line with the required risk appetite. The breach of the AML early warning indicator occurred in early 2021.

Namely, the newly introduced AML (anti-money laundering) indicator '% Customers with high risk scoring not assessed within 30 days' has been in breach since its introduction. At the end of 2021, the AML indicator was returned to the prescribed limits.

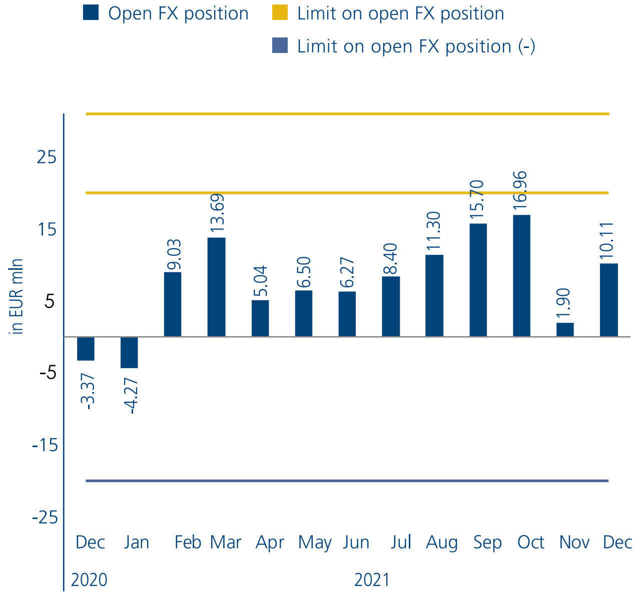
Market risks

The main sources of market risks to which the Bank is exposed in its operations are interest rate risk and foreign exchange risk.

General principles of market risk management are defined in accordance with regulatory rules, ISP Group standards, international best practices and standards, as well as internal acts. The system of market risk limits, defined in coordination with the Parent Group's relevant structures and approved by the Board of Directors, operationalises the market risk monitoring process. The system of limits is aligned with the strategic goals of the Bank, RAF system and regulatory requirements. Market risk limits utilisation is reported to the relevant functions of the Bank on a daily basis, while reporting to the ALCO is on a monthly level or more frequently, if necessary. The ALCO monitors market risk exposures on a strategic level and provides guidelines for general management of the Bank's balance sheet within its responsibility.

In 2021, the foreign exchange risk exposure was significantly below the maximum level prescribed by the regulator. Internally established limits for open foreign exchange position and foreign exchange Value at Risk were not revised. The FX position limits were breached on a few occasions (primarily due to the disbursement of the loan with FX clause and conversion of funds from RSD to EUR for our clients) as a consequence of preapproved and agreed business actions requiring open FX position not to be closed immediately but in the short period of time. Limit overutilization were anticipated and made according to the procedures, with the prior approval of two Executive Board members.

Trend of foreign exchange risk exposure



Regarding interest rate risk, the Trading Book was constantly within the defined limits for all risk measures: position, Value at Risk, duration.

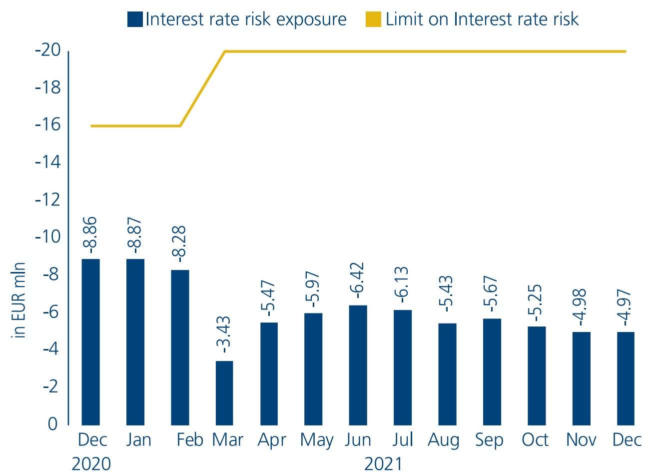
As for the Banking Book, interest rate risk significantly decreased in absolute terms and it was quite below the prescribed limits throughout the year.

At the end of the first quarter of the year, interest rate risk went significantly down mainly as the consequence of the implementation of new sight model on deposits in both RSD and EUR currency with positive effect on interest rate risk.

On the contrary, an increase in the position of floating rate loans to customers together with the increase in duration of fixed loans to customers caused negative effect on interest rate risk during the your but it was not strong enough to neutralaze positive made by implementation of new sight model.

The interest rate risk principles applied in the monitoring process were revised through the updated Policy on IRRBB Management and implementation of new regulatory requirements and Intesa Sanpaolo Group requirements.

Trend of interest rate risk exposure

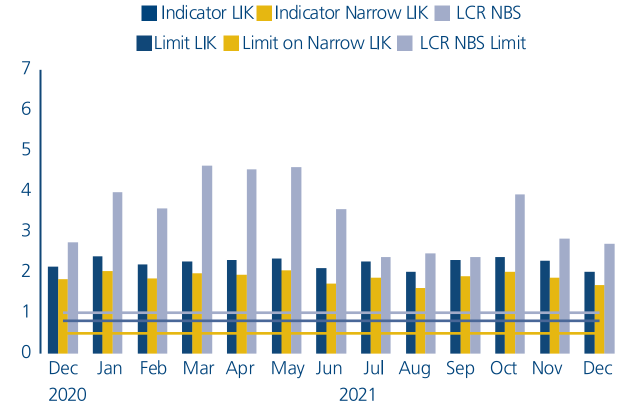


Liquidity risk

In the course of 2021, the liquidity level of Banca Intesa was significantly above the minimum requirement. All the liquidity indicators, regulatory ones and those defined by the Group, were within the set limits at all times.

The Bank's liquidity position, supported by suitable liquidity reserves/HQLA and the significant contribution from the stable customer deposits, remained within the risklimits during the whole 2021. The LCR indicator was well above the minimum requirements which confirms the solidity of the Bank's liquidity position. At the end of December 2021, the amount of liquid reserves/HQLA was at the high level which together with sustainable growth of deposits provides strong liquidity support. However, all the necessary preventive management and control measures are in place to detect any signs of potential exacerbation of liquidity conditions. Level of LCR indicator measured according to local regulation was also highly above the regulatory limit of 100% (in average more than three times). Although there are some methodological differences, the indicator required by NBS (LCR_NBS) followed the same trend as the LCR ratio which is calculated in accordance with the request of the Parent bank. Past experience demonstrated the importance of liquidity monitoring in stress situations, especially in these days caused by COVID-19. For that purpose from the beginning of Covid crisis, the monthly SSM Liquidity Exercise is performed in accordance with ECB requirements. The exercise assesses the Bank's overall liquidity position which is at a satisfactory level and it is conducted for the purpose of consolidated reporting to the European Central Bank.

Trend of regulatory liquidity indicators



Operational risks

Operational risk management is conducted in line with the methodology of the Parent Company, according to the model supported by appropriate IT solutions, enabling regular monitoring, assessment and reporting on operational risks.

Banca Intesa complies with the requirements related to the regulatory capital defined by the NBS and applies a standardised approach to the measurement of capital requirement for operational risk. The Risk Management Department regularly reports to the Operational Risk Committee, Executive Board, the Board of Directors and the Parent Company on operational risks and measures for their mitigation.

Operational risk identification, assessment and monitoring are undertaken through the process of collecting data on operational risks/losses and the process of assessment of exposure to operational risk. Data on operational risks/losses are analysed on a monthly basis, while the process of assessing the exposure to operational risk is carried out once a year, including a subjective assessment of operational risks for the period of 12 months. Various scenarios are analysed and the possibility and frequency of occurrence of operational risk are assessed, as well as the average and the worst possible loss in case of occurrence of each scenario. The process of operational risk exposure assessment also includes an evaluation of the business environment through an analysis of the level of risk factor management, identification of potential critical operational issues and mitigation actions proposed to reduce the operational risk exposure and ICT risk analysis, which applies to infrastructural services, IT governance, the Bank's applications, information security and business continuity.

By applying an advanced measurement model, the Parent Company calculates the level of expected and unexpected operational losses, i.e. the level of capital required to cover operational risks.

Operational risks in 2021 are higher than previous year. The biggest operational risks appeared as a result of increase in the number of lawsuits related to increased number of allegedly unlawfully charged NKOSK insurance policy premium, NKOSK fee and loan approval fee. The trend in these events is expected to change in 2022, having in mind the extended opinion of the Supreme Court of Cassation from September 2021. In the latest assessment of exposure to operational risk for 2022, it was estimated that expected losses are slightly higher than previous year. The Bank regularly monitors RAF indicators for operational risk. There were no breaches of indicators during 2021.

Operational risk management system is upgraded with the revision of Key Risk Indicators. It is an early warning system for operational risk that should support a timely identification of increased operational risk and allow preventive actions that could mitigate identified risks.

Events after the Reporting Period

There have been no significant events after the reporting period, which would require disclosures in the Notes to the Financial Statements of the Bank as of and for the year ended 31 December 2021.

Non-financial Statement

Non-financial Statement

Introduction

Transparency represents an integral part of Banca Intesa AD Beograd (BIB) approach to sustainability and one of its strategic priorities. Owing to techniques of performance monitoring the Bank is able to evaluate its performance in the CSR aspects and provide a comprehensive overview of its economic, but also social and environmental impacts. Since it combines stakeholder's engagement initiatives and quantitative indicators monitoring, communicating of its non-financial impacts is an important factor for achieving transparency and strategic tool in nurturing fruitful relationship of BIB with all stakeholders.

Until 2018, the Bank issued 8 externally non-audited Sustainability Reports , five of which in accordance with the redefined GRI Sustainability Reporting Guidelines, as well as the GRI Financial Services Sector Disclosures, giving a comprehensive overview of the Bank's economic, social and environmental performance. According to the strategic agreement between the Global Reporting Initiative and the UN Global Compact (UNGC), the Reports met the UNGC requirements concerning progress reporting.

In 2019, the Bank acknowledged the new Group's "Guidelines on the drafting of the Consolidated Non-Financial Statement in accordance to Legislative Decree 254/2016". The document regulates the process on the drafting, approval and publication of the Statement, gathering of information, the policies in place and KPIs on environmental, social, personnel-related issues as well as on the respect for human rights, fight against active and passive corruption.

Banca Intesa Beograd, as one of the ISBD Division subsidiaries, is undertaking the reporting obligations and providing information included in the Consolidated non-financial statement presented by Intesa Sanpaolo S.p.A., in a consolidated and timely manner.

Relying on European comparative practice, mandatory non-financial reporting framework in Serbia was introduced into domestic legislation with the adoption of the new Accounting Law in October 2019. This Highlights on CSR activities as part of the Banca Intesa AD Beograd's Financial Report is developed and prepared in accordance with named Accounting Law ('Official Gazette of the Republic of Serbia', number 73/2019).

This CSR Highlights focus only on the most significant CSR impacts of the market activities in accordance with the Accounting Law. It represents an overview of its governance model and strategies, the most relevant activities and results achieved by the Bank within its sustainability conduct, with special emphasize on employee related and environmental and climate change topics, thus helping BIB to understand how they locally coincide with topics strategically important to the Parent company and key stakeholders.

In 2021, the Bank undertook some important actions as well in terms of reinforcement of the ESG Governance and Management, in coherency/consistency with the International subsidiary Banks Division governance framework for ESG matters. According to this framework, the Bank identified an ESG manager and ESG dedicated working group that consists from representatives from different organizational parts and that are handling all ESG related topics.

Data presented in Highlights relate to the most relevant CSR activities of Banca Intesa a.d. Beograd for the year 2021. Wherever possible, comparative data for previous years (2020, 2019) were provided as well, thus ensuring timeliness and comparability of the applicable data.
The contact person in charge of this Highlights on CSR activities: Branislav Jovanović, CSR Manager, branislav.jovanovic@bancaintesa.rs

Sustainability context and materiality topics

As a leading Bank, Banca Intesa is achieving its market success by carefully identifying and taking into consideration the needs of all stakeholders. The Bank endeavors to enhance open and two-way communication throughout the year, using different approaches to engage and create value, such are: meetings, online workshops and seminars, satisfaction surveys, benchmarking surveys, complaints, working groups, employee's satisfaction surveys, trainings and evaluations, interviews, consultations and engagement in working bodies... Apart from being the key mechanism for regular communication, dialogue with the stakeholders also represents the basic tool for identification of priority topics to be included in the preparation of the sustainability strategy.

The indicators presented in this CSR Highlights are chosen by their relevance according to the Serbian reference legislation and their representativeness and with respect to the material issues identified by Intesa Sanpaolo , and are therefore presenting priorities for the Bank, but also for the Group and its stakeholders.

Corporate Governance

Banca Intesa AD Beograd has adopted an implementation and governance system aimed at integrating the company strategies, policies and procedures with the principles and values stated in the Code of Ethics. Operating on the principles of responsible corporate governance founded on high ethical norms, the Bank protects its shareholders' interests as well as those of its customers, employees and broader social community.

The governance of the Banca Intesa is organized as a two-tier system consisted of the Board of Directors and the Executive Board. The Board of Directors of the Bank consists of five members, including the President of the Board of Directors. The President of the Board of Directors is Ignacio Jose Jaquotot Calvo and its members are Božo Prka, Luca Leoncini Bartoli, Raymond Schadeck and Dragan Lončar.

The Board of Directors, as a governance body, does not have a direct executive role, given that the Executive Board is a management body that organizes the Bank's operations and implements business policy and strategy. The Board of Directors makes strategic decisions, takes care of and is responsible for the accuracy of all reports on the operation, financial condition and operating results of the Bank addressed to the Bank's shareholders, the public and the National Bank of Serbia.

The Executive Board of Banca Intesa consists of six members, including the President of the Executive Board. The term of office of Executive Board members is three years, with a possibility of re-election. The President of the Executive Board of Banca Intesa is Draginja Đurić, the Deputy President of the Executive Board is Eduardo Bombieri, and Board members are: Darko Popović, Head of the Retail Division, Predrag Milenović, Head of the Corporate and SME Division, Dragica Mihajlović, Chief Financial Officer/CFO and Đorđe Stojanovski, Chief Risk Officer/CRO.

One of the methods of sustainability control at Banca Intesa is the power of the Board of Directors as a governance body to establish an integrated internal control system, while the Executive Board enables the efficient functioning of this system.

The Board of Directors gives approval to the Bank's exposure to one or a group of related parties of over 10% or to an increase in the exposure to over 20% of the Bank equity; adopts an internal audit plan and program; considers external and internal audit reports; defines the internal organization and organizational structure of the Bank that ensures the segregation of duties, authority and responsibilities of its employees, members of the managing bodies and other persons in managerial positions at the Bank in a manner that prevents conflict of interest and ensures a transparent and documented process of decision making.
The Bank's shareholders, i.e. the Shareholders' Assembly, participate in and directly impact the work of the Board of Directors as a governance body in the following ways:

- The Shareholders' Assembly adopts the business policy and strategy of the Bank;
- The Shareholders' Assembly adopts the Articles of Association and amendments to the Memorandum and Articles of Association;
- The Shareholders' Assembly appoints and dismisses the President and members of the Board of Directors;
- The Shareholders' Assembly appoints and dismisses the external auditor;
- The Shareholders' Assembly considers and adopts the Bank's financial report.

The Bank's Audit Committee consists of five members, including the Chairman. The term of office of Committee members is three years, with a possibility of re-election. The Audit Committee assists the Board of Directors in supervising the work of the Executive Board and Bank's employees.

Integrity in corporate conduct

The strategically set and highly developed sustainability management system in the Bank, which represents a fundamental instrument for integration of sustainability in all of the business functions, is based on ethical principles. The values in which Banca Intesa believes and to which it is committed, as well as the principles on which its relations with stakeholders are based, are defined in the Bank's Code of Ethics. As part of a broader vision of environmental and social responsibility, the Code of Ethics is a management instrument that prescribes standards of conduct that all employees and all organizational units must observe in order to maintain the stakeholders' trust. All Bank employees, as well as customers, suppliers and other external stakeholders who notice any behavior or activity that might represent a breach with the principles prescribed by the Code of Ethics may submit a non-compliance report to the dedicated mailbox. This process is regulated by the Procedure for Managing Reports of Non-compliance with the Code of Ethics, adopted by the Bank in 2011. During 2021, the Bank received no complaints from external nor internal Stakeholders related to the BIB's Code of Ethics nor report any breach concerning Human Rights related issues.

When combating potential frauds, the internal regulations that govern the control system and mitigate corruption risk comprise, beside the Code of Ethics: the Code of Conduct, the Prevention and management of fraud in Banca Intesa Policy, Prevention and management of service fraud in BIB Rulebook, as well as Fraud incident management Procedure which defines operational steps in case of any suspicion of fraudulent actions. The Procedure also describes the investigation process of reported and detected incidents and reactive and corrective measures. Internal governance framework is based on Group's documents - General security rules for the protection of the information assets, Security rules for preventing and managing service frauds as well as Cybersecurity and BC Services-Security Fraud Management Process Guide.

The process of reporting fraud incident and suspicion on fraud is applicable to all Banca Intesa Beograd's employees. Process of fraud incident management is responsibility of the Fraud Prevention Office which analyzed a total of 66 suspected frauds in 2021, out of which 40 incidents were proven - 10 internal and 30 external.

Integrity of corporate conduct in Banca Intesa AD Beograd is also enforced through activities focused on the monitoring of risk in relation to combating corruption and money laundering. The Bank's Code of Ethics and the Code of Conduct supported by the Anti-Corruption Guidelines are setting high standard governance framework in this area. In 2021, the Bank has not been involved in any external investigations related to corruption and bribery.

Also in 2021, the Bank continued to provide mandatory trainings on the AML and anti-corruption, targeting the general population. Since it was launched in late December 2021, AML Full training course was completed by 631 BIB employees and AML Basic training course was successfully completed by 168 employees . Beside this, Banca Intesa AD Beograd launched new e-learning training course in cooperation with the Anti Money Laundering Office covering wide scope of related topics including Rules for the transactions execution in the arms and military equipment sector, Anti-corruption rules and the gifts and entertainment expenses management rules. The training course was completed by 806 people.

ESG Governance in Banca Intesa

Considering its role and position in the local market, it was essential for the Bank to be the pioneer and driving force behind the integration of the ESG principles in the financial sector. As the implementation and development of Group's ESG strategy (developed and distributed in 2021) leaning on the ESG expertise of the ISP Group in Europe, in 2021 BIB established local ESG governance model to timely implement relevant ISP methodologies locally.

As the starting point, following the approach set at the International Subsidiary Banks Division throughout its perimeter, the Bank established and enabled ESG Governance mechanism in order to ensure greater control and steering of local ESG activities, as well as to supervise project streams, strengthen ESG culture and positioning the ESG topic internally in coordination with ISBD Central functions and Group priorities. In 2021 the Bank shifted toward the improvement of risk management models in credit processes, creation and placement of new ESG offer and comprehensive employee ESG training as well as development of an inclusive business environment.

The ESG Working Group is managed by the Banca Intesa Beograd's Deputy CEO and involved several functions: Head of Retail and Small Business Division, Head of Corporate Division, Chief Risk Officer, Chief Financial Officer, Head of Marketing and PR Department, Head of Human Resources and Organization Department and the CSR Manager.

For the purpose of more operative approach and efficient cross-sectoral cooperation in managing local activities, the Bank established ESG Operational Working Group which held three meetings and engaged roughly 20 referent BIB employees.,

Local ESG activities are reflecting Banca Intesa's commitment and consistency with the Group's approach and also the context of local market and its maturity, as well as its stakeholder's expectations.

Employees

Banca Intesa believes that employees are crucial stakeholder for the consolidation and sustainable growth of the Bank. Thanks to their professionalism, their range of expertise and their growth paths, the people of Banca Intesa contribute to ensuring high quality of customer services and the fulfilment of the Bank's goals. Respecting the rights of employees, investing in the development of their professional qualifications and creating a work environment in which employees feel comfortable and motivated to contribute to the achievement of common goals is a strategic commitment of Banca Intesa. For this reason, the Bank continuously develops numerous program and initiatives with the aim of empowering its employees and providing them with new opportunities for professional development but also personal welfare.

All employees in Banca Intesa are covered by the Collective Bargaining Agreement, regardless of whether they are trade union members. In 2021, 441 employees were registered as members of trade union. From 2020, the Collective Agreement is amended with an additional day off for the Banca Intesa's parents with kids starting first grade, and one additional day off for all employed persons with disabilities.

The foundation of the Bank's business success in 2021 lies in the synergy of diverse employee architecture and inclusive corporate culture.

During 2021, there were 311 new employees hired in BIB, mostly female (75%). When it comes to the age structure, majority of the new employees were younger than 30 years (54%).

Majority of employees that left the organisation did that with consensual resolution (33%). Most of them were female (66%), coming mostly from the age group from 31 to 50 years old (64%).

Overall turnover rate in 2021 was 11.2%. Male turnover rate was 15.0% while female turnover reached 9.9%.

When it comes to the Performance Management in Banca Intesa Beograd, 2 649 qualified BIB employees received regular performance review in 2021.

All the procedures related to the HR management in Banca Intesa are based on the principles guaranteed by the Code of Ethics and Code of Conduct, implying objectivity and consistent conduct in the process of candidate recruitment, as well as people management, remuneration policy and prevention of any kind of discrimination. Confirming its commitment toward equal opportunity, ratio of standard entry level wage in BIB compared to local minimum wage in Serbia was 1, 16% in 2021. Also, in 2021, BIB had in total 3 employees (1 male and 2 females) belonging to protected categories (e.g. people affected by disability, etc.).

Employee's breakdown by category, gender and age

		2019			2020			2021		
Role	**Age**	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**	**Male**	**Female**	**Total**
	0-30									
Managers	31-50	18	15	33	19	15	34	19	16	35
	51-70	4	4	8	2	4	6	1	4	5
		22	**19**	**41**	**21**	**19**	**40**	**20**	**20**	**40**
	0-30		3	3		2	2		2	2
Officers	31-50	135	180	315	137	175	312	127	175	302
	51-70	23	41	64	23	46	69	21	48	69
		158	**224**	**382**	**160**	**223**	**383**	**148**	**225**	**373**
	0-30	102	318	420	104	339	443	86	380	466
Employees	31-50	450	1,433	1,883	440	1,398	1,838	426	1,352	1,778
	51-70	83	264	347	85	272	357	90	282	372
		635	**2,015**	**2,650**	**629**	**2,009**	**2,638**	**602**	**2,014**	**2,616**
Total		**815**	**2,258**	**3,073**	**810**	**2,251**	**3.061**	**770**	**2,259**	**3,029**

Diversity and Inclusion

As important part of the ESG Strategy, Banca Intesa adopted the Group's Diversity and Inclusion Policy in 2021. The main goal is to create a working environment based on plurality and respect, where different people can come together to generate value, where everyone's qualities are acknowledged and rewarded with the same opportunities for professional growth and remuneration. The key principles of Inclusion policy are: respect for all people in their identity and diversity expression, nurturing of everyone's skills and competences, meritocracy and equal opportunities. This set of diversity and inclusion principles defines operational model to make the Bank more effective in its strategic commitment to implement and promote – inside and outside, inclusion of all forms of diversity in accordance with the principles stated in the Bank's Code of Ethics and Code of Conduct.

Within the new Diversity and Inclusion framework, the responsibility of the Bank's CEO is to identify the objectives and designs the related Diversity and Inclusion strategy and communicate the specific targets. The Head of Human Resources and Organization was appointed Head of Diversity and Inclusion, responsible for suggesting objectives and guidelines to the CEO and acts as both internal and external D&I ambassador. New multidisciplinary body – Diversity and Inclusion Steering Committee is in charge of monitoring and evaluating
Diversity and Inclusion action plan.
Beside this new governance structure, the principles also foresee specific commitments to ensure application of the Diversity and Inclusion Policy, as well as to verify the effectiveness of the actions carried out.

In order to enhance the D&I performance, in 2021 Banca Intesa Beograd joined the global initiative "Ring the Bell for Gender Equality" organized by Belgrade Stock Exchange and UN Global Compact Network Serbia with the goal of highlighting the importance of gender equality and the role of women in economic development of Serbia. This activity is part of Banca Intesa Beograd's local Diversity and Inclusion Action plan 2022 which will be focused on public initiatives and raising awareness activities for internal population as well as for the external publics.

During 2021, there was 43 vertical promotions in BIB, out of which 65% were female employees.

Work environment

The Bank approaches occupational health and safety issues in a responsible and systemic manner. With regards to occupational health and safety, the Bank has adopted the ISP Rules for Occupational Health and Safety management systems in the International Subsidiary banks (2018) and manages the OH&S activities in close cooperation with the Parent company team. This area is defined locally in the Collective Bargaining Agree¬ment, the Rulebook on Occupational Health and Safety (OH&S), and the Assessment of Risk at Work¬places and in the Working Environment of the Bank Act. Appointing an Officer for health and safety at work in 2007 (within BIB's

Security and Business continuity management Department) was a first step undertaken by the Bank towards a new framework covering all activities associated with the system, in line with the parent company's strategy to implement management systems that are consistent with ISO 45001 international standard requirements and appropriately customized in accordance with the referent national regulation.

Monitoring system in this area is defined by the Group Rules for Occupational Health and Safety Management System (distributed in 2019) and according to which a total of 5 injuries were recorded in 2021 in BIB (5 female employees). It represent sum of employees' injuries per event, occurred during the reference period, including both those occurred during working hours (2) and when commuting (3). All injuries noted in 2021 came from the categories such are driving accident (1), tumbles or slips (3) or other reasons(1). The injuries in 2021 decreased compared to the same period in 2020 (11) due to the fact that starting from March 2020, the large scale use of smart working reduced the physical presence in offices and work home commutes. In 2021, Mandatory training on Operational Health and Safety was locally provided for all Banca Intesa employees.

During the 2021, the function was also strongly involved in the activities related to the COVID-19 preventive measures and monitoring

With the support of the ISBD of the Parent Company and trough the International Healthcare Program, in 2021 the Bank continued to offer its employees with permanent contracts, second medical opinions and/or medical treatment in centers of excellence in foreign countries. The program provides assistance in the event of serious illnesses (i.e. cancer, highly complex surgical procedures etc.), covers treatment and other complementary service costs (visa assistance, travels, etc.), all transport and accommodation expenses in the foreign country, and reimburses medical costs borne once back home.

Employee growth and development

Year after year, Banca Intesa has been constantly launching and improving training programs that enable employees to acquire new knowledge and skills, providing them with an opportunity to upgrade their professional potential and to overcome the challenges ahead.

Banca Intesa internally provides opportunities to its employees for learning and education in the form of training courses and through an e-learning platform that includes various online training programmes. During 2021, in total 41,264 of training days (classroom and distance learning) was conducted and there was 2,885 employees enrolled in training courses. Out of them, 74% were women. In 2021, 209 815 training hours has been achieved in total, and average hours of training in 2021 per employee was 69, 4. Also, in total 31,777 of compulsory training hours were achieved during 2021. On average, each BIB employee attended 6 programs on the e-learning platform.

Traning hours		
Category	Male	Female
Manager	237.5	1175
Officer	8227.5	13990
Employees	44422.5	141762.5
In total	209 815	

Category	Gender	
	Male	Female
Manager	20	18
Officer	148	223
Employees	585	1891
In total	2885	

Among the different initiatives, we would like to highlight the Risk Academy that was organized also in 2021, with an aim of spreading the Risk culture across the bank. The program exists of 5 different educational modules including also the ESG Risk module. In total 352 employees participated in this program. The Risk Academy will continue during 2022.

In the course of 2021, the ESG topic was included in different programme initiatives organized by Intesa Sanpaolo – in which BIB's employees took part. Various training formats addressed different functions – from the Risk, Credit, Business functions to Compliance, Legal, the CSR teams and Energy Efficiency referents – to increase specific competences, and covered aspects from the regulatory framework for sustainable finance to the risks and opportunities connected to the ESG and the impact on the risk management operations/ assessment. A specific programme also addressed the Top Management specifically in order to raise awareness of the relevance of ESG and engage them for a definition of an ESG-oriented strategy.

As part of the Parent Company's training offer, BIB was also included in a new training programme for managers named Grow Your Managerial Skills (GYMS). To foster and properly address the Retail Network transformation and support the business on the operating and distribution models, the programme included dedicated trainings for middle managers and branch managers: 2 module sessions for the former involved 25 participants and 4 module sessions for the latter involved 134 participants.

In 2021 and for the fifth time in the row, the bank organized the Intesa Junior program, providing graduates and final year students with no work experience the opportunity to acquire knowledge through a six-month internship in Banca Intesa. The 2021 edition that started in the second part of the year Banca Intesa welcomed 6 young people who will, through mentorship and structured development path, gain their first work experience.

Quality and Innovation

In May 2021, Banca Intesa has launched new and engaging platform called Ideation and through open call invited all employees to submit their ideas on how to work better, smarter, more responsible etc. Ideation project was launched with the aim to effectively engage and empower employees to come up with creative yet feasible business ideas, ultimately putting the best one(s) into action – with the goal of finding new, creative and improved solutions to: work more efficiantly, share responsibility for reaching our business goals as well as find new and improved solutions for improving our work environment.

Among 100 ideas received in total, 11 were chosen as final. The process of elaboration of the ideas was at the same time a development opportunity for colleagues-finalists as they went through series of workshops for "pitching" and presentation skills trainings. In addition, more than 60 colleagues from different organizational parts were helping to elaborate and expend their ideas, thus to be prepared for the final round. The finale of internal hackathon was in November 2021. As a result, all 11 final proposals will be implemented in the 2022, depending on the more detailed elaboration.

Employee Wellbeing

During 2021 BIB managed several transformative initiatives that are being implemented and will remain pivotal in the next years, when it comes to flexible ways of working, work-life balance and mental health initiatives.

Banca Intesa strives to make the time spent at work stimulating for employees through diverse activities, regularly listening to their needs and aiming to provide well balanced and fulfilled working hours.

New Smart Work modes

Bearing in mind employee's safety in the second year of Covid 19 pandemic, BIB continued with providing two types of flexible forms of work at the Bank's headquarters. Smart work concept allowed employees to work outside the Bank's premises - from home or from client's premises. Number of employees eligible for any possible remote working in BIB HO in 2021 was 1067.

The flexible work schedule gave employees the possibility to work from 8-9.30 am to 4-5.30 pm, following an 8-hour working day. In 2021, BIB started with development of new sustainable modes of Smart working practices for post-Covid 19 period which will be introduced upon the pandemic, for the HQ population in the first phase.

Inspired by wellbeing initiatives promoted by the International Subsidiary Banks Division, the bank launched BIBalans programme in 2021. BIBalans program in 2021 was focused on strengthening and promoting healthy lifestyles and wellbeing concepts and ideas. Within this initiative, BIB referred to the set of processes and organizational practices that support the dynamics of coexistence in work contexts by promoting, maintaining and improving the quality of life and high level of physical, psychological and social well-being of the working communities. This framework included psychological support services as well as concrete initiatives aimed at consolidating healthy lifestyles and habits, such as Nutrition, Emotional Wellbeing, Caregiving and Movement.

BIBalans program is based on directly engaging BIB employees and involving them in the decision making process, starting from 12 referent BIB employees who will promote BIBalans goals and healthy lifestyle culture within the company.

Within the program, "Ask a psychologist" initiative aimed at providing support to the employees on how to deal with the personal issues and "new normal" challenges during the second year of pandemic. In 2021 more than 20 related articles were published and internally promoted.

Comprehensively, in 2021, cc 200 employees took part to the initiatives launched within BIBalans programme.

"Quiet hour" initiative

Derived from the feedbacks from the Heads of Departments, the overwhelming number of calls during the day and impossibility to address urgent issues were detected as critical. As result, "Quite hour" initiative, which was launched in May 2021, addressed this issue and introduced new practices that in the period from 12.30 pm to 2.00 pm every working day, internal online meetings or conference calls should not be scheduled. Instead, this period should be used for consolidating working agenda, focusing on important tasks and leaving a space for a 30-minutes lunch break. The main goal of the initiative is to allow a working schedule based on diverse sensibilities of employees and their personal time management.

Within the scope of the International Subsidiary Banks wellbeing framework, since the beginning of the pandemic different webinar sessions were organized to delve into the topic of stress and anxiety management through breathing, meditation and yoga techniques. In 2021, Face Yoga, Pilates and Movement Masterclasses and practice sessions were held by specialized trainers involving 105 BIB employees from HQ and business network, with an aim to enhance their mind-body balance, focusing on posture, flexibility.

Digital immunity in time of crisis

On the occasion of World Savings Week 2021, in November 2021 BIB organized tailor-made workshop for BIB employee's children from 7 to 10 years of age named "Digital immunity of kids in time of crisis".

Interactive online workshop aimed to support BIB parents to become more familiar with digital communication issues and challenges. The lab introduced tips and tricks for smart and safely Internet surf, and helped busy parents in recognizing online threats and protecting their kids from it. The activity was part of BIB's commitment to practically strengthen the balance between private and professional life of its employees. The online workshop was part of a wide range of free initiatives within the Art of Saving framework developed by the Intesa Sanpaolo and the Savings Museum.

In Serbia, it gathered 55 Banca Intesa employees.

Environment

In line with its commitment to achieve extraordinary business results with full compliance with the sustainability principles, Banca Intesa continued to improve its standard practice in the field of environmental protection in 2021. Commitment toward responsible management of BIB's environmental footprint has been underlined in Code of Ethics, but also in the Rules on Environmental Protection and Energy Efficiency which is based on the principles of reducing waste, improving energy efficiency and improving the direct and indirect performance of the Bank in the area of environmental protection, as well as focusing attention on the consequences which the Bank's decisions may have on the environment and society. Accordingly, during previous year, environmental protection became one of the strategic areas of Banca Intesa's activity in the field of sustainability, in two priority aspects: Responsible resource management and Responsible financing.

Responsible resource management

Climate change is an extremely important phenomenon that is posing one of humanity's crucial challenges for the twenty-first century. A constant increase in temperatures due to the growing concentration of greenhouse gases in the atmosphere will lead to - and is already bringing about - consequences and repercussions not only for the planet's ecosystem, but also at a social and economic sustainability for present and future generations. Effectively tackling the causes of climate change therefore requires a collective effort and a comprehensive and systematic approach.

In line with the approach of its Parent company, Banca Intesa manages direct and indirect impacts of the Bank according to Rules for Environmental Protection and Energy Efficiency, released by ISP in 2014 and adopted by Banca Intesa in March 2015.

With regards to the commitment to reduce greenhouse gas (GHG) emissions generated by its activities or over which it has a partial control and the related actions, the Bank is involved in the Intesa Sanpaolo's Climate Change Action Plan (2018-2022), through which the Bank has shown strong commitment to reduce greenhouse emissions produced directly by the Bank by the optimization of electricity consumption, reduction of gas consumption and replacement of the car fleet.

Since 2019, a local Environment and energy referent has been appointed to strengthen the synergies and improve the coordination between the Group and the subsidiaries in the implementation of the environmental policies. Active monitoring of resource consumption and the implementation of measures for their efficient use are the main ways in which Banca Intesa strives to minimize its direct environmental impacts.

Main indicators tracked In BIB:

Total water consumption (m3)		Paper purchased (ton)		Total electricity consumption, kWh		Energy from renewable Sources (% renewable electricity consumption vs total	
2021	2020	2021	2020	2021	2020	2021	2020
35.130	43.377	207,34	212,740	10.159.451	10.084.951	29	27

Total waste generated (ton)	2021	2020
Hazardous	19,5	23,19
Not hazardous special waste: office equipment	0	1,88
Not hazardous special waste: paper and cardboard	19,91	14,82
Nonhazardous - others	0	0,195
Total	39,14	40,08

The engagement of employees on this matters is also tackled by– Greentesa - internal environment program was launched in 2019, with the aim to tackle waste management and resource usage issues. The program communicates the importance of environmental responsibility among all employees and develops internal initiatives that are raising awareness and provoking concrete actions around energy savings and reduction of generated waste. Among the activities to reduce plastic waste, in June Banca Intesa launched internal campaign to promote the use of biodegradable reusable bamboo cups aiming to decrease the usage of single-use plastic within the HO population and in November finalized process of disContinued of use of plastic kitchenware in HO restaurant.

Backing up further rationalization of the water usage, in December 2021 BIB introduced water filters and sensors to provide a flexible and low-maintenance solutions for increasing drinking water quality and for rationalizing tap water consumption in HO. Since 2012 the focus of the Bank has been on reducing the paper waste by ensuring that all internal documents adopted by the Executive Board and Board of Directors are approved electronically.

The Bank implements Group's Rules governing the sustainability in the organization of communications events and training courses adopted in 2021. In that regard, when organizing events, the Bank sends invitations only electronically, both for the internal purposes and for external events. When it comes to the environmental sustainability of events and communication activities, in 2021 BIB organized 27 events, 14 of which were held online. In total, 6 of 13 events (organized on physical location) were in energy efficient buildings and on locations accessible by public transport. Invitations for all communication events in 2021 were sent in electronic form and 90% of productions/media/gadgets distributed were reusable.

Besides that, Bank continued with an active promotion of both-side printing, as well as black and white printing in all business processes. In 2021 the Bank launched updated version of BIB Blog Espresso, putting special emphasize on employee education, and promotion of positive environment impacts trough related content.

Concerning the initiatives for the mobility activities in 2021, the Bank's car fleet has been enlarged in 2021 with 21 new generation vehicles, all in compliance with the Euro 5 standards of European quality.

As one of the BIB strategic initiatives for 2021/2022, BIB launched Paperless Bank Concept Project which is focusing on further digitization of internal processes (including the Document Management System transformation) and should lead to further improvements of direct environmental impacts and overall sustainability of the BIB in years to come.

Climate change leads to more extreme weather and weather-related disasters. Luckily, BIB did not suffer any natural disasters happen in our country (earthquakes, floods…) and there were no costs spent for BIB structures damaged by natural disasters occurred in 2021.

Responsible financing

When it comes to responsible financing, the Bank is committed to integrating environmental criteria in its business decisions in order to contribute to reducing adverse impacts its customers' operation may have on the environment. That commitment is reaffirmed by local application of the Rulebook on and Procedure for Social and Environmental Risk Management. Procedure for Social and Environmental Risk Management regulates the due diligence process in approving loans to corporates to which the credit exposure of the Bank is at a level of 1 million EUR or higher.

In Octobar 2021 Banca Intesa Beograd acknowledged updated version of the Rules on Lending Operations in Coal Sector along with a new document Rules for Lending Operations in the Unconventional Oil and Gas sector. In October 2020, the Bank has already acknowledged Intesa Sanpaolo Group's Guidelines for the Governance of Environmental, Social and Governance Risks Concerning Lending Operations for which it has started the implementation activities in collaboration with the Parent company. Furthermore, in 2021 around 100 employees were involved in the e-learning course dedicated to the ESG & climate-change risk in the lending operation that involved Intesa Sanpaolo's international subsidiaries. ESG training curriculum will be continued in 2022, both for referent ESG related functions as well as for general Bank population.

The Bank's market commitment to investing in resolving acute environmental problems is illustrated by the EBRD credit line for the improvement of energy efficiency for corporate clients. The Bank's market commitment to investing in resolving acute environmental problems is illustrated by the EBRD credit line for the improvement of energy efficiency for corporate clients. During 2021, the Bank disbursed 65 loans in the total amount of around EUR 4, 13 million.

Potential damage to farmers caused by bad weather conditions on crops is becoming more frequent due to global climate change. The Bank continued to support agriculture operators damaged by adverse weather and climate emergencies by granting specific loans for financing working capital in arable farming with a free insurance policy against hail risks, fires and lightning strikes. During 2021, the Bank disbursed 132 Agroprotekt loans with an insurance policy, in the total amount of cc EUR 500,000.

Aware of its important social role, BIB has identified and applied international criteria for additional risk assessment of clients' financing in order to preserve the sustainability of natural resources, respect human rights and individual health, protect cultural heritage and biodiversity in Serbia. In that regard, the Bank is applying international Equatorial Principles in Project Financing.

Innovating the finance: Circular economy in BIB

As a market leader in Serbian banking sector, Banca Intesa has high environmental awareness and is becoming an innovator in Circular economy financing as well. Supported by its parent company, Banca Intesa Belgrade has successfully granted several Circular economy transactions. All projects are based on circular economy principals and are environmental friendly. Overall CE Corporate & SME clients' portfolio approved in 2021 was cc EUR 30, 8 million.

Community

The Bank plays an active role in local communities. The Code of Ethics draws attention to the requirements related to the responding on the community needs: this commitment consists of various activities, such as the promotion of solidarity initiatives with projects set up through partnerships, donations, the sponsorship of important cultural and social initiatives, and the protection and promotion of the historical, artistic and cultural heritage of both Italy and Serbia.

Corporate philanthropy

BIB helps local community growth through Donations in accordance with Group's Rules for Donations in the International Subsidiary Banks which set out specific principles and procedures to be applied by the ISBD Subsidiaries while evaluating and granting donations.

In particular, the Rules defines decision-making process in consistency with the Group's approach and methodology for the reporting and monitoring of the activities carried out by the Banks and the involved structures of ISBD, while ensuring full compliance with internal legal requirements.

In the second year of the pandemic, Banca Intesa Beograd has set aside cc RSD 9.40 million (EUR 79,900) for monetary contribution to the community and directed it for the realization of different projects in the field of social welfare - supporting the projects aimed at helping vulnerable children who are even more endangered due Covid-19 in Residential care home for children without parental care "Spomenak", Pančevo and in Children's Village "Dr Milorad Pavlovic" Sremska Kamenica in Vojvodina region); for improving public health - financial donation to the The Institute of Virology, Vaccines and Serathology "Torlak", Institute of Public Health of Serbia "Dr Milan Jovanović Batut" for supporting the diagnostics and prevention with vaccine – production and process of vaccination - in fighting against the COVID-19, and several health initiatives as well such support for providing gynecological examination table for disabled women to local hospital in southern region of Serbia; for the support of culture project - free tickets for socially endangered citizens of Užice for theatre festival , as well as initiatives of educational significance.

In line with the strategic commitment toward the financial sustainability and affirmation of Paralympic sport in Serbia, the Bank has continued long–term financial support for the National Paralympic Committee by implementing Visa Classic Paralympic project with cc RSD 3 million in 2021.

BIB has strong volunteering culture. Since 2013 with an aim to promote the corporate volunteering values and social solidarity, the Bank launched the „Intesa from the Heart" Program in 2013. This coordinated approach includes individual and group volunteering projects and activities that the Bank carries out independently or in partnership with civil society organizations and which in 2021, due to prolonged effect of pandemic, was limited to cc 75 volunteering hours achieved in total.

Charity BIBazar 2021

In December 2021, the second Charity BIBazar was held in the Bank's HO. BIB employees had the opportunity to help those in need by personal donations and by purchasing products and arts and crafts made by NGO's and local social enterprises. On that occasion, the Center for Children and Youth with Developmental Disabilities collected cc 2000 EUR. This financial fund will enable further improvement of conditions in which these unique creatives live and work. Furthermore, BIB employees donated 15 full boxes - cca 165 kg of clothes and hygiene products for the homeless children. In cooperation with Food Bank Serbia, BIB employees collected over 100 kilograms of groceries, as well as 120 New Year's gifts for the youngest children from socially endangered families in Southeastern Serbia. Association of disabled children- Naša kuća sold the entire range of organic products and thus collected cc 500 EUR, which is six times more than during the Charity BIBazar in 2019. NURDOR - the National association of parents of children with cancer collected 250 EUR of employee's personal donations. Street magazine LiceUlice sold the entire circulation.

Financial inclusion

Financial inclusion is an important pillar of Banca Intesa's CSR approach toward community. Accordingly, the Bank strove to make its products as accessible as possible, and to meet specific needs of as many social groups of customers as possible by constant innovation and improvement of products and services offer.

Economic empowerment of women has long been not only an issue of gender equality, but also a key precondition for sustainable economic growth and social progress, and therefore the creation of conditions for the development of women's entrepreneurship is an important task of the state and the private sector. As the first bank in Serbia, in 2015 BIB joined the EBRD Woman in Business program aimed to enable women's financial empowerment and support female entrepreneurship in Serbia. Within this credit line, in 2021 total of 492 loans were disbursed with total amount of EUR 5,504,243 EUR.

Recognizing the current needs of its fellow citizens, in 2021 the Bank worked on improving the financing terms and expanding its offer of inclusive products.

Senior Cash - Loans tailor made to suit the needs of pensioners aged 55 to 74 was offer by the Bank in 2021. Throughout the entire repayment period, clients are granted life insurance included in loan price. Number of loans disbursed in 2021 is 27 753. Total amount disbursed in 2021 is EUR 67.686.068.

Intermezzo Cash Loan with possibility of delaying instalment payment up to five times during the repayment period was also offered in 2021. Total number of loans disbursed in reporting period is 45.731. Total amount disbursed in 2021 is EUR 152.430.818.

INDEPENDENT AUDITORS' REPORT

To the Shareholders
of Banca Intesa a.d. Beograd

Opinion
We have audited the financial statements of Banca Intesa a.d. Beograd (the Bank), which comprise the balance sheet as at 31 December 2021, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2021 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

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

Other information included in the Bank's Annual Business Report
Other information consists of the information included in the Annual business report other than the financial statements and our auditor's report thereon. Management is responsible for the preparation of other information in accordance with the legal requirements of the Republic of Serbia.
Our opinion on the financial statements does not cover the Other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assessed whether the other information has been prepared, in all material respects, in accordance with Law on Accounting of Republic of Serbia, in particular, whether the other information complies with the Law on Accounting of Republic of Serbia in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.
Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and

2. the other information is prepared in accordance with requirements of the Law on Accounting of Republic of Serbia.

In addition, our responsibility is to report, based on the knowledge and understanding of the Bank obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Other information
The financial statements of the Bank for the year ended on 31 December 2020 were audited by another auditor who expressed unmodified opinion on those statements on 5th of March 2021.

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

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

Audit Committee is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Separate Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Auditing Standards applicable in Republic of Serbia will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Auditor's responsibilities for the audit of the financial statements (continued)

- 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 Audit Committee 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, 25 February 2022

Nikola Ribar
Authorized auditor
for Ernst & Young d.o.o. Beograd

SEPARATE BALANCE SHEET as at 31 December 2021

in RSD thousand	Note	December 31, 2021	December 31, 2020
ASSETS			
Cash and assets held with the central bank	15, 2.14	135,704,230	142,071,319
Receivables under derivatives	16, 2.10	433,793	49,832
Securities	16, 2.9	81,906,310	90,307,009
Loans and receivables from banks and other financial organisations	17, 2.8	56,557,456	53,404,401
Loans and receivables from clients	17, 2.8	449,318,112	409,138,881
Investments in associated companies and joint ventures	16, 2.7	1,199,472	1,199,472
Intangible investments	18, 2.15	4,859,166	5,385,746
Property, plant and equipment	19, 2.16	9,935,748	10,129,940
Current tax assets	14, 2.21	-	198,681
Deferred tax assets	14, 2.21	616,195	588,968
Non-current assets held for sale and discontinued operations	2.16	22,439	22,741
Other assets	20	5,017,526	4,688,664
TOTAL ASSETS		**745,570,447**	**717,185,654**
LIABILITIES			
Liabilities under derivatives	21, 2.10	-	2,589
Deposits and other liabilities to banks, other financial organisations and central bank	22, 2.11	41,492,287	66,389,398
Deposits and other financial liabilities to clients	22, 2.11	572,877,553	521,155,412
Provisions	23, 2.3	2,401,265	1,383,450
Current tax liabilities	14, 2.21	355,986	-
Deferred tax liabilities	14, 2.21	279,758	168,745
Other liabilities	24	9,121,589	19,071,430
TOTAL LIABILITIES		**626,528,438**	**608,171,024**
CAPITAL			
Share capital	25, 2.19	41,748,469	41,748,469
Retain earnings	25, 2.19	32,224,574	21,850,279
Reserves	25, 2.19	45,068,966	45,415,882
TOTAL CAPITAL		**119,042,009**	**109,014,630**
TOTAL CAPITAL SHORTFALL		**745,570,447**	**717,185,654**

Belgrade, 25 February 2022

Rada Radović	Dragica Mihajlović	Darko Popović
Head of Accounting Department	CFO	CEO

SEPARATE INCOME STATEMENT in the period from 1 January to 31 December 2021

in RSD thousand	Note	2021	2020
Interest income	3, 2.4	22,315,269	22,209,990
Interest expenses	3, 2.4	(994,782)	(1,413,773)
Net interest gains		**21,320,487**	**20,796,217**
Income from fees and commissions	4, 2.5	18,988,785	16.051.667
Expenses on fees and commissions	4, 2.5	(7,561,620)	(7.519.408)
Net gains from fees and commissions		**11,427,165**	**8.532.259**
Net gains from change in fair value of financial instruments	5, 2.7	878,376	462,237
Net gains / (losses) from derecognition of the financial instruments measured at fair value	6, 2.7	(4,515)	362,348
Net exchange rate gains and gains from agreed currency clause	7, 2.6	(418,539)	280.639
Net expenses on impairment of financial assets not measured at fair value through income statement	8, 2.7	(3,266,389)	(4,167,578)
Net gains / (losses) on derecognition of financial instruments carried at amortized cost	6, 2.7	93,934	81,961
Other operating income	9	151,516	130,161
Total net operating income		**30,182,035**	**26,478,244**
Salaries, salary compensations and other personal expenses	10, 2.20	(6,862,623)	(6,376,881)
Depreciation costs	11, 2.16	(2,237,239)	(2,100,569)
Other income	12	269,933	365,603
Other expenses	13	(9,504,145)	(7,532,880)
Profit before tax		**11,847,961**	**10,833,517**
Profit tax	14, 2.21	(1,476,602)	(1,351,960)
Profit after tax		**10,371,359**	**9,481,557**

Belgrade, 25 February 2022

Rada Radović	Dragica Mihajlović	Darko Popović
Head of Accounting Department	CFO	CEO

SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME in the period from 1 January to 31 December 2021

in RSD thousand	2021	2020
Profit for the period	**10,371,359**	**9,481,557**
Components of other comprehensive income which cannot be reclassified to profit or loss:		
Increase/ (decrease) in revaluation reserves based on intangible assets and fixed assets	(2,798)	354,528
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	(802)	(1,386)
Components of other comprehensive income that may be reclassified to profit or loss:		
(Negative) / positive effects of change in value of debt instruments measured at fair value through other comprehensive income	(231,862)	(924,107)
Loss from tax relating to the comprehensive income of the period	(111,454)	
Total (negative) / positive comprehensive income for the period	(346,916)	(570,965)
Total positive comprehensive income for the period	**10,024,443**	**8,910,592**

Belgrade, 25 February 2022

Rada Radović
Head of Accounting Department

Dragica Mihajlović
CFO

Darko Popović
CEO

SEPARATE STATEMENT OF CHANGES IN EQUITY in the period from 1 January to 31 December 2021

in RSD thousand	Share capital and other equity	Premium on issue of shares	Reserves from profit and other reserves	Revaluation reserves	Retain earnings	Total
Opening balance as at 1 January, 2020	**21,315,900**	**20,432,569**	**43,488,903**	**2,497,944**	**12,331,751**	**100,067,067**
Increase in revaluation reserves based on intangible assets and fixed assets	-	-	-	354,528	-	354,528
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	-	-	-	(1,386)		(1,386)
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	-	-	-	(924,107)	-	(924,107)
Profit for the current year	-	-	-	-	9,481,557	9,481,557
Other	-	-	-	-	36,971	36,971
Balance as at 31 December, 2020	**21,315,900**	**20,432,569**	**43,488,903**	**1,926,979**	**21,850,279**	**109,014,630**
Opening balance as at 1 January, 2021	**21,315,900**	**20,432,569**	**43,488,903**	**1,926,979**	**21,850,279**	**109,014,630**
Increase (decrease) in revaluation reserves based on intangible assets and fixed assets	-	-	-	(2,753)	-	(2,753)
Negative effects of change in value of equity instruments measured at fair value through other comprehensive income	-	-	-	(802)		(802)
Negative effects of change in value of debt instruments measured at fair value through other comprehensive income	-	-	-	(343,361)	-	(343,361)
Profit for the current year	-	-	-	-	10,371,359	10,371,358
Other	-	-	-	-	2,936	2,937
Balance as at 31 December, 2021	**21,315,900**	**20,432,569**	**43,488,903**	**1,580,063**	**32,224,574**	**119,042,009**

Belgrade, 25 February 2022

Rada Radović
Head of Accounting Department

Dragica Mihajlović
CFO

Darko Popović
CEO

SEPARATE CASH FLOW STATEMENT in the period from 1 January to 31 December 2019

in RSD thousands	2021	2020
Cash inflow from operating activities	**43,353,326**	**35,356,290**
Interest	23,648,599	17,884,407
Fees	18,796,322	16,662,605
Other operating income	897,464	809,278
Dividends and profit sharing	10,941	-
Cash outflow from operating activities	**(24,254,938)**	**(23,899,206)**
Interest	(1,011,631)	(1,876,378)
Fees	(7,440,851)	(7,474,426)
Gross salaries, salary compensations and other personal expenses	(6,753,637)	(6,504,778)
Taxes, contributions and other duties charged to expenses	(79,639)	(76,221)
Other operating expenses	(8,969,180)	(7,967,403)
Net cash inflow from operating activities before an increase or decrease in financial assets and financial liabilities	**19,098,388**	**11,457,084**
Inflow from financial assets and increase in financial liabilities	**18,484,530**	**71,493,193**
Inflow from receivables under securities and other financial assets not intended for investment	8,375,213	18,236,009
Inflow from deposits and other financial liabilities to banks, other financial organisations, central bank and clients	10,109,317	53,257,184
Outflow from financial assets and decrease in financial liabilities	**(31,419,213)**	**(23,254,673)**
Outflow from loans and receivables from banks, other financial organisations, central bank and clients	(31,416,624)	(23,137,753)
Outflow from receivables under securities and other financial assets not intended for investment	-	-
Outflow from other financial liabilities	(2,589)	(116,920)
Net cash inflow from operating activities before profit tax	6,163,705	59,695,604
Profit tax paid	(949,162)	(1,935,978)
Dividends paid	-	-
Net cash inflow from operating activities	**5,214,543**	**57,759,626**
Cash inflow from investing activities	**488,957**	**67,306**
Investment in investment securities	-	-
Sale of intangible investments, property, plant and equipment	488,957	59,702
Sale of investment property	-	7,604
Cash outflow from investing activities	**(1,340,063)**	**(1,412,084)**
Purchase of intangible investments, property, plant and equipment	(1,340,063)	(1,412,084)
Net cash inflow from investing activities	**(851,106)**	**(1,344,778)**

in RSD thousands	2021	2020
Cash inflow from financing activities	**26,601,626**	**51,210,855**
Loans taken	26,601,626	51,210,855
Cash outflow from financing activities	**(23,528,066)**	**(47,013,059)**
Loans taken	(23,040,278)	(46,539,103)
Other outflow from financing activities	(487,788)	(473,956)
Net cash outflow / inflow from financing activities	**3,073,560**	**4,197,796**
TOTAL CASH INFLOW	**88,928,439**	**158,127,644**
TOTAL CASH OUTFLOW	**(81,491,442)**	**(97,515,000)**
TOTAL CASH INFLOW / OUTFLOW	7,436,997	60,612,644
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**117,883,804**	**57,291,035**
EXCHANGE RATE GAINS	2,249,310	7,099,732
EXCHANGE RATE LOSSES	(1,712,028)	(7,119,607)
CASH AND CASH EQUIVALENTS AT END-PERIOD (Note15)	**125,858,083**	**117,883,804**

Belgrade, 25 February 2022

Rada Radović	Dragica Mihajlović	Darko Popović
Head of Accounting Department	CFO	CEO

Notes to the Separate Financial Statements For the Year Ended 31 December 2020

1. CORPORATE INFORMATION

Banca Intesa Beograd a.d. Belgrade (hereinafter referred to as the “Bank”) was established as a joint stock company, pursuant to the Memorandum on Association and Operations of Delta banka DD Belgrade dated 16 September 1991. On 19 September 1991, the National Bank of Yugoslavia issued a certificate and permission for the foundation of Delta banka DD Belgrade.

On 16 October 1991, the Bank was duly registered with the Commercial Court in Belgrade and subsequently commenced its operations.

Pursuant to the General Manager’s Decision no. 18600 dated 7 November 2005, the Approval of National Bank of Serbia and the Decision of the Companies Register no. BD 98737/2005 dated 29 November 2005, the Bank changed its previous name into Banca Intesa a.d. Belgrade.

During the year ended 31 December 2007, the legal status change was carried out through a merger by absorption, whereby the acquirer was Banca Intesa a.d. Belgrade, and the acquired bank was Panonska banka a.d. Novi Sad. Upon registration of the procedure of merger by absorption with the Serbian Business Registers Agency, the Bank as the acquirer and the legal successor has continued to operate under its existing business name, while the acquired bank – Panonska banka a.d. Novi Sad ceased its operations without liquidation process, and its shares were withdrawn and cancelled.

During 2012, upon receipt of the previous approval of the National Bank of Serbia, the Bank’s Assembly has adopted changes and amendments to the Memorandum of Association and the Articles of Association, by which it has harmonized its business and enactments with the provisions of the Law on Companies. The Serbian Business Registers Agency has registered these changes by rendering a Decision no. BD 85268/2012 dated 27 June 2012.

During 2015, upon receipt of the previous approval of the National Bank of Serbia, the Bank’s Assembly has adopted changes and amendments to the Memorandum of Association and the Articles of Association, by which it has harmonized its business and enactments with the provisions of the Law on Banks. The Serbian Business Registers Agency has registered these changes by rendering a Decision no. BD 56475/2015 dated 26 June 2015.

Furthermore, in August 2015, shareholding structure of the Bank was changed and it reflects in the fact that the minority shareholder International Finance Corporation (IFC) sold its entire stake to majority shareholder Intesa Sanpaolo Holding International S.A. After this change the Bank had two shareholders, Intesa Sanpaolo Holding International S.A. and Intesa Sanpaolo S.p.A. Based on the previous change in the shareholding structure and upon the previous approval of the National Bank of Serbia, Bank’s Assembly has adopted changes and amendments to the Memorandum of Association, which was registered with the Decision of the Serbian Business Registers Agency no. BD 2238/2016 dated 18 January 2016.

In December 2016, the shareholding structure of the Bank was changed once more and it reflects in the fact that the minority shareholder Intesa Sanpaolo S.p.A. sold its entire stake to majority shareholder Intesa Sanpaolo Holding International S.A. After this change the Bank has one shareholder and it is Intesa Sanpaolo Holding International S.A.

Based on the previous change of the shareholders structure of the Bank and upon receipt of the consent of the National Bank of Serbia, the Shareholders’ Assembly has adopted changes and amendments of the Memorandum on Association. The change was registered at the Business Registers Agency under the decision no. BD 37271/2017 dated 5 May 2017.

The Bank is authorized by National Bank of Serbia and registered to perform the following operations: payment transactions, credit and deposit operations, issuance of payment cards; also, the Bank is registered for operations with securities, issuance of guarantees and other warranties. In accordance with articles of Law on banks, the Bank operates in accordance with principles of liquidity, security and profitability. In addition, the Bank is authorized for selling of investment units as well for representing insurance, with prior consent of National bank of Serbia.

As of 31 December 2021, the Bank operated through its Head Office located in Belgrade, Milentija Popovića 7b. The Bank network consists of associated organizational units as follows: 4 regional centres and 147 branches.

The Bank had 3,029 employees as of 31 December 2021 (31 December 2020: 3,061 employees).

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis for the preparation and presentation of the separate financial statements

The separate financial statements of the Bank for the year ended 31 December 2021 (hereinafter: the "financial statements") have been prepared in accordance with International Financial Reporting Standards (IFRSs).

In accordance with the Law on Accounting, banks must keep their books of accounts and prepare financial statements in accordance with translated IFRSs, while, by the Law on Banks (article 50.2), it has been designated that, when compiling Annual Financial Statements, a bank should apply the IFRSs as of date which the competed authority has designed as the date of the application of these standards.

(a) Changes in accounting policies and disclosures

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

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

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 rate of interest. Also, 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. 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. While application is retrospective, an entity is not required to restate prior periods.
The Bank assessed that the requirements of this amendments does not have material effect on financial statements of the Bank.

- IFRS 16 Leases-Covid 19 Related Rent Concessions (Amendment)

The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met: a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021; c) There is no substantive change to other terms and conditions of the lease. The Bank did not use mentioned concessions in rent payments in 2021.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis for the preparation and presentation of the separate 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 (Continued)

- Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The material effect for the financial statements of the Bank is not expected in respect of the mentioned amendments.

- IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments were initially effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments.

In November 2021, the Board issued an exposure draft (ED), which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. In particular, the Board proposes narrow scope amendments to IAS 1 which effectively reverse the 2020 amendments requiring entities to classify as current, liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period, if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current liabilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required. The proposals will become effective for annual reporting periods beginning on or after 1 January 2024 and will need be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The Board has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect.The material effect for the financial statements of the Bank is not expected in respect of mentioned amendments.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis for the preparation and presentation of the separate 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 (Continued)

- IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:

- **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases

The material effects for the financial statements of the Bank are not expected in respect of mentioned amendments.

- ***IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)***

The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. Management of the Bank is assessing impact of mentioned amendments on disclosures of accounting policies of the Bank.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**

The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. It is not expected that mentioned amendments will have material effect for the financial statements of the Bank.

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**

The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. Management of the Bank is assessing the impact of mentioned amendments to the financial statements of the Bank.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1. Basis for the preparation and presentation of the separate financial statements (Continued)

The accompanying financial statements are separate financial statements, since they include unconsolidated captions of receivables, liabilities, operating results, changes in equity and cash flows of the Bank, excluding its subsidiaries – Intesa Leasing d.o.o. Belgrade and Intesa Invest, which are 100% owned by the Bank. The Bank recognizes its investment in this subsidiary at cost. Total asset of subsidiary Intesa Leasing is 2.98% (31.12.2020: 3.044%), while total assets of subsidiary Intesa Invest is 0.04% (31.12.2020: 0.03%) of the total Bank`s assets as at 31 December 2021.

In accordance with the provisions of IFRS 10 "Consolidated financial statements", the Bank is exempted from preparation of consolidated financial statements, taking into consideration that the ultimate parent company, Intesa Sanpaolo S.p.A., regularly prepares and disclosed consolidated financial statements in accordance with IFRS adopted by EU. These financial statements are published on the official website of Intesa Sanpaolo Group: www.group.intesasanpaolo.com.

Although the Bank is obliged to prepare annual consolidated financial statements and submit them to the Business Registers Agency in accordance with the Law on accounting, still the Bank uses its right specified by Law on banks, article 55 paragraph 4, by which it does not include subsidiaries in annual audit of its consolidated financial statements, based on the consent of National bank of Serbia.

The Bank's financial statements are stated in thousands of Dinars, unless otherwise stated. The Dinar (RSD) is the functional and official reporting currency of the Bank. All transactions in currencies other than functional currency are considered transactions in foreign currency.

The accompanying financial statements have been prepared under the going concern principle, which implies that the Bank will continue its operations in the foreseeable future.

In the preparation of these financial statements, the Bank has adhered to the principal accounting policies further described in Note 2.

2.2. Comparative data

Accounting policies and estimates relating to recognition and measurement of assets and liabilities, applied in the preparation of these financial statements, are consistent with those applied in the preparation of the annual financial statements of the Bank for the year31 December 2020.

In accordance with the instructions of the National bank of Serbia as of 5 April, 2021, for the banking sector, the Bank presents income and expenses from foreign exchange operations on the position of income and expenses from fees in the financial reports for 2021, while previously shown on the position of foreign exchange rate difference. In order to present better, the Bank corrected comparative data in this segment.

2.3. Significant accounting estimates and judgments

Use of estimates

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

These estimates and assumptions are based on information available as of the date of the preparation of the financial statements. Actual results may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis, while changes in estimates are recognized in the income statement in the periods in which they become known.

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

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Significant accounting estimates and judgments (Continued)

Impairment of financial assets

The Bank recognizes impairment for expected credit losses for financial assets that are measured at amortized cost as well as for debt financial assets that are measured at fair value through other comprehensive income, lease receivables, loan commitments and issued guarantees. Carrying value of financial instruments measured at amortized cost is decreased by the amount of impairment for expected credit losses.

Judgments and estimates that the Bank uses as input in the expected credit loss model, together with the assessment on significant increase of credit risk, are disclosed in the Note 28.1. Credit risk.

Classification of financial assets

The Bank assesses business model within the assets are held. Besides, the Bank assesses if contractual cash flows of financial assets are solely payments of principal and interest (Note 2.7.2.).

Useful lives of intangible assets, property, plant and equipment ("tangible assets")

The determination of the useful lives of intangible assets, property, plant and equipment is based on historical experience with similar assets as well as on any anticipated technological development and changes influenced by wide range of economic or industry factors. The appropriateness of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions that are basis for determination of useful life.

Due to the significant share of fixed assets in the total assets of the Bank, the impact of each change in these assumptions could materially affect the Bank's financial position, as well as the results of its operations.

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 presented in the financial statements. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment review requires from management to make judgment concerning the cash flows, growth rates and discount rates of the cash generating units under review.

Provisions for litigations

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

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

A provision for litigation is recognized when it is probable that an obligation exists for which a reliable estimation can be made of the obligation after careful analysis of the individual matter (Note 23). The required provision may change in the future, due to new developments and as additional information becomes available. Commitments, as well as positions that do not meet the criteria for provision are disclosed, unless the possibility of transferring economic benefits is remote.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3. Significant accounting estimates and judgments (Continued)

Deferred tax assets

Deferred tax assets are recognized for all unused tax credits to the extent that it is probable that expected future taxable profit will be available against which the unused tax credits can be utilized. The Bank's management necessarily performs significant estimate in order to determine the amount of deferred tax assets that can be recognized, based on the period of occurrence, the amount of future taxable profit and strategy of tax planning strategy (Note 14(c)).

Retirement and other post-employment benefits

The costs of defined employee benefits payable upon termination of employment, i.e. retirement in accordance with the fulfilled legal requirements are determined based on the actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and fluctuation of employees. As these plans are long-term, significant uncertainties influence the outcome of the estimation. Additional information are disclosed in Note 23.

Leasing

Incremental borrowing rate used as discount rate in valuation of lease payables' present value, is determined by analyzing internal sources of information on borrowings and is adjusted to reflect contractual lease terms and type of leased asset.

2.4. Interest income and interest expenses

Interest income and interest expenses, including penalty interest and other income and other expenses from interest-bearing assets, as well interest bearing liabilities are recognized on an accrual basis, based on obligatory terms defined by a contract between the Bank and its customers.

Interest income and interest expense are recognized in profit and loss using effective interest rate, presenting the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- The gross carrying amount of the financial asset (amortized cost before decrease for expected credit losses), or
- The amortized cost of the financial liability

When calculating effective interest rate for financial instruments that are not POCI (purchased originated credit impaired), the Bank assesses future cash flows taking into consideration all contractual terms of financial instruments, but not including expected credit losses. For POCI loans, credit-adjusted effective interest rate is calculated using estimated future cash flows including expected credit losses.

Interest income is recognized for financial assets measured at amortized cost as well as for debt instruments measured through other comprehensive income. Interest expense are recognized for financial liabilities measures at amortized cost.

Loan origination fee, as part of effective interest rate, is recognized in interest income and interest expense. Loan origination fees are calculated and collected upfront, while related income is deferred and discounted using the effective interest rate method, over the life of the loan.

After objective evidence of impairment have been identified and impairment recognized, interest income on these receivables is calculated on the amortized cost basis and by applying effective interest rate, which has been used to discount future cash flows for determining impairment losses.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5. Fee and commission income and fee and commission expenses

Fees and commissions income and expenses originating from providing or using the banking services are generally recognized on an accrual basis when the service has been provided.

Fees and commissions mostly comprise of fees for payment operations services, commission for foreign exchange transactions, issued guarantees and other banking services.

Fee and commission income relating to current accounts and financial instruments maintenance services are recognized over time, when the service is provided.

Income relating to transaction fees are recognized in the moment of transaction occurrence.

A contract with a customer that results in recognition of financial instrument in the Bank's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Bank first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

2.6. Foreign currency translation

The items included in the Bank's financial statements are measured by using currency of the Bank's primary economic environment (functional currency). As disclosed in Note 2.1., the accompanying financial statements are stated in thousands of Dinars (RSD), which represents the functional and official reporting currency of the Bank.

Transactions denominated in foreign currency are translated into dinars at the official median exchange rate determined on the Interbank Foreign Currency Market, published by National Bank of Serbia, prevailing at the transaction date.

Assets and liabilities denominated in foreign currency at the balance sheet date are translated into dinars at the official median exchange rate determined on the Interbank Foreign Currency Market, published by National Bank of Serbia, prevailing at the balance sheet data (Note 31).

Foreign exchange gains or losses arising upon the translation of balance sheet items denominated in foreign currencies are credited or charged as appropriate, to the income statement, as foreign exchange gains or losses within Net foreign exchange gains/Net foreign exchange losses and effects of contracted foreign currency clause (Note 7).

Income and expenses incurred in realized transactions of purchase and sale of foreign currency and effective foreign currency with individuals and legal entities are recorded in the income statement Income / expenses from fees and commissions (Note 4).

Gains and losses arising on translation of financial assets and liabilities indexed with the contracted foreign currency clause are credited or charged as appropriate, to the income statement, and presented within Net foreign exchange gains/Net foreign exchange losses and effects of contracted foreign currency clause (Note 7).

Commitments and contingencies denominated in foreign currency are translated into dinars at the official median exchange rate prevailing at the balance sheet date.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial instruments

2.7.1. Initial recognition of financial instruments

Financial instruments are initially measured at fair value, increased by transaction costs (except financial assets or financial liabilities measured at fair value through profit and loss), that are directly related to acquisition or issuance of financial asset or financial liability.

Financial assets and financial liabilities are recorded in the Bank's balance sheet in the moment when the Bank is contractually committed to the instrument. Acquisition or sale of financial assets is recorded as of the settlement date, presenting the date when asset is delivered to the counterparty.

In order to determine classification and measurement, all financial assets, except derivatives and equity investments, are analyzed by the Bank through the combination of business model managing the financial asset as well as characteristics of contractual cash flows.

2.7.2. Classification

Financial assets

At initial recognition, financial asset is classified in accordance with one of the following methods of measurement: at amortized cost, at fair value through other comprehensive income (FVOCI) or at fair value through profit and loss (FVTPL).

Financial asset is measured at amortized cost if it meets both of the following conditions and is designated as at FVTPL:
- Asset is held within a business model whose objective is to hold assets to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified fates to cash flows that are solely payments of principal and interest

Debt instrument is measured as FVOCI only if it meets both the following conditions and is not designated as at FVTPL:
- The assets is held within the business model whose objective is achieved by both collecting contractual cash flows and selling contractual assets, and
- The contractual terms of the financial asset give rise on specified fates to cash flows that are solely payments of principal and interest

Debt instruments held with the aim to collect contractual cash flows and selling comprise treasury bills and the bonds of Republic of Serbia.

On initial recognition of an equity instrument that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value through OCI, at the level of particular equity instrument. As of 31 December 2020, the Bank opt for FVOCI accounting of equity investment, other than investment in subsidiaries, since these instruments are not held for trading. This choice is made based on the each particular instrument in the moment of initial recognition and cannot be recalled.

Besides, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measures at amortized cost or at FVOCI as at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial instruments (Continued)

2.7.2. Classification (continued)

Business model assessment

Then Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level, because this better reflects the way the business is managed, and information is provided to management.

The information considered includes policies and strategies for the portfolio, as well as their application in practice. In particular, it is important if management strategy is focused on earning contractual interest revenue, matching duration of the financial assets to the duration of liabilities that are funding those assets or realizing cash flows through the sale of the assets. Also, the Bank considers information on how the performance of the portfolio is evaluated and reported, together with information on risks affecting the performance of the portfolio and how they are managed. Besides, the Bank considers frequency, volume and timing of financial assets sales in prior periods, the reasons for sales and plans for future sales of financial assets.

Financial assets that are managed with the aim of trading, and whose performances are assessed based on the fair value, are measured as FVTPL since they are neither held in portfolio with the purpose to collect contractual cash flows nor they are held with the double purpose of collecting the contractual cash flows and selling.

Assessment of whether contractual cash flows are solely payments of principal and interest

For the purpose of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for the other basic lending risks (e.g. liquidity risk, administrative costs), as well as profit margin.

In assessing whether contractual cash flows are solely payment of principal and interest (SPPI), the Bank considers the contractual terms of the instrument and analyses if they contain contractual terms that could change the timing or amount of contractual cash flows, resulting in fair value measurement of the instrument. Main contractual terms that are considered in assessment are: leverage features, extension and prepayment terms, characteristics that limit the Bank's claim to cash flows to specified assets as well as features that modify consideration of time value of money, such as periodical reset of interest rates in case of financial assets with variable interest rate.

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.

Financial liabilities

The Bank measured financial liabilities at amortized costs, except derivatives that are measured at FVTPL, where fair value adjustment is recognized in profit or loss.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial instruments (Continued)

2.7.3. Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when any of the following criteria are fulfilled:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement;
- either the Bank has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset;
- financial asset is written-off;
- Subsequent changes of contractual cash-flows of financial asset occurred, resulting in significant modification of cash flows of financial asset (Note 2.7.4.).

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset, nor transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

In case when financial asset is derecognized, cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit and loss in case of debt securities measured at FVOCI. However, in case of equity instruments measured at FVOCI, accumulated gain/loss recognized through other comprehensive income will not be recognized in profit and loss in the moment of derecognition but in equity.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is satisfied, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified such exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, while the difference in the respective carrying amounts is recognized in profit or loss.

The Bank ceases to recognize financial liability when the contractual terms are modified, while cash flows of modified liability are significantly changed. In that case, new financial liability is based on the modified terms and is recognized at fair value. Difference between carrying amount of financial liability and new financial liability with modified terms is recognized in profit and loss.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial instruments (Continued)

2.7.4. Modification of contractual cash flows

Financial assets

If contractual terms of financial asset are subsequently modified, the Bank evaluates whether the cash flows of the modified assets are substantially different. If so, then contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value.

Key criteria for significant modification are renegotiation of contracts with purpose to adjust to commercial terms, change in currency, change in debtor, negotiation of contractual clauses "pay if you can" or conversion debt to equity.

If the originally contracted cash flows of financial asset are subsequently contractually modified and such modification does not lead to derecognition of financial asset, the Bank recalculates gross carrying amount of financial asset as present value of renegotiated future cash flows, discounted at original effective interest rate and recognizes the amount, arising from adjustment with the new gross carrying amount, as modification gain or loss presented in position Net losses arising from impairment of financial assets not carried at fair value through profit and loss.

Abovementioned gains or losses are amortized during residual lifetime of modified financial asset. In accordance with IFRS9 requirements, in the subsequent periods the modification loss will be amortized through interest income by the end of loans' maturity.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial instruments (Continued)

2.7.5. Impairment of financial assets and provisions for risks

Financial liabilities

The Bank derecognizes financial liability when contractual terms are modified and the cash flows of the modified liability are substantially different. In this case, new financial liability is based on the modified terms and is recognized at fair value. The difference between the carrying amount of the financial liability and new financial liability with modified terms is recognized in profit and loss.

Recognition of expected credit losses

Bank calculates expected credit losses for financial assets measured at amortized cost or for debt securities measured at fair value through other comprehensive income (FVOCI). Carrying amount of financial instruments measured at amortized cost is decreased by the amount of expected credit losses.

Expected credit loss for financial assets measured at fair value through other comprehensive income (FVOCI) is recognized through other comprehensive income and income statement, and it should not decrease the carrying value of the asset in the balance sheet.

After the initial recognition, expected credit loss is calculated at every reporting date. Bank assesses, at each reporting date, the level of financial assets impairment for assets measured at amortized cost or at fair value through other comprehensive income (FVOCI). Bank's assessment is based on "*forward-looking*" expected credit loss (ECL) model.

Loss allowances is measured on either of the following bases:
- 12-month ECLs - these are ECLs that result from possible default events within the 12 months after the reporting date and applied to financial instruments that belonging to the stage impairment 1
- ECL during the whole life of the financial instrument ("Lifetime") - these are ECLs that result from all
- possible default events over the expected life of a financial instrument and applied to financial instruments that belonging to the stage impairment 2 and 3

Lifetime ECL measurement during the whole life of the financial instrument applies if the credit risk of a financial asset at the reporting date has increased significantly since its initial recognition, while in the opposite case 12-month ECL measurement applies.

Details regarding credit risk policy are presented in Note 28.1 Credit Risk.

Uncollectable receivables write-off

Financial assets' write-off / transferring to off-balance sheet is performed in accordance with the Procedure on Write-off of Uncollectable Receivables. The procedure relates to the write-off / transferring to off-balance sheet of receivables that meet the following criteria: delay in payment of receivable is more than 360 days; the Bank has failed to collect receivables despite the implementation of all activities of collection specified by its policies and procedures; judicial or extrajudicial procedures of settlement of receivables have been initiated; receivables are fully impaired. Exceptionally, receivables that do not fulfil the abovementioned requirements may be written-off / transferred to off-balance sheet if such decision is made by the competent authority, PAC (Problem Asset Committee), in accordance with the authorizations delegated by the Board of Directors.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7. Financial instruments (Continued)

2.7.6. Renegotiated loans

If the Bank estimates that the problems of debtors and their delay in payment is temporary and that, under adjusted agreed conditions, the client could fulfil obligations toward Bank regularly, the Bank seeks to restructure loans rather than to activate collaterals. This may involve extending repayment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Renegotiated loans are continuously reviewed and monitored, to ensure that all requirement are met and that future payments are likely to occur.

2.8. Loans and receivables from banks and other financial organizations and Loans and receivables from customers (hereinafter: Loans and receivables)

Loans and receivables include:
- Loans and receivables valued at amortized cost. Initial recognition of these loans and receivables is at fair value increased by direct transactional costs, while subsequently they are measured at amortized cost using effective interest rate method (Note 2.7.2) and
- Loans and receivables measured at fair value through profit or loss, in accordance with business model or cash flow characteristics

As of 31 December 2021, the Bank's portfolio does not include loans that meet the criteria to be valued at fair value through profit or loss.

2.9. Securities

Securities caption in the Statement of financial position includes:

- Debt securities measured at fair value through other comprehensive income (FVOCI)

For debt securities measured at FVOCI, gains or losses are recognized in OCI, except interest income, expected credit losses and foreign exchange differences that are recognized in profit and loss.

- Debt securities measured at amortized cost

For corporate bonds in RSD, which are classified as debt securities measured at amortized cost, interest income determined using the effective interest rate and expected credit losses are recorded through profit and loss.

When debt securities measured at FVOCI are derecognized, accumulated gain or loss previously recognized in OCI in equity is reclassified from equity to profit and losses.

- Equity investments measured at fair value through other comprehensive income, excluding investments in subsidiaries and associates

For equity investments that are accounted as FVOCI, changes in fair value after initial recognition are recognized in equity and are never recognized in profit and loss, not even on sale. Accumulated gains or losses recognized in other comprehensive income are transferred to retained earnings when equity investment is derecognized.
Equity investments that are accounted at FVOCI are not subject of impairment. Dividends on equity investments are accounted in profit and loss.

- Debt securities measures at fair value through profit and loss (FVTPL)

For debt securities measured at FVTPL, gains and losses from fair value adjustments are recorded through profit and loss and are not subject to impairment.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.9. Securities (Continued)

- Shares measured at fair value through profit and loss (FVTPL)

For shares measured at FVTPL, gains and losses on fair value adjustments are recognized through profit and loss.

Interest income on treasury government bonds of the Republic of Serbia is calculated and recognized daily in the income statement.

Dividend income in respect of investments in shares of other legal entities, and income from investments in equity instruments of other legal entities is recognized as income when the shareholder's right to receive payment is established.

2.10. Receivables from derivatives and Liabilities based on derivatives (hereinafter: derivatives)

The Bank has in its portfolio financial derivatives, for which foreign exchange rate is basic underlying variable. Derivatives used by the Bank are currency swap (FX swap) and currency forward (FX forward) contracts. For accounting purposes, derivatives are classified as financial instruments held for trading and are recorded in the balance sheet at fair value.

Derivatives are initially recognized when the Bank becomes a party to an agreement with the other contractual party (the agreement date). The notional amount of the derivative contract is recorded in the off-balance sheet, and initial positive or negative fair value of the derivative is recorded in the balance sheet as an asset or a liability. The initial recognition of fair value applies to cases when the market price for the same or a similar derivative on an organized market is available, and when the price differs from the price at which the Bank contracted the derivative. Hence, the derivatives contracted by the Bank with the customers operating in Serbia do not have initially recognized fair value, since there is no active market for similar derivatives in the country. When an active market for such derivatives develops, i.e. when the relevant market information becomes available, the Bank will recognize in the balance sheet (as asset or liability) and the income statement (initially positive or negative fair value) the difference between the market value of transactions and initial fair value of derivatives determined using valuation techniques.

In accordance with the existing accounting policy of the Bank, adjustments to fair value of financial instruments held for trading are recognized at the end of each month, and the effect of changes in fair value are recognized in the income statement as the increase or decrease of fair value. Derivatives are recognized as derivatives receivable or liabilities based on derivatives, depending on whether their fair value is positive or negative. Derivatives are derecognized at the moment of expiry of contracted rights and obligations arising from derivatives (exchange of cash flows), i.e. at termination date. At that moment, the ultimate effect fair value adjustment of currency financial derivatives (that the Bank currently solely as in derivatives portfolio) is recorded against realized foreign exchange differences, while all previously recognized changes in fair value (monthly recorded through unrealized foreign exchange gains/losses) are reversed.

Since there is neither an active market for derivatives in Serbia, nor a possibility for determining fair value of derivatives by reference to a quoted market price, the Bank uses the methodology of discounting future cash flows arising from derivatives in order to determine fair value. This methodology of calculation is generally accepted by market participants in countries that have developed markets with active trading in derivatives and the calculated fair value represents a reliable estimate of the fair value of derivatives that would be achieved on an active market.

The methodology mainly incorporates market factors (middle exchange rate, market interest rates and similar) to the best possible extent and is consistent with generally accepted methodologies for valuation of derivatives. At least once per month, the Bank performs back-testing and calibration of the implemented methodology for calculation of fair value by using market variables and alternative calculation methods.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11. Deposits and other financial liabilities due to banks, other financial organizations and Central Bank and Deposits and other financial liabilities due to customers

Deposits and other financial liabilities due to banks, other financial organizations and central banks, as well as deposits and other financial liabilities due to customers are initially recognized at fair value decreased by transaction costs, except for financial liabilities at fair value through profit and loss. After initial recognition, mentioned financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Within this caption, borrowings are initially measured at fair value net of transaction costs incurred and are subsequently measured at amortized cost.

Borrowings are classified as current liabilities, unless the Bank has unconditional right to postpone the settlement of obligations for at least 12 months after the balance sheet date.

2.12. Other liabilities

Trade payables and other short-term operating liabilities are presented at nominal value.

2.13. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.14. Cash and balances with central bank

Cash and balances with central bank, in Balance sheet, are comprised of cash in dinars and in foreign currency, i.e. is cash at gyro and current accounts, cash on hand and other cash in dinars and foreign currency, gold and other precious metals, deposited liquid surpluses and obligatory reserves in foreign currency held at accounts with the National Bank of Serbia. Mentioned assets are highly liquid financial assets with contractual maturity up to 3 months and bear insignificant risk of their fair value change.

Cash and cash equivalents are measured at amortized cost in the balance sheet statement.

2.15. Intangible assets

Intangible assets consist of software, licenses and intangible assets under construction. Intangible assets are carried at cost less any accumulated amortization.

Licenses are initially recognized at cost. They have limited useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method in order to fully write off the cost of these assets over their estimated useful lives (from 5 to 10 years).

Computer software licenses are capitalized for costs incurred in acquiring and brining the specific software into use. These costs are amortized over their estimated useful lives (from 2 to 5 years).

Costs associated with software maintenance are recognized as an expense when incurred.

Costs that are directly associated with identifiable and unique software controlled by the Bank, and which will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the salaries of the team that developed the software, as well as appropriate portion of related overheads.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15. Intangible assets (Continued)

Amortization of intangible assets is calculated using the straight-line method to write down the cost of intangible assets over their estimated useful lives, in all accounting periods, as follows:

	2021	2020
Licenses and similar rights	10% - 20%	10% - 20%
Licenses and similar rights	20% - 50%	20% - 50%
Core information system	10% - 14.29%	10% - 14.29%

Compared to 2020, there were no changes in the estimated useful life of intangible assets.

Intangible assets include unamortized software in progress, since it is still not in use.

2.16. Property, plant, equipment, leased assets, investment property and non-current assets held for sale

2.16.1. Property, plant and equipment and investment property

(a) Property, plant and equipment

Fixed assets (property, plant and equipment) are tangible assets:
- that are held by the Bank for the own use in providing services within its registered business or for administrative purposes; and
- for which it is expected to be used more than one year period.

Property, plant and equipment are recognized as an asset:
- when it is probable that future economic benefits on the basis of such asset will inflow to the Bank, and
- when the cost of such asset can be reliably measured.

At initial recognition, property, plant and equipment are stated at cost.

Cost includes expenditure that is directly attributable to the acquisition of an asset.

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

Property, plant and equipment are subsequently measured at fair value using the revaluation model or at cost.

Revaluation is performed regularly, in a frequency sufficient for providing that the carrying amount does not differ significantly from the amount that would be obtained by applying the fair values model at the end of the reporting period.

As of 31 December 2021 the revaluation model (fair value) was used for the subsequent measurement of real estate, while other tangible assets were subsequently measured at cost.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16. Property, plant, equipment, leased assets, investment property and non-current assets held for sale (Continued)

2.16.1. Property, plant and equipment and investment property (Continued)

(b) Investment property

As of 31 December 2021, the Bank is not owns property as investments for generating rental income and/or increase in the market value of the property.

In accordance with IAS 40, investment property is recognized as an asset if and only if:
- it is probable that the entity will in the future realize the economic benefits from investment property, and
- when the cost such asset can be reliably measured.

Investment property is initially measured at cost. Transaction costs are included in the initial measurement. Upon initial recognition, the investment property is measured at fair value. The gain or loss arising from the change in the fair value of an investment property is recognized in the income statement of the period in which it is incurred.

(c) Leased assets

At inception of a contract, the Bank assesses whether a contract is, one contains, a lease. A contract is, or contains lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses definition of lease in IFRS 16. This policy is applied for contracts entered into (or changed) on or after 1 January 2019.

Bank acting as lessee

At commencement or on modification of a contract that contains a lease component, the Bank allocates consideration in the contract to each lease component on the basis of its relative stand-alone price.

The Bank recognizes a right-to-use asset and lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches offices.

Besides, cost of right-to-use asset also includes:
- all payments on lease performed up to the first day of lease term, reduced by eventually received incentives in respect of leasing;
- all initial direct costs generated by lessee and
- estimate of costs that lessee will generate with dismantling and removal of the property in question, restoration of the location of the property or restoration of the property as it is specified in the lease agreement itself. Liability for related costs for lessee occurs at the first day of lease term, or as a consequence of leased asset usage during the particular period.

Right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-to-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The Bank as lessee uses exemptions allowed by standard in a way that short-term lease (up to 1 year) and low-value lease (if the value of leased asset, when new, is below 5,000 EUR net of tax) are not recognized as right-of-use-assets, while all payments that occur in respect to such leases are recognized as expense for the period.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16. Property, plant, equipment, leased assets, investment property and non-current assets held for sale (Continued)

2.16.1. Property, plant and equipment and investment property (Continued)

c) Leased assets (Continued)

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date. Future lease payments are discounted using the interest rate implicit if such rate is readily available. If rate is not easily determinable, the Bank uses incremental borrowing rate of lessee effective at the inception date of lease term.

Lease payments included in the measurement of the lease liability at commencement of lease comprise the following payments related to right-of-use assets during lease term, which are not settled by the commencement date:
- fixed payments, reduced by eventually received incentives in relation to lease;
- variable payments that depend on certain index or rate and which are initially measured using index or rate at the commencement date.
- amounts expected to be payable under residual value guarantee;
- the exercise price under a repurchase option that the Bank is reasonably certain to exercise;
- penalties for early termination of a lease, if lease term shows that the lessee used such option

After initial recognition, lease liabilities are subsequently measured in a way to:
- increase their carrying value, so that interest on lease liability is included
- decrease their carrying value by the amounts paid on leasing; and
- remeasure carrying value with the aim to include all eventual reassessments or changes in lease relevant for its reassessment

Interest on lease liabilities during the lease period will be equal to amount that brings constant periodical rate on the residual lease liability.

Lessee remeasures lease liability by discounting of revised lease payments at revised discount rate (for the remaining lease term) in case of one of the following:
- change in lease maturity
- change in the repurchase option of leased asset

Lease modifications
Lease modification is treated as separate lease when:
such modification expands the lease scope, by adding the right to use of one or more assets, and at the same time rent is increased proportionately to stand-alone price of such expansion and all necessary adjustments of that stand-alone price, in order to reflect the circumstances of the particular contract

If modification of lease is not treated as separate lease, than with the effective date of such modification, the Bank applies standards and allocates compensation from modified contract, determines duration of modified lease term and remeasures lease liability by discounting revised lease payments at revised discount rate.

In case of modification that are is treated as separate lease, lease liability is remeasured in a way to:
- decrease carrying value of right-to-use asset, in order to reflect partial or complete termination of lease for those modifications which decrease the scope of lease. Any gain or loss in respect to partial or full lease termination is recognized in income statement;
- adjust right-to-use asset for all other lease modifications

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.16. Property, plant, equipment and investment property and non-current assets held for sale (Continued)

2.16.1. Property, plant and equipment and investment property (Continued)

(c) Leased assets (Continued)

The Bank discloses right-to-use assets in position Property, plant and equipment and they relate to lease of real estate, vehicles, ICT equipment and other equipment, while disclosed lease liability within item Other liabilities in financial statements.

(d) Depreciation

Depreciation was calculated using the straight-line method applied to the cost of property, plant and equipment, using the following prescribed annual rates in order to write them off over their useful lives, in all accounting periods:

	2021	2020
Buildings	3-%-5%	3% - 5%
Computer equipment	20%	20%
Furniture and other equipment	7% - 25%	7% - 25%

Depreciation of right-of-use assets is calculated at rates that correspond the type of particular leased asset.

In determining the basis for depreciation, the depreciable values of assets equal their cost or revalued amount are not decreased by residual value, since the Bank assesses the residual values of assets as nil.

Calculation of depreciation of property and equipment commences at the beginning of the month following the month when an asset is put into use. Depreciation charge is recognized as expense for the period when incurred.

The useful live of asset is reviewed periodically, and adjusted if necessary, at each balance sheet date. Change in the expected useful life of an asset is considered as a change in an accounting estimate.

Gains or losses from the disposal of property, plant and equipment are credited or debited in the income statement, included in other operating income or other expenses, respectively.

The calculation of depreciation for tax purposes is determined in accordance with the Law on Corporate Income Tax of the Republic of Serbia and the Rules on the Manner of Fixed Assets Classification in Groups and Depreciation for Tax Purposes, which gives rise to deferred taxes (Note 14(c)).

2.16.2. Non-current assets held for sale

In accordance with IFRS 5 "Non-current assets held for sale and discontinued operations", the Bank classifies a fixed asset as a non-current asset held for sale if its carrying amount is expected to be recovered primarily through a sales transaction, rather than through further use. An asset classified as held for sale must be available for immediate sale in its present condition and its sale must be probable.

In order to make sale probable, management of the Bank must be committed to a plan to sell the asset and an active program to locate a buyer and completion of the plan must have been initiated, and the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. The sale should occur within one year from the date of recognition. Events or circumstances out of the Bank's control may prolong sale completion period to more than one year.

A non-current asset classified as held for sale is measured at the lower of: the:
- carrying amount; or
- fair value less costs to sell.

Once a non-current asset is recognized as a held-for sale it is no longer depreciated (Note 19).

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17. Impairment of non-financial assets

In accordance with the adopted accounting policy, at each balance sheet date, the Bank's management reviews the carrying amounts of the Bank's intangible assets, property, plant and equipment and investment property.

If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount, being the higher of an asset's fair value less costs to sell and value in use. Impairment losses, representing the difference between the carrying amount and the recoverable amount of tangible and intangible assets, are recognized in the income statement as required by IAS 36 "Impairment of Assets".

Non-financial assets (other than goodwill) that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

2.18. Provisions and contingencies

Provisions are recognized 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.

In order to be maintained, the best possible estimates are considered, determined and, if necessary, adjusted at each balance sheet date. When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are derecognized in income. Provisions are taken into account in accordance with their type and they can be used only for the expenses they were initially recognized. Provisions are not recognized for future operating losses.

Contingent liabilities are not recognized in the financial statements. Contingent liabilities are disclosed in the notes to the financial statements (Note 29), unless the possibility of outflow of resources embodying economic benefits is remote.

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

2.19. Equity

Equity consists of share capital (ordinary shares), other capital, share premium, reserves from profit and retained earnings.

Dividends on ordinary shares are recognized as a liability in the period in which the decision on their payment has been made. Dividends for the year that are declared after the balance sheet date are disclosed as an event after the reporting period.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20. Employee benefits

(a) Employee taxes and contributions for social security

In accordance with the regulations prevailing in the Republic of Serbia, the Bank is obliged to pay taxes and contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employee and by the employer, in an amount calculated by applying specific rates prescribed by law.

The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on their behalf to transfer the withheld portions directly to the appropriate government funds. The Bank has no legal obligation to pay further benefits due to its employees by the Pension Fund of the Republic of Serbia upon their retirement.

(b) Termination benefits arising from restructuring

Termination benefits are payable when employment is terminated or employee is voluntarily retired, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The Bank recognizes termination benefits when it is demonstrably committed to either: terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal; or provide termination benefits as a result of an offer made to encourage voluntary redundancy in order to decrease number of employees.

(c) Other employee benefits - retirement benefits

In accordance with the Labor Law and Article 31 of the General Collective Agreement, the Bank is obligated to pay retirement benefits in the amount equal to 3 average salaries realized in the Republic of Serbia, according to the latest data published by the state authority responsible for statistics. The entitlement to these benefits usually depends on the employee remaining in service up to retirement age and/or the completion of a minimum service period. The expected costs of these benefits are accumulated over the period of employment.

Provision for retirement benefits and unused days of vacation are calculated by an independent actuary and are recognized in the balance sheet at the present value of discounted estimated future outflows (Note 23(c)).

2.21. Taxes and contributions

(a) Income tax

Current income tax

Current income tax represents the amount that is calculated and paid in accordance with the effective Corporate Income Tax Law of the Republic of Serbia. During the year, the Bank pays income tax in monthly instalments, based on the prior year's Tax return. Final tax base used for calculating income tax at the prescribed rate of 15% is disclosed in the Tax return.

In order to determine the amount of taxable income, accounting profit is adjusted for certain permanent differences, as defined by the tax regulations through Tax balance, which is to be submitted within 180 days after the end of the period for which the tax liability is determined, except in the case of status changes:

- of status changes resulting with taxpayer termination, when tax return is submitted within 60 days from the date of status change
- bankruptcy debtor or legal entity in liquidation, under which bankruptcy proceeding has been suspended due to sell of bankruptcy debtor as legal entity, or liquidation procedure has been terminated – tax return is submitted within 15 days from the date of the decision on termination of bankruptcy/liquidation proceedings validity.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21. Taxes and contributions (Continued)

(a) Income tax (Continued)

Deferred income tax

Deferred income tax is recognized using the balance sheet method on temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rate enacted at the balance sheet date is used to determine the deferred income tax amount.

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

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

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 utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on the official tax rates and regulations that have been enacted or substantively enacted as of the balance sheet date.

Current and deferred taxes are recognized as income or expense and are included in the profit for the period.

Deferred income taxes related to items that are recorded directly in equity are also recorded in equity.

Transfer pricing

Up to the date of Bank's financial statements, Tax balance for 2021 has not been submitted, considering that deadline for its submission is 180 days from the date for which the tax is determined. Bank has calculated tax effects in accordance with provisions of Corporate income tax law. Bank has not yet finished transfer pricing study, however, the management believes that there will not be material effects on 2021, since so far there were no or minimal corrections based on related parties transactions, and there was no significant changes of services types in 2021, compared to the previous year.

2. PREPARATION AND PRESENTATION BASIS OF THE SEPARATE FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21. Taxes and contributions (Continued)

(b) Taxes and contributions not related to operating result

Taxes and contributions not related to operating result include property tax, value added tax, contributions on salaries charged to employer, as well as other taxes and contributions that are paid in accordance with the tax regulations of the Republic of Serbia and local tax regulations. These taxes and contributions are included within other expenses (Note 13).

2.22. Funds managed on behalf of third parties

The funds that the Bank manages on behalf of, and for the account of third parties, are disclosed within off-balance sheet items (Note 26). The Bank bears no risk in respect of repayment of these placements.

3. INTEREST INCOME AND INTEREST EXPENSES

(a) Interest income and expenses by sector structure are presented as follows:

		In RSD thousand
	2021	**2020**
Interest income		
– Central bank and other banks	173,870	343,441
– Corporate customers	5,792,787	5,453,297
– Retail customers	14,404,879	13,555,052
– Public sector	1,750,195	2,156,714
– Foreign banks and financial organizations	49,075	86,038
– Foreign entities	70,147	545,816
– Other customers	74,316	69,632
Total	**22,315,269**	**22,209,990**
Interest expenses		
– Central bank and other banks	(44,535)	(104,373)
– Corporate customers	(131,047)	(276,880)
– Retail customers	(323,921)	(455,422)
– Public sector	(177,639)	(262,137)
– Foreign banks and financial organizations	(289,646)	(308,057)
– Foreign entities	(2,221)	(3,714)
– Other customers	(25,773)	(3,190)
Total	**(994,782)**	**(1,413,773)**
Net interest income	**21,320,487**	**20,796,217**

Total interest income on impaired loans for the year ended 31 December 2021 amounts to RSD 9.421 thousand (2020: RSD 29.992 thousand).

3. INTEREST INCOME AND INTEREST EXPENSES (Continued)

(b) Interest income and expenses by type of financial instruments are presented as follows:

		In RSD thousand
	2021	2020
Interest income		
Loans	20,203,893	19,737,669
REPO transactions	35,104	58,484
Obligatory reserves	41,801	110,891
Deposits	66,372	138,729
Securities	1,805,572	1,984,872
Other placements	162,527	179,345
Total	**22,315,269**	**22,209,990**
Interest expenses		
Loans	(293,652)	(314,749)
REPO transactions	(3,794)	
Deposits	(663,263)	(1,065,484)
Leasing	(34,061)	(33,222)
Other interest expenses	(12)	(318)
Total	**(994,782)**	**(1,413,773)**
Net interest income	**21,320,487**	**20,796,217**

(c) Interest income and expenses by measurement method are presented as follows:

		In RSD thousand
	2021	2020
Interest income		
Financial assets at amortized cost	20,734,651	20,287,433
Financial assets fair value through OCI	1,580,618	1,922,557
Total	**22,315,269**	**22,209,990**
Interest expenses		
Financial assets at amortized cost	(994,782)	(1,413,773)
Total	**(994,782)**	**(1,413,773)**
Net interest income	**21,320,487**	**20,796,217**

Interest income calculated using the effective interest method as of 31 December 2021 is 22.315.269 RSD (2020: RSD 22.209.990 thousand), it is refer on financial assets at amortized cost and Financial assets fair value through OCI.

4. FEE AND COMMISSION INCOME AND EXPENSES

						In RSD thousand
	RETAIL		CUSTOMERS (except retail)		UKUPNO	
	2021	2020	2021	2020	2021	2020
Fee and commission income						
Fee for banking services:						
– Domestic payment transaction services	1,093,343	960,429	2,436,823	1,650,184	3,530,166	2,610,613
– International payment transaction services	260,446	208,139	900,058	740,268	1,160,504	948,407
– Loan operations	124,979	84,481	308,425	190,666	433,404	275,147
– Cards operations	1,388,096	999,081	4,297,465	3,261,250	5,685,561	4,260,331
Total	**2,866,864**	**2,252,130**	**7,942,771**	**5,842,368**	**10,809,635**	**8,094,498**
Commissions related to issued guaranties and letter of credits	217,506	205,762	583,271	666,296	800,777	872,058
Current accounts maintenance	2,208,730	2,068,373	477,602	469,740	2,686,332	2,538,113
Fees slips, EDB and Telekom	104,258	107,488	-	-	104,258	107,488
Other fee and commission	235,067	63,284	214,315	149,918	449,382	213,202
Fees for the purchase and sale of foreign means of payment	989,531	249,536	3,148,870	3,976,772	4,138,401	4,226,308
Total	**6,621,957**	**4,946,573**	**12,366,829**	**11,105,094**	**18,988,785**	**16,051,667**
Fee and commission expenses						
Payment services fee:						
– Domestic	-	-	(217,196)	(204,347)	(217,196)	(204,347)
– International	-	-	(195,196)	(176,416)	(195,196)	(176,416)
National Bank of Serbia's fee and commission	-	-	(88,667)	(75,477)	(88,667)	(75,477)
Credit Bureau's fees	-	-	(129,884)	(110,611)	(129,884)	(110,611)
Cards operations fee	-	-	(4,348,847)	(3,428,104)	(4,348,847)	(3,428,104)
Other fees and commissions	-	-	(596,824)	(330,375)	(596,824)	(330,375)
Fees for the purchase and sale of foreign means of payment	(234,974)	(135,323)	(1,750,032)	(3,058,755)	(1,985,006)	(3,194,078)
Total	**(234,974)**	**(135,323)**	**(7,326,647)**	**(7,384,085)**	**(7,561,620)**	**(7,519,408)**
Net fee and commission income	**6,386,983**	**4,811,250**	**5,040,182**	**3,721,009**	**11,427,165**	**8,532,259**

5. NET GAINS/LOSSES FROM CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

		In RSD thousand
	2021	**2020**
Gains from changes in value of:		
- currency swap	514,053	574,915
- forward	363,802	17,454
- financial instruments measured at fair value through profit and loss account- Securities	22,954	6,997
- gold and silver	15,263	21,618
- liabilities at arising from purchased shares-ISP	-	38
Total	**916,072**	**621,022**
Losses from changes in value of:		
- currency swap	(12,155)	(130,982)
- financial instruments measured at fair value through profit and loss account- Securities	(13,818)	(15,658)
- gold and silver	(11,705)	(12,120)
- liabilities at arising from purchased shares-ISP	(18)	(25)
Total	**(37,696)**	**(158,785)**
Net gains	**878,376**	**462,237**

6. NET GAINS/LOSSES ARISING FROM DERECOGNATION OF FINANCIAL INSTRUMENTS

a) Measured at fair value

		In RSD thousand
	2021	**2020**
Gains arising from derecognition of:		
- financial instruments measured at fair value through profit and loss	461	571
- financial instruments measured at fair value through OCI	-	361,974
Total	**461**	**362,545**
Losses arising from derecognition of:		
- financial instruments measured at fair value through profit and loss	4,976)	(97)
Total	**(4,976)**	**(197)**
Net gains/(losses)	**(4,515)**	**362,348**

b) Measured at amortized cost

		In RSD thousand
	2021	**2020**
Gains arising from derecognition of:		
- financial instruments measured at amortized cost	93,934	81,961
Total	**93,934**	**81,961**
Net gains/(losses)	**93,934**	**81,961**

7. NET FOREIGN EXCHANGE GAINS AND EFFECTS OF CONTRACTED FOREIGN CURRENCY CLAUSE

		In RSD thousand
	2021	2020
Net foreign exchange gains	-	300,331
Net foreign exchange losses	(417,762)	-
Net negative effects of contracted foreign currency clause application	(777)	(19,692)
Net gains	**(418,539)**	**280,639**

8. NET GAINS/LOSSES ARISING FROM IMPAIRMENT OF FINANCIAL ASSETS NOT CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Overview by classes

	2021	2020
Revenue from reversal of impairment of financial assets at amortized cost	3,770,034	5,547,463
Revenue from reversal of provisions from off-balance sheet items	275,163	125,462
Revenues from collected written-off financial assets at amortized cost	290,142	201,743
Revenue from reversal of impairment of financial assets at fair value through OCI	71,703	279,880
Revenue from modifications of financial assets at amortized cost	-	8,715
Total	**4,407,042**	**6,163,263**
Impairment losses of financial assets at amortized cost	(7,055,941)	(9,244,702)
Provisions losses from off-balance sheet items	(239,606)	(268,816)
Written-off uncollectible financial assets at amortized cost	(29,377)	(46,955)
Impairment losses on financial assets at fair value through OCI	(348,507)	(39,941)
Losses from modifications of financial assets at amortized cost	-	(730,427)
Total	**(7,673,431)**	**(10,330,841)**
Net impairment loss	**(3,266,389)**	**(4,167,578)**

During 2020, the Bank calculated loss on modification of contractual terms on loans in the amount RSD 730,427 thousand, net, which does not result in derecognition of related financial asset.

During 2020 National bank of Serbia made decisions on temporary measures for preserving financial system stability as a result of Covid-19 pandemic (Official gazette RS 33/103 and 103/2020) as well as instruction of its implementation. As the mentioned bylaws lead to a change in the agreed conditions of the financial asset (primarily the dynamics of the agreed cash flows), i.e. their modification, which in this case is not significant, i.e. does not lead to derecognition of the financial asset, the Bank in accordance of the requirements of IFRS 9, recorded modification loss which reduced amortized cost of existing financial assets which continue to recognize.

According to the Bank's management assessment, modification loss on financial assets for 2019, that does not result in derecognition of financial asset, was not material, and therefore was not recognized in statement of profit and loss.

Modified financial assets

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL

	In thousands RSD
	2020
Financial assets modified since initial recognition	
Gross carrying amount of financial assets previously modified for which loss allowance has changed during the period to an amount equal to 12 month ECL from lifetime	6,227,844

The gross book value of financial assets which were modified in 2020, while the expected credit losses were valued at Lifetime ECL, as on 31st December 2021, is RSD 25,949,706 (in thousands). Out of that amount, RSD 14,762,531 (in thousands) refers to the receivables for which the expected losses are valued on 31st December 2021 and onwards for the entire Lifetime of the financial instrument.

8. NET GAINS/LOSSES ARISING FROM IMPAIRMENT OF FINANCIAL ASSETS NOT CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

(b) Movements in the allowance for impairment of financial assets and provisions for credit

risk-weighted off-balance sheet items

Movements in the allowance for impairment of balance-sheet items and provisions during the years ended 31 December 2021 and 2020 were as follows:

Movements in the allowance for impairment and provisions in 2021	**In RSD thousand**
Opening balance – 1st January 2021	**15,841,335**
Charge for the year	7,295,547
Reversal of impairment losses and release of provisions during the year	(4,045,197)
Increase in provisions due to exchange rate changes	14,120
Reversal of provisions due to exchange rate changes	(7,337)
Transfer to off-balance sheet items	(1,775,050)
Sale (transfer) of receivables	(121,220)
Reversal of provisions due to passage of time (unwinding)	(9,421)
Closing balance - 31 December 2021	**17,192,776**

Off-balance exposure that are written-off during 2021 amount 1,894 million dinars as of 31 December 2021 and are still subject of collection techniques.

Movements in the allowance for impairment and provisions in 2020	**In RSD thousand**
Opening balance – 1st January 2020	**13,345,318**
Charge for the year	9,513,557
Reversal of impairment losses and release of provisions during the year	(5,672,926)
Reversal of impairment losses and release of provisions during the year due to CHF loan conversion	15,106
Increase in provisions due to exchange rate changes	(17,604)
Reversal of provisions due to exchange rate changes	(1,195,662)
Transfer to off-balance sheet items	(116,462)
Sale (transfer) of receivables	(29,992)
Reversal of provisions due to passage of time (unwinding)	
Closing balance - 31 December 2020	**15,841,335**

9. OTHER OPERATING INCOME

		In RSD thousand
	2021	**2020**
Property rental income	24,871	18,906
Reimbursed expenses	1,910	865
Income from dividends and equity interests	10,941	-
Income from fees from Credit biro	33,271	26,885
Income from IT services from foreign banks	15,841	20,167
Other income	64,682	63,338
Total	**151,516**	**130,161**

10. SALARIES, COMPENSATIONS AND OTHER PERSONAL EXPENSES

		In RSD thousand
	2021	2020
Net salaries	4,154,423	3,897,606
Tax on employee benefits	506,075	478,497
Contributions on employee benefits	2,007,207	1,874,907
Expenses for temporary and occasional work	49,338	64,286
Other personal expenses	122,373	41,206
Provisions for retirement benefits and other employee benefits	23,207	20,379
Total	**6,862,623**	**6,376,881**

11. DEPRECIATION AND AMORTIZATION

		In RSD thousand
	2021	2020
Depreciation and amortization:		
– Amortization of intangible assets (Note 18)	1,024,498	959,081
– Depreciation of fixed assets and investment property (Note 19)	1,212,741	1,141,488
Total	**2,237,239**	**2,100,569**

12. OTHER INCOME

	In RSD thousand	
	2021	2020
Release of unused provisions of liabilities	74,689	29,894
Gains from sales of fixed assets	71,632	68,442
Gains from use of write-offs assets and variable lease payments	1,776	883
Surpluses	35,031	7,092
Income from rent reduction due Covid 19 (Note 19)	-	4,860
Other income	86,805	254,432
Total	**269,933**	**365,603**

13. OTHER EXPENSES

	2021	2020
Material, energy and spare parts	351,009	479,299
IT costs	896,111	913,594
Maintenance of software	624,455	826,851
Professional services	975,168	305,171
Advertising, marketing and entertainment expenses	239,877	150,734
Mail and telecommunication expenses	413,795	330,350
Insurance premiums	2,481,594	2,213,595
Maintenance of property, plant and equipment	249,341	277,278
Rental cost	303,154	293,081
Fees and commissions	124,347	114,581
Taxes and contributions	102,878	96,961
IFRS 16 tax expenses	98,365	95,085
Physical-technical security	210,415	208,859
General and administrative expenses	412,402	397,606
Expenses for provisions for liabilities	1,337,459	467,922
Impairment of lend plant equipment and intangible assets	-	17,689
Losses from write-off property with right of use and variable lease payments	1,042	617
Other expenses	682,733	343,607
Total	**9,504,145**	**7,532,880**

14.INCOME TAXES

(a) Components of income taxes

The components of income taxes are:

		In RSD thousand
	2021	**2020**
Current income tax	1,503,828	1,257,729
Income from deferred tax assets and reduction of deferred tax liabilities	(213,179)	(76,507)
Expenses from reduction of deferred tax assets and creation of deferred tax liabilities	185,953	170,738
Total income tax expense	**1,476,602**	**1,351,960**

(b) Numerical reconciliation of income tax recognized in the income statement and profit for the year before tax multiplied by the prescribed income tax rate

		In RSD thousand
	2021	**2020**
Profit before tax	**10,833,517**	**10,833,517**
Income tax at the rate of 15%	**1,777,194**	**1,625,028**
Tax effects of expense reconciliation – non-deductible expenses	8,332	8,488
Tax effects of revenue reconciliation – tax exempt income	(242,358)	(297,156)
Temporary differences on the basis of:		
Depreciation differences recognized for tax and statutory reporting	(15,398)	22,592
Other Payment to employees	(587)	(332)
Unpaid and paid taxes and similar tax duties	3,020	5,199
Changes within real estate properties	(16,021)	1,106
Created and used provisions for liabilities and charges	157,766	56,999
The first-time IFRS9 adoption	(142,966)	(142,966)
Other adjustments	(336)	3,588
Tax credit established in accordance with the Law on Conversion of Housing Loans Indexed in CHF	(24,818)	(24,817)
Effects of temporary differences	(27,226)	(94,231)
Current income tax stated in the income statement	**1,476,602**	**1,351,960**
Effective tax rate	***12.46%***	***12.48%***

For the purpose of determining legal obligations arising from income tax for the period 1 January - 31 December 2021, the Bank has adjusted expenditure and income reported in the income statement in accordance with the legal provisions.

The most significant amount is tax exemption of interest income generated from debt securities issued by the Republic, local governments and the National Bank of Serbia, and they are excluded from the tax base in the total amounting to RSD 1.615.723 thousand, which resulted in a tax effect in the amount of RSD 242.358 thousand, for 2021 (31 December, 2020, tax base: RSD 1.981.042 thousand; tax effect RSD 297.156 thousand).

Also, in accordance with the regulations, the Bank has decreased tax base for one fifth (fourth of five) of the IFRS 9 first time adoption tax effects 953,110 thousand RSD, registered at the date of the standard first application (1 January, 2018) by debiting Retained earnings from previous years in full amount of 4,765,550 thousand RSD, which resulted in tax effect of RSD 142,966 thousand (total for five years: 714,832 thousand dinars).
In 2022, remaining tax base adjustments will be done in accordance with Corporate Income Tax law provisions, up to amount of total IFRS 9 FTA effects.

14.INCOME TAXES (Continued)

(c) Deferred Tax Assets

In accordance with IAS 12, ˝Income Tax˝, deferred tax assets and liabilities relate to taxable temporary differences between carrying amounts of tangible and intangible assets and their tax bases, temporary differences based on unpaid taxes that will be recognized in subsequent period, as well as for other temporary differences.

The most significant changes in deferred tax assets relate to the decrease of tax assets from using the first application of IFRS 9 effects, in the net amount of RSD 142,966 thousand, as well as for usage of the first half of tax credit calculated in the amount of 2% of the remaining debt (RSD 2,481,751 thousand), established in accordance with the Law on Conversion of Housing Loans Indexed in Swiss francs, which represents a tax credit of RSD 27,818 thousand, and it will be proportionally used in the period 2020-2021.

Movements in deferred tax assets are shown in the next tables:

				In RSD thousand
2021 **In RSD thousand**	**Balance as of 1 January**	**Recognized to income statement**	**Recognized to OCI**	**Balance as of 31 December**
Temporary differences of depreciation recognized for tax and statutory reporting	139,746	50,832	-	190,578
DTA in respect to payment to employees	605	(587)	-	18
Temporary differences based on unpaid and paid taxes and similar tax duties	17,504	3,020	-	20,524
DTA based on provisions for liabilities and charges	92,201	15,328	-	251,529
DTA based on other liabilities	1,561	(1,561)	-	-
DTA based on real estate property impairment	26,197	(16,021)	-	10,176
DTA based on impairment of other assets	402	-	-	402
Tax effects of the first-time IFRS9 adoption	285,934	(142,966)	-	142,968
Tax credit in amount of 2% of remaining debt determined in accordance with Law on Conversion of housing loans indexed in CHF	24,818	(24,818)	-	-
Total	**588,968**	**27,227**	**-**	**616,195**

				In RSD thousand
2020 **In RSD thousand**	**Balance as of 1 January**	**Recognized to income statement**	**Recognized to OCI**	**Balance as of 31 December**
Temporary differences of depreciation recognized for tax and statutory reporting	129,166	10,580	-	139,746
DTA in respect to payment to employees	937	(332)	-	605
Temporary differences based on unpaid and paid taxes and similar tax duties	12,305	5,199	-	17,504
DTA based on provisions for liabilities and charges	36,763	56,999	-	93,762
DTA based on real estate property impairment	25,091	1,106	-	26,197
DTA based on impairment of other assets	402	-	-	402
Tax effects of the first-time IFRS9 adoption	428,900	(142,966)	-	285,934
Tax credit in amount of 2% of remaining debt determined in accordance with Law on Conversion of housing loans indexed in CHF	49,635	(24,817)	-	24,818
Total	**683,199**	**(94,231)**	**-**	**588,968**

14. INCOME TAXES (Continued)

(c) Deferred Tax Assets and Liabilities (Continued)

Movements in deferred tax liabilities were as follows:

2021 **In RSD thousand**	**Balance as of 1 January**	**Recognized to income statement**	**Recognized to OCI**	**Balance as of 31 December**
Deferred tax liabilities based on real estate fair value model and its sale	168.745	-	(486)	168.259
Deferred tax liabilities based on gains/losses from debt instruments - FV OCI	-	-	111.499	111.499
Total	**168,745**	**-**	**111,013**	**279,258**

2020 **In RSD thousand**	**Balance as of 1 January**	**Recognized to income statement**	**Recognized to OCI**	**Balance as of 31 December**
Deferred tax liabilities based on real estate fair value model and its sale	106,182	-	62,563	168,745
Total	**106,182**	**-**	**62,563**	**168,745**

(d) Final current tax liability

Bank has finally calculated current tax liability reported in the balance sheet at 31 December 2021 amount to RSD 355,986 thousand (31 December 2019: RSD 198,681 thousand, current tax assets), and has been created by decreasing the amount of current income tax liability by the amount of prepaid income taxes for 2021, paid during 2021.

15. CASH AND BALANCES WITH CENTRAL BANK

(a) Cash and balances with central bank

		In RSD thousand
	2021	**2020**
In RSD		
Gyro account	65,979,162	71,535,618
Cash on hand	15,689,075	12,474,129
Accruals on cash and cash equivalents with Central Bank	297	-
	81,668,534	**84,009,747**
In foreign currency		
Cash on hand	7,295,528	7,827,467
Other monetary assets	24,725	19,111
Obligatory reserves with the National Bank of Serbia	46,631,680	50,134,789
	53,951,933	**57,981,367**
Gold and precious metals	83,763	80,205
Balance as of 31 December	**135,704,23**	**142,071,319**

(b) Overview of the differences between cash stated in the Statement of Cash Flows and Balance Sheet as of 31 December 2021:

			In RSD thousand
	Balance sheet	**Cash flows***	**Difference**
In RSD			
Gyro account	65,979,162	65,979,162	-
Cash on hand	15,689,075	15,689,075	-
Accruals on cash and cash equivalents with Central Bank	297	-	297
	81,668,534	**81,668,237**	**297**
In foreign currency			
Cash on hand	7,295,528	7,295,528	-
Other monetary assets	24,725	24,725	-
Obligatory reserve with the NBS	46,631,680	-	46,631,680
Foreign currency accounts (Balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	36,773,301	(36,773,301)
Cheques in foreign currency (Balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	12,529	(12,529)
	53,951,933	**44,106,083**	**9,845,850**
Gold and other precious metals	83,763	83,763	-
Balance as of 31 December	**135,704,230**	**125,858,083**	**9,846,147**

15. CASH AND BALANCES WITH CENTRAL BANK (Continued)

(b) Overview of the differences between cash stated in the Statement of Cash Flows and Balance Sheet as of 31 December 2020:

			In RSD thousand
	Balance sheet	**Cash flows***	**Difference**
In RSD			
Gyro account	71,535,618	71,535,618	-
Cash on hand	12,474,129	12,474,129	-
	84,009,747	**84,009,747**	**-**
In foreign currency			
Cash on hand	7,827,467	7,827,467	-
Other monetary assets	19,111	19,111	-
Obligatory reserve with the NBS	50,134,789	-	50,134,789
Foreign currency accounts (balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	25,932,950	(25,932,950)
Cheques in foreign currency (balance-sheet item Loans and receivables from banks and other financial organizations/customers)	-	14,324	(14,324)
	57,981,367	**33,793,852**	**24,187,515**
Gold and other precious metals	80,205	80,205	-
Balance as of 31 December	**142,071,319**	**17,883,804**	**24,187,515**

(*)

15. CASH AND BALANCES WITH CENTRAL BANK (Continued)

c) Changes on financing activities, received loans

		In RSD thousand
	2021	**2020**
Opening balance 1 January	29,643,082	24,961,907
Inflow from borrowings	8,603,056	10,171,300
Outflow from borrowings	(5,053,061)	(5,497,727)
Exchange Rate Effect	8,380	7,602
Closing balance - 31 December	**33,201,457**	**29,643,082**

16.FINANCIAL ASSETS CLASSIFICATION

a) Receivables from derivatives

		In RSD thousand
	2021	2020
In RSD		
Financial derivatives	433,793	49,832
Balance as of 31 December	**433,793**	**49,832**

Nominal values regarding financial derivatives are disclosed within Note 28.1 Credit risk, Derivative financial instruments part and refers to Currency (FX) Swap and Forward.

b) INVESTMENTS IN SUBSIDIARIES AND SECURITIES

					In RSD thousand
					2021
	Securities carried at fair value through Profit and Loss	Securities carried at fair value through OCI	Securities carried at amortized cost	Investments in subsidiaries	Total
– Shares and equity investment	143,408	13,351	-	1,199,472	1,356,231
– Debt securities issued by the Republic of Serbia	1,161,901	72,331,121	-	-	73,493,022
- Accrued interest on debt securities issued by the Republic of Serbia	37,401	2,382,476	-	-	2,419,877
-Corporate bonds	-	-	5,836,652	-	5,836,652
Balance as of 31 December	**1,342,710**	**74,726,948**	**5,836,652**	**1,199,472**	**83,105,782**

					In RSD thousand
					2020
	Securities carried at fair value through Profit and Loss	Securities carried at fair value through OCI	Securities carried at amortized cost	Investments in subsidiaries	Total
– Shares and equity investment	74,838	14,154	-	1,199,472	1,288,646
– Debt securities issued by the Republic of Serbia	38,315	81,955,626	-	-	81,993,941
- Accrued interest on debt securities issued by the Republic of Serbia	285	2,382,763	-	-	2,383,048
-Corporate bonds	-	-	5,841,028	-	5,841,028
Balance as of 31 December	**113,438**	**84,352,543**	**5,841,028**	**1,199,472**	**91,506,481**

16.FINANCIAL ASSETS CLASSIFICATION (Continued)

(c) SECURITIES AND INVESTMENTS PER SHARE

		In RSD thousand
	2021	2020
Investment in subsidiaries		
– Intesa Leasing d.o.o., Beograd share 100%	962,496	962,496
– Intesa Invest, Beograd share 100%	236,976	236,976
	1,199,472	**1,199,472**
Debt securities carried at fair value through profit and loss		
INTESA SANPAOLO	143,408	74,838
BONDS OF THE MINISTRY OF FINANCE OF THE REPUBLIC OF SERBIA	1,199,302	38,600
	1,342,710	**113,438**
Debt securities carried at fair value through OCI		
BONDS OF THE MINISTRY OF FINANCE OF THE REPUBLIC OF SERBIA	74,713,597	83,527,339
Other	13,351	14,154
Fer value adjustment	286,061	797,215
	74,726,948	**84,352,543**
Debt securities carried at amortized cost		
Corporate bonds	5,875,000	5,875,000
Allowance for impairment	(38,348)	(33,972)
	5,836,652	**5,841,028**
Balance as of 31 December	**83,105,782**	**91,506,481**

17. LOANS AND RECEIVABLES FROM BANKS, CUSTOMERS AND OTHER FINANCIAL ORGANIZATIONS

(a) LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL ORGANIZATIONS

		In RSD thousand
	2021	**2020**
In RSD		
Loans under reverse repo transactions	7,000,000	-
Receivables for calculated interest	18	356
Liquidity and current assets loans	2,315,196	9,876,180
Investment loans	1,008	517,747
Other loans (a)	5,499	2,002,542
Other placements (b)	178,830	-
Deferred income on receivables carried at amortized cost using the effective interest rate	3,470,310 (3,006)	1,293,440 (22,358)
Accrued interest calculated on the basis of loans, deposits and other placements	1,421	11,978
Total in RSD	**12,969,276**	**13,679,885**
In foreign currency		
Foreign currency accounts (c)	36,778,788	25,942,854
Cheques	12,529	14,324
Placements approved and due with one day (overnight)	1,542,889	860,973
Other loans	1,981	877
Other non-purpose deposits	4,572,753	1,566,455
Special-purpose deposits	4,703	4,703
Other purpose deposits	256,329	256,325
Other placements (b)	433,242	11,106,647
Accrued interest calculated on the basis of loans, deposits and other placements	27	7,492
Total in foreign currency	**43,603,241**	**39,760,650**
Gross loans and receivables	**56,572,517**	**53,440,535**
Less: Allowance for impairment		
– in RSD	(6,322)	(15,408)
– in foreign currency	(8,739)	(20,726)
	(15,061)	(36,134
Balance as of 31 December	56,557,456	53,404,401

(a) Other loans in RSD as at 31 December 2021 in amount of RSD 5.499 thousand (31 December 2020: 2.002.542 thousand) mostly consist of other short term loans in dinars to other banks in amount of RSD 2,000,000 thousand.

(b) Other placements in as at 31 December 2021 in amount of RSD 3.470.310 thousand (31 December 2020: RSD 1.293.440 thousand) and in foreign currency as at 31 December 2021 RSD 433.242 (31 December 2020: RSD 11.106.647 thousand) refers to the purchase and sale of foreign currency.

17. LOANS AND RECEIVABLES FROM BANKS, CUSTOMERS AND OTHER FINANCIAL ORGANIZATIONS (Continued)

(b) LOANS AND RECEIVABLES FROM CUSTOMERS

		In RSD thousand
	2021	**2020**
In RSD		
Receivables for calculated interest	3,596,320	5,097,220
Accrued fee and commission	52	327
Current account loans	4,533,568	4,520,097
Consumer loans	2,608,555	2,487,649
Liquidity and current assets loans	129,481,556	104,240,141
Loans for export	110,648	655,718
Investment loans	88,269,255	96,315,613
Mortgage loans	114,689,760	94,377,634
Cash loans	65,894,030	52,850,147
Other loans	28,350,049	37,803,016
Receivables based on purchased placements - forfeiting	813,308	354,946
Receivables based on factoring without the right of recourse and reverse factoring	7,864,408	4,148,362
Receivables based on factoring with the right of recourse	524,107	361,933
Placements based on acceptances, endorsements and payments made under guarantees	3,000	18,090
Placements on ceded receivables on other grounds	1,734,720	1,810,862
Deferred income on receivables carried at amortized cost using the effective interest rate	(954,913)	(1,027,885)
Accrued interest calculated on the basis of loans, deposits and other placements	895,724	872,528
Accrued other income calculated on the basis of loans, deposits and other placements	-	154
Total in RSD	**448,414,147**	**404,886,552**
In foreign currency		
Interest receivable	57,199	68,245
Loans for payment of import of goods and services in foreign currency	14,978,032	16,578,081
Loans for the purchase of immovable property in the country approved to a natural person	4,722	2,657
Other loans	1,678,458	2,343,048
Receivables from factoring without recourse factoring and reverse	713,364	462,104
Accrued interest calculated on the basis of loans, deposits and other placements	42,193	45,468
Total in foreign currency	**17,473,968**	**19,499,603**
Gross loans and receivables	**465,888,115**	**424,386,155**
Less: Allowance for impairment		
– in RSD	(16,393,142)	(14,545,224)
– in foreign currency	(176,861)	(702,050)
	(16,570,003)	**(15,247,274)**
Balance as of 31 December	**449,318,112**	**409,138,881**

17. LOANS AND RECEIVABLES FROM BANKS, CUSTOMERS AND OTHER FINANCIAL ORGANIZATIONS (Continued)

(c) OVERVIEW BY TYPE OF CLIENT

			2021			2020
	Short-term (up to one year)	Long-term (more than one year)	Total	Short-term (up to one year)	Long-term (more than one year)	Total
In RSD						
Loans and receivables						
– Central bank, banks and other financial sector and insurance						
te customers	8,889,191	1,080,085	9,969,276	3,305,418	10,374,467	13,679,885
– Corporate customers	50,365,121	157,099,159	207,464,280	34,668,370	154,000,604	188,668,974
– Retail customers	3,973,525	225,905,307	229,878,832	2,800,714	200,643,149	203,443,863
– Public sector	15,059	8,067,056	8,082,115	1,043,010	9,577,041	10,620,051
– Foreign banks and financial organizations	3,000,000	-	3,000,000	-	-	-
– Foreign entities	733	265,326	266,059	795	307,911	308,706
– Other customers-non-profit institutions	648	25,732	26,380	123	42,156	42,279
– Other customers non-budgeted legal entities and institutions	28,241	1,318,244	1,346,485	18,226	910,767	928,993
– Other customers- companies and other legal entities in bankruptcy	1,031,653	318,341	1,349,994	356,959	516,727	873,686
Total in RSD	**67,304,171**	**394,079,250**	**461,383,421**	**42,193,615**	**376,372,822**	**418,566,437**
In foreign currency						
– Central bank, banks and other financial sector and insurance	357,450	1,982	359,432	1,586,978	877	1,587,855
– Corporate customers	206,262	14,836,200	15,042,462	62,305	16,475,486	16,537,791
– Retail customers	49,144	755,497	804,641	39,398	699,619	739,017
– Public sector	1,813	160,449	162,262	2,225	196,681	198,906
– Foreign banks and financial organizations	43,243,810	-	43,243,810	38,172,795	-	38,172,795
– Foreign entities	672,232	789,745	1,461,977	449,661	1,570,292	2,019,953
– Other customers-non-profit institutions	-	1,738	1,738	-	2,966	2,966
– Other customers non-budgeted legal entities and institutions	-	412	412	-	872	872
– Other customers- companies and other legal entities in bankruptcy	434	43	477	50	48	98
Total in foreign currency	**44,531,145**	**16,546,066**	**61,077,211**	**40,313,412**	**18,946,841**	**59,260,253**
Gross loans and receivables	**111,835,316**	**410,625,316**	**522,460,632**	**82,507,027**	**395,319,663**	**477,826,690**
Less: Allowance for impairment - banks and other financial organizations	(14,473)	(588)	(15,061)	(30,969)	(5,165)	(36,134)
Less: Allowance for impairment- customers	(1,595,909)	(14,974,094)	(16,570,003)	(1,465,332)	(13,781,942)	(15,247,274)
	(1,610,382)	**(14,974,682)**	**(16,585,064)**	**(1,496,301)**	**(13,787,107)**	**(15,283,408)**
As at dan 31 December	**110,224,934**	**395,650,634**	**505,875,568**	**81,010,726**	**381,532,556**	**462,543,282**

17. LOANS AND RECEIVABLES FROM BANKS, CUSTOMERS AND OTHER FINANCIAL ORGANIZATIONS (Continued)

Short-term loans have been granted to companies for funding business activities within the following sectors: trade and services, manufacturing, construction, agriculture and food industry, as for the other purposes, with interest rates ranging from 1.94% and 8.4% per annum on RSD loans, and from 0.62% and 6.1% per annum on loans with the foreign currency clause and foreign currency loans.

Interest rates on the long-term loans to legal entities in RSD range from 1.94% and 8.4%, and on RSD long-term loans with the foreign currency clause, as well as on foreign currency loans, from 0.64% and 5.8% per annum.

Short-term loans to retail customers, have been approved with interest rates ranging from 4.99% to 15.00% per annum for loans with no currency clause.

Short-term loans to small business customers, have been approved with interest rates ranging from 3.00% to 14% per annum for loans with no currency clause, and from 1.90% do 8.90% per annum for loans with the foreign currency clause.

Interest rates on overdrafts on retail current accounts range from 23.88% to 29.85% per annum and for small corporate customers from 4.50% to 24% per annum.

Short-term loans to registered agriculture farmers have been approved with interest rates ranging from 4.99% to 9.90% per annum for loans with no currency clause, and from 4% to 7.50% per annum for loans with the foreign currency clause.

Long-term loans to retail customers have been granted as non-purpose loans, consumer goods purchase loans, renovation, adaptation and the purchase of the residential and business space for the period from 13 months to 30 years with interest rates ranging from 1.13% to 6.97% per annum for loans with the foreign currency clause, as well as from 4.07% to 15.00% for the loans with no currency clause.

Long-term loans to small businesses have been granted as non-purpose loans, consumer goods purchase loans, for the period from 13 to 24 months with interest rate ranging from 3.08% to 14% per annum on loans without the foreign currency clause and from 1.6% to 10.00% per annum on loans with the foreign currency clause, while long-term loans for adaptation and the purchase of the residential and business space for the period from 13 months to 10 years with interest rates ranging from 3%+3m EURIBOR to 5.90%+3M EURIBOR per annum for loans with the foreign currency clause.

Long-term loans to registered agriculture farmers have been granted as purpose loans (loans for fixed assets) and non-purpose loans (for the period from 12 months to maximum 24 months), and for working capital. Loans with a term of repayment over 24 months have been approved with interest rates ranging from 3% to 9.50%+6m EURIBOR, for loans with the foreign currency clause, i.e. from 4.25% to 9.90% for loans from 13 months to 24 months for loans with no currency clause.

18. INTANGIBLE ASSETS

	Licenses	Software	Intangible assets under construction	Total
				In RSD thousand
COST				
Balance as of 1 January 2019	**483,323**	**3,309,195**	**2,988,383**	**6,780,901**
Additions during the year	-	-	2,054,875	2,054,875
Transfers	-	4,842,706	(4,842,706)	-
Balance as of 31 December 2019	483,323	8,1551,901	200,552	8,835,776
Additions during the year	-	-	996,985	996,985
Transfers	-	1,125,441	(1,125,441)	-
Disposals and write offs	(711)	(16,054)	-	(16,765)
Balance as of 31 December 2020	**482,612**	**9,261,288**	**72,096**	**9,815,996**
ACCUMULATED				
AMORTIZATION				
Balance as of 1 January 2019	**483,332**	**2,522,712**	**-**	**3,006,035**
Amortization charge (Note 11)	**-**	**480,776**	**-**	**480,776**
Balance as of 31 December 2019	**483,323**	**3,003,488**	**-**	**3,486,811**
Amortization charge (Note 11)	-	959,082,	-	959,082
Disposals and write offs	(711)	(14,932)	-	(15,643)
Balance as of 31 December 2020	**482,612**	**3,947,638**	**-**	**4,430,250**
Carrying value as of:				
– 31 December 2020	**-**	**5,313,650**	**72,096**	**5,385,746**
– 31 December 2019	**-**	**5,148,413**	**200,552**	**5,348,965**

During 2021, the Bank sold part of the new Core information system (license) in the amount of RSD 497,781. On that occasion Banca generated revenue in the amount of RSD 64,227 thousand. With the agreement on the purchase and sale of business assets between the Bank and IVS Belgrade, the license for the Flexcube software became the permanent property of IVS Belgrade Branch.
The largest part of the investment in software in 2021 relates to software Digital integration RSD 217,574.

19. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY AND NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

(a) Property, plant and equipment and investment property

	Land and buildings	Equipment and equipment under finance lease	Leasehold improvements	Construction in progress	Right of use assets	Total property, plant and equipment
						In RSD thousand
COST/REVALUATION						
Balance as of 1 January 2020	**6,991,691**	**4,240,726**	**941,473**	**22,824**	**2,459,547**	**14,656,261**
Additions during the year				900,534		900,534
Transfers from construction in progress	82,895	422,920	113,683	(899,379)	279,881	-
Transfer to Assets held for sale	(33,528)					(33,528)
Disposals and write offs	-	(532,118)			(45,790)	(577,908)
Effects of fair value appraisal as of 31 December 2020	(233,824)					(233,824)
Balance as of 31 December 2020	**6,807,234**	**4,131,528**	**1,055,156**	**23,979**	**2,693,638**	**14,711,535**
Balance as of 1 January 2021	**6,807,234**	**4,131,528**	**1,055,156**	**23,979**	**2,693,638**	**14,711,535**
Additions during the year				1,054,366		1,054,366
Transfers from construction in progress	50,040	335,020	104,119	(1,037,203)	548,024	-
Disposals and write offs	(6,114)	(370,421)	(22,431)		(63,432)	(462,398)
Balance as of 31 December 2021	**6,851,160**	**4,096,127**	**1,136,844**	**41,142**	**3,178,230**	**15,303,503**
ACCUMULATED DEPRECIATION						
Balance as of 1 January 2020	**474,741**	**3,059,283**	**711,442**	**-**	**457,768**	**4,703,234**
Depreciation charge (Note 11)	245,361	340,085	70,966		485,077	1,141,489
Transfer to Assets held for sale	(3,659)					(3,659)
Disposals and write/offs	-	(527,566)			(15,460)	(543,026)
Effects of fair value appraisal as of 31 December 2020	(716,443)	-				(716,443)
Balance as of 31 December 2020	**-**	**2,871,802**	**782,408**	**-**	**927,385**	**4,581,595**
Depreciation charge (Note 11)	243,542	362,512	93,769		512,918	1,212,741
Disposals and write/offs	(305)	(368,011)	(22,432)		(35,833)	(426,581)
Balance as of 31 December 2021	**243,237**	**2,866,303**	**853,745**	**-**	**1,404,470**	**5,367,755**
Carrying value as of:						
– 31 December 2021	**6,607,923**	**1,229,824**	**283,099**	**41,142**	**1,773,760**	**9,935,748**
– 31 December 2020	**6,807,234**	**1,259,726**	**272,748**	**23,979**	**1,766,253**	**10,129,940**

19. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY AND NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Continued)

(a) Property, plant and equipment and investment property (Continued)

As of 31 December 2021 , the Bank has title deeds for property it owns and has no buildings pledged as collateral.

In accordance with the accounting policies changes from 2017 (passage from the cost model to the redetermination of value for measurement subsequent to initial disclosure of functional property; passage from accounting at cost to accounting at fair value for investment property), Parent bank has engaged the authorized appraisal company to assess fair value of the properties, at the level of the Intesa Sanpaolo Group, including Banca Intesa a.d. Beograd. On 31 December 2021, the authorized appraiser carried out the assessment of the properties fair value that Banca Intesa ad Beograd uses for its own business, and has concluded that market prices of real estates did not significantly oscillated (more than+/-10%) compared to the actual prices as of December 31, 2017, so that new assessment are not recorded as of December 31, 2021.

If the Bank continued to apply cost model for real estate valuation, net present value would amount to RSD 4.996.495 thousand, at December 31, 2021 (31 December 2020: RSD 5.207.530 thousand).

(b) Right of use assets

Bank leases certain number of real estates for its branches, offices and other business premises.

Lease contracts are typically concluded to the period of 5 years, with possibility of its renewal by the will of both contracting parties, as well as with the possibility to be terminated by the Lessee, with a contracted notice period of 30 or 60 days for most contracts.

Bank has also leased certain number of cars, with contract period of 5 years, as well as one lease of an equipment (server) contract with useful life period of two years.

Information about right of use assets, amounts recognized in the income statement and cash flow are shown as follows:

				In RSD thousand
	Automobile	**Real estate**	**Equipment**	**Total**
COST				
Balance as of 1 January 2020	**189,994**	**2,263,739**	**5,814**	**2,459,547**
Additions during the year	-	279,881	-	279,881
Disposals during the year	-	(45,790)	-	(45,790)
Balance as of 31 December 2020	**189,994**	**2,497,830**	**5,814**	**2,693,638**
Additions during the year	**45,610**	**496,661**	**5,753**	**548,024**
Disposals during the year	**(1,214)**	**(62,218)**	**-**	**(63,432)**
Balance as of 31 December 2021	**234,390**	**2,932,273**	**11,567**	**3,178,230**
ACCUMULATED DEPRECIATION				
Balance as of 1 January 2020	**35,369**	**422,157-**	**242**	**457,768**
Depreciation charge (Note 11)	42,943	439,227	2,907	485,077
Contracts ending and disposals	-	(15,460)	-	(15,460)
Balance as of 31 December 2020	**78,312**	**845,924**	**3,149**	**927,385**
Depreciation charge (Note 11)	48,814	461,197	2,907	512,918
Contracts ending and disposals	(766)	(35,067)	-	(35,833)
Balance as of 31 December 2021	126,360	1,272,054	6,056	1,404,470
Carrying value as of:				
– 31 December 2021	**108,029**	**1,660,219**	**5,511**	**1,773,760**
– 31 December 2020	**111,682**	**1,651,906**	**2,665**	**1,766,253**

19. PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY AND NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS (Continued)

(b) Right of use assets (Continued)

Amount recognized in profit and loss

Leases under the IFRS 16

		In RSD thousand
	2021.	**2020.**
Interest on lease liabilities (Note 3b)	34,061	33,222
Expenses relating short-term leases (exempt from the IFRS16, Note 13)	23,008	32,989
Expenses relating to leases of low-value assets, excluding short-term leases of low-value assets (exempt from the IFRS16, Note 13)	280,146	260,092
Tax expenses – IFRS 16 (Note 13)	98,365	95,085
Income from rent reduction due Covid 19 (Note 12)	-	(4,860)
Net effects (gain) relating to variable payments and right of use assets disposals (Note 12 and 13)	(734)	266
Total amount recognized in profit and loss	34.846	416.262

Amounts recognized in statement of cash flows

	2021.	**2020.**
Total cash outflow for leases IFRS 16	**487,788**	**469,251**

20.OTHER ASSETS

	In RSD thousand	
	2021	2020
Trade receivables	307	293
Receivables from employees	5,082	5,361
Receivables for overpaid taxes, except income tax	638	753
Advances paid	55,508	47,243
Other receivables from operating activities (a)	3,053,089	2,176,106
Assets received through collection of receivables	152,690	374,739
Other assets (b)	739,464	1,405,420
Fee and commission receivables related to other assets:		
– in RSD	416,112	281,450
– in foreign currency	16,987	14,734
Accrued interest expenses:		
– in RSD	-	12
Accrued other expenses:		
– in RSD	512,402	373,170
Other accruals:		
– in RSD	207,258	178,790
Total other assets	**5,159,537**	**4,858,071**
Less: Allowance for impairment	(142,011)	(169,407)
Balance as of 31 December	**5,017,526**	**4,688,664**

Other receivables from operating activities in amount of RSD 3,053,089 thousand as of 31 December 2021 (31 December 2020: RSD 2,176,106 thousand) mostly relate to receivables in RSD with respect to payment cards from other cards issuers - Master Card, VISA, DINA and AMEX in the amount of RSD 1,308,542 thousand (31 December 2020: RSD 1,045,958 thousand) and receivables from the Pension Fund RSD 382,829 thousand (31 December 2020: RSD 350,667 thousand).

Other assets as at 31 December 2021 in amount of RSD 739,464 1,405,420 thousand (31 December 2020: 1,405,420 thousand) mostly consist of transient account for payment cash on ATS which as at 31 December 2021 in amount of RSD 693,730 thousand (31 December 2020: RSD 989,507 thousand). mostly consist of transient account for payment cash on ATM.

21.LIABILITIES BASED ON DERIVATIVES

	In RSD thousand	
	2021	2020
Liabilities based on derivatives - swap	-	2,589
Balance as of 31 December	**-**	**2,589**

22.DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK

(a) DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK

		In RSD thousand
	2021	**2020**
In RSD		
Transaction deposits	1,348,095	1,630,571
Deposits underlying granted loans	23,149	59,496
Special-purpose deposits	335,432	172,028
Other deposits	4,092,014	3,724,042
Interest payable	28,918	23,466
Fee and commission payable	18	40
Total in RSD	**5,827,626**	**5,609,643**
In foreign currency		
Transaction deposits	613,973	2,961,990
Deposits underlying granted loans	1,646	1,646
Special-purpose deposits	424,417	150,559
Other deposits	-	27,043,471
Received loans (a)	32,738,968	29,007,758
Other financial liabilities (b)	2,019,366	1,773,503
Interest payable	39,563	39,836
Accrued expenses for liabilities at amortized value, by applying the effective interest rate method	(173,272)	(199,008)
Total in foreign currency	**35,664,661**	**58,970,244**
Balance as of 31 December	**41,492,287**	**66,347,915**

(a) During 2021 received loans in foreign currency increased in the amount of RSD 3,731,210 thousand (31 December 2020 RSD 5,053,203 thousand) due to new credit lines withdrawn from international financial institutions

(b) Other financial liabilities in amount of RSD 2,019,364 thousand as of 31 December 2021 (31 December 2020 RSD 1,773,503 thousand) mostly related to liabilities for outstanding payments received from foreign country in foreign currency in amount of RSD 2,016,533 thousand (31 December 2020 RSD 1,772,081 thousand).

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

(b) DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

In RSD thousand

		In RSD thousand
	2021	**2020**
In RSD		
Transaction deposits	195,985,134	167,726,099
Savings deposits	6,716,816	7,777,880
Deposits underlying granted loans	838,293	738,224
Special-purpose deposits	7,676,808	7,516,585
Other deposits	15,866,340	18,809,382
Deposits and loans due within one day (overnight)	-	175,096
Interest payable	294,557	341,423
Total in RSD	**227,377,948**	**203,084,689**
In foreign currency		
Transaction deposits	291,666,389	259,541,561
Savings deposits	36,979,649	41,695,770
Deposits underlying granted loans	4,792,556	5,655,237
Special-purpose deposits	3,987,480	3,801,610
Other deposits	7,355,083	6,456,199
Borrowings	462,488	635,323
Interest payable	255,960	285,023
Total in foreign currency	**345,499,605**	**318,070,723**
Balance as of 31 December	**572,877,553**	**521,155,412**

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

(c) DEPOSITS AND OTHER LIABILITIES TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK BY CONTRACTUAL MATURITY

						In RSD thousand
			2021			**2020**
	Short-term (up to one year)	**Long-term (more than one year)**	**Total**	**Short-term (up to one year)**	**Long-term (more than one year)**	**Total**
In RSD						
Transaction deposits	197,333,230	-	197,333,230	169,356,672	-	169,356,672
Saving deposits	4,451,179	2,265,637	6,716,816	5,283,645	2,494,235	7,777,880
Deposits related to granted loans	91,997	769,444	861,441	121,875	675,844	797,719
Special-purpose deposits	7,113,764	898,476	8,012,240	6,800,132	888,480	7,688,612
Other deposits	18,617,785	1,340,569	19,958,354	17,279,590	5,253,834	22,533,424
Overnight deposits and loans	-	-	-	175,096	-	175,096
Interest payable	323,475	-	323,475	364,889	-	364,889
Fee and commission payable	18	-	18	40	-	40
Total in RSD	**227,931,448**	**5,274,126**	**233,205,574**	**199,381,939**	**9,312,393**	**208,694,332**
In foreign currency						
Transaction deposits	292,280,362	-	292,280,362	262,503,550	-	262,503,550
Saving deposits	28,794,148	8,185,501	36,979,649	31,899,858	9,795,912	41,695,770
Deposits related to granted loans	2,101,373	2,692,829	4,794,202	2,777,802	2,879,081	5,656,883
Special-purpose deposits	4,250,168	161,729	4,411,897	3,733,283	218,886	3,952,169
Other deposits	6,974,857	380,228	7,355,085	33,148,798	350,872	33,499,670
Borrowings	-	33,201,456	33,201,456	-	29,643,082	29,643,082
Other financial liabilities	2,019,364	-	2,019,364	1,773,503	-	1,773,503
Interest payable	295,523	-	295,523	324,859	-	324,859
Accrued expenses for liabilities at amortized value, by applying the effective interest rate method	-	(173,272)	(173,272)	-	(199,008)	(199,008)
Total in foreign currency	**336,715,795**	**44,448,471**	**381,164,266**	**336,161,653**	**42,688,825**	**378,850,478**
Balance as of 31 December	**564,647,243**	**49,722,597**	**614,369,840**	**535,543,592**	**52,001,218**	**587,544,810**

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

(d) DEPOSITS AND OTHER LIABILITIES TO BANKS, CUSTOMERS, OTHER FINANCIAL ORGANIZATIONS AND CENTRAL BANK BY TYPE OF CUSTOMERS

						In RSD thousand
			2021			**2020**
	Short-term (up to one year)	**Long-term (more than one year)**	**Total**	**Short-term (up to one year)**	**Long-term (more than one year)**	**Total**
In RSD						
– Central bank, banks and other financial sector and insurance	4,384,521	1,338,356	5,722,877	4,146,452	1,174,819	5,321,271
– Holding companies	139	-	139	-	-	-
– Corporate customers	107,411,033	1,642,358	109,053,391	99,660,380	1,550,849	101,211,229
– Retail customers	98,719,423	2,277,142	100,996,565	82,444,064	2,493,149	84,937,213
– Public sector	5,202,232	2,213	5,204,445	5,466,308	4,078,187	9,544,495
– Foreign banks and financial organizations	104,749	-	104,749	288,371	-	288,371
– Foreign entities	508,572	13,157	521,729	543,057	15,390	558,447
– Other customers – non-profit institutions	6,047,555	-	6,047,555	4,766,827	-	4,766,827
– Other customers – banks in bankruptcy	1,523,822	900	1,524,722	1,216,979	-	1,216,979
– Other customers- companies and other legal entities in bankruptcy	3,837,595	-	3,837,595	797,810	-	797,810
– Other customers –other financial organization in bankruptcy	96	-	96	102	-	102
– Other customers – public sector in bankruptcy	191,711	-	191,711	51,588	-	51,588
Total in RSD	**227,931,448**	**5,274,126**	**233,205,574**	**199,381,938**	**9,312,394**	**208,694,332**
In foreign currency						
– Central bank, banks and other financial sector and insurance	1,029,401	2,822	1,032,223	3,103,932	2,822	3,106,754
– Corporate customers	68,792,495	1,563,059	70,355,554	60,592,750	2,064,452	62,657,202
– Retail customers	256,328,468	9,636,719	265,965,187	235,857,912	10,926,777	246,784,689
– Public sector	1,516,261	463,450	1,979,711	743,484	636,265	1,379,749
– Foreign banks and financial organizations	2,066,742	32,565,696	34,632,438	28,864,251	28,808,750	57,673,001
– Foreign entities	4,612,653	192,151	4,804,804	3,942,052	205,079	4,147,131
– Other customers - non-profit institutions	2,076,343	24,575	2,100,918	2,164,722	27,043	2,191,765
– Other customers - non-budgeted legal entities and institutions	226,521	-	226,521	165,576	17,637	183,213
– Other customers- companies and other legal entities in bankruptcy	66,829	-	66,829	726,891	-	726,891
– Other customers – public sector in bankruptcy	81	-	81	81	-	81
Total in foreign currency	**336,715,794**	**44,448,472**	**381,164,266**	**336,161,651**	**42,688,825**	**378,850,476**
Balance as of 31 December	**564,647,242**	**49,722,598**	**614,369,840**	**535,543,589**	**52,001,219**	**587,544,808**

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

On the corporate transaction deposits, the Bank pays interest at rates up to 45% of the annual reference interest rate depending on the currency and the amount of deposit.

On term deposits in RSD and foreign currency, the Bank pays interest at rates ranging up to 0.50% per annum, depending on the maturity period and the currency.

On special-purpose deposits of customers and natural persons the Bank does not pay interest.

On short-term retail deposits in RSD the interest is paid at rates ranging from 0% to 1.75% per annum, depending on the maturity period. Interest rates on short-term retail deposits in foreign currency range from 0.0% to 0.30% per annum, depending on the maturity period and the currency.

Long-term retail deposits in foreign currency are deposited at interest rates ranging from 0.01% to 0.70% per annum, depending on the maturity period and the currency. Long-term retail deposits in RSD are deposited at interest rates ranging from 2.00% to 3.00% per annum, depending on the maturity period.

23.PROVISIONS

		In RSD thousand
	2021	**2020**
Provisions for off-balance sheet items (a)	429,352	463,317
Provisions for employee benefits:		
– restructuring (b)	152,265	48,136
– long-term retirement benefits and unused days of vacation (c)	257,273	234,066
Provisions for litigations (Note 29 (a))	1,562,375	627,526
Provisions for liabilities coverage	-	10,405
Balance as of 31 December	**2,401,265**	**1,383,450**

		In RSD thousand
	2021	**2020**
Movements in provisions for off-balance sheet items		
Opening balance	463.317	321,027
Release of provisions	(275,163)	(125,462)
Release of provisions - exchange rate	(644)	(1,648)
Increase of provisions	239,606	269,036
Increase of provisions – exchange rate	2,238	364
Balance as of 31 December	**429,353**	**463,317**
Movements in provisions for restructuring		
Opening balance	48,136	43,079
Release of provisions directly from provisions	(48,136)	(43,079)
Increase of provisions	152,265	48,136
Balance as of 31 December	**152,265**	**48,136**
Movements in provisions for employee retirement benefits and unused days of vacation		
Opening balance	234,066	213,687
Increase of provisions	23,207	20,379
Balance as of 31 December	**257,273**	**234,066**
Movements in provisions for litigations		
Opening balance	627,526	265,215
Release of provisions through profit and loss	(64,285)	(29,894)
Release of provisions directly from provisions	(186,062)	(27,581)
Increase of provisions	1,185,196	419,786
Balance as of 31 December (Notes 29)	**1,562,375**	**627,526**
Movements in provisions liabilities		
Opening balance	10.405	18,154
Release of provisions directly from provisions	(10,405)	(7,749)
Provisions	-	-
Balance as of 31 December	**-**	**10,405**

23.PROVISIONS (Continued)

(a) According to the Bank's internal policy, provisioning for off-balance sheet items exposed to risk is performed in the same manner as for balance sheet assets, i.e. off-balance sheet items are classified into recoverability categories based on the estimation of the recoverable amount of receivables when it comes to outflow of resources and probability of outflow of resources.

(b) The project of considering and analyzing efficiency of business processes, which may lead to restructuring and decrease in number of employees (redundancies), which started, but is still not fully completed, therefore, the Bank made provisions in the same manner as in previous years, based on estimated number of employees that potentially could be redundant. For the purpose of estimate, available laws and regulations, as well as internal acts have been observed (Labor Law and Collective agreement).

(c) Long-term provision for retirement benefits has been recognized on the basis of an independent actuary's calculation at the balance sheet date in the amount of present value of estimated future cash outflows. The present value of estimated future cash outflows is calculated using the discount rate of 4% per annum, which reflects the long-term rate of return on high quality debt securities, Republic of Serbia bonds and treasury bonds of the Ministry of Finance Republic of Serbia.

The provision was determined in accordance with the Bank's Collective Agreement, using the assumption of average salary increase rate of 5% per annum over the period for which the provision has been formed.

The provision for unused days of vacation is calculated on the basis of an independent actuary's report at the balance sheet date. In accordance with article 114 of the Labor Law in Republic of Serbia, during vacation an employee is entitled to compensation in the amount of average salary for the last twelve months. When calculating the provision for unused vacation days, the following factors are significant:

- average gross salary in the Bank, and
- number of unused days of vacation.

24.OTHER LIABILITIES

		In RSD thousand
	2021	**2020**
Net salaries and compensations	409,050	365,242
Taxes, VAT, contributions and other duties payable, excluding income tax payable	289,860	245,131
Vendor liabilities	1,066,350	919,190
Advances received	86,353	87,101
Other liabilities (a)	3,557,779	2,619,362
	5,409,392	**4,236,026**
Accruals and deferred income		
Accrued liabilities for other expenses:		
– in RSD	207	299
Deferred interest income:		
– in RSD	68,599	185,753
Other deferred income:		
– in RSD	67,492	73,169
Other deferrals (b)		
– in RSD	975,555	10,751,352
– in foreign currency	666,892	1,948,776
	1,778,745	**12,959,349**
Lease liabilities	1,788,118	1,756,960
Total	**8,976,255**	**18,952,335**
Other tax liabilities	145,334	119,095
Balance as of 31 December	**9,121,589**	**19,071,430**

(a) Other liabilities in 2021 and 2020 mostly consist of non-invoiced services to suppliers and arrears payment for credit card obligations.

(b) Other accruals in foreign currency in 2021 and 2020 mostly consist of accruals accounts balances – buy or sales of foreign currency.

24.OTHER LIABILITIES (Continued)

(c) Financial liabilities for leased equipment as of 31 December 2021 and 2020 in accordance IFRS 16 are as follows:

				In RSD thousand
		2021		2020
Minimal lease payments	**Present value**	**Contractual undiscounted cash flows**	**Present value**	**Contractual undiscounted cash flows**
Up to 1 year	-	-	1,989	2,002
From 1 to 5 years	-	-	-	-
Balance as of 31 December	**-**	**-**	**1,989**	**2,002**

(d) Liabilities from long-term real-estate, vehicles and equipment leases in accordance with IFRS 16, as of December 31, 2021 and 2020 are shown as follows:

				In RSD thousand
		2021		2020
Minimal lease payments	**Present value**	**Contractual undiscounted cash flows**	**Present value**	**Contractual undiscounted cash flows**
Up to 1 year	467,322	495,726	427,301	454,515
From 1 to 5 years	1,140,596	1,191,562	1,110,882	1,164,144
Over 5 years	180,200	185,819	216,788	222,919
Balance as of 31 December	**1,788,118**	**1,1,873,107**	**1,754,971**	**1,841,578**

(e) Changes on liabilities in accordance IFRS 16, are shown as folow:

		In RSD thousand
	2021.	**2020.**
	1,754,971	**1,978,849**
Increase during the year	548,024	279,881
Decrease during the year	(28,282)	(30,603)
Payments	(521,849)	(507,333)
Interest	34,061	33,222
Changes in the value of liabilities - exchange rate difference	1,193	955
Balance as of 31 December	**1,788,118**	**1,754,971**

25.EQUITY

(a) Equity structure

The Bank's equity as of 31 December 2021 consists of shares capital, share premium, reserves, revaluation reserves and current and previous year profit.

Structure of the Bank's equity is presented in table below:

		In RSD thousand
	2021	**2020**
Share capital – ordinary shares	21,315,900	21,315,900
Share premium	20,432,569	20,432,569
Reserves from profit	43,488,903	43,488,903
Fair value reserves of securities	953,471	970,755
Revaluation reserves arising from changes in fair value of buildings	626,592	956,224
Retained earnings	21,853,215	12,368,722
Current year profit	10,371,358	9,481,557
Balance as of 31 December	**119,042,009**	**109,014,630**

/i/ Share capital

As of 31 December 2021, the Bank's registered share capital consists of 213,159 ordinary shares with nominal value of RSD 100 thousand per share.

The Bank's shareholder as of 31 December 2021and 2020 is presented in the table below:

Shareholder	**Number of shares**	**Nominal share value (RSD thousand)**	**Share in %**
Intesa Sanpaolo Holding International S.A., Luxembourg	213,159	21,315,900	100.00
Total	**213,159**	**21,315,900**	**100.00**

The amount of paid dividend during the period as well as related dividend per share are presented as follows:

/ii/ Share premium

Share premium amounting to of RSD 20,432,569 thousand as of 31 December 2021 (31 December 2020: RSD 20,432,569 thousand) is the result of the Bank's status change, i.e. the merger of Panonska banka a.d. Novi Sad in the amount of RSD 2,989,941 thousand in 2007, as well as the result of the 4th, 5th and 6th issues of ordinary shares without public offer for the purpose of share capital increase.

/iii/ Reserves

		In RSD thousand
	2021	**2020**
Reserves from profit for estimated losses	43,488,903	43,488,903
Losses from the change in the value of equity instruments	(5,234)	(4,431)
Gains from the change in the value of debt instruments	631,826	975,186
Revaluation reserves arising from changes in fair value of buildings	953,471	956,224
Total	**45,068,966**	**45,986,847**

25. EQUITY (Continued)

(b) Performance indicators – compliance with legal requirements

The Bank is required to reconcile the scope and the structure of its operations and risk placements with performance indicators prescribed by the Law on Banks and relevant decisions of the National Bank of Serbia passed on the basis of the aforementioned Law.

As of 31 December 2021, the Bank was in compliance with all prescribed performance indicators.

Performance indicators	Prescribed		Realized
		31 December 2021	31 December 2020
Regulatory capital	Minimum EUR 10 million	EUR 693 millions	EUR 692 millions
Minimum ratio of the adequacy of the basic share capital specified by the bank	Minimum 4,5%	19,29%	19,85%
Minimum ratio of the adequacy of the basic capital specified by the bank	Minimum 6%	19,29%	19,85%
Minimum ratio of the adequacy of the capital specified by the bank	Minimum 8%	19,29%	19,85%
Permanent investments indicator	Maximum 60%	12,22%	12,46%
Indicator of large and the largest permissible loans	Maximum 400%	86,65%	61,30%
Liquidity ratio	Minimum 0.8	2,02	2,15
Acid-test ratio (quick ratio)	Minimum 0.5	1,70	1,83
Liquidity coverage ratio – LCR	Minimum 1.0	2,71	2,74
Foreign currency risk indicator	Maximum 20%	1,48%	1,46%
Exposure to a single entity or to a group of related parties	Maximum 25%	21,66%	20,72%
Bank's investment in non-financial legal entity	Maximum 10%	0,02%	0,02%
Risk concentration ratio	Maximum 30%	7,40%	7,00%

26. OFF-BALANCE SHEET ITEMS

(a) Classification of off-balance sheet items by the classification category

		In RSD thousand
	Off-balance sheet items to be exposed to credit risk 2021.	Provisions for Off-balance sheet items to be exposed to credit risk
Guarantees and other irrevocable commitments	105,302,086	(355,801)
Other off-balance sheet items	86,443,705	(73,552)
Balance as of 31 December	**191,745,791**	**(429,353)**

		In RSD thousand
	Off-balance sheet items to be exposed to credit risk 2020.	Provisions for Off-balance sheet items to be exposed to credit risk
Guarantees and other irrevocable commitments	85,001,727	(338,903)
Other off-balance sheet items	68,864,671	(124,414)
Balance as of 31 December	**153,866,398**	**(463,317))**

(b) Guarantees and other irrevocable commitments

		In RSD thousand
	2021	2020
Financial guarantees:		
– in RSD	8,498,529	8,399,654
– in foreign currency	11,536,197	8,937,207
	20,034,726	17,336,861
Commercial guarantees:		
– in RSD	12,060,114	10,503,009
– in foreign currency	18,088,453	17,872,754
	30,148,567	28,375,763
Uncovered letters of credit in foreign currency	564,419	753,333
Sureties and Acceptances	-	-
Sureties*	177,647	177,644
Irrevocable commitments for undisbursed loans	52,486,162	36,763,856
Other irrevocable commitments	1,890,565	1,594,270
	55,118,793	**39,289,103**
Balance as of 31 December	**105,302,086**	**85,001,727**

(c) Other off-balance sheet items

		In RSD thousand
	2021	2020
Revocable commitments for undisbursed loans	86,443,705	68,864,671
Balance as of 31 December	**86,443,705**	**68,864,671**

27. RELATED PARTY DISCLOSURES

A number of banking transactions are entered into with the shareholder and other related parties in the ordinary course of business. The Bank realizes business transactions with its shareholder and other related party. The Bank enters into business relationship with Parent company and other members of Intesa Sanpaolo Group. Outstanding balances of receivables and liabilities as of 31 December 2021 and 2020, as well as income and expenses for the years then ended, resulting from transactions with the shareholder and other Bank's related parties within Intesa Sanpaolo Group, stated in RSD thousand, are presented as follows:

2020	**Intesa Sanpaolo S.p.A., Italy,USA, England,Germany**	**Privredna banka d.d., Zagreb, Croatia**	**Intesa Leasing d.o.o., Belgrade**	**Vseobecna Uverova bank A.S., Slovakia**
Loans and receivables from banks and other financial organisations	7,848,781	452,838	2,304,979	3,752,498
Receivables from derivatives	432,937	-	-	-
Other assets	16,731	6,005	19 588	-
Total assets	**8.298.449**	**458,843**	**2,324,567**	**3,752,498**
Deposits and other liabilities due to banks, other financial organisations and Central bank	1.599.014	4,504	1,230,258	-
Other liabilites	313,384	-	-	-
Total liabilities	**1,912.398**	**4,504**	**1.230.258**	**-**
Interest income	49,075	-	75,793	-
Fee and commission income	32,823	12	5,955	-
Net profit from changes in fair value of financial instruments	69.991	-	-	-
Other operating income	4.049	6,005	25,096	-
Other income	-	-	-	-
Total income	**155.938**	**6,017**	**106.844**	**-**
Interest expense	(2,534)	-	(297)	-
Fee and commission expenses	(192.206)	(403)	-	-
Other expenses	(783,271)	(3,415)	-	-
Total expenses	**(978,011)**	**(3.818)**	**(297)**	**-**
Off-balance sheet items - derivatives FX SWAPs	37,031,218	-	-	-
Off-balance sheet items - guarantees	934.083	-	1,528,567	-
Total off-balance sheet items	**37,965,301**	**-**	**1,528,567**	**-**

27. RELATED PARTY DISCLOSURES (Continued)

2020	**Banka Koper d.d., Slovenia**	**Intesa Sanpaolo Banka D.D. Bosnia and Herzegovina**	**Intesa Sanpaolo Holding International S.A., Luxemburg**	**Branch of ISP International Value Service doo Belgrade**	**Eurizon Canita SGR S.p.a.**	**ISP Innovation centerPA**
Loans and receivables from banks and other financial organisations	18,710	7,716	-	74	-	-
Receivables from derivatives	-	-	-	-	-	-
Other assets	-	-	-	-	895	406
Total assets	**18,710**	**7,716**	**-**	**74**	**895**	**406**
Deposits and other liabilities due to banks, other financial organisations and Central bank	-	8,567	617	216,254	-	-
Other liabilites	-	-	-	74,328	-	-
Total liabilities	**-**	**8,567**	**617**	**290,582**	**-**	**-**
Interest income	-	-	-	-	-	-
Fee and commission income	81	7	-	205	-	-
Net profit from changes in fair value of financial instruments	-	-	-	-	-	-
Other operating income	5,788	-	-	8,516	-	-
Other income	-	-		64,227	-	-
Total income	**5,869**	**7**	**-**	**72,948**	**-**	**-**
Interest expense	-	-	-	-	-	-
Fee and commission expenses	(170)	(1)	-	-	-	-
Other expenses	-	-	-	(489,416)	-	-
Total expenses	**(170)**	**(1)**	**-**	**(489,416)**	**-**	**-**
Off-balance sheet items - derivatives FX SWAPs	-	-	-	-	-	-
Off-balance sheet items - guarantees	-	-	-	-	-	-
Total off-balance sheet items	**-**	**-**	**-**	**-**	**-**	**-**

27. RELATED PARTY DISCLOSURES (Continued)

2020	Intesa Sanpaolo S.p.A., Italy,USA, England,Germany; Romania	Privredna banka d.d., Zagreb, Croatia	Intesa Leasing d.o.o., Belgrade	Vseobecna Uverova bank A.S., Slovakia
Loans and receivables from banks and other financial organisations	6.139.438	94.708	10.373.750	87.567
Receivables from derivatives	32.378	-	-	-
Other assets	32.892	-	19.408	325
Total assets	**6.204.708**	**94.708**	**10.393.158**	**87.892**
Deposits and other liabilities due to banks, other financial organisations and Central bank	28.835.585	3.777	3.343.751	-
Liabilities based on hedging derivative instruments	2.589	-	-	-
Other liabilites	408.267	-	1.989	-
Total liabilities	**29.246.441**	**3.777**	**3.345.740**	**-**
Interest income	86.190	-	112.572	-
Fee and commission income	42.041	4	3.702	187
Net profit from changes in fair value of financial instruments	29.790	-	-	-
Other operating income	-	-	21.097	-
Total income	**158.021**	**4**	**137.371**	**187**
Interest expense	(6.019)	(324)	(2.162)	-
Fee and commission expenses	(122.200)	(602)	-	-
Net loss on foreign exchange rate and FX contracts	(108.367)	(419)	-	-
Other expenses	(798.485)	(4.167)	-	-
Total expenses	**(1.035.071)**	**(5.512)**	**(2.162)**	**-**
Off-balance sheet items - derivatives FX SWAPs	52.745.250	-	-	-
Off-balance sheet items - guarantees	659.382	-	1.528.542	-
Total off-balance sheet items	**53.404.632**	**-**	**1.528.542**	**-**

27. RELATED PARTY DISCLOSURES (Continued)

2020	Banka Koper d.d., Slovenia	"Intesa Sanpaolo Banka D.D. Bosnia and Herzegovina"	CIB Bank, Hungary	Intesa Sanpaolo Holding International S.A., Luxemburg	Branch of ISP International Value Service doo Belgrade
Loans and receivables from banks and other financial organisations	71.800	19.178	-	-	-
Receivables from derivatives	-	-	-	-	-
Other assets	-	-	-	-	-
Total assets	**71.800**	**19.178**	**-**	**-**	**-**
Deposits and other liabilities due to banks, other financial organisations and Central bank	617	8.021	-	617	57.812
Liabilities based on hedging derivative instruments	-	-	-	-	-
Other liabilites	-	-		-	362
Total liabilities	**617**	**8.021**	**-**	**617**	**58.174**
Interest income	-	-	-	-	-
Fee and commission income	7	2	-	-	4
Net profit from changes in fair value of financial instruments	-	-	-	-	-
Other operating income	-	-	-	-	-
Total income	**7**	**2**	**-**	**-**	**4**
Interest expense	-	-	-	-	-
Fee and commission expenses	(34)	(9)	-	-	-
Net loss on foreign exchange rate and FX contracts	-	-	-	-	-
Other expenses	-	-		-	(47.385)
Total expenses	**(34)**	**(9)**	**-**	**-**	**(47.385)**
Off-balance sheet items - derivatives FX SWAPs	-	-	-	-	-
Off-balance sheet items - guarantees	-	-	-	-	-
Total off-balance sheet items	**-**	**-**	**-**	**-**	**-**

27. RELATED PARTY DISCLOSURES (Continued)

The above stated receivables and liabilities at the balance sheet date, as well as income and expenses arising from transactions with the related parties from the Intesa Sanpaolo Group, are the result of ordinary business activities.

Interest on the Bank's receivables and payables is calculated at the usual rates.

(a) Gross salaries and other benefits of the Executive Board's members and other key management personnel of the Bank, including the Board of Directors' members, during 2021 and 2020, are presented as follows:

		In RSD thousand
	2021	**2020**
Remunerations to the members of the Executive Board, Board of Directors and other key management of the Bank	278,304	270,699
Total	**278,304**	**270,699**

(b) Loans and receivables from the members of the Executive Board and the Board of Directors and other key management personnel of the Bank, are presented as follows:

		In RSD thousand
	2021	**2020**
Loans	50,218	52,620
Total allowances for impairment	(96))	(60))
Balance as of 31 December	**50,122**	**52,560**

28. RISK MANAGEMENT

Risk is an inherent part of the Bank's activities and cannot be eliminated completely. It is important to manage risks in such a way that they can be reduced to limits acceptable for all interested parties: shareholders, creditors, depositors, regulators. Risk management is the process of permanent identification, assessment, measurement, monitoring and controlling of the Bank's exposure to risks. An important part of risk management is reporting and mitigating risk. An adequate system of risk management is a critical element in ensuring the Bank's stability and profitability of its operations.

The Bank is exposed to the following major risks: credit risk, liquidity risk, interest rate risk, foreign currency risk, operational risk, risk of exposure toward a single entity or a group of related entities (concentration risk), risk of permanent investments, risk related to the country of origin of the entity to which the Bank is exposed and other risks.

The Board of Directors and the Executive Board are responsible for implementation of an adequate risk management system and for its consistent application.

The Bank's Board of Directors adopts the procedures for identification, measurement and assessment of risks, and is responsible for implementing a unique risk management system and supervision over that system.

The Bank's Executive Board is responsible for identifying, assessing and measuring risks the Bank is exposed to in its operations, and applies the principles of risk management approved by the Bank's Board of Directors. The Executive Board approves internal acts which define risk management and proposes strategies and policies for risk management to Audit Committee and Board of Directors.

The Committee for monitoring business activities (Audit Committee) analyses and adopts proposals of policies and procedures with respect to risk management and internal controls, which are submitted to the Board of Directors for consideration and adoption. Furthermore, the Committee analyses and monitors the application and adequate implementation of adopted policies and procedures for risk management, and recommends new ways for their improvement, if necessary.

The Risk Management Department has been established in the Bank in order to implement a special and unique system for risk management, as well as to enable functional and organizational segregation of risk management activities from regular business activities. This department is directly responsible to the Executive Board.

The Bank has developed the comprehensive risk management system by introducing policies and procedures, as well as limits for risk levels acceptable for the Bank.

The Bank's organizational parts authorized for risk management constantly monitor changes in regulations, while analyzing their influence on the risks at entity level of the Bank. They take necessary measures to make the Bank's business activities and procedures fully compliant with new procedures within the scope of controlled risk. In addition, introduction of new services is followed by necessary market and economic analysis in order to optimize the relation between income and the provision for estimated risks.

28.1. Credit risk

Credit risk is the possibility of occurrence of negative effects on the bank's financial results and capital due to non-fulfilment of the debtor's obligations to banks.

Through its internal acts, policies and procedures, the Bank has implemented an adequate system of credit risk management, thus reducing credit risk to an acceptable level. The Bank manages credit risk through setting credit risk limits, establishing acceptable credit limits for individual customers or for groups of customers.

Credit risk is managed by the Bank at a counterparty specific level, group of related parties, and at total credit portfolio level. For the purpose of implementing the policy of optimal credit risk exposure, the Bank evaluates creditworthiness of each client, both at the moment of loan application, as well as through subsequent regular and continuous performance analysis.

Analysis of the client's creditworthiness, timely settlement of liabilities in the past, value of collateral at customer level and at transaction level, is performed within the Credit Management Department.

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Maximal exposure to credit risk

Maximal exposure to credit risk by the type of client as of 31 December 2021 and 2020 are presented as follows:

In RSD thousand

December 31st 2021	Balance sheet assets to be exposed to credit risk	Allowances for impairment for balance sheet assets to be exposed to credit risk	Balance sheet assets not to be exposed to credit risk	Balance sheet as of 2021
Cash and balances with Central Bank	112,635,567	-	23,068,663	135,704,230
Receivables from derivatives	-	-	433,793	433,793
Securities	80,459,870	(38,348)	1,484,789	81,906,311
Loans and receivables from banks and other financial organizations	56,572,517	(15,061)	-	56,557,456
Loans and receivables from banks	*46,800,980*	*(10,896)*	-	*46,790,084*
Loans and receivables from other financial organizations	*9,771,537*	*(4,165)*	-	*9,767,372*
Loans and receivables from customers	465,888,115	(16,570,003)	-	449,318,112
Investments in subsidiaries	-	-	1,199,472	1,199,472
Intangible assets	-	-	4,859,166	4,859,166
Property, plants and equipment	-	-	9,935,747	9,935,747
Deferred tax assets	-	-	616,195	616,195
Non-current assets held for sale and discontinued operations	-	-	22,439	22,439
Other assets	3,720,357	(140,011)	1,437,180	5,017,526
Total Balance assets	**719,276,426**	**(16,763,423)**	**43,057,444**	**745,570,447**
Off-Balance receivables from banks	2,663,648	(658)	-	-
Off-Balance receivables from customers	189,082,143	(428,695)	-	-
Total Off-Balance assets	**191,745,791**	**429,353**	**-**	**-**
Total assets	**911,022,217**	**(17,192,776)**	**43,057,444**	**745,570,447**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Maximal exposure to credit risk (Continued)

In RSD thousand

December 31st 2020	Balance sheet assets to be exposed to credit risk	Allowances for impairment for balance sheet assets to be exposed to credit risk	Balance sheet assets not to be exposed to credit risk	Balance sheet as of 2021
Cash and balances with Central Bank	121,689,518	-	20,381,801	142,071,319
Receivables from derivatives	-	-	49,832	49,832
Securities	89,491,331	(33,972)	849,650	90,307,009
Loans and receivables from banks and other financial organizations	53,440,535	(36,134)	-	53,404,401
Loans and receivables from banks	42,773,919	(31,355)	-	42,742,564
Loans and receivables from other financial organizations	10,666,616	(4,779)	-	10,661,837
Loans and receivables from customers	424,386,155	(15,247,274)	-	409,138,881
Investments in subsidiaries	-	-	1,199,472	1,199,472
Intangible assets	-	-	5,385,746	5,385,746
Property, plants and equipment	-	-	10,129,940	10,129,940
Investment property	-	-	198,681	198,681
Deferred tax assets	-	-	588,968	588,968
Non-current assets held for sale and discontinued operations	-	-	22,741	22,741
Other assets	1,885,297	(60,638)	2,864,005	4,688,664
Total balance assets	**690,892,836**	**(15,378,018)**	**41,670,836**	**717,185,654**
Off-Balance receivables from banks	1,916,595	352	-	-
Off-Balance receivables from customers	151,949,803	(462,965)	-	-
Total Off-Balance assets	**153,866,398**	**(463,317)**	**-**	**-**
Total assets	**844,759,234**	**(15,841,335)**	**41,670,836**	**717,185,654**

Classification of off-balance sheet items is shown in Note 26.

Permanent monitoring of a client's internal rating, the level of risk with respect to each client, the necessary amount of reserve for risk coverage, concentration risk (large exposures), portfolio credit risk, the level of capital necessary for coverage of all credit risks is performed by the Risk Management Department.

The Bank established a special organizational unit, the Delinquency Management Department, in order to manage receivables with a problem in collectability in a timely manner.

The Credit Management Department, the Risk Management Department and the Delinquency Management Department are independent units in the Bank.

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Maximal exposure to credit risk (Continued)

Principles prescribed by the National Bank of Serbia, as well as the Bank's internal procedures are applied in these analyses in order to anticipate potential risks that can arise in terms of a client's inability to settle liabilities when they fall due and according to contracted terms.

In that sense, an assessment of the level of required reserves level for potential losses, both at the moment of approval of certain loan, as well as through a continuous, portfolio analysis on a monthly level, are carried out. The analysis entails measuring the adequacy of provision/reserves according to client type, risk type, according to sub-portfolios and total portfolio of the Bank.

Decision making on exposure to credit risk is performed based on proposals provided by the Credit Management Department. The terms for approval of each corporate loan are determined individually, depending on the client type, purpose of loan, estimated creditworthiness and current market position. Types of collateral that accompany each loan are also determined according to a client's creditworthiness analysis, type of credit risk exposure, term of placement, as well as the amount of a particular loan. Conditions for loan approvals to retail clients and entrepreneurs are determined by defining standard conditions for different types of products.

Risk price for standard types of products is calculated according to the analysis of credit costs which the Bank had in the past and historical probability of getting into default status per the same or similar type of product. Risk price for the SME and Corporate segment is calculated on the basis of the client's internal rating or historically adjusted probability of getting into default status per each rating category.

Considering the importance of credit risk, dispersion of authorizations was carried out in respect of the decision making process related to loan approval activities. This dispersion is provided with prescribed limits up to which an authorized person or management body can make loan approval decisions. Organizational parts making decisions with respect to loan approvals, with different levels of authorizations, are as follows: branch managers, regional managers, Credit Management Department, Credit Board, Credit Committee, Executive Board and Board of Directors. For credit exposures exceeding the determined limit, approval of the Parent Bank is necessary.

The Bank manages credit risk by setting up limits with respect to period, amount and results of an individual customer's creditworthiness, through diversification of loans to a larger number of customers and contracting foreign exchange clauses and index-linking to a consumer price index in order to maintain the real value of loans.
Furthermore, the Bank manages credit risk through assessment and analysis of received collaterals, by providing allowances for impairment of financial assets, provisions for off-balance sheet items, reserves for estimated credit losses, as well as by determining the adequate price of a loan which covers the credit risk of a particular placement.

In addition to a clients' creditworthiness, risk limits are also set based on different types of collateral. Risk exposure toward a single debtor, including banks, is limited and includes balance sheet and off-balance sheet items exposures. Total risk exposure to a single customer (or a group of related parties) regarding exposure limits, is considered thoroughly and analyzed before executing a transaction.

Decision making about credit risk exposure is performed on the basis of considering the proposal made by Credit Management Department.

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Loan concentration risk

Loan concentration risk is the risk arising, directly or indirectly, from the Bank's exposure to the same or similar source or type of risk. The Bank controls loan concentration risk by limiting the exposure, which enables the diversification of the loan portfolio. In order to monitor more efficiently concentration risk, the Bank has determined three categories of limits: specific limits ("Top of the House"), credit risk propensity limits, general limits and regulatory limits.

Derivative financial instruments

Derivative financial instruments result in the Bank's exposure to credit risk when the fair value of such instruments is positive for the Bank.

Credit exposure arising from derivatives is calculated using the current exposure method, i.e. the sum of the positive fair value of the contract and the nominal value of the derivative multiplied by a coefficient which depends on the type and maturity of the financial derivative, as prescribed by the National Bank of Serbia.

The credit risk of derivatives is limited by determining maximum credit exposure arising from a derivative for each individual customer.

In accordance with the above mentioned, as of 31 December 2021 and 31 December 2020 the Bank has the following exposures to counterparties:

		In RSD thousand
	Nominal value	**Total exposure**
Total 2021	**37,094,689**	**802,198**
Currency (FX) Swap	**15,388,224**	**223,873**
By currency:		
EUR	9,706,284	146,006
CHF	5,681,940	77,867
Currency(FX) Forward	**21,706,465**	**578,325**
By currency:		
EUR	21,706,465	578,325
		In RSD thousand
	Nominal value	**Total exposure**
Total 2020	**53,246,333**	**582,295**
Currency (FX) Swap	**52,710,193**	**559,480**
By currency:		
AUD	47,494,257	495,715
GBP	5,215,936	63,765
Currency(FX) Forward	**536,140**	**22,815**
By currency:		
EUR	191,750	2,709
USD	344,390	20,106

Stated amounts represent credit exposure on derivatives, calculated as the sum of the positive fair value of the contract and the nominal value of the derivative, multiplied by a coefficient prescribed by the National Bank Serbia. The amounts presented within the Note 26(d) represent fair value of derivatives in the Bank's books of account.

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Derivative financial instruments (Continued)

Stated amounts represent credit exposure on derivatives, calculated as the sum of the positive fair value of the contract and the nominal value of the derivative, multiplied by a coefficient prescribed by the National Bank Serbia. The amounts presented within the Note 26(d) represent fair value of derivatives in the Bank's books of account.

The Bank calculates capital requirements for credit valuation adjustment (CVA), in accordance with the new Decision on Capital Adequacy of Banks published by the National Bank of Serbia.

Adjustment of credit exposure, calculated only for derivative instruments, represents an adjustment to the mid-market valuation of the portfolio of transactions with a counterparty. This adjustment reflects the market value of the credit risk of that counterparty to the Bank.

During 2021 the exposure to the CVA risk was negligible. As of 31 December 2021, the Bank has the following exposure to the CVA risk:

		In RSD thousand
		Total exposure
	2021	2020
Total	**1,967**	**22,815**
Currency (FX) Forward	1,967	22,815

Credit-related risks

The Bank issues guarantees and letters of credit to its clients, based on which the Bank commits to make payments on behalf of third parties. In this way the Bank is exposed to risks similar to credit risks, which can be mitigated by the same control processes and policies applied for credit risk.

Collaterals and other instruments of credit risk protection

The amount and type of the collateral required depends on an assessment of credit risk of each customer. Terms of collateral with respect to each placement are determined by the analysis of a customer's creditworthiness, type of exposure to the credit risk, placement's maturity, as well as the amount itself.

Contractual authorization, as well as bills of exchange are provided by customers as standard collaterals while, depending on the assessment, additional collaterals may be required, such as real estate mortgages, movable property pledges, partial or entire coverage of placements with deposits, state guarantees, guarantees issued by another bank or a legal entity, pledging of securities, or joint loan contracting with another legal entity which then becomes the joint debtor.

In cases of real estate mortgages or movable property pledges, the Bank always obtains valuation of the assets, carried out by an authorized appraiser, in order to minimize potential risk. Decisions on placements to retail clients and small business (entrepreneurs) are mostly based on appraisal of standardized, previously defined conditions, using a scoring model, with additional analysis by credit analysts.

Assessment of impairment of financial assets

Bank applies expected credit losses model for valuating financial assets measured at amortized cost or fair value through other comprehensive income (FVOCI), except equity instruments. Banks performs this valuation on individual and collective basis.

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Assessment of impairment of financial assets (Continued)

- ***Individual assessment of impairment***

The Bank performs an individual assessment of impairment i.e. impairment financial assets for each individually materially significant exposure (exposure the amount over EUR 250,000) if it is in the status of default (materially significant amount overdue more than 90 days, i.e. if there is objective evidence that the loan has been impaired) and if it belongs to the credit risk class "Unlikely to Pay" and "Doubtful".

The level of impairment of loans is determined based on the projection of expected cash flows which shall be collected pursuant to contracts with clients, taking into consideration the assessment of financial position and creditworthiness of the client, the realizable value of collateral, as well as the timing of the expected cash flows from realization of collaterals, etc. In order to calculate expected credit loss different scenarios have been introduced (weighted by different probabilities) to assess future cash flows, with additional correction which take into consideration assessed macroeconomic impact (add-on).

Projected cash flows are discounted to their present value using the effective interest rate. Impairment loss is measured as the difference between the carrying amount of a loan and its estimated recoverable amount, being the present value of expected future cash flows. Individual assessment of the impairment of placements is performed at least semi-annually.

If new information becomes available that, as estimated by credit analysts, have an effect on the client's creditworthiness and the value of collateral, as well as the certainty of settling the liabilities toward the Bank, an extraordinary assessment of the impairment of a loan is performed.

- ***Collective assessment of impairment***

The Bank has defined the criteria for classifying financial instruments into corresponding impairment stages (Stage 1, 2 and 3), depending on the level of increase in credit risk since initial recognition. The subject of the classification are financial instruments that are measured at amortized cost, as well as financial instruments valued at fair value through other comprehensive income (FVOCI).

Stage 2 relates to exposures with a significant increase in credit risk (compared to the moment of initial recognition). The criteria defined by the Bank for detecting a significant increase in credit risk are:

1.) Days past due over 30 days,
2.) Forborne status,
3.) Significant increase in PD (*Probability of Default*)

Stage 3 consists of loans, where objective or subjective evidence that the loan has been impaired exists. Objective evidence of impairment implies a continuous delay in payment of more than 90 days in a materially significant amount. The relative materiality threshold is 1% of total balance sheet exposure, while the absolute threshold differs depending on the exposure class (RSD 1,000 for debtors in the retail exposure class, and RSD 10,000 for other debtors). Subjective proof of the existence of default status i s based on Bank's assessment that the client will not be able to fully settle its obligations to the Bank, without considering collection from the collateral realization. The subjective assessment of the default status is based on quantitative and qualitative, internal and externally obtained information about the debtor (for example: number of days of current account blocking, bankruptcy / liquidation, sue and other adverse events and negative signs identified in the subjective assessment that indicate a significant deterioration of the client's financial condition and inability to settle liabilities completely).

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Assessment of impairment of financial assets (Continued)

When the client ceases to meet all the criteria for obtaining the status of default, the Probation Period begins, which lasts at least 90 days. During this period, the regularity in setting the client's obligations and his financial situation is monitored, in order to determine the absence of any trigger/event for obtaining the status of default. Only after the expiration of the Probation Period Bank can reconsider the reclassification of the client to the Performing status.

Different impairment stages result in different ways of calculating the expected credit losses:

- Stage 1 exposures the 12-month expected credit losses are calculated
- Stage 2 and Stage 3 exposures - "*lifetime*" expected credit losses

Bank has developed an internal methodology and calculated the risk parameters (EAD, PD, LGD, CCF) for purpose of calculating Expected Credit Losses in accordance with IFRS 9. The discount rate used in the calculation is the effective interest rate of the individual contract.

In the context of calculating the lifetime expected credit losses, the Bank has developed a methodology for determining EAD (Exposure at Default) for all periods until the final maturity of a financial instrument. For amortizing products for which repayment plans are available, the future EAD is determined on the basis of repayment plans. For other products, EAD on the reporting date is used, with the credit conversion factors applied. Credit conversion factors, depending on the type of products and segments, can be regulatory or internally calculated on the basis of historical data on usage of available limits.

As the basis for calculating the "*lifetime*" PD parameter, the existing (Basel II) PD models have been used. The models have been adjusted in accordance with the requirements of IFRS 9:

- transition from TTC (Through the cycle) to PIT (Point in time) concept,
- introduction of coefficients (as PD corrections) that reflect the macroeconomic impact on the parameter for future periods, using three scenarios (baseline, best, adverse),
- "*lifetime*" projection (Markovian approach is used).

For segments not covered by PD models, the historical default rates have been used as approximation, with additional (above mentioned) adjustments.

For clients/exposures subject to collective assessment, the LGD (Loss Given Default) parameter is calculated on the basis of average historical loss rates for defined segments, whereby obtained values are additionally corrected by coefficients representing a measure of the estimated macroeconomic impact on LGD for future periods. For the purpose of macroeconomic adjustment of the LGD parameter, three scenarios are used (baseline, best, adverse). The discounting of the LGD thus obtained is carried out using the effective interest rate of the individual contract.

The Bank incorporates forward-looking information both into the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of Expected Credit Losses.

Inclusion of forward-looking information has been performed through the adjustment of PD and LGD values in order to consider the expectations of its change linked to macroeconomic environments that can occur in the future years with respect to reporting date.

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Assessment of impairment of financial assets (Continued)

The macroeconomic adjustment of PD is thus carried out by stress coefficients obtained from the EBA PD stress test model. The coefficients were submitted by the Parent bank and define the change in the PD parameter in relation to the base year for the redefined segment (Mortgage, Consumer Loans, Corporate Secured and Unsecured loans). EBA parameters are submitted only for the baseline and adverse scenario, so the calculation of the best scenario is done separately, as the difference between the transformed values of the baseline and adverse PD parameters which is added to the baseline scenario. The transformation is performed using the inverse standard normal distribution. The internal default rate as of December 31, 2020is used as the initial default rate in relation to which the change in the default rate based on EBA stress test parameters is calculated for the Rest of the World, since coefficients are not available for Serbia. The obtained coefficients are re-escalated and multiplied with the internal default rate as of October 31, 2021.The table below shows the conditional default rates applied to the migration matrix to include elements relating to future events for the next 3 years from the reporting date:

				Conditional rates of non-measurement of liabilities-first group -								
				Adverse			*Baseline*			*Best*		
Segment	***Model***	***2020***	***2021***	***t***	***t+1***	***t+2***	***t***	***t+1***	***t+2***	***t***	***t+1***	***t+2***
Corporate	*SME&LC-2015*	*1.68%*	*1.18%*	*2.22%*	*2.62%*	*2.62%*	*1.04%*	*1.04%*	*1.04%*	*0.45%*	*0.37%*	*0.37%*
	SME Retail	*2.63%*	*3.25%*	*5.84%*	*6.81%*	*6.81%*	*2.88%*	*2.88%*	*2.88%*	*1.29%*	*1.05%*	*1.05%*
	SB-SE-2013	*1.97%*	*2.66%*	*4.92%*	*5.78%*	*5.78%*	*2.35%*	*2.35%*	*2.35%*	*1.02%*	*0.82%*	*0.82%*
Retail	*IDV-2015 – Mortgage*	*0.57%*	*1.09%*	*2.22%*	*2.78%*	*2.78%*	*1.01%*	*0.92%*	*0.92%*	*0.42%*	*0.26%*	*0.26%*
	IDV-2015 – Other Retail	*1.85%*	*4.06%*	*7.18%*	*8.66%*	*8.66%*	*3.65%*	*3.26%*	*3.26%*	*1.69%*	*1.00%*	*1.00%*

				Conditional rates of non-measurement of liabilities-first group -								
				Adverse			*Baseline*			*Best*		
Segment	***Model***	***2020***	***2021***	***t***	***t+1***	***t+2***	***t***	***t+1***	***t+2***	***t***	***t+1***	***t+2***
Corporate	*CORPORATE – OTHER*	*2.11%*	*1.31%*	*1.16%*	*1.16%*	*1.16%*	*2.40%*	*2.82%*	*2.82%*	*0.51%*	*0.42%*	*0.42%*
	RETAIL - OTHER	*5.69%*	*2.94%*	*2.65%*	*2.65%*	*2.65%*	*4.88%*	*5.57%*	*5.57%*	*1.34%*	*1.14%*	*1.14%*

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Assessment of impairment of financial assets (Continued)

The macro-conditioning has been carried out by using EBA Stress Test Coefficients in the absence of internally developed stress satellite models. Since EBA releases only Baseline and Adverse coefficients, Best scenario coefficients have been calculated internally on the basis of Group's methodology defined for that purpose. The forward-looking elements are calculated for the next 3 years of the residual maturity with respect to the reporting date so that Baseline risk parameters are adjusted with Add-on which takes into account all three scenarios. EBA coefficients for Rest of the World have been used for macroeconomic conditioning of LGDs, since the coefficients are not available for the state of Serbia. The value of the coefficients varies depending on the exposure segment.
The table below shows the coefficients used for macroeconomic conditioning of LGD values as well as the value of the additional component (Add on) obtained on the basis of all three scenarios:

	Best			Baseline			Adverse			
Segment	*t*	*t+1*	*t+2*	*t*	*t+1*	*t+2*	*t*	*t+1*	*t+2*	Add on
"Consumer credit"	*0.70*	*0.70*	*0.75*	*1.00*	*1.00*	*1.00*	*1.33*	*1.33*	*1.33*	*3.69%*
"Household mortgage"	*0.52*	*0.52*	*0.52*	*1.00*	*1.00*	*1.00*	*1.61*	*1.61*	*1.61*	*13.13%*
"NFC nonRE"	*0.70*	*0.70*	*0.70*	*1.00*	*1.00*	*1.00*	*1.33*	*1.33*	*1.33*	*3.69%*
"NFC RE"	*0.55*	*0.55*	*0.55*	*1.00*	*1.00*	*1.00*	*1.56*	*1.56*	*1.56*	*11.08%*

For exposures belonging to the segment "Low Default Portfolio" (states, local governments and banks), the parameters obtained internal models of Parent Bank, since the Bank in this part of the portfolio does not have enough historical data to make them herself charged.

In response to the crisis caused by the Covid-19 virus pandemic, the Bank implemented a set of measures adopted by the National Bank of Serbia with the aim of supporting citizens and the economy as well as preserving the stability of the financial system of the Republic of Serbia in the pandemic situation. Some of these measures included the obligation of commercial banks to offer their clients - individuals, farmers, entrepreneurs and companies a delay in repayment (moratorium).

The repayment delay was implemented during 2021 on the basis of the following decisions of the National Bank of Serbia:

- Decision on temporary measures for banks with the aim of facilitating the access to financing private individuals ("Official Gazette of RS" , No. 108/2020 and 119/2021)
- Decision on temporary measures for banks with the aim of adequate Credit Risk Management in the COVID-19 pandemic conditions ("Official Gazette of RS" No 150/2020 and 21/2021)

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Assessment of impairment of financial assets (Continued)

The following table shows the structure of the Bank's portfolio (gross exposures) to which the measures defined by the aforementioned decisions of the National Bank of Serbia were applied, as repayment delays (Moratorium 3), as of 31 December 2021

			In thousands of dinars
Gross exposures with agreed moratorium	**Gross exposure**	**Allowances for impairment**	**Net exposure**
Private individuals	**6,535,381**	**745,629**	**5,789,752**
Performing	5,898,480	357,911	5,540,569
Past Due	131,670	55,130	76,540
Unl.to Pay	178,340	103,484	74,856
Doubtful	326,891	229,104	97,787
Commercial entities	**3,689,132**	**466,212**	**3,222,920**
Performing	3,446,913	325,714	3,121,199
Past Due	14,359	6,729	7,630
Unl.to Pay	177,022	92,255	84,767
Doubtful	50,838	41,514	9,324
Total	**10,224,513**	**1,211,841**	**9,012,672**

On 14 December 2020 the National Bank of Serbia has adopted a Decision on temporary measures for banks in order to adequately manage credit risk in the conditions of the COVID-19 pandemic ("Official Gazette of RS", No. 150/2020). This decision prescribes new measures and activities that banks are obliged to apply in order to adequately manage credit risk in the conditions of the COVID-19 pandemic, while enabling new repayment reliefs However, on December 31st 2020 the Bank did not have the implemented repayment reliefs defined by this decision, having in mind the short period of time between the decision adoption and the end of the calendar year.In that respect the Bank allowed reliefs during the period between January 1st and May 30th 2021.

As an additional incentive for measures to mitigate the negative effects of the pandemic, the Government of the Republic of Serbia passed on April 16th 2020. Decision on establishing a guarantee scheme as a measure of support to the economy to mitigate the consequences of the COVID-19 pandemic caused by the SARS-CoV-2 virus ("Official Gazette of RS", No. 57/2020, 62/20-dr. Regulation and 65/20-dr. regulation). The National Assembly of the Republic of Serbia is on December 17th 2020. adopted the Law on Determining the Guarantee Scheme as a Measure of Support to the Economy for Mitigating the Consequences of the COVID-19 Pandemic SARS-COV-2 (Official Gazette of the RS, No. 153/2020), which repealed the decision, thus supporting the economy continues to operate under the auspices of this Law. Afterwards, on April 22nd 2021 the National Assembly of the Republic of Serbia adopted the new Law on determining another guarantee scheme as a measure of additional support to economy due to prolonged negative effect of the COVID-19 pandemic caused by the SARS COV-2 virus ("Offical Gazette of RS", No 40/2021 and 129/2021). According to this Law the measures of support to economy were extended by June 30th 2022 (hereinafter: the guarantee scheme 2). Under the guarantee scheme, the Republic of Serbia has undertaken the obligation as a guarantor to settle future uncollected receivables of banks arising from loans approved for the purpose of financing liquidity and working capital of commercial entities, all with the aim of mitigating the negative economic and financial consequences of the pandemic.

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Assessment of impairment of financial assets (Continued)

Under the guarantee scheme, commercial banks provide loans to the commercial entities with a repayment period of no more than 36 months, including a grace period of 9 to 12 months. Under the guarantee scheme 2 the repayment period of maximum 60 months was envisaged with the grace period from 18 to 24 months. The maximum loan amount is an amount equal to less than two amounts:

- 25% for guarantee scheme 1 or 30% for guarantee scheme 2 of the loan client's income from 2019 according to the financial statements to the Business Registers Agency for statistical purposes for that year, or
- the amount of EUR 3,000,000

The maximum allowed amount of the Individual Guarantee provided by the State under the Law is calculated as the product of the insured portfolio of an individual bank, the coverage rate (80%) and the maximum guarantee rate (30% for guarantee scheme 1 or 32% for guarantee scheme 2). The maximum total amount of the guarantee at the level of the insured portfolio of the banking sector of the Republic of Serbia is EUR 480,000,000 for guarantee scheme 1 or EUR 128,000,000 for guarantee scheme 2.

The following table shows the structure of the Bank's portfolio (gross exposures) disbursed from the guarantee scheme with the Republic of Serbia, as of 31 December2021 and 31 December 2020.

In thousands of dinars 31 December 2021	**Gross Exposure**	**Allowances for Impairment**	**Net Exposure**
Performing	42,278,160	422,249	41,855,911
Past Due	1,572	688	884
Unl.to Pay	201,660	76,532	125,128
Doubtful	29,490	20,269	9,221
TOTAL	**42,510,882**	**519,738**	**41,991,144**

In thousands of dinars 31 December 2020			
Gross exposures from the guarantee scheme	**Gross Exposure**	**Allowances for Impairment**	**Net Exposure**
Performing	27,389,403	365,506	27,023,897
Past Due	-	-	-
Unl.to Pay	37,562	16,646	20,916
Doubtful	6,539	2,396	4,143
TOTAL	**27,433,504**	**384,548**	**27,048,956**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

(a) Portfolio quality

The Bank manages the quality of its financial assets using the internal classification of placements, which is in compliance with the standards of the Parent Bank.
The following tables present the quality of the portfolio (gross balance exposure and off-balance sheet exposure) as of 31 December 2021 and 2020 based on the Bank's rating system:

	Balance sheet assets to be classified						**Off - balance sheetitems to be classified**			**In RSD thousand**	
	Loans to Customers			**Loans to Banks**							
	Stage 1	***Stage 2***	***Stage 3***	***Stage 1***	***Stage 2***	***Stage3***	***Stage 1***	***Stage 2***	***Stage 3***	**Total 2021***	**Total 2020***
Class:											
Performing	426,168,950	45,507,289	-	159,436,547	-	-	187,130,840	4,170,005	-	822,413,631	748,762,187
Past Due	-	-	1,895,767	-	-	-	-	-	81,293	1,977,060	791,696
Unl.to Pay	-	-	4,113,662	-	-	-	-	-	206,409	4,320,071	4,292,929
Doubtful	-	-	7,569,341	-	-	-	-	-	157,244	7,726,585	7,296,091
Total	426,168,950	45,507,289	13,578,770	159,436,547	-	-	187,130,840	4,170,005	444,946	836,437,347	761,142,90303

In RSD thousand

	Allowances for impairment and provision customers			**Allowances for impairment and provision banks**			**In RSD thousand**	
	Stage 1	***Stage 2***	***Stage 3***	***Stage 1***	***Stage 2***	***Stage 3***	**Total 2021***	**Total 2020***
Class:								
Performing	2,824,856	5,219,122	-	11,554	-	-	8,055,532	8,241,375
Past Due	-	-	911,895	-	-	-	911,895	370,955
Unlikely to Pay	-	-	2,285,079	-	-	-	2,285,079	2,047,010
Doubtful	-	-	5,940,270	-	-	-	5,940,270	5,181,995
Total	**2,824,856**	**5,219,122**	**9,137,244**	**11,554**	**-**	**-**		**15,841,335**

*Total assets exposed to credit risk does not include securities relating to the bonds of the Republic of Serbia that are entirely classified as level 1.
Categories Past due, Unlikely to pay and Doubtful are non-performing receivables (impaired receivables)

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

The following tables present the portfolio structure as od 31 December 2021 and 31 December 2020 based on type of receivables and number of days in default (gross balance exposure and off-balance sheet exposure):

In RSD thousand	Large Corporate			SME and Entrepreneurs			Mortgage loans to natural persons		
31 December 2021	**Gross exposure**	**Allowances of impairment and provision**	**Coverage ratio**	**Gross exposure**	**Allowances of impairment and provision**	**Coverage ratio**	**Gross exposure**	**Allowances of impairment and provision**	**Coverage ratio**
Up to 90 days of default	1,391,562	688,972	50%	1,072,414	624,227	58%	715,861	233,520	33%
Over 90 days of default	53,528	48,080	90%	3,320,452	2,371,041	71%	1,646,902	957,225	58%
TOTAL	**1,445,090**	**737,052**	**51%**	**4,392,866**	**2,995,268**	**68%**	**2,362,763**	**1,190,745**	**50%**

In RSD thousand	Other loans to natural persons			TOTAL		
31 December 2021	**Gross exposure**	**Allowances of impairment and provision**	**Coverage ratio**	**Gross exposure**	**Allowances of impairment and provision**	**Coverage ratio**
Up to 90 days of default	1,599,531	663,165	41%	4,779,368	2,209,884	46%
Over 90 days of default	4,223,466	3,551,014	84%	9,244,348	6,927,360	75%
TOTAL	**5,822,997**	**4,214,179**	**72%**	**14,023,716**	**9,137,244**	**65%**

In RSD thousand	Large Corporate			SME and Entrepreneurs			Mortgage loans to natural persons		
31 December 2021	**Gross exposure**	**Allowances of impairment and provision**	**Coverage ratio**	**Gross exposure**	**Allowances of impairment and provision**	**Coverage ratio**	**Gross exposure**	**Allowances of impairment and provision**	**Coverage ratio**
Up to 90 days of default	1,566,107	581,261	37%	1,186,503	632,691	53%	699,573	226,409	32%
Over 90 days of default	266,544	240,327	90%	2,949,335	2,140,145	73%	1,481,624	790,212	53%
TOTAL	**1,832,651**	**821,588**	**45%**	**4,135,838**	**2,772,836**	**67%**	**2,181,197**	**1,016,621**	**47%**

In RSD thousand	Other loans to natural persons			TOTAL		
31 December 2021	**Gross exposure**	**Allowances of impairment and provision**	**Coverage ratio**	**Gross exposure**	**Allowances of impairment and provision**	**Coverage ratio**
Up to 90 days of default	1,048,871	357,659	34%	4,501,054	1,798,020	40%
Over 90 days of default	3,182,158	2,631,256	83%	7,879,661	5,801,940	74%
TOTAL	**4,231,029**	**2,988,915**	**71%**	**12,380,715**	**7,599,960**	**61%**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

The following tables present the quality of the portfolio as of 31 December 2021 based on type of receivables:

				In RSD thousand
Cash and balances with the central bank	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Bank account	66,003,887			66,003,887
Mandatory reserve with the NBS	46,631,680			46,631,680
Total	**112,635,567**			**112,635,567**
Securities				
Bonds of the Republic of Serbia	74,412,898	-	-	74,412,898
Other securities	6,046,972	-	-	6,046,972
Total	**80,459,870**	**-**	**-**	**80,459,870**
Loans to Customers				
Balance sheet assets to be classified	235,121,112	20,802,735	4,860,975	260,784,822
Off-balance sheet items to be classified	156,550,554	3,328,085	158,161	160,036,800
Total	**391,671,666**	**24,130,820**	**5,019,136**	**420,821,622**
Loans to Retail				
Balance sheet assets to be classified	185,172,838	24,704,554	8,717,795	218,595,187
Off-balance sheet items to be classified	27,916,638	841,920	286,785	29,045,343
Total	**213,089,476**	**25,546,474**	**9,004,580**	**247,640,530**
Loans to Banks				
Balance sheet assets to be classified	159,436,547	-	-	159,436,547
Off-balance sheet items to be classified	2,663,648	-	-	2,663,648
Total	**162,100,195**	**-**	**-**	**162,100,195**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

The following table presents the quality of the portfolio for performing clients (gross balance exposure and off-balance sheet exposure) based on the Bank's internal rating as of 31 December 2021.

In RSD thousand

	Loans to customers		Loans to banks		Balance sheet assets to be classified Total	Off balance sheet items to be classified		Total
Rating	**Stage 1**	**Stage 2**	**Stage 1**	**Stage 2**		**Stage 1**	**Stage 2**	
A	171,722,875	90,273	-	-	171,813,148	90,097,447	44,415	261,955,010
B	216.857.329	20,957,140			237,814,469	67,062,128	3,117,985	307,994,582
C	6,285,430	24,236,222	-	-	30,521,652	775,016	1,007,426	32,304,094
Satisfactory	143,101		-	-	143,301		-	143,301
Good	2,753,636		-	-	2,753,636	279,134	-	3,032,770
Strong	7,959,409	-	-	-	7,959,409	4,862,339	-	12,821,748
Weak		-	-	-		-	-	
Not covered by models	5,730,906	48,566	127,542,803	-	133,322,275	4,994,655	179	138,317,109
I		-	31,070,240	-	31,070,240	1,160,678	-	32,230,918
M	356	-	587,874	-	588,230	3,668	-	591,898
R	-	-	-	-	-	-	-	-
S	8,840,708	175,088	235,630	-	9,251,426	17,895,775		27,147,201
Total	**420,293,950**	**45,507,289**	**159,436,547**	**-**	**625,237,786**	**187,130,840**	**4,170,005**	**816,538,631**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Overview of stock and movement in the allowance for impairment and provisions in 2021by type of financial instrument:

		Loans and receivables			In RSD thousand
Movement in the allowance for impairment and provisions in 2021		**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance - 01.01.2020.		**2,733,384**	**5,507,991**	**7,599,960**	**15,841,335**
	Transfer to stage 1	1,564,897	(1,384,238)	(180,659)	**-**
	Transfer to stage 2	(174,976)	332,660	(157,684)	**-**
	Transfer to stage 3	(52,642)	(467,002)	519,644	**-**
Re-measurement		(1.666.844)	1.889.460	2.799.948	**(3.022.564)**
New production *		1.314.941	1.593.833	1.215.559	**4.124.333**
Collection		(882.350)	(2.253.582)	(763.254)	**(3.899.186)**
Transfer to off balance		-	-	(1.775.050)	**(1.775.050)**
Sale of receivables		-	-	(121.220)	**(121.220)**
Closing balance - 31.12.2021.		**2,836,410**	**5,219,122**	**9.137.244**	**17.192.776**

	Securities (FVOCI)**			In RSD thousand
Movement in the allowance for impairment and provisions in 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance - 01.01.2021	**164,136**	**-**	**-**	**164,136**
Re-measurement	174,307	-	-	**174,307**
	179,690		-	**179,690**
New production	(75,707))	-	-	**(75,507)**
Collection			-	
Closing balance - 31.12.2021	**442,626**	**-**	**-**	**442,626**

	Securities (AC)			
Movement in the allowance for impairment and provisions in 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance - 01.01.2021	33,972	-	-	**33,972**
Re-measurement	4,376		-	**4,376**
New production	-	-	-	**-**
Collection	-		-	**-**
Closing balance - 31.12.2021	**38,348**	**-**	**-**	**38,348**

**In accordance with IFRS 9, the effect of allowance of impairment of debt securities measured through FVOCI recognized through comprehensive income and profit and loss, and they do not reduce carrying amount of debts securities in balance sheet, therefore there is a mismatch with value adjustments in the table of maximum exposure to credit risk 31 December 2021 where presented the allowance for impairment based on debts securities measured at amortized cost.

* New production is the classification under the level of 31 December 2021, and not during the initial approval

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

Overview of stock and movement in the allowance for impairment and provisions in 2021 and 2020 by client type:

			Banks	In RSD thousand
Movement in the allowance for impairment and provisions in 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total 2021**
Opening balance - 01.01.2021	**31,355**		**-**	**31,355**
Transfer to stage 1	-	-	-	**-**
Transfer to stage 2	-	-	-	**-**
Transfer to stage 3	-	-	-	**-**
Re-measurement	(4,252)	-	-	**(4,252)**
New production	5,599		-	**5,599**
Collection	(21,148)	-		**(21,148)**
	-	-	-	**-**
	-	-	-	**-**
Closing balance - 31.12.2021	**11,554**	**-**	**-**	**11,554**

			Retail	
Movement in the allowance for impairment and provisions in 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total 2021**
Opening balance - 01.01.2021	**803,000**	**2,496,462**	**4,692,203**	**7,991,665**
Transfer to stage 1	1,122,460	(946,982)	(175,477)	**-**
Transfer to stage 2	(93,868)	250,065	(156,198)	**-**
Transfer to stage 3	(40,636)	(387,660)	428,296	**-**
Re-measurement	(776,261)	1,608,590	2,309,275	**3,141,604**
New production	620,591	546,835	391,859	**1,559,285**
Collection	(173,879)	(306,287)	(131,744)	**(611,910)**
Transfer to off balance	-	-	(1,362,731)	**(1,362,731)**
	-	-	-	**-**
Closing balance - 31.12.2021	**1,461,407**	**3,261,023**	**5,995,483**	**10,717,913**

* New production is the classification under the level of 31 December 2021, and not during the initial approval

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

			Corporate	
Movement in the allowance for impairment and provisions in 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total 2021**
Opening balance - 01.01.2021.	**1,865,055**	**3,011,529**	**2,907,757**	**7,784,341**
Transfer to stage 1	442,438	(437,256)	(5,182)	**-**
Transfer to stage 2	(81,108)	82,595	(1,487)	**-**
Transfer to stage 3	(12,005)	(79,343)	91,348	**-**
Re-measurement	(890,707)	280,870	490,674	**(119,163)**
New production	688,750	1,046,998	823,699	**2,559,447**
Collection	(687,320)	(1,947,295)	(631,510)	**(3.266.078)**
Transfer to off balance	-	-	(412,319)	**(412,319)**
Sale of receivables	-	-	(121,220)	**(121,220)**
Closing balance - 31.12.2021.	**1,325,102**	**1,958,098**	**3,141,760**	**6,424,961**

	Loans and receivables	In RSD thousand		
Movement in the allowance for impairment and provisions in 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance - 01.01.2020	**1,979,057**	**3,381,794**	**7,984,467**	**13,345,318**
Transfer to stage 1	781,677	(649,781)	(131,896)	**-**
Transfer to stage 2	(191,099)	336,044	(144,945)	**-**
Transfer to stage 3	(30,003)	(219,556)	249,559	**-**
Re-measurement	(777,937)	1,592,265	2,353,075	**3,167,403**
New production *	1,425,644	1,951,381	1,091,738	**4,468,763**
Collection	1,374,860	1,915,751	764,019	**4,054,630**
Transfer to off balance	-	-	(1,195,662)	**(1,195,662)**
Sale of receivables	-	-	(116,462)	**(116,462)**
Closing balance - 31.12.2020	**2,733,384**	**5,507,991**	**7,599,960**	**15,841,335**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

			Securities (FVOCI)	In RSD thousand
Movement in the allowance for impairment and provisions in 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance - 01.01.2020	**406,198**	**-**	**-**	**406,198**
Re-measurement	(95,987)		**-**	**(95,987)**
New production	36,347	-	-	**36,347**
Collection	(216,394)		-	**(216,394)**
Closing balance - 31.12.2020	**130,164**	**-**	**-**	**130,164**

* New production is the classification under the level of 31 December 2021 and 2020, and not during the initial approval

			Securities (AC)	In RSD thousand
Movement in the allowance for impairment and provisions in 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance - 01.01.2020	**-**	**-**	**-**	**-**
Re-measurement	-		**-**	**-**
New production	33,972	-	-	**33,972**
Collection	-		-	**-**
Closing balance - 31.12.2020	**33,972**	**-**	**-**	**33,972**

			Banks	In RSD thousand
Movement in the allowance for impairment and provisions in 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total 2020**
Opening balance - 01.01.2020	**11,939**	**8,482**		**20,421**
Transfer to stage 1	57	(57)	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Re-measurement	7,656	-	-	7,656
New production	21,336		-	21,336
Collection	(9,633)	(8,425)		(18,058)
	-	-	-	-
	-	-	-	-
Closing balance - 31.12.2020	31,355			31,355

			Retail	
Movement in the allowance for impairment and provisions in 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total 2020**
Opening balance - 01.01.2020	**876,379**	**1,686,163**	**3,444,858**	**6,007,400**
Transfer to stage 1	710,193	(579,761)	(130,432)	-
Transfer to stage 2	(125,783)	268,212	(142,429)	-
Transfer to stage 3	(24,815)	(176,696)	201,511	-
Re-measurement	(748,029)	1,122,711	1,443,519	1,818,201
New production	275,879	354,447	120,271	750,597
Collection	(160,824)	(178,614)	(135,983)	(475,421)
Transfer to off balance	-	-	(109,112)	(109,112)
	-	-	-	-
Closing balance - 31.12.2020	**803,000**	**2,496,462**	**4,692,203**	**7,991,665**

* New production is the classification under the level of 31 December 2020, and not during the initial approval

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

			Corporate	
Movement in the allowance for impairment and provisions in 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total 2020**
Opening balance - 01.01.2020	**1,090,739**	**1,687,149**	**4,539,609**	**7,317,497**
Transfer to stage 1	71,427	(69,963)	(1,464)	-
Transfer to stage 2	(65,316)	67,832	(2,516)	-
Transfer to stage 3	(5,188)	(42,860)	48,048	-
Re-measurement	(37,564)	469,554	909,556	1,341,546
New production	1,043,671	1,561,304	643,749	3,248,724
Collection	(232,714)	(661,487)	(2,026,212)	(2,920,413)
Transfer to off balance	-	-	(1,086,550)	(1,086,550)
Sale of receivables	-	-	(116,462)	(116,462)
Closing balance - 31.12.2020.	**1,865,055**	**3,011,529**	**2,907,757**	**7,784,342**

* New production is the classification under the level of 31 December 2020, and not during the initial approval

Also in 2020 and 2021, there are no financial assets which are credit impaired, and whose conditions have been significantly modified, so that asset has been derecognized and new financial instrument recognized (POCI).

*(a) Maximum exposure to credit risk**

Analysis of the Bank's maximum exposure to credit risk, by geographical locations, before taking into account collaterals and other hedging funds, as of 31 December 2021 and 2020 is presented in the table below:

					In RSD thousand
	Balance sheet assets to be classified*		**Off-balance sheet items to be classified****		**Total ** 2021**
	Loans to customers	***Loans to banks***	***Loans to customers***	***Loans to banks***	***Loans to customers and banks***
Serbia	483,382,519	113,461,595	188,755,318	566,509	786,165,941
Europe	1,840,809	30,044,637	322,632	1,373,960	33,582,038
America	25,411	15,198,059	3,202	-	15,226,672
Rest of the world	6,270	732,256	991	723,179	1,462,696
Total	**485,255,009**	**159,436,547**	**189,082,143**	**2,663,648**	**836,437,347**

					In RSD thousand
	Balance sheet assets to be classified*		**Off-balance sheet items to be classified****		**Total ** 2020**
	Loans to customers	***Loans to banks***	***Loans to customers***	***Loans to banks***	***Loans to customers and banks***
Serbia	439,656,861	126,568,153	151,726,746	569,259	718,521,019
Europe	2,577,792	36,060,961	200,329	935,742	39,774,824
America	25,244	998,239	2,119		1,025,602
Rest of the world	553,175	836,080	20,609	411,594	1,821,458
Total	**442,813,072**	**164,463,433**	**151,949,803**	**1,916,595**	**761,142,903**

**Exposure relating to the Republic of Serbia bonds was excluded.*

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

(a) Maximum exposure to credit risk (Continued)*

Analysis of the Bank's exposure to credit risk by industry sectors as of 31 December 2021 and 2020 is presented in the table below:

	Balance sheet assets to be exposed to credit risk*	Off-balance sheet items to be exposed to credit risk**	Total 2021
Industry	**260,130,103**	**157,827,360**	**417,957,463**
Trade	62,439,755	29,290,307	91,730,061
Transportation and communication	23,226,171	8,492,026	31,718,196
Construction	17,034,291	33,488,680	50,522,971
Services, tourism and accommodation services	30,666,962	17,563,535	48,230,497
Food and beverage production	17,852,912	5,666,790	23,519,702
Permanent goods production	44,167,183	23,448,229	67,615,412
Agriculture, hunting, fishing and forestry	15,612,376	4,222,455	19,834,831
Other	49,130,455	35,655,338,	84,785,792
Banks	**159,436,547**	**2,663,648**	**162,100,195**
Local government	**6,529,719**	**2,209,440**	**8,739,159**
Retail loans	**218,595,187**	**29,045,343**	**247,640,530**
Mortgage loans	115,305,462		115,305,462
Other	103,289,724	29,045,343	132,335,068
	644,691,556	**191,745,791**	**836,437,347**

*Exposure relating to the Republic of Serbia bonds was excluded

(b) Portfolio quality

In RSD thousand

	Balance sheet assets to be exposed to credit risk*	Off-balance sheet items to be exposed to credit risk**	Total 2020
Industry	**241,607,126**	**124,466,886**	**366,074,012**
Trade	52,819,710	27,324,072	80,143,782
Transportation and communication	10,249,329	3,536,205	13,785,534
Construction	16,441,498	20,162,026	36,603,524
Services, tourism and accommodation services	9,101,425	1,069,243	10,170,668
Food and beverage production	19,177,841	5,690,359	24,868,200
Permanent goods production	2,065,727	4,202,731	6,268,458
Agriculture, hunting, fishing and forestry	13,945,957	5,406,420	19,352,377
Other	117,805,639	57,075,829	174,881,468
Banks	**164,463,433**	**1,916,595**	**166,380,028**
Local government	**9,188,009**	**33,173**	**9,221,181**
Retail loans	**192,017,937**	**27,449,744**	**219,467,680**
Mortgage loans	95,035,203		95,035,203
Other	96,982,735	27,449,744	124,432,479
	607,276,505	**153,866,398**	**761,142,903**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

(b) Portfolio quality (Continued)

Ageing analysis of unimpaired loans and receivables from customers

The ageing analysis of loans and receivables from customers past due, but not impaired, as well as loans and receivables not yet due and impaired receivables, as of 31 December 2021 and 20209 is presented as follows:

In RSD thousand

	Loans to customers and banks			Total 2021
	Stage 1	Stage 2	Stage 3	
Receivables undue:	**574,441,939**	**38,708,334**	**2,736,162**	**615,886,435**
Receivables overdue:	**11,163,558**	**6,798,955**	**10,842,608**	**28,805,121**
01-30 days	11,163,558	4,978,990	1,049,727	17,192,275
31-60 days	-	1,432,063	523,091	1,955,154
61-90 days	-	387,902	162,090	549,992
>90 days	-	-	9,107,700	9,107,700
Total	**585,605,497**	**45,507,289**	**13,578,770**	**644,691,556**

*We apply the new definition of default applied in 2019. (Detailed explanation in item 28.1)

In RSD thousand

	Loans to customers and banks			Total 2020
	Stage 1	Stage 2	Stage 3	
Receivables undue:	**524,756,318**	**50,648,675**	**3,104,262**	**578,509,255**
Receivables overdue:	**11,882,158**	**8,134,762**	**8,750,330**	**28,767,250**
01-30 days	11,882,158	5,520,404	436,681	17,839,243
31-60 days	-	1,696,986	201,273	1,898,259
61-90 days	-	917,372	269,036	1,186,408
>90 days	-	-	7,843,340	7,843,340
Total	**536,638,476**	**58,783,437**	**11,854,592**	**607,276,505**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

(b) Portfolio Quality (Continued)

Collateral analysis

Analysis of portfolio (balance sheet and off-balance sheet items), by the collateral type, as of 31 December 2021 and 2020 is presented below:

			In RSD thousand
	Balance sheet assets to be exposed to credit risk*	**`Off-balance sheet items to be exposed to credit risk****	**Total 2021.**
Corporate loans:	**260,130,103**	**157,827,360**	**417,957,463**
Secured by government	10,224,513	-	10,224,513
Secured by guaranteed	6,091,768	6,764,119	12,855,887
Secured by mortgage	14,128,818	2,381,154	16,509,972
Secured by deposit	1,914,520	913,607	2,828,127
Unsecured	227,770,484	147,768,480	375,538,964
Loans to government	**-**	**-**	**-**
Secured	-	-	-
Unsecured	-	-	-
Loans to banks:	**159,436,547**	**2,663,648**	**162,100,195**
Secured			
Unsecured	159,436,547	2,663,648	162,100,195
Loans to local government:	**6,529,719**	**2,209,440**	**8,739,159**
Secured		-	
Unsecured	6,529,719	2,209,440	8,739,159
Retail loans:	**218,595,187**	**29,045,343**	**247,640,530**
Secured by residential mortgage	99,694,776	-	99,694,776
Secured by non-residential mortgage	482,876	-	482,876
Secured by deposit	500,709	403,666	904,375
Unsecured	117,916,826	28,641,677	146,558,503
Total	**644,691,556**	**191,745,791**	**836,437,347**

*Exposure relating to the Republic of Serbia bonds was excluded

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

(b) Portfolio Quality (Continued)

Collateral analysis (Continued)

	Balance sheet assets to be exposed to credit risk*	**`Off-balance sheet items to be exposed to credit risk****	**Total 2020**
Corporate loans:	**241,607,126**	**124,466,886**	**366,074,012**
Guaranteed by government	4,766,862	-	4,766,862
Secured by guaranteed	3,526,297	-	3,526,297
Secured by mortgage	16,544,226	2,842,431	19,386,657
Secured by deposit	2,197,526	1,348,587	3,546,113
Unsecured	214,572,215	120,275,868	334,848,083
Loans to government:	-	-	-
Secured	-	-	-
Unsecured	-	-	-
Loans to banks:	**164,463,433**	**1,916,595**	**166,380,028**
Secured	368	1,279	1,647
Unsecured	164,463,065	1,915,316	166,378,381
Loans to local government:	**9,188,009**	**33,173**	**9,221,181**
Secured	19,758,	-	19,758
Unsecured	9,168,250	33,173	9,201,423
Retail loans:	**192,017,938**	**27,449,744**	**219,467,682**
Secured by residential mortgage	81,395,639	-	81,395,639
Secured by non-residential mortgage	672,245	-	672,245
Secured by deposit	465,764	424,176	889,940
Unsecured	109,481,290	27,025,567	136,506,858
Total	**644,691,556**	**191,745,791**	**836,437,347**

All collaterals are presented up to the amount of receivables. Mortgage must meet the requirements of the National Bank of Serbia in order to be used as a collateral and those requirements are: to be registered, there must be an appraisal for the mortgaged property by the authorized appraiser not older than 3 years (except in the case of mortgaged residential real estate property where the amount of the outstanding bank exposure does not exceed 40% of its value), owner of the property cannot be under bankruptcy, appraised value of property reduced by all higher ranked receivables must be greater than the amount of receivables, receivables secured by the mortgage cannot be overdue for more than 720 days.

Loan to value ratio (LTV ratio) for mortgage loans as of 31 December 2021 and 2020 is as follows:

		In RSD thousand
Mortgage LTV	**2021**	**2020**
< 50%	32,669,894	23,752,359
51%-70%	40,961,373	33,044,197
71%-90%	38,420,694	31,014,179
91%-100%	1,401,848	1,460,111
> 100%	1,851,653	5,764,375
Total	**115,305,462**	**95,035,203**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

(b) Portfolio Quality (Continued)

Non-performing loan analysis

Balance sheet assets and allowances for impairment (NPL – categories: past due, unlikely to pay, doubtful and restructured) as of 31 December 2021 and 2020 are presented as follows:

	Total loans		Allowances for impairment and provisions		Total 2021
In RSD thousand	*Balance exposure*	*Off-balance exposure*	*Balance exposure*	*Off-balance exposure*	*Net Balance book value*
Individual Assessment	3,224,478	113,838	1,715,907	18,156	1,604,253
Collective Assessment	10,354,292	331,109	7,134,177	89,004	3,282,220
Total	**13,578,770**	**444,947**	**9,030,084**	**107,160**	**4,886,473**

	Total loans		Allowances for impairment and provisions		Total 2020
In RSD thousand	*Balance exposure*	*Off-balance exposure*	*Balance exposure*	*Off-balance exposure*	*Net Balance book value*
Individual Assessment	3,388,410	318,765	1,818,223	53,069	1,835,883
Collective Assessment	8,466,182	207,358	5,687,187	41,481	2,944,872
Total	**11,854,592**	**526,123**	**7,505,410**	**94,550**	**4,780,755**

Changes of Balance exposure for Non-Performing loans (NPL – categories: Past Due, Unlikely to Pay and Doubtful) in 2021 are presented as follows:

Opening Balance – 01.01.2021	**11,854,592**
New Non-Performing loans	6,427,758
Change in balance of Non-Performing loans	(2,197,132)
Transfer to Off-balance	(1,750,178)
Recovery of Non-Performing loans	(756,270)
Closing Balance – 31.12.2021	**13,578,770**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

(b) Portfolio Quality (Continued)

Renegotiated loans analysis

Balance sheet assets and allowances for impairment for renegotiated loans as of 31 December 2021 and 2020 are presented as follows:

					In RSD thousand
	Balance sheet assets to be classified		Off-balance sheet items to be classified		Total 2021
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Renegotiated loans:					
Loans	**8,267,103**	-	5,660	-	8,272,763
Stage 1	-	-	-	-	-
Stage 2	6,095,780	-	5,660	-	6,101,440
Stage 3	2,171,323	-	-	-	2,171,323
Allowances for impairment	**(2,419,151)**	-	(48)	-	(2,419,199)
Stage 1	-	-	-	-	
Stage 2	(1,091,965)	-	(48)	-	(1,092,013)
Stage 3	(1,327,186)	-	-	-	(1,327,186)
Net balance	**5,847,953**	**-**	**5,612**	**-**	**5,853,565**

					In RSD thousand
	Balance sheet assets to be classified		Off-balance sheet items to be classified		Total 2020
	Loans to customers	*Loans to banks*	*Loans to customers*	*Loans to banks*	*Loans to customers and banks*
Renegotiated loans:					
Loans	3,854,960	-	-	-	3,854,960
Stage 1	-	-	-	-	-
Stage 2	1,801,817	-	-	-	1,801,817
Stage 3	2,053,143	-	-	-	2,053,143
Allowances for impairment	(1,389,628)	-	-	-	(1,389,628)
Stage 1	-	-	-	-	-
Stage 2	(189,256)	-	-	-	(189,256)
Stage 3	(1,200,372)	-	-	-	(1,200,372)
Total	**2,465,332**	**-**	**-**	**-**	**2,465,332**

28. RISK MANAGEMENT (Continued)

28.1. Credit risk (Continued)

(b) Portfolio Quality (Continued)

Opening Balance – 01.01.2021	**3,854,960**
New renegotiated loans	5,647,750
Change in balance of renegotiated loans	(349,239)
Termination of the status of renegotiated loans	(880,708)
Closing Balance – 31.12.2021	**8,272,763**

Renegotiated loans are all loans for which previous conditions, as term, dynamics of settlement, interest rate and etc. have been changed in order to provide benefits for the client.

Credit conversion factor analysis

Credit conversion factors (CCF) for off-balance sheet items in the portfolio as of 31 December 2021 and 31 December 2020 are presented as follows:

				In RSD thousand
		Off-balance sheet items to be classified		**Total 2021**
	Corporate Loans	***Loans to Banks***	***Retail Loans***	***Loans to customers and banks***
CCF				
20%	106,746,525	2,177,221	-	108,923,745
26%	1,664,439	-	-	1,664,439
32%	7,961,169	-	-	7,961,169
33%	467,557	-	-	467,557
47%	1,507,096	-	20,575,629	22,082,724
50%	38,626,010	486,428	1,706,203	40,818,640
59%	-	-	6,763,512	6,763,512
100%	3,064,004	-	-	3,064,004
Total	**160,036,800**	**2,663,648**	**29,045,343**	**191,745,791**

				In RSD thousand
		Off-balance sheet items to be classified		**Total 2020**
	Corporate Loans	***Loans to Banks***	***Retail Loans***	***Loans to customers and banks***
CCF				
20%	86,789,062	1,631,595	-	88,420,657
27%	1,772,599	-	-	1,772,599
32%	8,299,954	-	-	8,299,954
39%	469,604	-	-	469,604
48%	1,701,543	-	19,808,969	21,510,512
50%	21,909,329	285,000	1,772	22,196,101
58%			7,639,003	7,639,003
100%	3,557,968			3,557,968
Total	**124,500,059**	**1,916,595**	**27,449,744**	**153,866,398**

28. RISK MANAGEMENT (Continued)

28.2. Liquidity risk and financial assets management

The Risk Management Department is responsible for measuring and monitoring liquidity and for the regular preparation of reports, which present the effects of the migration of various categories of assets and liabilities of the Bank to its liquid assets position. Liquidity risk management system is in compliance with measures and criteria determined by the Parent Bank, as well as regulations prescribed by the National Bank of Serbia.

Basic activities of the liquidity risk management include:
- planning of cash inflows and outflows;
- implementation and monitoring of liquidity indicators;
- measurement and monitoring of the Bank's liquidity;
- monitoring of liquidity crisis indicators; and
- preparation of the reports for the management.

Liquidity Risk management is done through monitoring following limits/indicators:

- Regulatory liquidity indicators: Liquidity coverage ratio – LCR (including LCR by significant currencies), Liquidity ratio and Narrow liquidity ratio.

Regulatory liquidity indicators

Liquidity Coverage Ratio – LCR

By applying the guidelines of the European Banking Authority (EBA) and Basel III regulations, as well as by respecting the specificities of the Serbian market and the macroeconomic environment, the National Bank of Serbia withDecision on Liquidity Risk Management by Banks requires regulatory reporting of Liquidity Coverage Ratio (LCR) indicator. The LCR indicator should provide adequate level of highly liquid assets (cash or assets which can be converted into cash with small or without any loss in value) in order to fulfil the Bank's needs for liquidity in the 30-day period of stress scenario.

The Decision on Liquidity Risk Management by Banks prescribed by National Bank of Serbia is almost fully harmonized with Basel III, i.e. the Commission Delegated Act Regulation (EU) 2015/91. However, there are some differences in the local LCR calculation that should be remarked:
- Excess liquidity on obligatory reserve account is calculated as of reporting date instead as average;
- There are no haircuts required for securities issued by the Serbian Government in local and foreign currencies;
- Higher outflow rates are applied only to retail deposits denominated in currencies other than dinar, euro and the currency of an EU member state. Namely, Euro and other EU member state currencies are treated as domestic currency in accordance with the regulation prescribed by the National Bank of Serbia;
- Shortage of required reserves is not treated as outflow; and
- Contractual inflows from exposures that are not past due for more than five days are included into the liquidity inflows (no five days threshold is applied by the EU regulations).

28. RISK MANAGEMENT (Continued)

28.2. Liquidity risk and financial assets management (Continued)

Regulatory liquidity indicators (continued)

Liquidity Coverage Ratio – LCR (continued)

The LCR indicator required by the regulator was well above the required limit in 2020 with an average value that was more than two times higher than prescribed limit of 1.0 (100%).

LCR	31 December	Average	Maximum	Minimum
2021	**2.71**	**3.47**	**4.64**	**2.37**
2020	**2.74**	**2.75**	**3.43**	**2.33**

The Bank also calculates the LCR indicator by significant currencies in accordance with the Decision on Liquidity Risk Management by Banks prescribed by the National Bank of Serbia. LCR indicator is monthly reported to the ALCO board by the most significant currencies (RSD and EUR), as of 31 December 2021 LCR is 3.25 (2020: 8.88) for liquidity position in domestic currency and 0.40 (2020: 0.64) for liquidity position in foreign currency (EUR).

Liquidity ratio and Narrow liquidity ratio

In 2021 the regulatory liquidity ratio and narrow regulatory liquidity ratio were significantly above the legally prescribed limit. Average regulatory liquidity ratio and narrow liquidity ratio were two times above the required level (at least 1.0 if calculated as the average of liquidity indicators for all working days within a month, or at least 0.7 if calculated as the average of narrow liquidity indicators for all working days within a month).

Liquidity ratio	31 December	Average	Maximum	Minimum
2021	**2.02**	**2.23**	**2.53**	**1.86**
2020	**2.15**	**2.18**	**2.44**	**1.92**

Narrow liquidity ratio	31 December	Average	Maximum	Minimum
2021	**1.70**	**1.82**	**2.30**	**1.38**
2020	**1.83**	**1.79**	**2.18**	**1.30**

Structure of the total liquidity reserves as of 31 December 2021 is presented in the following table:

			In RSD thousand
Liquidity reserves	**Carrying amount/ Fair value**	**Haircut**	**Available amount**
Required Central bank reserves in the amount above the amount required for the period	38,774,764	0%	38,774,764
- of which required reserves in local currency	38,181,796	0%	38,181,796
- of which required reserves in foreign currency	592,968	0%	592,968
Reverse repo transaction with Central Bank	7,000,000	0%	7,000,000
Cash and cash equivalents	22,984,604	0%	22,984,604
Available no-load government securities issued by the Republic of Serbia	75,912,900		48,039,857
- of which in local currency	67,222,716	35%	43,694,765
- of which in Euro	8,690,184	50%	4,345,092
Total liquidity reserves	**144,672,268**		**116,799,225**

28. RISK MANAGEMENT (Continued)

28.2. Liquidity risk and financial assets management (Continued)

Structure of the total liquidity reserves as of 31 December 2020 is presented in the following table:

			In RSD thousand
Liquidity reserves	**Carrying amount/ Fair value**	**Haircut**	**Available amount**
Required Central bank reserves in the amount above the amount required for the period	69,257,465	0%	69,257,465
- of which required reserves in local currency	61,987,040	0%	61,987,040
- of which required reserves in foreign currency	7,270,425	0%	7,270,425
Reverse repo transaction with Central Bank	-	0%	-
Cash and cash equivalents	20,301,596	0%	20,301,596
Available no-load government securities issued by the Republic of Serbia	84,376,988		54,695,812
- of which in local currency	46,575,886	35%	30,274,326
- of which in Euro	23,998,764	50%	11,999,382
- of which in Dollar	13,802,338	10%	12,422,104
Total liquidity reserves	**173,936,049**		**144,254,873**

The liquidity reserves structure is as follows: reserves required by the central bank above the amount required for the period in domestic and foreign currency on which 0% haircut is applied, reverse repo transactions with the central bank, cash and cash equivalents (including gold) on which 0% haircut is applied, government bonds in domestic and foreign currency issued by the Republic of Serbia on which defined haircut of 10%, 35% or 50% is applied.

As of 31 December 2021, available unencumbered financial assets issued by the Republic of Serbia amounted to RSD 75,912,900 thousand (2020: RSD 84,376,988thousand), out of which RSD 67,222,716 thousand is in local currency (2020: RSD 46,575,886 thousand), RSD 8,690,184 thousand is in Euro (2020: RSD 23,998,764 thousand) and RSD 13,802,338 thousand is in USD (2020: RSD 13,802,338 thousand).

According to the Liquidity Risk Management Policy, foreign currency account balances are not a part of liquidity reserves, although they represent liquid assets that the Bank owns without restrictions.

As of 31 December 2021, on nostro accounts was RSD 36,778,786 thousand (2020: RSD 25,942,854 thousand).

The currency structure of cash on nostro accounts at the reporting date was as follows: EUR – RSD 19,925,429 thousand (2020: RSD 11,764,067 thousand), USD – RSD 14,247,133 thousand (2020: RSD 288,042 thousand), GBP – RSD 136,833 thousand (2020: RSD 6,623,955 thousand), CAD – RSD 974,884 thousand (2020: RSD 731,979 thousand), AUD – RSD 741,643 thousand (2020: RSD 842,595 thousand), DKK – RSD 94,405 thousand (2020: RSD 83,494 thousand), CHF – RSD 154,667 thousand (2020: RSD 4,840,540 thousand), SEK – RSD 372,319 thousand (2020: RSD 363,333 thousand), RUB – RSD 3,179 thousand (2020: RSD 275,181 thousand) and other currencies – RSD 128,294 thousand (2020: RSD 129,668 thousand).

28. RISK MANAGEMENT (Continued)

28.2. Liquidity risk and financial assets management (Continued)

Maturity mismatch report as of 31 December 2021 based on undiscounted cash flow

In RSD thousand

	Carrying amount	Gross nominal value	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity
ASSETS								
Cash and balances with Central Bank	135,704,230	135,704,230	135,704,230					
Receivables from derivatives	433,793	433,793						433,793
Securities	81,906,310	86,215,159	18,575,819	14,251,895	5,324,154	48,062,717		574
Loans and receivables from banks and other financial organizations	56,557,456	56,603,891	54,239,538	361,978	1,394,189	594,678	6,189	7,319
Loans and receivables from customers	449,318,112	513,403,277	19,702,994	32,985,072	116,631,435	220,275,280	123,672,589	135,907
Investments in subsidiaries	1,199,472	1,199,472						1,199,472
TOTAL ASSETS	**725,119,373**	**793,559,822**	**228,222,581**	**47,598,945**	**123,349,778**	**268,932,675**	**123,678,778**	**1,777,065**

In RSD thousand

	Carrying amount	Gross nominal value	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity
LIABILITIES								
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	41,492,287	42,598,639	6,737,261	933,870	8,138,891	18,017,527	8,875,865	(104,775)
Deposits and other financial liabilities due to customers	572,877,553	574,595,780	516,826,329	9,967,869	34,403,326	11,069,192	1,777,778	551,286
TOTAL LIABILITIES	**614,369,840**	**617,194,419**	**523,563,590**	**10,901,739**	**42,542,217**	**29,086,719**	**10,653,643**	**446,511**
TOTAL EQUITY		**119,042,009**						**119,042,009**
TOTAL LIABILITIES AND EQUITY		**736.236.428**	**523,563,590**	**10,901,739**	**42,542,217**	**29,086,719**	**10,653,643**	**119,488,520**
MATURITY MISMATCH			**(295,341,009)**	**36,697,206**	**80,807,561**	**239,845,956**	**113,025,135**	**(117,711,455)**
CUMULATIVE MATURITY MISMATCH			**(295,341,009)**	**(258,643,803)**	**(177,836,242)**	**62,009,714**	**175,034,849**	

The table on the analysis of the residual maturity of assets and liabilities of the Bank as at 31 December 2021 shows the future cash flows using extremely conservative assumptions, such as the maturity of all sight deposits in the next month. The cumulative gap for illustrative purposes is shown by applying conservative assumptions since a vista deposits have been very stable source of funds by analysing time series of a vista deposits during previous years.

28. RISK MANAGEMENT (Continued)

28.2. Liquidity risk and financial assets management (Continued)

Maturity mismatch report as of 31 December 2020 based on undiscounted cash flow (Continued):

In RSD thousand

	Carrying amount	Gross nominal value	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity
ASSETS								
Cash and balances with Central Bank	142,071,319	142,071,319	142,071,319					
Receivables from derivatives	49,832	49,832						49,832
Securities	90,307,009	96,411,422	520,352	18,406,976	23,426,415	54,057,093		586
Loans and receivables from banks and other financial organizations	53,404,401	53,687,189	42,525,020	1,580,495	5,039,374	4,278,612	241,972	21,716
Loans and receivables from customers	409,138,881	467,410,621	16,820,480	27,556,625	101,579,559	209,055,059	107,339,042	5,059,856
Investments in subsidiaries	1,199,472	1,199,472						1,199,472
TOTAL ASSETS	**696,170,914**	**760,829,855**	**201,937,171**	**47,544,096**	**130,045,348**	**267,390,764**	**107,581,014**	**6,331,462**

In RSD thousand

	Carrying amount	Gross nominal value	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity
LIABILITIES								
Liabilities based on derivatives	2,589	2,589						2,589
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	66,389,398	67,635,926	7,694,808	16,987,549	17,105,624	17,678,332	8,305,279	(135,666)
Deposits and other financial liabilities due to customers	521,155,412	523,278,470	451,779,189	19,310,826	37,417,105	12,428,488	1,715,517	627,345
TOTAL LIABILITIES	**587,547,399**	**590,916,985**	**459,473,997**	**36,298,375**	**54,522,729**	**30,106,820**	**10,020,796**	**494,268**
TOTAL EQUITY		**109,014,630**						**109,014,630**
TOTAL LIABILITIES AND EQUITY		**699,931,615**	**459,473,997**	**36,298,375**	**54,522,729**	**30,106,820**	**10,020,796**	**109,508,898**
MATURITY MISMATCH			**(257,536,826)**	**11,245,721**	**75,522,619**	**237,283,944**	**97,560,218**	**(103.177.436)**
CUMULATIVE MATURITY MISMATCH			**(257,536,826)**	**(246,291,105)**	**(170,768,486)**	**66,515,458**	**164,075,676**	

The table on the analysis of the residual maturity of assets and liabilities of the Bank as at 31 December 2020 shows the future cash flows using extremely conservative assumptions, such as the maturity of all sight deposits in the next month. The cumulative gap for illustrative purposes is shown by applying conservative assumptions since a vista deposits have been very stable source of funds by analyzing time series of a vista deposits during previous years.

28. RISK MANAGEMENT (Continued)

28.3. Market risk

In 2021, the Bank acquired Trading Book (positions) and, therefore, was exposed to interest rate risk and price risk which could be caused by the Trading Book. Trading Book refers to portfolio of securities consisted of bonds and derivatives. In accordance with the Parent bank project "Structural FX position" in order to meet the requirements of CRR2 and new EBA provisions to develop an adopted methodology for monthly calculation of capital requirements for foreign exchange risk at the consolidated level, during 2021, the entire foreign exchange swap portfolio was transferred from the Trading Book to the Banking Book as it is not intended for trading and serves to maintain adequate liquidity of the Bank.. During 2021 there was no registered breach of the limit defining the maximum allowed nominal value of bonds in the Trading Book. On the other hand, the Banking book was exposed to foreign currency risk, with registered limit breaches approved by two members of the Executive Board in 2021.

Foreign currency risk is the risk of occurrence of negative effects on the financial result and equity of the Bank due to changes in foreign currency exchange rates. Banking operations in different foreign currencies result in exposure to fluctuations in exchange rates of foreign currencies.

The Bank applies foreign currency risk monitoring system based on the first and the second class limits.

The first class limit is considered to be FX VaR limit, which is calculated and reported on a daily basis. Calculation methodology is regulated by the ISP Group, which applies EWMA historical method, with 99% confidence interval and one day time period. FX VaR is calculated on positions for each currency, due to the Parent Bank's requirements, as well as for the increase of volatility of some currencies, which the Bank has in its portfolio. However, the FX VaR is mostly determined by the volatility of EUR, since the portion of EUR of the total open FX position was 75% in average during 2021.

The second class limit is considered to be the limit of net open FX position, which represents difference between the currency sensitive assets and the currency sensitive liabilities. The second class limits exposure is calculated and reported on a daily basis. During 2021, the first class limit (FX VaR limit) and the second class limit (limit of net open FX position), remained unchanged. During 2021 breaches of the second class limits were registered (in October), as the result of previously announced and agreed business actions which require that the open foreign currency position is not closed directly, but within few days.

During 2021, the Bank's foreign currency risk indicator was in compliance with the legally prescribed one, which represents 20% of the regulatory equity. As of 31 December 2021 regulatory indicator of foreign currency risk was 1.48%. Considering that the regulatory indicator for foreign exchange risk is below 2%, the Bank has not calculated capital requirement as of 31 December 2021.

28. RISK MANAGEMENT (Continued)

28.3. Market risk (Continued)

The following table presents the open foreign currency position as of 31 December 2021:

				In RSD thousand
				Open foreign currency position
	Carrying amount	**Total**	**Trading book**	**Banking book**
Assets complied with market risks	**728,503,634**	**427,356,398**	**1,199,303**	**426,157,095**
Cash and balances with Central Bank	135,704,230	54,034,754		54,034,754
Securities	81,906,310	8,833,591	1,199,303	7,634,288
Loans and receivables from banks and other financial organizations	56,557,456	46,096,033		46,096,033
Loans and receivables from customers	449,318,112	317,849,771		317,849,771
Other assets	5,017,526	542,250		542,250
Liabilities complied with market risks	**623,491,429**	**387,659,686**		**387,659,686**
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	41,492,287	36,944,674		36,944,674
Deposits and other financial liabilities due to customers	572,877,553	346,638,588		346,638,588
Other liabilities	9,121,589	4,076,424		4,076,424
Off-balance sheet financial derivatives which impact FX position	(31,104,353)	(31,104,353)	21,452,230	9,652,123
Allowances for impairment	17,192,776	(7,403,587)		(7,403,587
Open net foreign currency position		**1,188,773**	**(29,905,050)**	**(7,403,587)**

The following table presents the open foreign currency position as of 31 December 2020:

				In RSD thousand
				Open foreign currency position
	Carrying amount	**Total**	**Trading book**	**Banking book**
Assets complied with market risks	**699,610,274**	**440,766,950**	**38,599**	**440,728,351**
Cash and balances with Central Bank	142,071,319	58,060,576		58,060,576
Securities	90,307,009	37,875,940	38,599	37,837,341
Loans and receivables from banks and other financial organizations	53,404,401	47,792,821		47,792,821
Loans and receivables from customers	409,138,881	296,672,832		296,672,832
Other assets	4,688,664	364,781		364,781
Liabilities complied with market risks	**606,616,240**	**385,400,487**		**385,400,487**
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	66,389,398	123,801,775		123,801,775
Deposits and other financial liabilities due to customers	521,155,412	257,136,237		257,136,237
Other liabilities	19,071,430	4,462,475		4,462,475
Off-balance sheet financial derivatives which impact FX position	(47,626,316)	(47,626,316)	(47,626,316)	
Allowances for impairment	(15,841,335)	(8,649,231)		(8,649,231)
Open net foreign currency position		**(909,084)**	**(47,587,717)**	**46,678,633**

28. RISK MANAGEMENT (Continued)

28.3. Market risk (Continued)

Following table represents the currency structure of open net foreign currency position as of 31 December 2021 and 31 December 2020:

		In RSD thousand
Net open foreign currency position	**2021**	**2020**
EUR	1,184,896	(1,182,780)
USD	18,019	14,880
CHF	69,628	(308)
Other currencies	102,870	179,915
Gold and other precious metals	82,821	79,210
Total	**1,458,234**	**(909,083)**

				In EUR
Foreign currency VaR	**31 December**	**Average**	**Maximum**	**Minimum**
2021	3,791	4,298	8,001	728
2020	4,751	5,496	16,769	836

Following table represents effect of the change in the exchange rates on the Bank's profit and regulatory capital:

		In RSD thousand
Scenario	**Effect 2021**	**Effect 2020**
10% depreciation of RSD	145,823	(90,908)
20% depreciation of RSD	291,647	(181,817)

28.4. Interest rate risk

Interest rate risk is the risk of decrease in profit or net assets value of the Bank due to changes in market interest rates. The Bank's exposure to interest rate risk depends on the ratio of the interest-sensitive assets and interest- sensitive liabilities.

Interest rate risk is calculated separately for the Banking Book (HTCS -portfolio of securities hold to collect and sell) and for the Trading Book (HFT -portfolio of securities held for trading, consisted of bonds and derivatives), respectively Banking Book (includes everything that is not classified as Trading Book).

ISP Group Methodology on the calculation of interest rate risk was adopted by the Bank, through internal documents and ERMAS net 5 technical solution. Methodology includes: treatment of the margin as fixed future cash flow; calculation of future cash flows by using FTP prices, instead of the contractual prices; modelling a vista deposits as well as treatment of prepayment and cash flow adjustment (Cash Flow Adjustment) for expected credit loss. Applying the guidelines of the European Bank Authority (EBA) and Basel III regulations, the Parent Bank continuously improves the methodology and Guidelines relating to interest rate risk. In accordance with the EBA guidelines and the Parent Bank guidelines, in 2021 new methodologies were applied in the calculation of interest rate risk. Following the requirements related to the risk of prepayment of loans requested by the Basel Committee, the Bank decided to, with the support of the Parent Bank, expand the scope of prepayment risk analysis by applying "path dependent" management parameters to interest rate risk indicators. This additional functionality allows the Bank to analyse the effects of the correlation between the level of prepayment and the scenario of market shock over time. In addition, new parameters of the prepayment model were calculated and the analysis was expanded to separate mortgage loans for retail from cash loans to retail on the one hand and to divide all loans, taking into account the type of interest rate, to loans with fixed and those with variable interest rates. The Bank's documents defining interest rate risk management, the Policy on management of interest rate risk in the Banking Book and the Rulebook - Measurement and control of interest rate risk in the Banking Book, were harmonized with the Parent Bank' documents.

28. RISK MANAGEMENT (Continued)

28.4. Interest rate risk (Continued)

Measures used for assessment of interest rate risk on the Banking Book and on the basis of which there are established limits that are monitored on a monthly level are sensitivity of economic value of assets on 100 basis points interest rate change and sensitivity of income revenues and costs on change of on 50 basis points interest rate change. The Bank was in compliance with the prescribed limits by the Parent Bank in 2020.

Sensitivity of net asset value to change in market interest rates of +/- 100 basis points as well as the new scenarios for non-parallel shifts of yield curves (steepener, flattener, short rate up and short rate down) i.e. sensitivity of interest income and expenses to change of +/- 50, +/- 100 and, + / -200 basis is calculated, monitored and submitted to the ALCO Board as well as to the Parent Bank on a monthly basis. At the quarterly level, the Bank calculates these indicators in accordance with the six defined scenarios required by Basel III regulations and for parallel shifts by +/- 200 basis points, which are monitored and submitted to the ALCO Board and the Parent Bank.

During 2020 the interest rate risk VaR limit exposure on the Banking Book, was increased while the interest rate VaR limit on the Trading Book has been decreased on the Parent Bank's request .

Interest rate risk is daily monitored and submitted for the financial assets hold to collect and sell (HTCS)as well as for portfolio of securities held for trading (HFT). For (HTCS), as well as for HFT portfolio the following ratios of interest rate risk are calculated and reported on a daily basis: IRR VaR, duration and stress test (change scenario by 100 bps and 200 bps).

Acceptable interest rate risk is limited to the highest possible value at interest rate risk (IRR VaR) for the portfolio of financial assets hold to collect and sell, as well as for the portfolio of securities held for trading.

Value at interest rate risk (IRR VaR) is considered to be the highest possible one day loss in the AFS securities portfolio and securities held for trading that the Bank could undertake under usual market movements in interest rates. IRR VaR calculation methodology is determined by the ISP Group regulations, which applies EWMA historical method with 99% confidence interval and one day time period. During 2020 there was no registered breach of the VaR limits referring to neither HTCS nor HFT portfolio.

At the end of the first quarter of 2021, the Bank introduced stress VaR indicators as additional risk measures for the first time and started daily monitoring and reporting. Stress VaR indicators are calculated in the same way as regular ones, with the difference that a pre-defined stress period is taken for stress calculation and each observation in period has the same weight, ie. it is given the same importance. During 2021, there was no registered breach of stress VaR indicators.

28. RISK MANAGEMENT (continued)

28.4. Interest rate risk (continued)

The following table represents Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2021:

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
ASSETS							
Cash and balances with Central Bank	135,704,230						135,704,230
Receivables from derivatives	-					433,793	433,793
Securities	17,690,915	18,780,196	4,601,070	40,833,554		575	81,906,310
Loans and receivables from banks and other financial organizations	55,215,040	230,420	872,981	231,312	383	7,320	56,557,456
Loans and receivables from customers	137,828,674	128,233,278	77,931,431	95,840,636	9,348,185	135,908	449,318,112
Investments in subsidiaries	-	-	-	-	-	1.199.472	1.199.472
TOTAL ASSETS	**346,438,859**	**147,243,894**	**83,405,482**	**136,905,502**	**9,348,568**	**1,777,068**	**725,119,373**

Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2020 (Continued)

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
LIABILITIES							
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	6,747,213	19,650,140	4,415,002	6,249,042	4,535,665	(104,775)	41,492,287
Deposits and other financial liabilities due to customers	517,274,363	9,850,932	33,753,794	10,259,802	1,187,375	551,287	572,877,553
TOTAL LIABILITIES	**524,021,576**	**29,501,072**	**38,168,796**	**16,508,844**	**5,723,040**	**446,512**	**614,369,840**
TOTAL EQUITY						**119,042,009**	**119,042,009**
TOTAL LIABILITIES AND EQUITY	**524,021,576**	**29,501,072**	**38,168,796**	**16,508,844**	**5,723,040**	**119,488,521**	**733,411,849**
MATURITY MISMATCH	**(177,582,717)**	**117,742,822**	**45,236,686**	**120,396,658**	**3,625,528**		
CUMULATIVE MATURITY MISMATCH	**(177,582,717)**	**(59,839,895)**	**(14,603,209)**	**105,793,449**	**109,418,977**		

28. RISK MANAGEMENT (Continued)

28.4. Interest rate risk (Continued)

The following table represents Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2021:

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
ASSETS							
Cash and balances with Central Bank	142,071,319						142,071,319
Receivables from derivatives						49,832	49,832
Securities	88,406	22,321,683	22,212,085	45,684,248		587	90,307,009
Loans and receivables from banks and other financial organizations	47,671,161	1,121,337	2,854,373	1,568,334	167,469	21,727	53,404,401
Loans and receivables from customers	130,931,213	107,544,183	70,633,122	85,443,107	11,217,081	3,370,175	409,138,881
Investments in subsidiaries						1,199,472	1,199,472
TOTAL ASSETS	**320,762,099**	**130,987,203**	**95,699,580**	**132,695,689**	**11,384,550**	**4,641,793**	**696,170,914**

Reprising Gap report, i.e. the Bank's exposure to interest rate risk as of 31 December 2020 (Continued)

In RSD thousand

	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	With non-defined maturity	Total
LIABILITIES							
Liabilities based on derivatives						2,589	2,589
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank	7,763,395	31,374,378	14,908,540	7,862,865	4,615,886	(135,666)	66,389,398
Deposits and other financial liabilities due to customers	452,341,137	19,175,526	36,554,574	11,395,330	1,061,500	627,345	521,155,412
TOTAL LIABILITIES	**460,104,532**	**50,549,904**	**51,463,114**	**19,258,195**	**5,677,386**	**494,268**	**587,547,399**
TOTAL EQUITY						**109,014,630**	**109,014,630**
TOTAL LIABILITIES AND EQUITY	**460,104,532**	**50,549,904**	**51,463,114**	**19,258,195**	**5,677,386**	**109,508,898**	**696,562,029**
MATURITY MISMATCH	**(139,342,433)**	**80,437,299**	**44,236,466**	**113,437,494**	**5,707,164**		
CUMULATIVE MATURITY MISMATCH	**(139,342,433)**	**(58,905,134)**	**(14,668,668)**	**98,768,826**	**104,475,990**		

28. RISK MANAGEMENT (continued)

28.4. Interest rate risk (continued)

The table below presents the effects of change in interest rates on the Bank's net income and net assets, valued by applying the standard scenario and not taking into account assumptions on asymmetrical changes of the yield curve. The standard scenario implies parallel movement of the yield curve by 100bps and 200 bps on the Bank's net asset sensitivity and 50bps on net income sensitivity.

				In RSD thousand
Sensitivity of the Bank's net assets on the change in interest rates	**Increase by 100bps**	**Decrease by 100bps**	**Increase by 200bps**	**Decrease by 200bp**
2021				
As of 31 December	(584,384)	903,683	(1,684,610)	2,349,235
Period average	(694,362)	1,187,574	(1,960,461)	2,659,006
Period maximum	(403,192)	1,521,643	(1,684,610)	3,108,881
Period minimum	(1,042,671)	903,683	(2,386,829)	2,349,235
2020				
As of 31 December	(1,041,999)	1,500,731	(2,535,029)	2,538,557
Period average	(1,103,678)	1,507,733	(2,208,716)	3,286,260
Period maximum	(633,751)	1,774,411	(1,226,260)	3,817,212
Period minimum	(1,370,546)	1,235,674	(2,662,405)	2,538,557

		In RSD thousand
Sensitivity of the Bank's net income on the change in interest rates	**Increase by 50bps**	**Decrease by 50bp**
2021		
As of 31 December	1,315,514	(1,412,552)
Period average	1,216,309	(1,290,474)
Period maximum	1,329,667	(977,897)
Period minimum	909,804	(1,429,605)
2020		
As of 31 December	760,209	(869,345)
Period average	767,957	(861,215)
Period maximum	918,290	(705,070)
Period minimum	622,792	(1,015,890)

The following table represents value at risk for portfolio of *financial assets hold to collect and sell (HTCS), calculated for regular and stressed period*:

				In EUR
IRR HTCS VaR	**31 December**	**Average**	**Maximum**	**Minimum**
2021	93,426	228,037	364,880	51,129
2020	328,553	528,769	884,285	320,545

The following table represents value at risk for financial assets held for trading portfolio:

				In EUR
IRR HTCS Stressed	**31. decembar**	**Average**	**Maximum**	**Minimum**
2021	**126,706**	**306,787**	**425,836**	**126,706**

28. RISK MANAGEMENT (continued)

28.4. Interest rate risk (continued)

The following table represents value at risk for financial assets held for trading portfolio, calculated for regular and stressed period:

				In EUR
IRR HFT VaR	**31 December**	**Average**	**Maximum**	**Minimum**
2021	**97,819**	**37,991**	**127,710**	**5,156**
2020	8,116	15,236	38,882	2,843

				In EUR
IRR HFT VaR	**31 December**	**Average**	**Maximum**	**Minimum**
2021	**124,465**	**101,714**	**200,833**	**27,209**

The following table represents value at risk for total portfolio, meaning financial assets held for trading portfolio, financial assets hold to collect and sell (HTCS) portfolio as well as FX VaR calculated for open FX positon, calculated for regular and stressed period:

				In EUR
IRR Total VaR (HTCS, HFT & FX VaR)	**31 December**	**Average**	**Maximum**	**Minimum**
2021	**132,211**	**209,227**	**340,775**	**78,286**

				In EUR
IRR Total Stressed VaR (HTCS, HFT & FX VaR)	**31 December**	**Average**	**Maximum**	**Minimum**
2021	**200,514**	**341,978**	**481,460**	**195,151**

28.5. Operational risk

Operational risk is the risk of possible adverse effects on financial result and capital of the Bank caused by omissions (unintentional and intentional) in the employees' work, inadequate internal procedures and processes, inadequate management of information and other systems, as well as by unforeseeable external events. Operational risk shall also include legal risk.

The Bank's goal is to manage operational risk, in order to achieve balance between preventing financial loss and damage to the Bank's reputation, on one side, and economic profitability and innovation, on the other. The Bank's policy requires respecting all currently valid regulations.

The Bank has developed and implemented specific standards of operational risk management in the following areas:

- Operational risk identification, which comprises:
  - Collecting data on operational risks and losses – identification, registration and classification of data on the Bank's losses,
  - Integrated process of assessment of the Bank's exposure to operational risk;
  - Assessment of operational risk when implementing new product, process or system;
- Operational risk measuring;
- Monitoring and reporting on operational risk; and
- Mitigating operational risk.

At least once a year, Bank's Internal Audit performs independent assessment of adequacy of the operational risk management system. The results of this assessment are disclosed within the Audit Report, which includes all the findings and improvement suggestions.

For the purposes of capital requirements for operational risk calculation, the Bank applies the standardized approach. The capital requirement for operational risk, calculated by applying the standardized approach, amounts to RSD 4,366,455thousand as of 31 December 2021 (31 December 2020: RSD 4,326,720 thousand).

28. RISK MANAGEMENT (continued)

28.6. Exposure risk

The Risk Management Department monitors, measures and reports to the competent boards of the Bank on the Bank's exposure to a single client or to a group of related clients, risk of investment in other legal entities and in fixed assets, country risk to which the Bank is exposed, as well as operational risk. In 2019, the Bank maintained compliance of the exposure risk and investment risk indicators and performed appropriate activities defined by relevant procedures and decisions on credit approval and investments in financial and non-financial assets, ensuring compliance of the Bank's placements and investments with indicators prescribed by the National Bank of Serbia as well as the investment limits prescribed by the Bank.

Exposure risks include the risk of the Bank's exposure to a single client or a group of related clients, as well as exposure risk toward related parties of the Bank.

In accordance with the Risk Management Policy, the Bank's management sets exposure limits, i.e. the concentration of placements to a single client or a group of related clients, and related parties of the Bank.

The Bank's management and relevant bodies and employees seek to ensure the compliance of the Bank's exposures with prescribed limits, i.e. exposure to a single client or a group of related clients does not exceed 25% of the Bank's equity, total amount of all large exposures does not exceed 400% of the Bank's equity.

28.7. Investment risks

Investment risks include the risk of investment in other legal entities and investment in fixed assets. In accordance with the National Bank of Serbia's regulations, the Risk Management Department monitors the Bank's investments and reports to the Executive Board. The Department also ensures that the Bank's investment in a single non-financial entity does not exceed 10% of the Bank's equity, and that the total investments of the Bank in non-financial entities and in fixed assets do not exceed 60% of the Bank's equity.

28.8. Country risk

Country risk relates to the country of origin of the Bank's client and includes negative effects which may influence financial result and equity of the Bank, as the Bank might not be able to collect receivables from such a client, as a result of political, economic or social conditions in the client's country of origin. The Bank's exposure to country risk is low, due to insignificant share of non-residents in the total loan portfolio of the Bank.

28.9. Capital management

The objective of the Bank's capital management is to maintain the Bank's ability to continue operating into the foreseeable future, in order to maintain the optimal structure of capital with a view to decreasing the costs of capital and securing dividends for shareholders.

The Bank permanently manages its capital in order to:
- Ensure compliance with capital requirements set by the National Bank of Serbia;
- Ensure adequate level of capital in order to ensure operations as a going concern;
- Maintain capital at the level that will ensure future development of the business; and
- Maintain capital at the level that is adequate to cover internally assessed capital requirements for all significant risks identified in the Internal Capital Adequacy Assessment Process (ICAAP)

Capital adequacy, as well as use of the Bank's capital, is monitored on a monthly basis by the Bank's management. The Bank is obliged to calculate the following ratios and at any moment keeps them at levels that are not lower than prescribed:
- ratio of the adequacy of the basic share capital of the bank, which represents the percentage ratio of the basic share capital and risky assets of the bank - 4.5%;
- an indicator of the basic capital adequacy of the bank, which represents a percentage ratio of the basic capital and risky assets of the bank - 6%;
- Indicator of the adequacy of (total) capital of the bank, which represents the percentage ratio of capital and risky assets of the bank - 8%.

28. RISK MANAGEMENT (Continued)

28.9. Capital management (Continued)

The Bank's regulatory capital according to the Decision on Capital Adequacy of Banks as of 2021:

	In RSD thousand
ITEM	**31 December 2021**
CAPITAL	**81.427.422**
Core capital	**81.427.422**
Common Equity Tier 1 capital	**81.427.422**
Common Equity Tier 1 capital instruments and the relevant issue premium	**41.748.469**
Paid amount of Common Equity Tier 1 capital instruments	21,315,900
Relevant issue premium with Common Equity Tier 1 capital instruments	20,432,569
Note: Retained earnings from preceding years which do not qualify for inclusion in Common Equity Tier 1 capital	*21.853.215*
Note: Profit of the current period which does not qualify for inclusion in Common Equity Tier 1 capital	*10.371.358*
Revaluation reserves and other unrealized gains/losses	**1.859.821**
Revaluation reserves and other unrealized gains/losses	1.882.194
(-) Unrealized losses	(22.373)
Reserves from profit, other reserves and reserves for general banking risks	**43.488.903**
Other reserves	43,488,903
(+/-) Regulatory adjustment of the value of Common Equity Tier 1 capital elements	**(76.347)**
(-) Additional value adjustments	(76.347)
(-) Other intangible investment reduced by associated deferred tax liabilities	**(4.859.166)**
(-) Other intangible investment before the reduction by associated deferred tax liabilities	(4.859.166)
(-) Deferred tax assets which depend on the future profitability, except for those arising from temporary differences, reduced by associated deferred tax liabilities	**(24.810)**
(-) Any tax charge relating to Common Equity Tier 1 elements foreseeable at the moment of its calculation, except where the bank suitably adjusts the amount of Common Equity Tier 1 elements	**(279.758)**
(-) Gross amount of receivables from the borrower – natural person (other than a farmer or an entrepreneur) arising from extended consumer, cash or other loans where the level of the borrower's debt-to-income ratio before loan approval was higher than the percentage defined in accordance with the decision governing the classification of bank balance sheet assets and off-balance sheet items or where this percentage will be higher due to loan approval.	**(96.491)**
(-) Gross amount of receivables from the borrower – natural person (other than a farmer or an entrepreneur) arising from extended consumer, cash or other loans, other than the loans disclosed under this position which under the criterion agreed maturity qualify for the deduction from Common Equity Tier 1 prescribed by the decision governing bank capital adequacy*	**(333.191)**

28. RISK MANAGEMENT (Continued)

28.9. Capital management (Continued)

The Bank's regulatory capital according to the Decision on Capital Adequacy of Banks as of 2020:

	In RSD thousand
ITEM	**31 December 2020**
CAPITAL	**81,399,241**
Core capital	**81,399,241**
Common Equity Tier 1 capital	**81,399,241**
Common Equity Tier 1 capital instruments and the relevant issue premium	**41,748,469**
Paid amount of Common Equity Tier 1 capital instruments	21,315,900
Relevant issue premium with Common Equity Tier 1 capital instruments	20,432,569
Note: Retained earnings from preceding years which do not qualify for inclusion in Common Equity Tier 1 capital	*12,368,722*
Note: Profit of the current period which does not qualify for inclusion in Common Equity Tier 1 capital	*9,481,557*
Revaluation reserves and other unrealized gains/losses	**1,926,979**
Revaluation reserves and other unrealized gains/losses	1,931,410
(-) Unrealized losses	(4,431)
Reserves from profit, other reserves and reserves for general banking risks	**43,488,903**
Other reserves	43,488,903
(+/-) Regulatory adjustment of the value of Common Equity Tier 1 capital elements	**(84,424)**
(-) Additional value adjustments	(84,424)
(-) Other intangible investment reduced by associated deferred tax liabilities	**(5,385,746)**
(-) Other intangible investment before the reduction by associated deferred tax liabilities	(5,385,746)
(-) Any tax charge relating to Common Equity Tier 1 elements foreseeable at the moment of its calculation, except where the bank suitably adjusts the amount of Common Equity Tier 1 elements	**(145,613)**
(-) Gross amount of receivables from the borrower – natural person (other than a farmer or an entrepreneur) arising from extended consumer, cash or other loans where the level of the borrower's debt-to-income ratio before loan approval was higher than the percentage defined in accordance with the decision governing the classification of bank balance sheet assets and off-balance sheet items or where this percentage will be higher due to loan approval.	**(107,184)**
(-) Gross amount of receivables from the borrower – natural person (other than a farmer or an entrepreneur) arising from extended consumer, cash or other loans, other than the loans disclosed under this position which under the criterion agreed maturity qualify for the deduction from Common Equity Tier 1 prescribed by the decision governing bank capital adequacy*	**(42,143)**

28. RISK MANAGEMENT (Continued)

28.10. Fair value of financial assets and liabilities

The Bank's policy is to disclose information on the fair value of assets and liabilities, for which official market information is available and when their fair value significantly differs from their carrying amounts.

Determining fair value of the financial instruments, which are not carried at amortized cost must follow the principles, criteria and hierarchy prescribed by the Fair value policy, which is in accordance with ISP Group's requirements for determining fair value. Determining fair value of the financial instruments not carried at amortized cost respects the following hierarchy, which reflects credibility of the inputs used in determination of fair value:

- Level 1: inputs are the quoted market prices (without corrections) on active markets;
- Level 2: inputs other than quoted prices from level 1, but directly or indirectly (derived from prices) quoted on market. This category includes: market interest rates, CDS (credit default swap) market quotations, market prices of primary bonds issue or market exchange rates when determining value of the instrument.
- Level 3: inputs that are not information available on the market. This category includes each instrument, for which information on value is not directly or indirectly available on the market.

Implementation of the hierarchy is not optional, and the Bank cannot choose the information for determining fair value of financial instruments that are not carried at amortized cost, but it must respect the abovementioned hierarchy.

Financial instruments not carried at amortized cost and on which Fair Value Policy is applied are:

- Securities (government FX bonds, government bonds issued by foreign governments etc. for which active and liquid market exists, which provides direct information about quoted market prices (Level 1);
- The Republic of Serbia treasury bonds, which are valued by discounting future cash flows by applying market non-risk yield curves, adjusted for country risk (at euro bonds) and liquidity risk (at RSD bonds, without direct quotation of maturity) (Level 2);
- Over-the-counter financial derivatives (FX swap and FX forward) which are valued by discounting future cash flows with market non-risk yield curves adjusted for country risk and (at Euro bonds) and liquidity risk (at RSD bonds without direct quotation of maturity) (Level 2);
- Shares and investments in legal entities, which are not sold on active markets and for which there is no reliable value, are carried at cost or last available information about value, reduced by impairment (Level 3)

During 2021 there were no transition between levels during the year.

28. RISK MANAGEMENT (Continued)

28.10. Fair value of financial assets and liabilities (Continued)

The following tables present value of financial instruments based on different information and in accordance with hierarchy within the Fair Value Policy:

Fair value as of 31 December 2021:

				In RSD thousand
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Securities	143,408	75,912,900	13,351	76,069,659
Receivables from derivatives	-	433,793	-	433,793
Total	**143,408**	**76,346,693**	**13,351**	**76,503,452**
Liabilities				
Liabilities based on derivatives	-	-	-	-
Total	**0**	**0**	**0**	**0**

Fair value measurement for securities position is divided into three levels. Level 1 instruments refer equities quoted on international market. Level 2 instruments refer to bonds issued by Republic of Serbia and financial derivatives which are valued by using discounting techniques on future contracted cash flows, applying market risk-free yields. Level 3 instruments refer to shares or equity held in legal entities that are not listed on the active market.

Fair value as of 31 December 2020:

				In RSD thousand
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Securities	13,877,177	70,574,650	14,154	84,465,981
Receivables from derivatives	-	49,832	-	49,832
Total	**13,877,177**	**70,624,482**	**14,154**	**84,515,813**
Liabilities				
Financial liabilities at fair value through profit and loss held for trading	-	2,589	-	2,589
Total	**-**	**2,589**	**-**	**2,589**

The Bank's management considers that the carrying amounts stated in the accompanying financial statements are the most valid and useful reporting values under the present market conditions.

28. RISK MANAGEMENT (Continued)

28.10. Fair value of financial assets and liabilities (Continued)

The following table represents fair value of instruments not carried at fair value and classified by the appropriate levels of hierarchy:

					In RSD thousand
31 December 2021	**Level 1**	**Level 2**	**Level 3**	**Fair value**	**Carrying amount**
Assets					
Cash and balances with Central Bank		135,704,230		135,704,230	135,704,230
Securities			6,489,957	6,489,957	5,836,652
Loans and receivables from banks and other financial organizations		56,566,542		56,566,542	56,557,456
Loans and receivables from customers		187,629,917	290,931,559	478,561,476	449,318,112
Total		**379,900,689**	**297,421,516**	**677,322,205**	**647,416,450**
Liabilities					
Deposits and other financial liabilities due to banks, other financial organizations and Central Bank		15,745,137	27,496,645	43,241,783	41,492,287
Deposits and other financial liabilities due to customers		489,861,147	88,697,327	578,558,474	572,877,553
Total		**505,606,285**	**116,193,972**	**621,800,257**	**614,369,840**

Fair valued Cash and balances with Central Bank are belonging to the Level 2 and are presented at their carrying amount.

Loans and receivables from banks and other financial organizations, deposits and other financial liabilities due to banks, other financial organizations and Central Bank are presented at their fair value calculated as discounting cash flows for deposits, or as discounting cash flows reduced by expected loss for loans. Given the short-term deposits with financial institutions (money market), i.e. transactions with highly rated financial institutions which are contracted at interest rates corresponding to the market, these positions belong to the Level 2.

Fair value for positions Loans and receivables from customers and Deposits and other financial liabilities due to customers are calculated as discounting techniques of future cash flows for deposits, or as discounting cash flows reduced by expected loss for loans. Doubtful loans are valued in the same manner as performing loans, while maturity estimated by the NPL Department is assigned to the total net exposure instead of initially contracted maturity. These positions belong to the Level 2 (up to one-year maturity) respectively Level 3 (if the maturity is over one year).

For the purposes of determining fair values, risk-free yield curves that correspond to the currency and maturity structure of the contracted cash flow are used. For maturities for which there are no market quotes of the BELIBOR yield curve, the yield equals the quoted value of the six-month BELIBOR, increased by the corresponding spread. Spread for a certain maturity is defined as the difference between the executed bond rate with same maturity in the primary market and the value of the six-month BELIBOR on the day of issue of the relevant bond. The European yield curve represents the EUR-STANDARD yield curve that is defined by the money market (for a maturity of up to one year) and the interest rate swap curve which is increased for the country's risk spread (for a maturity more than one year), where the country's risk spread is defined as the difference between issued Serbian and Germany risk-free bonds.

28. RISK MANAGEMENT (Continued)

28.10. Fair value of financial assets and liabilities (Continued)

In RSD thousand

31 December 2020	Level 1	Level 2	Level 3	Fair value	Carrying amount
Assets					
Cash and balances with central bank		142,071,319		142,071,319	142,071,319
Loans and receivables from banks and other financial organizations			6,668,000	6,668,000	5,841,028
Loans and receivables from customers		53,405,319		53,405,319	53,404,401
Total		**168,288,169**	**268,017,534**	**436,305,703**	**409,138,881**
Liabilities		**363,764,807**	**274,685,534**	**638,450,341**	**610,455,629**
Deposits and other liabilities due to banks, other financial organizations and central bank					
Deposits and other liabilities due to customers		42,577,833	25,787,736	68,365,569	66,389,398
Other liabilities		458,807,995	69,192,030	528,000,025	521,155,412
Total		**501,385,828**	**94,979,766**	**596,365,594**	**587,544,810**

The Bank's management assesses the risk, and in instances in which it estimates that the carrying amount of assets may not be realized, it recognizes a provision.

(a) Litigations

As of 31 December 2021, the Bank is a defendant in a certain number of legal proceedings. Total estimated value of damage claims amounts to RSD 9.867.006 thousand (31 December 2020: RSD 8,107,466 thousand), including penalty interests and fees.

As disclosed in Note 23, as of 31 December 2021 the Bank recognized the provision for potential losses that could arise from the aforementioned litigations in the total amount of RSD 1.562.374 thousand (31 December 2020: RSD 627,526 thousand). The Bank's management considers that no significant losses will arise from the ongoing litigations, other than those provided for.

The amount of the highest single litigation claims of RSD 5,491,509 thousand, for which the Bank did not recorded provision, is claimed by a physical person, who is the owner of the Bank's corporate debtor and guarantor for the loan granted to that corporate debtor. The Bank did not recognize provision for this litigation and according to the Bank's management opinion, claimant presented in ungrounded and arbitrarily manner, the facts based on which he claims not precise requirements for compensation damage, and it is expected that the Court will completely reject the claim. Nevertheless, the Bank will monitor change in circumstances at the end of each reporting period.

The Bank is involved in a number of lawsuits as plaintiff related to collection of receivables. All disputed receivables from corporate and retail customers have been impaired and charged to the results of the current and previous years.

The following lines of serial litigation involving the entire Serbian banking system are reported.

29. POTENTIAL LIABILITIES

(a) Litigations (continued)

1) Processing fees

Litigation regarding processing fees charged by banks at the time of granting loans. The plaintiffs, both physical persons and legal entities, are requesting the restitution of these charges, deeming them not to be due. The first disputes arose in 2017, with a significant increase in the number of cases in subsequent years, albeit for modest average amounts. In fact, as of December 31, 2021, the Bank was a defendant in approximately 25,000 cases (of which 19,500 arose during 2021), while the related total amounts claimed for restitution from the Bank amounted to approximately RSD 230 million. The Bank has formed a sufficient level of the provisions related to the potential losses in these litigations. The majority of the courts upheld the customers' claims on the basis of an interpretation of the regulations opposed by the banks. In September 2021, the Serbian Supreme Court recognized the legitimacy of costs and commissions applied to loans at the time of their granting, provided that they are indicated in the contractual offer. This ruling is favorable for the evolution of litigation on the subject but it will take some time for the lower courts to align with it. In the last quarter of the year a reduction in the flow of new cases and the waiver (by clients) of some of those already pending were noticed.

2) NKOSK

Litigation relating to housing finance insured through the National Housing Loan Insurance Corporation (NKOSK), the premium for which is charged to the borrowers. The latter consider that since the bank is the beneficiary of the insurance, the related premium should remain at the expense of the bank. As of December 31, 2021, the Bank was a defendant in 967 cases (of which 565 arose during 2021); the related total sums claimed from the Bank amounted to approximately RSD 130 million. The Bank has formed a sufficient level of the provisions related to the potential losses in these litigations. Most of the courts upheld the customers' claims on the basis of an interpretation of the regulations opposed by the banks. In September 2021 the Serbian Supreme Court acknowledged the legitimacy of the allocation of the insurance premium to borrowers, provided that the obligation is clearly described in the pre-contractual framework. This statement is favorable for the evolution of litigation in this area but it will take some time for the lower courts to align with it. In the last quarter of the year a reduction in the flow of new cases was noticed.

(b) Tax Risks

The tax system of the Republic of Serbia is in the process of continuous review and amendments. The tax period in the Republic of Serbia is considered to be open for five years. Under various circumstances, the tax authorities could have a different approach to certain issued and could assess additional tax liabilities together with related penalty interest and fees. The Bank's management believes that tax liabilities recognized in the accompanying financial statements are presented fairly.

30. RECONCILIATION OF OUTSTANDING BALANCES WITH COUNTERPARTIES

In accordance with Article 22 of the Law on Accounting, the Bank performed the process of reconciliation of outstanding liabilities and receivables with its debtors and creditors as of 30 November 2021, and it maintains credible documentation on the circularization process.

Of 4,700 open items (IOS forms), which include the value of receivables of RSD 691,657,314 thousand denied 23.

The balance of unreconciled outstanding receivables in amount of RSD 222.597 thousand presented 0.03% of total receivables of open items (IOS).

The largest amount of unmatched receivables, 92.66% relate to receivables from legal entities in bankruptcy.

31. ECONOMIC ENVIRONMENT AND THE IMPACT OF THE PANDEMIC

Owing to the implemented fiscal consolidation in the previous period, Serbia entered the pandemic crisis with a stable macroeconomic environment and more balanced public finances. Achieved macroeconomic and financial stability created space for an adequate economic policy response. Along with previous economic growth dynamics and the structure of the economy, taken fiscal and monetary policy measures prevented a deeper recession and enabled recovery. Already during the first quarter of 2021, GDP level from the pre-pandemic period was reached. Economic growth in 2021 as a whole was relatively high and above expectations, reaching 7.5% compared to the previous year. The drivers of growth were the recovery and expansion of the service sector, favorable trends in industry and the growth of construction activity. After a long period of low inflation, influenced by developments in the international environment, rising global energy and primary products prices, disruptions in global supply chains and drought in Serbia, inflation in 2021 started to accelerate and reached an eight-year high of 7.9% on at the year-end. Unlike most other central banks in the region, the National Bank of Serbia has kept the reference interest rate at a historical minimum of 1%, while reducing the level of monetary policy accommodation by using other available instruments of the current monetary framework. Due to the extensive package of support measures, the fiscal deficit in both pandemic years significantly exceeded the threshold of 3% of GDP, while the level of public debt was kept within the Maastricht criteria, below 60% of GDP. The new non-financial and advisory arrangement with the IMF, agreed during 2021, will provide support for structural reforms continuation, primarily in the public sector and the capital market. The country's credit rating remained good, confirming the favorable growth prospects and macroeconomic stability of the country.

Banks in Serbia have been ready for the pandemic crisis, as they have significantly improved the quality of their assets since the global financial crisis in 2009 by establishing greater protective layers of capital and strengthening their liquidity. It is expected that in the post-pandemic period Banca Intesa Belgrade will continue to operate stably, remain highly liquid and well-capitalized.

32.EXCHANGE RATES

The official median exchange rates of the National Bank of Serbia, determined at the Interbank Foreign Currency Market, used in the translation of balance sheet items denominated in foreign currencies, as of 31 December 2021 and 2020 into the functional currency (RSD), for the major foreign currencies were as follows:

		In RSD
	2021	**2020**
EUR	117.5821	117.5802
USD	103.9262	95.6637
CHF	113.6388	108.4388
GBP	140.2626	130.3984
CAD	81.6316	75.0831
AUD	75.4408	73.6810
DKK	15.8057	15.7985
SEK	11.4803	11.6538
RUB	1.3925	1.2751

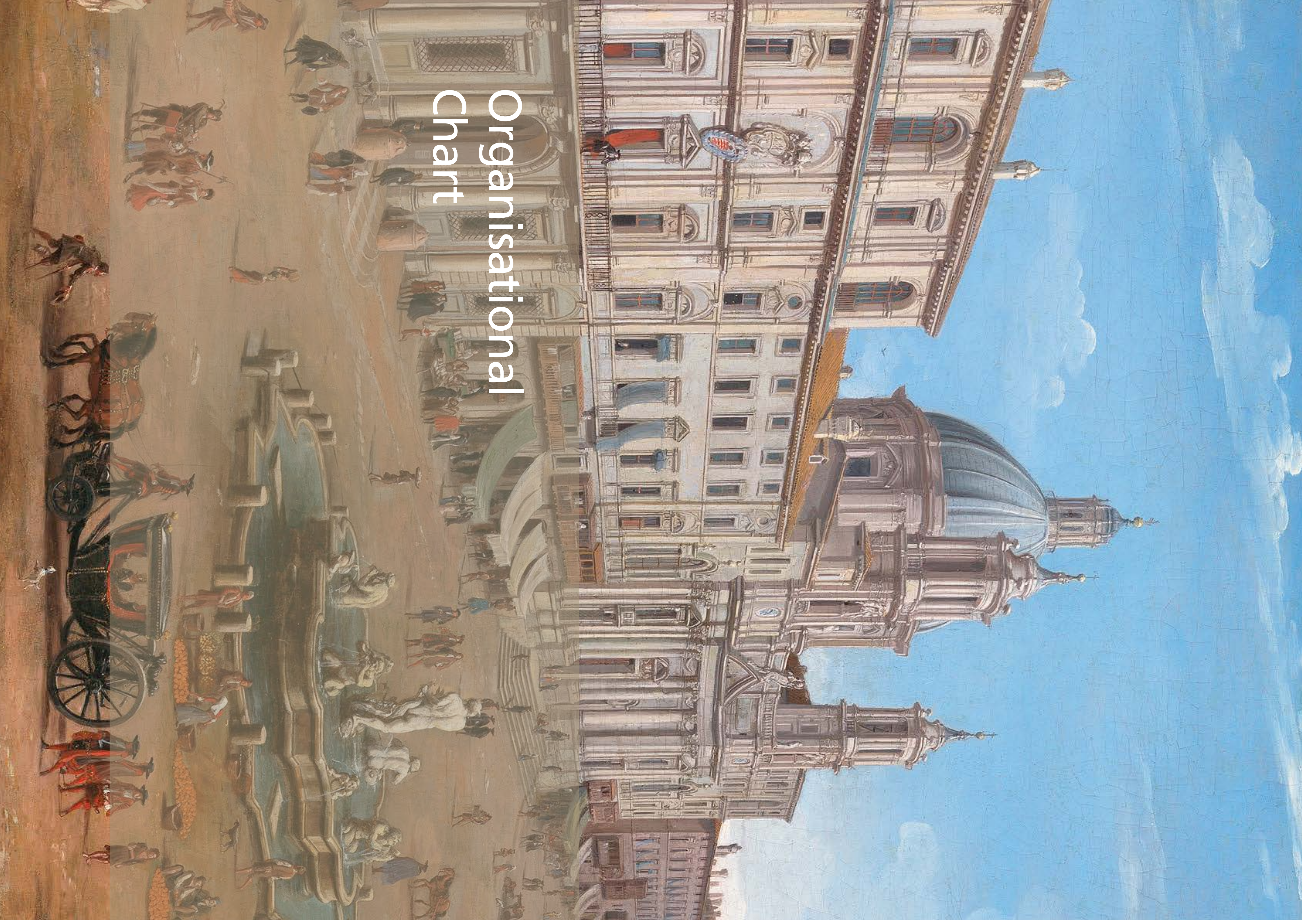
33.EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after the reporting period, which would require disclosures in the Notes to the accompanying financial statements of the Bank as of and for the year ended 31 December 2021.

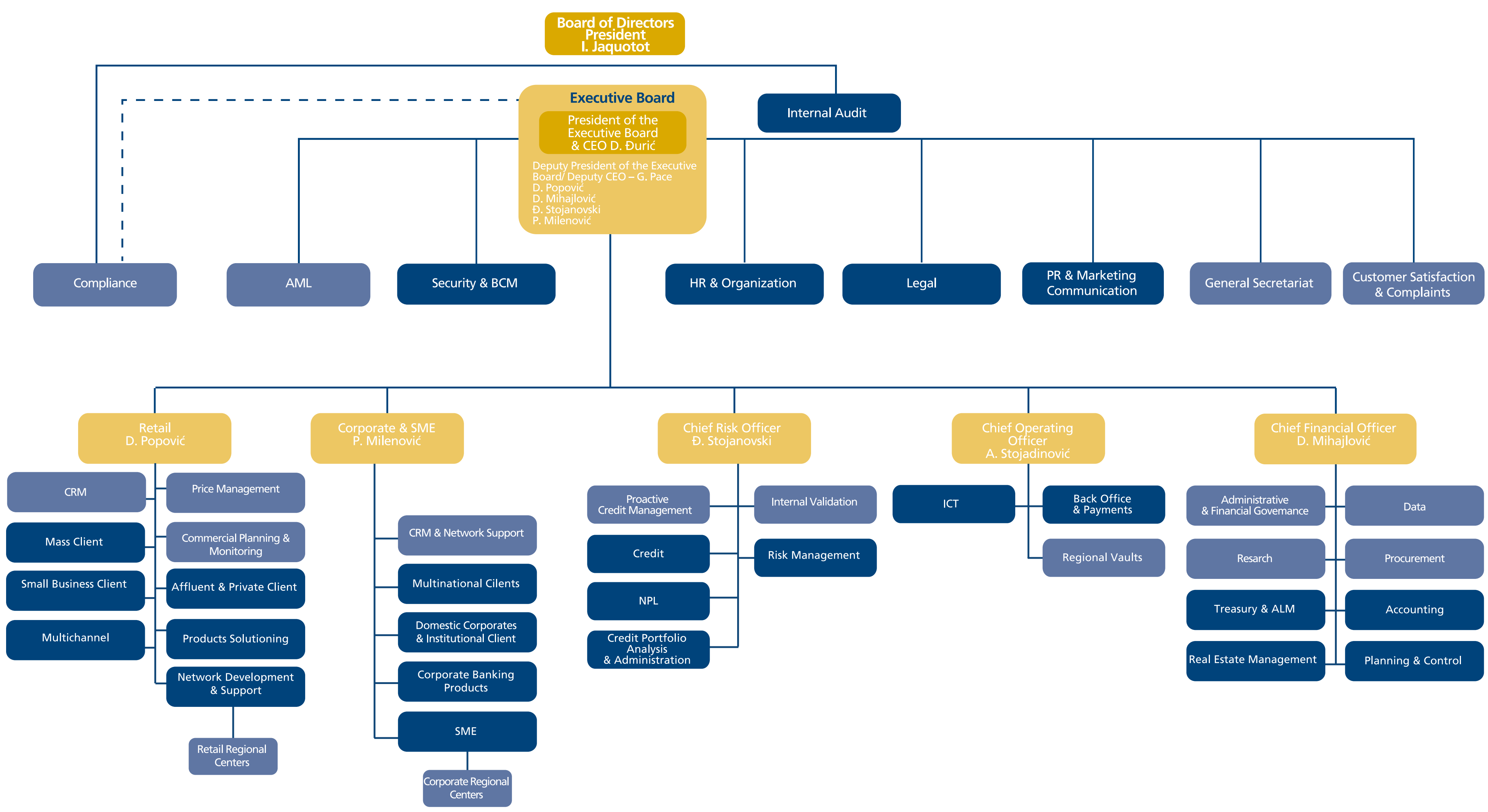
Belgrade, 25 February 2022

Rada Radović	Dragica Mihajlović	Darko Popović
Head of Accounting Department	CFO	CEO

Organisational Chart



Organisational Chart



*Responsible for area under the authority of Chief Financial Officer, Chief Risk Officer, Chief Operating Officer, and for Security and Business Continuity Management Department, as well as for Project Management in terms of strategic projects

Branch Network

Location	Name of the branch	Regional centre	Address
Ada	Ada, Vuka Karadžića 18	Novi Sad	Vuka Karadžića 18
Aleksandrovac	Aleksandrovac, 29. Novembra bb	Niš	29. Novembra bb
Aleksinac	Aleksinac, Knjaza Miloša 115	Niš	Knjaza Miloša 115
Apatin	Apatin, Petefi Šandora 2	Novi Sad	Petefi Šandora 2
Arandjelovac	Aranđelovac, Knjaza Miloša 192	Kragujevac	Knjaza Miloša 192
Arilje	Arilje, Stevana Čolovića 2	Kragujevac	Stevana Čolovića 2
Bačka Palanka	Bačka Palanka, Žarka Zrenjanina 80	Novi Sad	Žarka Zrenjanina 80
Bačka Topola	Bačka Topola, Glavna 29	Novi Sad	Glavna 29
Bački Petrovac	Bački Petrovac, Maršala Tita 4	Novi Sad	Maršala Tita 4
Bajina Bašta	Bajina Bašta, Svetosavska 19a	Kragujevac	Svetosavska 19a
Batajnica	Zemun, Batajnica, Majke Jugovića 1	Beograd	Majke Jugovića 1
Bečej	Bečej, Novosadska 2	Novi Sad	Novosadska 2
Beočin	Beočin, Trg Cara Lazara 8	Novi Sad	Trg Cara Lazara 8
Beograd	Čukarica, Požeška 128	Beograd	Požeška 128
Beograd	Čukarica, Požeška 45	Beograd	Požeška 45
Beograd	Čukarica, Trgovačka 15	Beograd	Trgovačka 15
Beograd	Novi Beograd, Bulevar Arsenija Čarnojevića 54	Beograd	Bulevar Arsenija Čarnojevića 54
Beograd	Novi Beograd, Bulevar maršala Tolbuhina 34	Beograd	Bulevar maršala Tolbuhina 34
Beograd	Novi Beograd, Jurija Gagarina 14	Beograd	Jurija Gagarina 14
Beograd	Novi Beograd, Jurija Gagarina 36b	Beograd	Jurija Gagarina 36b
Beograd	Novi Beograd, Milentija Popovića 7b	Beograd	Milentija Popovića 7b
Beograd	Novi Beograd, Milentija Popovića 7v	Beograd	Milentija Popovića 7v
Beograd	Novi Beograd, Milutina Milankovića 134g	Beograd	Milutina Milankovića 134g
Beograd	Novi Beograd, Nedeljka Gvozdenovića 24a	Beograd	Nedeljka Gvozdenovića 24a
Beograd	Novi Beograd, Omladinskih brigada 90	Beograd	Omladinskih brigada 90
Beograd	Novi Beograd, Otona Župančića 1	Beograd	Otona Župančića 1
Beograd	Novi Beograd, Partizanske avijacije 14	Beograd	Partizanske avijacije 14
Beograd	Palilula, 27. marta 23	Beograd	27. marta 23
Beograd	Palilula, Borča, Ivana Milutinovića 73	Beograd	Ivana Milutinovića 73
Beograd	Palilula, Marjane Gregoran 60	Beograd	Marjane Gregoran 60
Beograd	Rakovica, Miška Kranjca 18b	Beograd	Miška Kranjca 18b
Beograd	Rakovica, Vidikovački venac 80b	Beograd	Vidikovački venac 80b
Beograd	Rakovica, Vukasovićeva 50a	Beograd	Vukasovićeva 50a
Beograd	Savski Venac, Nemanjina 4	Beograd	Nemanjina 4
Beograd	Savski Venac, Vase Pelagića 48b	Beograd	Vase Pelagića 48b
Beograd	Stari Grad, Cara Dušana 50	Beograd	Cara Dušana 50
Beograd	Stari Grad, Džordža Vašingtona 8	Beograd	Džordža Vašingtona 8
Beograd	Stari Grad, Knez Mihailova 30	Beograd	Knez Mihailova 30
Beograd	Stari Grad, Kolarčeva 5	Beograd	Kolarčeva 5
Beograd	Stari Grad, Studentski trg 7	Beograd	Studentski trg 7
Beograd	Surčin, Vojvođanska 85	Beograd	Vojvođanska 85
Beograd	Voždovac, Banjica, Crnotravska 7-9	Beograd	Crnotravska 7-9
Beograd	Voždovac, Braće Jerković 137b	Beograd	Braće Jerković 137b
Beograd	Voždovac, Kumodraška 174	Beograd	Kumodraška 174
Beograd	Voždovac, Ustanička 69	Beograd	Ustanička 69
Beograd	Voždovac, Vojvode Stepe 77	Beograd	Vojvode Stepe 77
Beograd	Vračar, Bore Stankovića 9	Beograd	Sarajevska 31

Location	Name of the branch	Regional centre	Address
Beograd	Vračar, Bulevar oslobođenja 3	Beograd	Bulevar oslobođenja 3
Beograd	Vračar, Južni Bulevar 84	Beograd	Južni Bulevar 84
Beograd	Vračar, Kneza Miloša 23	Beograd	Kneza Miloša 23
Beograd	Vračar, Kursulina 41	Beograd	Kursulina 41
Beograd	Zvezdara, Bulevar Kralja Aleksandra 330	Beograd	Bulevar Kralja Aleksandra 330
Beograd	Zvezdara, Bulevar Kralja Aleksandra 79	Beograd	Bulevar Kralja Aleksandra 79
Beograd	Zvezdara, Mirijevski venac 23	Beograd	Mirijevski venac 23
Bogatić	Bogatić, Vojvode Stepe 35	Kragujevac	Vojvode Stepe 35
Bor	Bor, Đorđa Vajferta 3	Niš	Đorđa Vajferta 3
Brus	Brus, Kralja Petra I bb	Niš	Kralja Petra I bb
Bujanovac	Bujanovac, Karađorđa Petrovića 111	Niš	Karađorđa Petrovića 111
Čačak	Čačak, Kuželjeva 1	Kragujevac	Kuželjeva 1
Despotovac	Despotovac, Despota Stefana Lazarevića 50	Niš	Despota Stefana Lazarevića 50
Gornji Milanovac	Gornji Milanovac, Vojvode Milana 1	Kragujevac	Vojvode Milana 1
Inđija	Inđija, Novosadska 21	Novi Sad	Novosadska 21
Ivanjica	Ivanjica, Majora Ilića 1	Kragujevac	Majora Ilića 1
Jagodina	Jagodina, Kneza Lazara 5-6	Niš	Kneza Lazara 5-6
Kanjiža	Kanjiža, Glavna 3	Novi Sad	Glavna 3
Kikinda	Kikinda, Braće Tatića 16	Novi Sad	Braće Tatića 16
Kladovo	Kladovo, 22. septembra 9	Niš	22.septembra 9
Kostolac	Kostolac, Nikole Tesle 5-7	Niš	Nikole Tesle 5-7
Kovačica	Kovačica, Maršala Tita 31a	Novi Sad	Maršala Tita 31a
Kovin	Kovin, Cara Lazara 73	Novi Sad	Cara Lazara 73
Kragujevac	Kragujevac, Dr. Zorana Đinđića 11a	Kragujevac	Dr. Zorana Đinđića 11a
Kragujevac	Kragujevac, Save Kovačevića 12 b	Kragujevac	Save Kovačevića 12 b
Kraljevo	Kraljevo, Trg Jovana Sarića 8	Kragujevac	Trg Jovana Sarića 8
Kruševac	Kruševac, Vidovdanska 46	Kragujevac	Vidovdanska 46
Kruševac	Kruševac, Vidovdanska 4	Kragujevac	Vidovdanska 4
Kučevo	Kučevo, Trg Veljka Dugoševića 2	Niš	Trg Veljka Dugoševića 2
Kula	Kula, Maršala Tita 242	Novi Sad	Maršala Tita 242
Lajkovac	Lajkovac, Vojvode Mišića 84	Kragujevac	Vojvode Mišića 84
Lazarevac	Lazarevac, Karađorđeva 41	Kragujevac	Karađorđeva 41
Leskovac	Leskovac, Trg Revolucije 7	Niš	Trg Revolucije 7
Loznica	Loznica, Trg Vuka Karadžića bb	Kragujevac	Trg Vuka Karadžića bb
Ljig	Ljig, Vojvode Mišića 12	Kragujevac	Vojvode Mišića 12
Ljubovija	Ljubovija, Vojvode Mišića 44	Kragujevac	Vojvode Mišića 44
Mionica	Mionica, Dr. Jove Aleksića bb	Kragujevac	Dr. Jove Aleksića bb
Mladenovac	Mladenovac, Kralja Petra I 217	Kragujevac	Kralja Petra I 217
Negotin	Negotin, Trg Đorđa Stanojevića 70/II	Niš	Trg Đorđa Stanojevića 70/II
Niš	Niš, Bulevar Nemanjića 28-32	Niš	Bulevar Nemanjića 28-32
Niš	Niš, Milojka Lešjanina 1	Niš	Milojka Lešjanina 1
Niš	Niš, Nade Tomić 8a	Niš	Nade Tomić 8a
Niš	Niš, Obrenovićeva 82 (Fontana)	Niš	Obrenovićeva 82 (Fontana)
Niš	Niš, Sinđelićev trg 18	Niš	Sinđelićev trg 18
Niš	Niš, Vizantijski bulevar 78	Niš	Vizantijski bulevar 78
Novi Bečej	Novi Bečej, Trg Oslobođenja 5	Novi Sad	Trg Oslobođenja 5
Novi Pazar	Novi Pazar, AVNOJ-a 6	Kragujevac	AVNOJ-a 6
Novi Sad	Novi Sad, Bulevar Cara Lazara 79a	Novi Sad	Bulevar cara Lazara 79a

Location	Name of the branch	Regional centre	Address
Novi Sad	Novi Sad, Bate Brkića 10a	Novi Sad	Bate Brkića 10a
Novi Sad	Novi Sad, Bulevar Mihajla Pupina 4	Novi Sad	Bulevar Mihaila Pupina 4
Novi Sad	Novi Sad, Bulevar Oslobođenja 8	Novi Sad	Bulevar Oslobođenja 8
Novi Sad	Novi Sad, Bulevar Oslobođenja 76a	Novi Sad	Bulevar Oslobođenja 76a
Novi Sad	Novi Sad, Fruškogorska 10	Novi Sad	Fruškogorska 10
Novi Sad	Novi Sad, Rumenačka 33	Novi Sad	Rumenačka 33
Novi Sad	Novi Sad, Zmaj Jovina 15	Novi Sad	Zmaj Jovina 15
Obrenovac	Obrenovac, Miloša Obrenovića 133-135	Kragujevac	Miloša Obrenovića 133-135
Pančevo	Pančevo, Karađorđeva 2-4	Novi Sad	Karađorđeva 2-4
Pančevo	Pančevo, Miloša Crnjanskog 1	Novi Sad	Miloša Crnjanskog 1
Paraćin	Paraćin, Kralja Petra I 4	Niš	Kralja Petra I 4
Petrovac na Mlavi	Petrovac na Mlavi, Bate Bulića 37	Niš	Bate Bulića 37
Pirot	Pirot, Branka Radičevića 18	Niš	Branka Radičevića 18
Požarevac	Požarevac, Trg Radomira Vujovića 8	Niš	Trg Radomira Vujovića 8
Požega	Požega, Knjaza Miloša 6	Kragujevac	Knjaza Miloša 6
Priboj	Priboj, Nemanjina 48-50	Kragujevac	Nemanjina 48-50
Prijepolje	Prijepolje, Sandžačkih brigada 39	Kragujevac	Sandžačkih brigada 39
Prokuplje	Prokuplje, 9. oktobra 6	Niš	9. oktobra 6
Raška	Raška, Miluna Ivanovića 8	Kragujevac	Miluna Ivanovića 8
Ruma	Ruma, Glavna 170	Novi Sad	Glavna 170
Ruma	Ruma, 15. maja 143	Novi Sad	15. maja 143
Senta	Senta, Zlatne grede 6	Novi Sad	Zladne grede 6
Smederevo	Smederevo, Cvijićeva 3	Niš	Cvijićeva 3
Smederevska Palanka	Smederevska Palanka, Svetog Save 19	Kragujevac	Svetog Save 19
Sombor	Sombor, Venac Stepe Stepanovića 32	Novi Sad	Venac Stepe Stepanovića 32
Srbobran	Srbobran, Zmaj Jovina 18	Novi Sad	Zmaj Jovina 18
Sremska Mitrovica	Sremska Mitrovica, Kralja Petra I 6	Novi Sad	Kralja Petra I 6
Sremska Mitrovica	Sremska Mitrovica, Svetog Dimitrija 2	Novi Sad	Svetog Dimitrija 2
Stara Pazova	Stara Pazova, Ćirila i Metodija 2	Novi Sad	Ćirila i Metodija 2
Subotica	Subotica, Dimitrija Tucovića 2	Novi Sad	Dimitrija Tucovića 2
Subotica	Subotica, Štrosmajerova 6	Novi Sad	Štrosmajerova 6
Surdulica	Surdulica, Ulica Kralja Petra I bb	Niš	Kralja Petra I bb
Svilajnac	Svilajnac, Svetog Save 52	Niš	Svetog Save 52
Šabac	Šabac, Gospodar Jevremova 44	Kragujevac	Gospodar Jevremova 44
Šid	Šid, Karađorđeva 11-13	Novi Sad	Karađorđeva 11-13
Temerin	Temerin, Novosadska 403	Novi Sad	Novosadska 403
Titel	Titel, Mihajla Krestića 8a	Novi Sad	Mihaila Krestića 8a
Topola	Topola, Tomislava Karađorđevića 3	Kragujevac	Tomislava Karađorđevića 3
Trstenik	Trstenik, Cara Dušana bb	Kragujevac	Cara Dušana bb
Ub	Ub, Kralja Petra I 44	Kragujevac	Kralja Petra I 44
Užice	Užice, Dimitrija Tucovića 129	Kragujevac	Dimitrija Tucovića 129
Valjevo	Valjevo, Karađorđeva 71	Kragujevac	Karađorđeva 71
Valjevo	Valjevo, Železnička 7	Kragujevac	Železnička 7
Velika Plana	Velika Plana, Momira Gajića br 2	Kragujevac	Momira Gajića br 2
Veliko Gradište	Veliko Gradište, Kneza Lazara 35	Niš	Kneza Lazara 35
Veternik	Veternik, Kralja Petra I 7a	Novi Sad	Kralja Petra I 7a
Vladičin Han	Vladičin Han, Svetosavska 16a	Niš	Svetosavska 16a
Vlasotince	Vlasotince, Nemanjina 2	Niš	Nemanjina 2
Vranje	Vranje, Dr. Dimitrija Jovčića 2	Niš	Dr. Dimitrija Jovčića 2

Location	Name of the branch	Regional centre	Address
Vrbas	Vrbas, Maršala Tita 66	Novi Sad	Maršala Tita 66
Vrnjačka Banja	Vrnjačka Banja, Kruševačka 1	Kragujevac	Kruševačka 1
Vršac	Vršac, Sterijina 19a	Novi Sad	Sterijina 19a
Zaječar	Zaječar, Nikole Pašića 70	Niš	Nikole Pašića 70
Zemun	Zemun, Glavna 30	Beograd	Glavna 30
Zemun	Zemun, Gornjogradska 38	Beograd	Gornjogradska 38
Zlatibor	Zlatibor, Kraljev trg bb	Kragujevac	Kraljev trg bb
Zrenjanin	Zrenjanin, Kralja Aleksandra I Karađorđevića bb	Novi Sad	Kralja Aleksandra I Karađorđevića bb
Žabalj	Žabalj, Nikole Tesle 47	Novi Sad	Nikole Tesle 47

GALLERIE D'ITALIA. FOUR MUSEUMS, A NATIONWIDE CULTURAL NETWORK.

Gallerie d'Italia enables Intesa Sanpaolo to share its artistic and architectural heritage with the general public: the art collections of the Bank, ranging from archaeological artefacts to contemporary works of art, are housed in historic buildings located in four cities, in a unique network of museums.

Gallerie d'Italia - Piazza Scala in Milan hosts, in a highly prestigious architectural setting, a selection of two hundred masterpieces of the nineteenth century in Lombardy, that are part of art collections of Fondazione Cariplo and Intesa Sanpaolo, and an exhibition dedicated to twentieth century Italian art.

Gallerie d'Italia - Palazzo Leoni Montanari, Vicenza is home to art of the region Veneto from the 1700s as well as pottery from Attica and Magna Graecia. It also holds one of the most important collections of Russian icons in the West.

Gallerie d'Italia - Palazzo Zevallos Stigliano, Naples hosts the Martyrdom of Saint Ursula, the last known painting by Caravaggio, alongside more than 120 examples of Neapolitan art dating from the early 17th to the early 20th century. New premises within the majestic building which was formerly the Bank of Naples in Via Toledo mean that the museum space is tripled in size, increasing exhibition opportunities.

There is also the newly-open fourth location of **Gallerie d'Italia in Piazza San Carlo in Turin**, a site which is mainly dedicated to photography and the digital world.

Cover photo:

Gaspar van Wittel (also known as Gaspare Vanvitelli, or Gaspare degli Occhiali)
(Amersfoort, 1652 - Rome, 1736)
A View of the Piazza Navona in Rome, 1688-1721
oil on canvas, 62.5 x 125.5 cm
Intesa Sanpaolo Collection
Gallerie d'Italia -
Palazzo Zevallos Stigliano, Naples

A *View of the Piazza Navona in Rome* is a work by Gaspar van Wittel. A Dutch painter who relocated to Italy, he is considered the forerunner of modern vedutism, as a result of the almost topographic precision of the scene.

The painting belongs to a series of nine landscapes that van Wittel dedicated to Piazza Navona between 1688 and 1721, the largest square in Rome after St. Peter's Square, and undoubtedly the most picturesque thanks to its market and countless related activities. The piazza, a "grand example of theatrical Baroque" was blessed in the mid-seventeenth century with an architectural renovation that gave it a reputation as one of the most beautiful squares in Rome, famous for the magnificence of its buildings and fountains. The view is from the first floor of Palazzo Lancelotti; on the left, the light highlights a series of buildings including the Church of Sant'Agnese in Agone which was rebuilt under the guidance of Francesco Borromini. On the right, in the shadows and strongly shortened, it is possible to see the sixteenth century façade of San Giacomo degli Spagnoli; the roof terrace of Palazzo Altemps stands out against the background, while in the centre there is the *Fontana dei Fiumi* by Gian Lorenzo Bernini and the sixteenth-century fountains known as *del Moro* and *dei Calderari*.
The painting excels for its splendid colours and the clarity of its lines and volumes. The sky is intensely bright with a hue of light blue that is characteristic of the Dutch artist's best works.

The work is part of the art collections on permanent display in Gallerie d'Italia of Intesa Sanpaolo in Naples. The collection traces the most important moments of art in Naples and Campania from the early seventeenth century up to the first decades of the twentieth century, from Caravaggio and the naturalist turning point which took place with the artist's arrival in the city in 1606, right up to the works by Vincenzo Gemito, through the pomp and splendour of the Spanish viceroyalty and the Bourbon era.