OTP BANK SERBIA A.D., NOVI SAD

Separate Financial Statements and Independent Auditors' Report

December 31, 2021

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

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF OTP BANKA SRBIJA A.D. NOVI SAD

Opinion

We have audited the financial statements of OTP banka Srbija a.d. Novi Sad (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.

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Other information included in the Bank's Annual Business Report (continued)

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 Matters

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 17 March 2021.

Responsibilities of management and Audit Committee for the financial statements

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

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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, 15 March 2022

PREDUZEĆE ZA REVIZIJU Ernst & Young II d.o.o. BEOGRAD

Nikola Ribar
Authorized Auditor
Ernst & Young d.o.o. Beograd

SEPARATE INCOME STATEMENT

RSD000	Note	December 31, 2021	December 31, 2020
Interest income	4	17,368,324	7,948,644
Interest expenses	4	(2,004,712)	(786,982)
Net interest income		**15,363,612**	**7,161,662**
Fee and commission income	5	7,992,911	3,259,153
Fee and commission expenses	5	(2,286,076)	(619,497)
Net fee and commission income		**5,706,835**	**2,639,656**
Net (losses)/gains on changes in the fair value of financial instruments	6	898,918	(108,713)
Net losses on derecognition of the financial instruments measured at fair value	7	(6,961)	(1,092)
Net gains/(losses) on risk hedging	8	1,881	7,334
Net foreign exchange gains/(losses) and positive currency clause effects	9	(846,018)	527,825
Net losses on impairment of financial assets not measured at fair value through profit or loss	10	(530,738)	(3,311,604)
Net gains/(losses) on derecognition of the financial assets measured at amortized cost	11	169,167	137,063
Other operating income	12	325,040	371,139
TOTAL OPERATING INCOME, NET		**21,081,736**	**7,423,270**
Salaries, salary compensations and other personnel expenses	13	(5,350,221)	(3,324,178)
Depreciation and amortization charge	14	(1,394,255)	(982,244)
Other income	15	471,206	190,872
Other expenses	16	(8,605,313)	(4,534,150)
(LOSS)/PROFIT BEFORE TAX		**6,203,153**	**(1,226,430)**
Current income tax expenses	17	(377,582)	-
Deferred tax gains/(loss)	17	(68,910)	46,975
(LOSS)/PROFIT AFTER TAX		**5,756,661**	**(1,179,455)**
RESULT FOR THE YEAR - (LOSS)/PROFIT		**5,756,661**	**(1,179,455)**

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

These Separate financial statements were approved by the Executive Board of OTP bank Serbia a.d., Novi Sad on March 15, 2022.

OTP banka Srbija a.d. Novi Sad

Vladimir Pejčić
Director of the Accounting Directorate

Branimir Spasić
Member of the Executive Board

Predrag Mihajlović
Chairman of the Executive Board

SEPARATE STATEMENT OF OTHER COMPREHENSIVE INCOME

RSD000	December 31, 2021	December 31, 2020
RESULT FOR THE YEAR - (LOSS)/PROFIT	**5,756,661**	**(1,179,455)**
Components of other comprehensive income that cannot be reclassified to the profit or loss:		
Actuarial gains / (losses)	(698)	1,727
Components of other comprehensive income that can be reclassified to the profit or loss:		
Positive effect of changes in fair value on debt instruments measured at fair value through other comperhensive income (FVtOCI)	(1,511,061)	1,541
Positive effect of changes in fair value on equity instruments measured at fair value through other comperhensive income (FVtOCI)	2,894	-
Profit / (loss) based on taxes related to other results of the period	224,523	(482)
Total positive / (negative) other comprehensive income for the year	(1,284,342)	2,786
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE YEAR	**4,472,319**	**(1,176,669)**

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OTP banka Srbija a.d. Novi Sad

Vladimir Pejčić	Branimir Spasić	Predrag Mihajlović
Director of the Accounting Directorate	Member of the Executive Board	Chairman of the Executive Board

SEPARATE STATEMENT OF FINANCIAL POSITION

RSD000	Note	December 31, 2021	December 31, 2020
ASSETS			
Cash and balances held with the central bank	18	90,624,576	33,251,589
Pledged financial assets	19	463,080	1,494,796
Receivables under derivative financial instruments	20	257,848	29,921
Securities	21	53,814,367	17,228,522
Loans and receivables due from banks and other financial institutions	22	8,761,581	4,955,868
Loans and receivables due from customers	22	493,442,622	169,993,155
Investments in associates and joint ventures	23	149,650	-
Investments in subsidiaries	24	755,514	441,416
Intangible assets	25	1,214,245	641,087
Property, plant and equipment	26	12,329,180	9,355,003
Investment property	27	119,268	150,125
Current tax assets	28	190,978	40,464
Deferred tax assets	28	-	400,041
Non-current assets held for sale and discontinued operations	29	6,164	6,164
Other assets	30	3,469,875	1,193,332
TOTAL ASSETS		**665,598,948**	**239,181,483**
LIABILITIES AND EQUITY			
Liabilities under derivative financial instruments	32	206,738	160,724
Deposits and other liabilities due to banks, other financial institutions and the central bank	33	166,985,806	49,710,118
Deposits and other liabilities due to customers	33	382,573,400	153,111,844
Subordinated liabilities	34	14,724,802	1,177,041
Provisions	35	3,787,232	1,544,219
Current tax liabilities	28	-	-
Deferred tax liabilities	28	27,600	514,891
Other liabilities	36	6,279,469	2,296,938
TOTAL LIABILITIES		**574,585,047**	**208,515,775**
Share capital	37	59,395,644	34,171,370
Profit	37	5,756,661	-
Loss	37	(1,451,822)	(3,694,657)
Reserves	37	27,313,418	188,995
TOTAL EQUITY		**91,013,901**	**30,665,708**
TOTAL LIABILITIES AND EQUITY		**665,598,948**	**239,181,483**

Notes on the following pages form an integral part
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Director of the Accounting Directorate

Branimir Spasić
Member of the Executive Board

Predrag Mihajlović
Chairman of the Executive Board

SEPARATE STATEMENT OF CASH FLOWS

RSD000	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash inflows from operating activities	**26,273,389**	**11,046,584**
Interest receipts	18,009,653	6,176,916
Fee and commission receipts	5,955,242	3,287,108
Receipts of other operating income	2,233,250	1,460,414
Dividend receipts and profit sharing	75,244	122,146
Cash outflows from operating activities	**(17,872,149)**	**(10,002,788)**
Interest payments	(1,918,467)	(808,429)
Fee and commission payments	(1,936,102)	(763,284)
Payments to, and on behalf of employees	(5,444,971)	(3,492,012)
Taxes, contributions and other duties paid	(1,322,221)	(828,326)
Payments for other operating expenses	(7,250,388)	(4,110,737)
Net cash inflows from operating activities prior to increases/decreases in financial assets and financial liabilities	**8,401,240**	**1,043,796**
Decrease in financial assets and increase in financial liabilities	**41,146,970**	**382,971,090**
Decrease in receivables per securities and other financial assets not held for investment	3,548,902	365,515,460
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	37,598,068	17,455,630
Increase in financial assets and decrease in financial liabilities	**(71,110,083)**	**(395,088,524)**
Increase in loans and other receivables due to banks	(71,110,083)	(24,608,144)
Decrease in other financial liabilities	-	(370,480,380)
Net cash used in operating activities before income taxes	**(21,561,873)**	**(11,073,638)**
Income tax paid	18,393	40,464
Dividend paid	-	-
Net cash used in operating activities	**(21,580,266)**	**(11,114,102)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash inflows from investing activities	**17,685,862**	**52,428**
Proceeds from the sales of intangible assets, property, plant and equipment	478,353	49,873
Proceeds from the sales of investment property	41,880	2,555
Other inflows from investing activities	17,165,629	-
Cash outflows from investing activities	**(801,451)**	**(629,196)**
Cash used for the purchases of intangible assets, property, plant and equipment	(801,451)	(629,196)
Net cash (used in)/generated by investing activities	**16,884,411**	**(576,768)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash inflows from financing activities	**36,134,113**	**8,230,628**
Capital inflows	1,500,000	-
Inflows per subordinated liabilities	4,115,272	1,175,714
Borrowings, inflows	30,518,841	7,054,914
Cash inflows from financing activities	**(18,802,877)**	**-**
Borrowings, outflows	(18,017,080)	-
Other outflows from financing activities	(785,797)	-
Net cash generated by financing activities	**17,331,236**	**8,230,628**
TOTAL CASH INFLOWS	121,240,334	402,300,730
TOTAL CASH OUTFLOWS	(108,604,953)	(405,760,972)
NET CASH INCREASE/DECREASE	**12,635,381**	**(3,460,242)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**15,628,727**	**19,165,534**
FOREIGN EXCHANGE GAINS	404,883	167,140
FOREIGN EXCHANGE LOSSES	(212,796)	(243,705)
CASH AND CASH EQUIVALENTS, END OF YEAR	**28,456,195**	**15,628,727**

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

These Separate financial statements were approved by the Executive Board of OTP bank Serbia a.d., Novi Sad on March 15, 2022.

OTP banka Srbija a.d. Novi Sad

Vladimir Pejčić Director of the Accounting Directorate	Branimir Spasić Member of the Executive Board	Predrag Mihajlović Chairman of the Executive Board

SEPARATE STATEMENT OF CHANGES IN EQUITY

RSD000	Share and Other Capital	Share Premium	Reserves from Profit and Other Reserves	Revaluation Reserves	Profit	Loss	Total Equity and Reserves
Opening balance at January 1, 2020	**31,607,808**	**2,563,562**	**-**	**186,209**	**5,982,870**	**(8,498,072)**	**31,842,377**
Total positive other comprehensive income for the year	-	-	-	2,786	-	-	2,786
Loss for the year	-	-	-	-	-	(1,179,455)	(1,179,455)
Loss absorption	-	-	-	-	(5,982,870)	5,982,870	-
Balance at December 31, 2020	**31,607,808**	**2,563,562**	**-**	**188,995**	**-**	**(3,694,657)**	**30,665,708**
Opening balance at January 1, 2021	**31,607,808**	**2,563,562**	**-**	**188,995**	**-**	**(3,694,657)**	**30,665,708**
Total negative other comprehensive income for the year	-	-	-	727,869	-	-	727,869
Profit for the current year	-	-	-	-	5,756,661	-	5,756,661
Capital increase	1,499,972	28	-	-	-	-	1,500,000
Loss absorption	-	-	-	-	(2,242,835)	2,242,835	-
Other - increase	23,723,021	1,302	26,396,554	-	2,242,835	-	52,363,712
Other - decrease	(49)	-	-	-	-	-	(49)
Balance at December 31, 2021	**56,830,752**	**2,564,892**	**26,396,554**	**916,864**	**5,756,661**	**(1,451,822)**	**91,013,901**

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

These Separate financial statements were approved by the Executive Board of OTP bank Serbia a.d., Novi Sad on March 15, 2022.

Vladimir Pejčić
Director of the Accounting Directorate

Branimir Spasić
Member of the Executive Board

OTP banka Srbija a.d.
Novi Sad

Predrag Mihajlović
Chairman of the Executive Board

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
December 31, 2021

1. BANK'S ESTABLISHMENT AND ACTIVITY

OTP Bank Serbia ad Novi Sad (hereinafter: the "Bank") is new name for Vojvođanska banka a.d. Novi Sad, which changed its name. OTP banka Srbija a.d. Novi Sad on April 29, 2021 and is the legal successor of OTP banka Srbija a.d. Beograd.

Vojvođanska banka a.d. Novi Sad (hereinafter: the "Bank") is also a legal successor OTP Banka Srbija a.d. Novi Sad. Under Decision of the Serbian Business Registers Agency no. BD 41337/2019 dated April 25, 2019, the Bank changed its legal name from OTP Banka Srbija a.d. Novi Sad to Vojvođanska banka a.d. Novi Sad.

OTP banka a.d. Belgrade was founded on December 14, 1990 and entered in the Register at the Commercial Court on February 14, 1991. The founder of the bank is Societe Generale S.A. Paris. On September 24, 2019, OTP Bank Nyrt Budapest became the 100% owner of the Bank and as of September 25, 2019, the Bank is a member of the OTP Group. By the Decision of the Business Registers Agency number BD 98932/2019 dated September 25, 2019, the Bank changed its name to OTP banka a.d. Beograd, in the register of business entities. Prior to that, the name of the bank was Societe Generale Banka Srbija a.d. Beograd.

The Decision on the merger of OTP banka a.d. Belgrade to Vojvodjanska banka a.d. Novi Sad was made at the session of the Bank's Assembly held on January 26, 2021. By the Decision number BD 36878/2021 dated April 29, 2021, the status change of the merger of the company Vojvodjanska banka a.d. Novi Sad, as the acquirer company and OTP banka a.d. Belgrade as a transferring company that was deleted from the Register of Companies due to a change in status.

OTP Banka Srbija a.d., Novi Sad is a direct legal successor of Kulska banka a.d., Novi Sad. Kulska banka a.d., Novi Sad was registered as a shareholding company with the Commercial Court of Sombor, in accordance with May 17, 1995 Decision No. Fi 488/95. Pursuant to the Serbian Business Registers Agency Decision number BD 32735/2007 as of May 18, 2007, the name Kulska banka a.d., Novi Sad was changed into OTP banka Srbija a.d., Novi Sad. Simultaneously, the status change of merger and acquisition was registered, whereby Zepter banka a.d. Beograd and Niška banka a.d. Niš were merged with and acquired by Kulska banka a.d. Novi Sad as the Acquirer; through the aforesaid status change Zepter banka a.d. Beograd and Niška banka a.d. Niš ceased to exist and were deleted from the Business Entity Register.

At its session held on January 28, 2019, the Assembly of OTP Banka Srbija a.d., Novi Sad enacted the Decision on Accepting the Merger of Vojvođanska banka a.d., Novi Sad. Under Decision no. BD 41344/2019 dated April 25, 2019, the status change of merger by acquisition was registered, with OTP Banka Srbija a.d. Novi Sad, as the Acquirer and Vojvođanska banka a.d. Novi Sad as the Acquiree, i.e., the entity deleted from the Business Entity Register due to the said status change. The status change of merger by acquisition was conducted as of April 26, 2019, when the said merger was recorded within the Business Entity Register.

The Bank is registered in the Republic of Serbia to provide banking services of payment transfers, lending and depositary and other activities in accordance with the Law on Banks. The Bank's registered Head Office address is Novi Sad, at no. 5, Trg slobode.

The Bank is a member of OTP Group. OTP Bank Plc. Budapest is the sole owner of the Bank, holding 100% of its share capital.

On December 31, 2021. The Bank consisted of Headquarter in Novi Sad at Trg Slobode 5, Trg Slobode 7, Bulevar oslobođenja 80, Bulevar oslobođenja 82, and Belgrade at the address Bulevar Mihajla Pupina 111, Bulevar Zorana Đinđića 48v,Bulevar Zorana Đinđića 50 a/b, 1 Region for business dealing with corporate clients Belgrade, 1 Region for retail affairs Belgrade, and 5 regions for business with the retail and corporate, 19 branches and 184 branch offices (2020: headquarter in Novi Sad, 5 regional centres and 122 branches).

The Bank on December 31, 2021. has 2,789 employees while with December 31, 2020, the number of empoyees was 1,786.

The Bank's tax identification number is 100584604.

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

2.1. Basis of Preparation and Presentation of the Separate Financial Statements

Separate financial statements of the Bank (hereinafter "financial statements") for 2021, were complied in accordance with International financial reporting standards ("IFRS).

The accompanying Separate financial statements are separate financial statements. In particular, the Bank complies and displays consolidated financial statements in accordance with International financial reporting standards.

The accompanying Separate financial statements are stand-alone (Separate) statements in the sense that they include unconsolidated receivables, liabilities, operating result, changes in equity and cash flows of the Bank without the inclusion of subsidiaries.

As of December 31, 2020, the Bank was the sole (100%) owner of OTP Investments d.o.o., Novi Sad, OTP Leasing Srbija d.o.o. Beograd and OTP Factoring d.o.o., Novi Sad and held a 60% equity interest in OTP Lizing d.o.o., Beograd, and 49% equity interest in OTP Osiguranje a.d.o. Drustvo za zivotno osiguranje Beograd which are financial sector entities (Note 24).

These Separate financial statements have been prepared at historical cost principle, except where otherwise stated in the accounting policies set out in the following note.

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

These Separate financial statements have been prepared on a going concern basis, assuming that the Bank will continue to operate in the foreseeable future.

The issued standards, amendments to the standards and relating interpretations that became effective in the current period and the standards, amendments to the standards and relating interpretations in issue but not yet in effect are presented in Notes 2.2 and 2.3, respectively.

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

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

2.2. Amendments to IFRS Effective and Mandatorily Applicable in the Current Year

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group/Company 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.

- 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:

- 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.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

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

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

- 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 amendments have not yet been endorsed by the EU. The effects of the amendment to this standard are not expected to have a material impact on the Bank's financial statements.

- 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. These Amendments, including ED proposals, have not yet been endorsed by the EU. The effects of the amendment to this standard are not expected to have a material impact on the Bank's financial statements.

- 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 recognise 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 effects of the amendment to this standard are not expected to have a material impact on the Bank's financial statements.

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

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

- IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)

The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The effects of the amendment to this standard are not expected to have a material impact on the Bank's financial statements.

- 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. The Amendments have not yet been endorsed by the EU. The effects of the amendment to this standard are not expected to have a material impact on the Bank's financial statements.

- 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. The Amendments have not yet been endorsed by the EU. The effects of the amendment to this standard are not expected to have a material impact on the Bank's financial statements.

- 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. The Amendments have not yet been endorsed by the EU. The effects of the amendment to this standard are not expected to have a material impact on the Bank's financial statements.

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

2.4. Comparative information

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

2.5. Use of Estimates

Preparation of the Separate financial statements in accordance with IFRS requires the Bank's management to make the best possible estimates and reasonable assumptions that affect the application of the accounting policies and the reported amounts of assets and liabilities, as well as income and expenses arising during the accounting period. These estimations and assumptions are based on information available at the Separate financial statements' preparation date.

Actual amounts of assets and liabilities may vary from these estimates.

These estimations and underlying assumptions are subject to regular review. The revised accounting estimates are presented for the period in which they are revised as well as for the ensuing periods.

If, upon review, it is determined that there have been changes to the estimated values, the effect of such changes are recognized in the Bank's Separate financial statements in the period(s) in which such changes occurred.

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

2.6. Going Concern

The Bank's Separate financial statements have been prepared on a going concern basis, which entails that the Bank will continue to operate in the foreseeable future.

2.7. Statement of Compliance

The Bank's accompanying Separate financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") in keeping with the Law on Banks and the bylaws of the National Bank of Serbia governing the financial reporting of banks.

2.8. Key Accounting Estimates and Assumptions

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

These estimations and assumptions are based on information available, as of the date of preparation of the financial statements. Actual results may vary from these estimates. Estimates and assumptions are subject to constant review and when adjustments become necessary they are stated within the income statement for periods in which they became known.

The critical estimates and judgements as the key sources of estimate uncertainty that pose a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are described below

(a) Impairment of Financial Assets

The estimation of impairment losses in the Bank's credit-risk exposed portfolio represents the major source of estimation uncertainty.

The Bank recognizes provisions for expected credit losses (ECL) per financial assets measured at amortized cost (AC) and debt instruments, i.e., financial assets measured at fair value through other comprehensive income (FVtOCI) as well as per borrowings and issued guarantees. The carrying values of the financial assets measured at AC are reduced by the amount of provisions for expected credit losses. Estimates and assumptions used by the Bank as inputs to the model for ECL measurement as well as the assessment of the significant increase in credit risk are disclosed in Note 43.4. Credit Risk.

(b) Impairment of Non-Financial Assets

At each reporting date, the Bank's management reviews the carrying amounts of the Bank's intangible assets, property and equipment. If there is any indication that such assets have been impaired, the recoverable amount of each asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of the asset is estimated to be below its carrying value, the carrying amount of the asset is reduced to its recoverable amount. Impairment assessment requires the management to make subjective judgments in respect to the cash flows, growth rates and discounting rates for cash-generating units subject to assessment.

(c) Useful Life of Intangible Assets, Property, Plant and Equipment

Determining the useful lives of intangible assets, property and equipment is based on historical experience with similar assets, as well as the anticipated technical development and changes affected by numerous economic and industrial factors (Note 3.14).

Adequacy of useful lives of assets is reviewed annually or whenever there are indications of significant changes in the factors underlying the estimates of useful lives.

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

2.8. Key Accounting Estimates and Assumptions (Continued)

(d) Provisions for Litigations

The Bank is involved in a number of lawsuits arising in the everyday business operations relating to the commercial and contractual issues, as well as labor issues, which are resolved or considered in the regular course of business. The Bank routinely estimates the probability of negative outcomes of these issues, as well as the amounts of likely or reasonable loss assessments.

Reasonable assessment encompasses judgments made by the management upon consideration of information provided in reports, settlements, assessment made by the Legal Department, facts available, identification of potentially responsible parties and their ability to contribute to the resolution of the matter, as well as historical experience.

Provisions for litigations are recognized when the Bank has an obligation whose reliable estimate can be made by way of a careful analysis. The amount of provisions is subject to changes contingent on new events or new information coming to light. The Bank reviews the estimated provisions on a quarterly basis.

The matters that either constitute a contingent liability or do not meet the criteria for provisioning are disclosed unless the probability of an outflow of resources embodying economic benefits is rather remote.

(e) Deferred Tax Assets

Deferred tax assets are recognized for all unused tax losses and/or tax credits to the extent that it is probable that future taxable profits will be available, against which the tax loss/credit carryforwards can be utilized.

The Bank's management needs to make prudent assessments of deferred tax assets that may be recognized based on the period when these arise, expected future profit and the amount of future taxable income (Note 28).

(f) Retirement Benefits and Other Post-Employment Benefits

The cost of defined post-employment benefits to employees and/or retirement benefits upon fulfillment of all the legally prescribed criteria, are determined in an actuarial assessment. An actuarial assessment includes the assessment of a discount rate, future movements in salaries, mortality rates and employee turnover rates. Due to the long-term nature of these plans, significant uncertainties influence the outcome of such assessments.

Actuarial assumptions used in the calculation of the retirement and termination benefits are disclosed in Note 35 to the Separate financial statements.

(g) Fair Value of Financial Instruments

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

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

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

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

2.8. Key Accounting Estimates and Assumptions (Continued)

(g) Fair Value of Financial Instruments (continued)

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

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

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

Valuation methods, assumptions and techniques used in fair value assessment are explained in greater detail in Note 45.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bank has consistently applied the adopted accounting policies to all periods presented in these Separate financial statements. The basic accounting policies applied by the Bank in preparation of the Separate financial statements are provided hereunder.

3.1. Income and Expense Recognition

(a) Interest Income and Expenses

Interest income and expenses, including other income and expenses from interest-bearing assets and liabilities, are calculated on an accrual basis of accounting (the matching principle) and the relevant terms defined by the contracts executed by and between the Bank and its customers.

Interest income and expenses are recognized in the income statement (profit or loss) using the effective interest method. The effective interest rate is the rate that precisely discounts the estimated future cash disbursements or payments through the expected duration of the financial instrument to:

- the gross carrying value of a financial asset (amortized cost before adjustment for the expected credit losses) or
- the amortized cost of a financial liability.

For POCI assets (purchased or originated credit-impaired assets) the credit-adjusted effective interest rate is calculated using the estimated future cash flows that include the expected credit losses, using estimated future cash flows that include expected credit losses.

Interest income is recognized for financial assets measured at amortized cost as well as per debt instruments measured at FVtOCI. Interest expenses are recognized for financial liabilities measured at amortized cost.

Loan origination fees, as part of the effective interest rate, are credited to the profit or loss account as interest income, i.e., as part of the effective return on loans disbursed proportionately to the past period of loan usage.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.1. Income and Expense Recognition (continued)

(b) Fee and Commission Income

Fee and commission income arise from banking services (payment transactions, issuance of guaranties and other sureties, letters of credit, purchase and sale of foreign currencies and other banking services) when such services are invoiced and rendered.

Fees and commission charged for guarantees, sureties and letters of credit issued are deferred and recognized as income proportionately over their maturity periods.

Fee and commission income and expenses that are integral part of the effective interest rate of a financial asset or liability are recognized within interest income and expenses.

(c) Net Gains/(Losses) on Changes in the Fair Value of Financial Instruments

Net gains/(losses) on changes in the fair value of the financial instruments comprise all gains and losses arising on the changes in fair values of derivatives.

(d) Net Gains/(Losses) from Hedging

Net gains/(losses) from hedging include all gains and losses on changes in fair values of derivatives designated as risk hedging instruments.

(e) Dividend Income

Dividend income from investments in shares of and equity interest held in other legal entities is recognized when the Bank's entitlement to dividend receipt is established. Such income is recorded within the income statement.

3.2. Foreign Currency Translation

Assets and liabilities denominated in foreign currencies at the reporting date are translated into dinars at official middle exchange rates of the National Bank of Serbia effective at that date. Gains or losses arising on the translation of receivables and payables are credited or charged to income statement.

Transactions denominated in foreign currencies are translated into dinars at official exchange rates effective at the date of each transaction. Net foreign exchange positive or negative effects arising upon the translation of transactions, and the assets and liabilities denominated in foreign currencies are credited or charged to the income statement as net foreign exchange gains or losses and positive/negative currency clause effects.

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

3.3. Financial Instruments

(a) Recognition and Initial Measurement

A financial instrument is each contract based on which a financial asset of one entity and a financial liability or an equity instrument of another entity arise.

A financial asset or liability is measured initially at fair value plus transaction costs (except for financial assets and liabilities measured at fair value through profit or loss) directly attributable to the acquisition or issue of a financial asset or a liability.

The Bank initially recognizes financial instruments at the settlement date.

The Bank recognizes a financial asset or a financial liability from the moment it becomes a party to the contractual terms of an instrument.

In order to determine adequate classification and measurement, all financial assets except derivatives and equity instruments are analyzed according to the combination of the business model for financial asset management on one end and the characteristics of the contractual cash flows of the asset on the other end.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Financial instruments (continued)

(b) Classification

IFRS 9 requires the Bank to make a distinction between the financial assets with high cash flow volatility, or those held for trading, and the financial assets that have nominal values and are held to collect the contractual cash flows rather than for sale or third party settlement.

The Bank classified its financial assets into three categories based on: (1) the manner in which the Bank manages the financial assets and (2) characteristic of the contractual cash flows of the financial assets, as follows:

- financial assets subsequently measured at amortized cost (AC) (within the Bank's hold-to-collect business model and giving rise to the cash flows that are solely payments of principal and interest on the principal outstanding – SPPI);
- financial assets subsequently measured at fair value through other comprehensive income (FVtOCI) (within the Bank's hold-to-collect-or sell business model and giving rise to the cash flows that are solely payments of principal and interest on the principal outstanding – SPPI);
- financial assets subsequently measured at fair value through profit or loss (FVtPL) – all other instruments, held within the business model whose objective is to collect cash flows from trading in these instruments.

IFRS 9 requires that all recognized financial assets be subsequently measured at either amortized cost or fair value (through OCI or through PL), depending on their classification and the business model for management of the financial assets and the characteristics of the financial assets' cash flows.

The Bank classifies all of its financial liabilities as subsequently measured at amortized cost except for:

- financial liabilities at FVtPL;
- financial liabilities arising when the transfer of financial assets does not meet the derecognition criteria or when there is continuing involvement; and
- financial guarantee contracts.

The Bank may, at initial recognition, irrevocably designate a financial liability to be measured at fair value through profit or loss when it results in more significant information because either:

- doing so would eliminate or significantly reduce a measurement or recognition inconsistency ('accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- a group of financial liabilities or a group of both financial assets and financial liabilities is managed and its performance assessed on the fair value basis in accordance with the documented risk management or investment strategies and if the information about the group is internally available to the Bank's key managerial team.

(c) Purchased or Originated Credit Impaired Assets ("POCI Assets")

IFRS 9 introduced another model for measurement of financial assets – purchased or originated credit-impaired assets (POCI assets). These are financial assets impaired at initial recognition. A financial asset may be classified as POCI if:

1. it is credit-impaired at the moment of origination;
2. it has undergone significant modification as credit-impaired; and
3. it was purchased as credit impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Financial Instruments (Continued)

(d) Reclassification of Financial Assets

The Bank reclassifies financial assets only when it changes the business model. If the Bank changes the business model for management of the financial assets, it will reclassify the assets prospectively, as form the reclassification date. The Bank will make no changes to the already recognized gains, losses (including impairment gains and losses) or interest.

The Bank does not make reclassifications of its financial liabilities.

In 2021, the Bank made no reclassification of its financial assets.

(e) Offsetting

Assets and liabilities are not offset except when offsetting is required or permitted under provisions of certain IAS/IFRS. Income and expenses are presented separately, as their offsetting is not permitted.

The Bank applies the following exemptions from the aforesaid rules:

- Presentation of assets decreased by impairment allowance is not deemed to be offsetting;
- Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to offset the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously;
- Offsetting of income and expenses reflecting the substance of a transaction or event (e.g., foreign exchange gains and losses or gains and losses arising from financial instruments held for trading). However, such income and expenses are reported separately if, due to their volume, nature and frequency, separate disclosure is required.

(f) Derecognition

Financial Assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risk and rewards of ownership and it does not retain control of the financial asset. Any interest in a transferred financial asset that qualifies for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position.

Implementation of IFRS 9 introduced additional criteria for derecognition of financial assets. A financial assets is derecognized due to/through write-off or if the contractual terms of the financial asset have been subsequently modified, resulting in significant modifications of the cash flows of the financial asset. The difference between the fair value of the newly recognized financial asset and the carrying value of the old financial asset (now derecognized) is recognized in the statement of profit or loss (income statement) as a gain or loss on derecognition.

Financial Liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or have expired.

Implementation of IFRS 9 also introduced additional criteria for derecognition of financial liabilities – when the contractual terms of the liability are modified and the cash flows of the modified liability significantly altered. In such a case, a new financial liability, based on the altered terms, will be recognized at fair value. The difference between the carrying value of the previous financial liability and the new financial liability with modified terms is recognized in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Financial Instruments (Continued)

(g) Modification of the contractual cash flows

Whenever possible, the Bank would rather modify the contractual terms that foreclose collaterals. This may entail extension of the repayment period or agreeing on the new terms of crediting. The Bank's management reviews the modified financial instruments on an ongoing basis in order to ensure that all criteria are met and that future payments are likely to occur.

When the contractual cash flows of a financial asset are renegotiated and modified and the new agreement or the modification does not result in derecognition of the financial asset in accordance with IFRS 9, the Bank will calculate the gain or loss on modification as a difference between the present value of the newly agreed contractual cash flows (under the modified terms) discounted using the original effective interest rate of the loan and the net carrying value after the write-off, if any. The Bank assesses the effects of such modifications on the loan portfolio for corporate an retail segments on an ongoing basis as well as their impact on the financial position of the Bank.

In line with the Decision on the Temporary Measures for Preservation of the Financial System Stability (Official Gazette of RS no. 33/2020), on March 20, 2020, on its internet page the Bank offered its customers (individuals, agricultural producers, entrepreneurs and corporate customers) a suspension of borrowing liability repayment (moratorium) that could not be shorter than 90 days. After the moratorium expiration, the Bank extended the loan repayment period for the moratorium duration to all customers that accepted and used the offered suspension of borrowing liability repayment (moratorium) and created new loan repayment schedules for all loans repaid in installments. Regular interest accrued during the moratorium was apportioned on straight-line basis over the remaining loan repayment period after the moratorium expiration.

In line with the Decision on the Temporary Measures for Banks for Mitigating the Consequences of Covid-19 Pandemic in Order to Preserve the Financial System Stability (Official Gazette of RS no. 103/2020), on July 31, 2020, on its internet page the Bank offered its customers (individuals, agricultural producers, entrepreneurs and corporate customers) a suspension of borrowing liability repayment (moratorium) for liabilities matured yet not settled as from July 1, 2020 up to and inclusive of September 30, 2020. After the moratorium expiration, the Bank extended the loan repayment period for the moratorium duration to all customers that accepted and used the offered suspension of borrowing liability repayment (moratorium) and created new loan repayment schedules for all loans repaid in installments. Regular interest accrued during the moratorium was apportioned on straight-line basis over the remaining loan repayment period after the moratorium expiration.

In 2020, the Bank calculated a material loss on modification of loans resulting from the suspension in borrower debt repayment (the moratoria). The modification loss is recognized in the income statements in accordance with the Bank's accounting policy.

In line with the Decision on the Temporary Measures for Banks to Enable Adequate Credit Risk Management in Conditions of Covid-19 Pandemic (Official Gazette of RS no. 150/2020), effective as from December 15, 2020, on its internet page and its business premises the Bank posted notification that its borrowers (individuals, agricultural producers, entrepreneurs and corporate customers) unable to settle their liabilities toward the Bank due to the Covid-19 pandemic, i.e., having difficulties in settling such liabilities, may file with the Bank a request for approval of incentives/facilities in accordance with the said Decision. The incentives entail loan rescheduling and loan refinancing. Borrowers may file requests for approval of loan repayment facilities on the Bank's premises, on-line or by mail no later than April 30, 2021.
By April 30, 2021, the Bank received 9,953 requests, of which 6,226 were realized (5,762 relate to the retail sector while 464 relate to the corporate sector).

If a modification is substantial, the financial instrument is derecognized. This may be restructuring due to a change in the loan currency, when the initially agreed rights to the contractual cash flows are regarded as expired and the new asset is recognized at fair value.

(g) Impairment of Financial Assets

Impairment requirements of IFRS 9 are based on the model of expected credit losses (ECL). This model of impairment allowance identifies impairment losses before they are incurred. The leading principle of ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of a financial instrument.

At each reporting date, the Bank measures impairment allowances of the financial instruments in the amount equal to the expected impairment during the life (lifetime ECL) of the instrument if the instrument's credit risk has significantly increased since its initial recognition.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Financial Instruments (Continued)

(g) Impairment of Financial Assets (continued)

If at the reporting date there is no significant increase in the credit risk of the asset since its initial recognition, the Bank measures impairment allowance of that financial asset in the amount of 12-month ECL. The Bank recognizes in its income statement as gain or loss on the impairment the amount of ECL (or reversal thereof) required to adjusts the impairment allowance at the reporting date to the amount that is to be recognized in accordance with IFRS 9.

At each reporting date, the Bank assesses whether there has been a significant increase in the credit risk of a financial instrument since its initial recognition. When making the assessment, the Bank uses changes in the risk of default occurring over the expected life of the instrument instead of the change in the amount of ECL. In order to make the assessment, the Bank compares the risk of default occurring at the reporting date to the risk of default occurring at the date of the initial recognition of the asset and considers reasonable and supportable forward-looking information if it is available without undue cost or effort.

IFRS 9 requires classification of financial assets for impairment assessment purposes into three stages. The amount of ECL recognized as the impairment allowance depends on the credit risk increase since the initial recognition. Within the general approach, there are two options for measurement:

- 12-month ECL (Stage 1), applicable to all items without a significant increase in the credit risk; and
- Lifetime (LT) ECL for Stage 2 and Stage 3, applicable in instances of a significant increase in the credit risk on either individual or collective basis.

All exposures not classified into Stage 2 or Stage 3 or not recognized as POCI assets are allocated to Stage 1. A financial instrument is allocated to Stage 1 (or POCI) upon origination or purchase.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Financial Instruments (Continued)

(g) Impairment of Financial Assets (Continued)

The Bank may assume that a credit risk of a financial instrument has not increased significantly since its initial recognition if it is determined that the instrument has a low-level credit risk as of the reporting date. This may happen if a financial asset has a low risk of default, the borrower has a strong capacity to fulfill its obligations in respect of the contractual cash flows in the near term and the long-term adverse changes in the economic and business conditions may yet need not necessarily reduce the borrower's ability to fulfill those contractual cash flow obligations.

Performing (Stage 1) financial assets include all the financial assets in respect of which events and conditions described for Stage 2 and Stage 3 do not exist as of the reporting date.

A financial asset exhibits a significant increase in the credit risk (Stage 2) if any of the following triggers exist in respect thereof at the reporting date, without meeting the criteria for allocation to Stage 3 – non-performing loans (NPL):

a/ a delay in payment of liabilities exceeds 30 days (days past due for the purposes of IFRS 9 calculation based on the materiality set up by the National Bank of Serbia; a material amount is an amount above 1% of receivables at the level of a single loan facility but cannot be below RSD 1,000 for private individuals and RSD 10,000 for corporate customers; due to the conservative approach applied, the suspended interest for Stage 3 borrowers is also included in the calculation of days past due for the purposes of IFRS 9 calculation of impairment;
b/ the asset is classified as performing forborne;
c/ under a discretionary decision, the currency of a loan has undergone a significant "shock" since the loan disbursement and there is no hedge against the change in the currency's exchange rate;
d/ the customer/transaction rating exceeds a pre-defined value or falls into a certain determined range, or has deteriorated to pre-defined degree compared to the historical value (internal ratings are currently not being used by the Bank);
e/ in case of a retail mortgage loan, the loan-to-value (LTV) ratio exceeds a pre-defined rate (125%);
f/ default on another loan of a retail customer, unless there is a cross-default clause;
Watch-list 2: a corporate and SME segment exposure (defined as above materiality level) classified as an exposure exhibiting a significantly increased credit risk based on the early warning system (EWS) signals or subjective judgement.

A financial asset is non-performing (Stage 3) when any of the following events or conditions exist at the in respect thereof as of the reporting date:

a/ default;
b/ the asset is classified as a non-performing forborne;
c/ a non-retail exposure (above the defined materiality) in non-workout management, is classified during the monitoring process as a Watch-list 3 exposure (during the monitoring process, the exposure has been assessed as non-performing based on EWS signals or subjective judgement).

In instances of cross-border and joint Group financing, it is required that certain loans (borrowers) are allocated to the same Stage and that identical impairment is recognized. If a Group member provides financing in the country/jurisdiction of another Group member, during valuation of such deals, the impairment rate applicable in the country of the financed client must be used. The same applies to joint cross-border financing if the financed deal is carried out in the country of a Group member. If the deals are in different countries, the impairment rates applicable in the country of domicile of the Group member must be applied.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Financial Instruments (Continued)

(g) Impairment of Financial Assets (Continued)

Upon calculation of expected credit losses as an unbiased neutral estimate of a range of possible outcomes, the available forward-looking information needs to be incorporated in the estimation. This includes general information relating to the macroeconomic environment, as well as the information on the future of individual financial assets. The methodology for general forward looking information, i.e., macroeconomic expectations and scenarios should be consistent throughout the whole Group.

Receivables are written off only when all available sources of collection have been exhausted (e.g., completed bankruptcy and enforcement procedures, completed foreclosure of all available collateral, completed checkups of the client's personal property or the property of the guarantors and it has been established that they do not possess real estate properties in the territory of the Republic of Serbia), when the client is no longer able to settle the liabilities or when the proceeds from the sales of collaterals will not be sufficient for repayment of the entire exposure.

Receivables may be written off in case of debt settlement agreement executed with the client / guarantor or mortgage debtor if it is concluded that the terms of such an agreement ensure better collection of receivables than the sales of property, if any. In such cases the Bank may agree on the write-off of the portion of the receivables remaining after debt settlement under the relevant debt settlement agreement.

Write-off of irrecoverable receivables is made based on the court ruling or the relevant decision of the competent Bank's body in accordance with the Rules on the Decision Making Levels, when there is no possibility of collection and when all the collaterals have been activated, or in case of debt settlement under the relevant debt settlement agreement.

The Bank writes off the gross carrying value of a financial asset if there are no reasonable expectations of its collection or full or partial recovery of the asset's cash flows. Write-off is an event resulting in derecognition.

The Bank's internal bylaws provide more detailed definitions of criteria and conditions for write-off of receivables, in accordance with the regulations prevailing in the Republic of Serbia, current banking industry practices and OTP Group's rules. In accordance with the regulations effective in the Republic of Serbia, the Bank makes partial write-off in line with OTP Group's rules. The Bank's internal bylaws provide more detailed definitions of the partial write-off procedures.

Corporate and retail loans and receivables meeting the criteria for write-off may be subject to:

- accounting write-off and transfer to the off-balance sheet items;
- partial write-off; and
- debt release.

The accounting write-off entails write-off and transfer of uncollected receivable to the Bank's off-balance sheet items and derecognition of non-performing loans and receivables or part thereof from the Bank's statement of financial position. The transfer to the Bank's off-balance sheet items means that the Bank will continue with collection activities. In such cases, the Bank also defines the tax treatment of the accounting write-off if it has not been previously considered.

Under Decision on the Accounting Write-Off of the Bank Balance Sheet Assets of the National Bank of Serbia (Official Gazette of RS no. 77/2017), the Bank is under obligation to perform the accounting write-off of the balance sheet assets with low recoverability.

The balance sheet assets referred to above refer to non-performing loans as defined by the decision governing the classification of bank balance sheet assets and off-balance sheet items.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3. Financial Instruments (Continued)

(g) Impairment of Financial Assets (Continued)

The Bank shall carry out the accounting write-off of a non-performing loan in the event that the calculated amount of impairment of the loan recorded by the Bank as impairment allowance equals 100% of its gross carrying value, which means that direct or accounting write-off is made if the impairment allowance made amounts to 100% of the on-balance exposure of the loans and receivables.

The partial write-off entails writing off a portion of the receivable for which impairment allowance has been made and collection (recovery) of which is expected neither from the operating cash flows of the borrower nor from the collateral foreclosure. The maximum amount expected from the collateral sale along with the unaltered net exposure after the partial write-off and transfer to the off-balance sheet items is to be carried on-balance until the ultimate collateral sale.

Definite write-off represents derecognition from the Bank's books in the event that all collection sources have been exhausted and the receivables cannot be collected in any manner whatsoever, i.e., they are regarded as irrecoverable.

3.4. Loans and Receivables form Banks, Financial Institutions and Customers

Loans and receivables include:

- loans and receivables measured at amortized cost (AC); such loans and receivables are initially recognized at fair value increased by direct transaction costs, and subsequently measured at amortized cost using the effective interest method; and
- loans and receivables measured at fair value through profit or loss (FVtPL) in accordance with the business model and characteristic of the cash flows.

As of December 31, 2021, the Bank had no loans and receivables in its portfolio meeting the criteria for measurement at FVtPL.

3.5. Securities

(a) Financial Assets Measured at Fair Value through Other Comprehensive Income (FVtOCI)

Debt Instruments

Financial assets classified as measured at FVtOCI are measured at fair value both initially and subsequently. Changes in their carrying amounts are recorded within the other comprehensive income except for recognition of the expected impairment gains and losses, interest income and foreign exchange gains and losses, which are recognized within the income statement. In the event of derecognition before maturity, cumulative gains or losses on such securities are reclassified from equity and may have effects that will be reflected in the profit or loss statement (income statement).

Equity Instruments

All equity instruments within the scope of IFRS 9 are to be measured at fair value in the statement of financial position with effects of fair value changes recognized in the profit or loss except for the equity investments for which the Bank has elected the FVtOCI option for the fair value changes. Equity instruments not quoted in active markets are no exception.

Changes in the fair value of an investment in an equity instrument initially classified as measured at FVtOCI are presented within the other comprehensive income. Such amounts recognized in the other comprehensive income cannot be subsequently reclassified to the profit or loss account. Cumulative gains or losses are presented within equity. Dividend income from such equity investments is recognized in the profit or loss (income) statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5. Securities (Continued)

(a) Financial Assets Measured at Fair Value through Other Comprehensive Income (FVtOCI) (Continued)

Equity Instruments (continued)

According to IAS 32, interest, dividends, gains or losses pertaining to a financial instrument or a component thereof classified as a financial liability are recognized in the profit or loss statement as income or expenses. Distributions to the holders of the equity instruments are recognized within (charged to) the Bank's equity. Transaction costs incurred in equity transactions are accounted for as equity deductibles.

(b) Financial Assets Measured at Fair Value through Profit or Loss (FVtPL)

Financial assets are classified as measured at FVtPL if they do not meet the criteria for recognition at FVtOCI or at AC, i.e., if not measured at FVtOCI or at AC.

Gains and losses on fair market value adjustments of debt securities measured at FVtPL are recognized within the profit or loss statement and they are not subject to impairment.

3.6. Financial Derivatives

The Bank uses financial derivative instruments such as currency forwards, currency swaps and interest rate swaps as risk hedges and for trading purposes. Derivatives are presented in the statement of financial position at fair value. The Bank has elected to account for such transactions at the trading date.

Upon execution of forwards, the Bank records transactions per such contracts at the time of their occurrence and recognizes financial assets and financial liabilities in respect of forward transactions to be realized in the ensuing period. The Bank performs daily valuation of the unrealized forward transactions by crediting/debiting the deferral/accrual accounts and the income (profit or loss) statement as of the reporting date.

Bank primarily used currency swap derivatives for short-term balancing of its foreign currency position and ensuring the required currency structure of funds held on accounts with foreign banks.

As of the reporting date, the Bank had in its portfolio only derivatives held for trading. The Bank initially recognizes financial derivatives at the contractually agreed value (cost) within the off-balance sheet items. The cost of derivatives represents the fair value of the consideration paid or received, with any fair value adjustment as of the reporting date recorded within the statement of financial position and profit or loss. Derivatives held for trading consist of currency swaps and forwards (Note 39).

3.7. Borrowings and Deposits

Issued financial instruments and other financial liabilities are initially recognized at fair value less directly attributable transaction costs. They are subsequently measured at amortized cost (AC) (unless measured at FVtPL), with any difference between the proceeds and the repaid amounts thereof recognized in the profit or loss statement over the period of the loan usage under the effective interest method.

Deposits due to banks and customers and other interest-bearing financial liabilities are measured upon initial recognition at fair value less directly attributable transaction costs, except for the financial liabilities measured at FVtPL. Subsequent to initial recognition, liabilities per deposits are measured at amortized cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. Borrowings and Deposits (Continued)

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

3.8. Trade Payables and Other Current Liabilities

Trade payables and other current liabilities are measured at amortized cost (AC), which, due to the short-term nature of these liabilities, corresponds to their nominal value.

3.9. Cash and Balances Held with the Central Bank

Cash and balances held with the central bank include cash on hand in local and in foreign currencies, and balances on the current accounts held with the National Bank of Serbia, including the obligatory RSD and foreign currency reserves.

This item also includes gold and other precious metals initially measured at cost and subsequently carried at their market value. The market value is determined based on the price of precious metals quoted on the global market. The increase in the market value is recognized as income while the decrease is included in expenses on the income statement.

Cash and cash equivalents as presented in the statement of the cash flows include cash on hand, balances on the current accounts held with the National Bank of Serbia, gold and other precious metal and funds held on the foreign currency accounts (Note 47).

3.10. Repo Transactions

Repo transactions are transactions of selling securities up to the value of which the contract stipulates that they will be repurchased on a specific day in the future.

Cash received on that basis, including accrued interest, is recognized in the balance sheet. The difference between the sale price and the repurchase price is treated as interest expense using the effective interest rate and is accrued over the life of the contract.

3.11. Investments in Subsidiaries

Investments in the Bank's subsidiaries are recorded in these Separate financial statements at cost and subsequently cost less impairment, if any. The Bank recognizes income from the equity investments in subsidiaries only if the subsidiaries have distributed profit, i.e., enacted respective decisions on profit distribution. Such income is recorded within the income statement.

A subsidiary is an entity where the reporting entity holds an equity (ownership) interest of over 50% or more than half of the voting power and the right to govern the subsidiary's financial and operating policies.

3.12. Intangible Assets

An intangible asset is a non-monetary asset without physical substance for which there are expectations that the future economic benefits embodied in the asset will flow to the Bank. An asset is identifiable as an intangible asset if the following criteria are met:

- it is identifiable;
- there is control over the asset; and
- there are future economic benefits embodied in the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Intangible Assets (continued)

If the above listed criteria are not met, the costs of the item acquisition or generation are recognized as expenses when incurred.

The Bank's intangible assets include licenses, software and similar rights and other intangible assets.

Intangible assets are stated at cost less accumulated amortization and aggregate impairment losses, if any (Note 25).

Investments in intangible assets for a period of over a year are recognized as intangible assets in the statement of financial position, while such investments made for a period shorter than a year are presented as the current period's expenses.
The cost of a purchased intangible asset consists of:

- its purchase price, including import duties and non-refundable purchase taxes; and
- any directly attributable cost of preparing the asset for its intended use (costs of employee benefits arising directly from bringing the asset to its working condition; professional fees and costs of testing whether the asset is functioning properly).

Expenditure for maintenance of the computer software applications are recognized as expenses when incurred. Examples of the expenditures that do not meet the criteria for recognition as intangible assets are:

- expenditure on training activities;
- costs of commissioning and repairs;
- expenditure on relocating or reorganizing;
- expenditure on internally generated brands; and
- quality control and marketing and advertising costs.

Testing of intangible assets for impairment is carried out by comparing the recoverable amounts of such assets to their carrying amounts whenever there is indication that the Bank's intangible assets may have suffered impairment.

In order to test the intangible assets (with both definite and indefinite useful lives) for impairment the Bank is required to assess the recoverable amount of each asset, which is the higher of the asset's fair value less costs to sell and its value in use.

An intangible asset is not impaired if one of the above said two values exceeds its carrying amount. IAS 36 "Impairment of Assets" stipulates measurement of an impairment loss under the assumption that the Bank will elect to recover the asset's carrying value in the manner that provides the most benefits. If the asset's recoverable amount is below its carrying value, the carrying value is reduced to the recoverable amount. This decrease represents an impairment loss, which is immediately recognized in the income statement.

If it is not possible to assess the recoverable amount of an individual intangible asset, the Bank determines the recoverable amount of cash-generating unit the asset belongs to. In instances of new intangible assets recognized during the reporting period, the Bank must test those assets for impairment at the end of that period.

A loss incurred on impairment of an asset recognized in prior years is reversed only if the estimates used in determining the recoverable amount of the asset have changed, after the impairment loss was last recognized. Such a reversal of an impairment loss is immediately recognized in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.13. Property, Plant and Equipment ("Fixed Assets")

The Bank's property, plant and equipment mostly comprise buildings, equipment and leasehold improvements.

The Bank's property, plant and equipment (fixed assets) are stated at cost (historical cost) less any accumulated depreciation and impairment, if any. Such items are subsequently carried at cost less any accumulated depreciation and aggregate impairment losses.

Costs incurred after acquisition of an asset classified within property and equipment are capitalized only when it is probable that the Bank will have future economic benefits from the asset in excess of those originally assessed. Otherwise, such costs are recognized within expenses as incurred.

Property is assessed for impairment in order to determine whether there is any indication of losses incurred on impairment of property items. If any such indication exists, the Bank test the assets for impairment by calculating the recoverable amounts of such assets and comparing those to the carrying values of the assets. When such an asset is partially impaired and still has some value for the Bank, the Bank still conducts the impairment test by comparing the asset's recoverable amount to its carrying value. The recoverable amount is the higher of the asset's value in use and its fair value less costs to sell. The impairment loss is recognized in the amount equal to the difference between the carrying value and the recoverable amount within expenses in accordance with IAS 36 "Impairment of Assets".

Gains or losses arising on the sale, disposal and retirement are recognized within the profit or loss (income) statement, as part of the other income and other expenses.

3.14. Amortization of Intangible Assets and Depreciation of Property, Plant and Equipment

Intangible assets with a definite useful life are depreciated by a proportionate method within a period of no more than 12 years.

Amortization/depreciation of assets commences when the assets are available for use and ceases when the assets are derecognized.

Amortization/depreciation is calculated on a straight-line basis over the remaining useful lives of intangible assets, property, plant and equipment in order to fully write off the assets until the end of their useful lives. For depreciation of property, the Bank has elected to use the residual value and the estimated useful life of 50 years. The residual value of an asset is an estimated amount the asset's owner would receive (earn) by disposing of an asset, less any estimated disposal costs, assuming that the asset as at the end of its useful life and in the condition it is expected to be in at the end of its useful life. Since January 1, 2018, the Bank has been using the residual value for its properties in the amount of 25% of their carrying value. The residual value is a percentage of the carrying value of buildings and the difference between these two values is the base for calculation of the depreciation charge.
Since December 31, 2020 the Bank has been using the residual value for certain categories of IT equipment, namely 10% for computers, printers, monitors, scanners, projectors, etc. and 5% for servers, ATMs, routers, switches etc.
For real estate and certain categories of IT equipment for which the residual value of each new purchase is the basis for depreciation calculation is the cost of the investment minus the residual value.

The Bank has defined the following estimated useful lives:

- Land	indefinite
- Buildings	up to 100 years
- Leasehold improvements	According to the contract
- Furniture and the relevant office equipment	up to 12 years
- Motor vehicles	up to 10 years
- Hardware and other equipment	up to 10 years

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Investment Property

The Bank's investment property is property held to earn rental income and/or for capital appreciation.

Upon initial recognition, an item of investment property is measured at cost less accumulated depreciation and aggregate impairment losses, if any (Note 27).

Since January 1, 2018, the Bank has been calculating depreciation of investment property on a straight-line basis to the carrying value of the assets less the residual value (25% of the cost) using the annual depreciation rate of 2%. The difference between the carrying value and the residual value of the asset is the base for calculation of the depreciation charge.

Investment property is assessed for impairment in order to identify whether there is any indication that there may be a loss due to impairment of the Bank's investment property.

3.16. Non-Current Assets Held for Sale

In accordance with IFRS 5 "Non-Current Assets held for Sale and Discontinued Operations" the Bank classifies a non-current asset as an asset held for sale if its carrying value can be recovered primarily through a sale transaction rather than permanent use. Assets classified as non-current assets held for sale must available for immediate sale in their current condition and the sale must be highly probable.

Upon reclassification of a portion of assets into non-current assets held for sale, assets are measured at the lower of their carrying value and fair value less costs to sell. If the carrying value is lower, the asset is stated at its carrying value whereas in the case of the lower fair value, revaluation surplus accrued for that particular asset is reversed, and the amount in excess of such surplus is charged to expenses of the given period as impairment of assets. In order to reclassify and asset from investment property to non-current assets held for sale, not only a relevant decision on the sale is to be made but also the capital expenditure of reclassification of such an asset.

When a non-current asset is no longer classified as held for sale, it is measured at the lower of the following two amounts:

- Its carrying value before classification as an asset held for sale, adjusted for depreciation that would have been recognized had the asset not been classified as held for sale; and
- Its recoverable amount at the date when it was subsequently decided that the asset will no longer be held for sale.

The recoverable amount of the asset is the higher of the asset's fair value less costs to sell and the value in use. The value in use is the present value of the estimated future cash flows expected to arise from the continuing use of the asset and its disposal at the end of its useful life.

Properties recorded with the class of assets held for sale are carried at the present value. Upon reclassification, it is necessary to calculate the depreciation charge for the period over which the assets were not depreciated and record it.

Non-current assets held for sale are not depreciated.

3.17. Assets Acquired in Lieu of Debt Collection and Held for Sale

Tangible assets received/acquired in lieu of debt collection are classified as assets held for sale and presented within the line item of other assets. Assets held for sale are measured at the lower of cost and net realizable value in accordance with IAS 2 "Inventories".

If a property acquired in lieu of debt collection is not sold within 5 (five) years from acquisition, the Bank records its impairment in the amount of 90% irrespective of the appraisal performed by an external independent appraiser.

If assets other than property, acquired in lieu of debt collection is not sold within 3 (three) years from acquisition, the Bank records its impairment in full (100%).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18. Finance and Operating Lease Arrangements

A contract or a part of a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The control is transferred when the customer has both the right to direct the use of the identified assets and realize economic benefits from that asset.

Lessee Accounting

As the lessee, the Bank performs analyses of the lease contracts and determines whether they meet the requirements of IFRS 16. The Bank assesses whether there is an identified asset, whether it has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the lease term, whether it has the right to direct how and for what purpose the asset is used throughout the period of use, and whether it has the right to use the asset over the entire lease term. The Bank also considers whether it complies with all the criteria prescribed by the Standard for recognition of the right-of-use assets and the relating lease liabilities in the statement of financial position.

At the commencement date, a lessee measures the right-of-use asset at cost.

The cost of the right-of-use asset comprises:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee as a result of the lease contract execution;
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, or restoring the site where it is located.

At the commencement date, a lessee measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term:

- fixed lease payments less any lease incentives receivable;
- variable lease payments that depend on a market index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

In addition to recognizing the right-of-use assets and the relating lease liabilities within the statement of the financial position, under the lease contracts the Bank also recognizes and records the following expenses in its books:

- amortization/depreciation charge;
- interest on the lease liability;
- costs of changes in variable lease payments; and
- foreign exchange losses.

As the lessee, the Bank will not apply the general rules for lease recognition under IFRS 16 for the following:

- short-term leases, and
- leases with low-value underlying assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.18. Finance and Operating Lease Arrangements (Continued)

A short-term lease is a lease contract executed with a lessor for a period of 12 months or less. In this case, the Bank recognizes all the lease payments under such contracts as the lease expenses on a straight-line basis within the income statement over the lease term.

A lease contract that includes a purchase option cannot be considered a short-term lease irrespective of the lease term defined.

The assessment whether the value of a specific underlying asset is low is performed based on the absolute value and per each individual asset. The low value assets are considered to be those with values of up to USD 5,000. Such lease payments are recognized as expenses using on a straight-line basis over the lease term.

As of the date of IFRS 16 initial adoption, the Bank recognized lease liabilities pertaining to the lease previously classified as operating leases in accordance with the stipulations of IAS 17 “Leases”. Such liabilities represent the present value of the future lease payments as at the date of IFRS 16 initial adoption. The lease payments were discounted using an adequate discount rate.

Lessor Accounting

A lessor classifies leases into finance or operating leases based on the careful assessment of the lease contract substance at the inception date.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

The lessor recognizes payments made under operating lease contracts as income on a straight-line basis throughout the lease term.

The lessor recognizes costs, including depreciation charge and property taxes, incurred in earning the lease income as an expense.

The depreciation/amortization policy for depreciable underlying assets subject to operating leases should be consistent with the lessor’s normal depreciation/amortization policy for similar assets in accordance with IAS 16 and IAS 38.

The lessor presents assets subject to operating lease arrangements in its financial statements according to the type/class of assets.

3.19. Provisions, Contingent Liabilities and Contingent Assets

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 of provisions are considered, determined and, if necessary, adjusted at each reporting date.

When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are reversed, and revenue is recognized on that basis. Provisions are taken into account in accordance with their type and they can be used only for the expenses they were initially recognized for. Provisions are not recognized for future operating losses.

Contingent liabilities are not recognized in the financial statements. They are disclosed in notes to the financial statements (Note 38), unless the possibility of an outflow of resources embodying economic benefits is remote. s

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.20. Equity

The Bank's equity is comprised of issued (share) capital, share issue premium, reserves, retained earnings and current year's profit/loss.

The Bank's share capital is formed from the monetary contributions made by the Bank's founders. For funds invested, shareholders receive a proportionate number of shares or receipts as defined in the Law on the Capital Market (Official Gazette of RS nos. 31/2011, 112/15, 108/2016, 9/2020 и 153/2020). Shareholders cannot withdraw funds invested in the Bank's share capital. The Bank uses capital to perform banking operations and cover operating risks.

The structure of and changes in the Bank's equity are disclosed in Note 37.

3.21. Financial Guarantees

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

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

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

Financial guarantees are presented under contingent liabilities, within the Bank's off-balance sheet items (Note 38).

3.22. Employee Benefits

The cost of defined post-employment benefits to employees and/or retirement benefits upon fulfillment of all the legally prescribed criteria, are determined in an actuarial assessment. An actuarial assessment includes the assessment of a discount rate, future movements in salaries, mortality rates and employee turnover rates. Due to the long-term nature of these plans, significant uncertainties influence the outcome of such assessments.

3.23. Managed Funds

The Bank manages funds on behalf of and for the account of third parties and charges fees for these services. These items are not included in the Bank's statement of financial position and are presented within off-balance sheet items (Note 40).

3.24. Taxes and Contributions

(a) Current Income Tax

Current income tax represents an amount calculated in accordance with the effective Republic of Serbia's Corporate Income Tax Law (Official Gazette of RS nos. 25/2001, 80/2002, 43/2003, 84/2004, 18/2010, 101/2011, 119/2012, 47/2013, 108/2013, 68/2014, 142/2014, 91/2015, 112/2015, 113/2017, 95/2018, 86/2019, 153/2020 and 118/2021) and the relevant bylaws and regulations.

Current income tax represents an amount that is calculated by applying the prescribed income tax rate of 15% (effective in 2021 and 2020) to the taxable income reported in the tax statement and income tax return, adjusted for determined tax credits. Taxable income represents the profit shown in the statutory income statement adjusted under the statutory tax rules of the Republic of Serbia. The monthly advance income tax payment is paid on monthly basis while the adjustment of the sum of advance payments is made at the year-end, i.e. upon submission of the tax statement and the annual income tax return to the tax authorities for advance/final assignment of the corporate income tax.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.24. Taxes and Contributions (Continued)

(a) Current Income Tax (Continued)

Article 50k of the Corporate Income Tax Law introduces a new form of a tax credit for bank taxpayers in the amount of 2% of the debt outstanding determined in accordance with the Law on Conversion of Housing Loans Indexed in Swiss Francs. This form of a tax credit is applicable as from the tax period beginning in 2020. The Bank becomes entitled to the tax credit in 2020 occurs but may use only half of the total tax credit amount in 2020, while the other half may be used in 2021. In case a taxpayer is unable to use the tax credit in this way, in line with CIT Law Article 50k, para. 3, the unused portion of the tax credit may be carried forward to income tax account for the future accounting periods but no longer than ten ensuing years (no longer than 2030).

The tax regulations in the Republic of Serbia do not envisage that any tax losses of the current period be used to recover taxes paid within a specific carryback period. However, any current year losses may be used to reduce or eliminate taxes to be paid in future periods, but only for a duration of no longer than five ensuing years.

(b) Indirect Taxes and Contributions

Indirect taxes and contributions include property taxes, value added tax, payroll taxes and contributions and various other taxes and contributions payable pursuant to the effective republic and local tax regulations. These taxes and contributions are included in profit and loss within operating expenses and staff costs. VAT may be presented within certain statement of financial position items if relating to procurements that do not represent expenses but certain statement of financial position items according to IFRS/IAS.

(c) Deferred Income Taxes

Deferred income taxes are provided for temporary differences arising between the tax bases of assets and liabilities and their carrying values in the Bank's financial statements in accordance with IAS 12 “Income Taxes”.

Deferred tax liabilities are recognized for all taxable temporary differences as at the reporting date between the tax bases of assets and liabilities and their carrying values used for financial reporting purposes, which will result in taxable amounts in the future periods.

Deferred tax assets are income tax amounts recoverable in the future periods which pertain to all deductible temporary differences and all unused tax credits and losses available for carryforward.

Deferred tax assets and liabilities are determined at the tax rate expected to be applied in the period of the relevant asset realization/liability settlement, based on the currently enacted or tax rates expected to be enacted up to the balance sheet date. Deferred tax assets and liabilities were provided at the rate of 15%.

In 2021 the Bank recognized deferred tax assets in respect of: provisions for retirement benefits calculated in accordance with IAS 19 “Employee Benefits”, unpaid public duties payable and provisions for litigations, IFRS 9 and on the basis of provisions for restructuring costs.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Current and deferred income taxes are recognized within income and expenses and are part of the profit for the year.

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

4. INTEREST INCOME AND EXPENSES

RSD000	31.12.2021	31.12.2020
Interest income from: Cash and balances held with the central bank at amortized cost (AC)	30,803	62,928
Securities measured at FVtOCI	1,280,282	294,904
Securities measured at FVtPL	57,896	59,363
Loans and receivables due from banks and other financial institutions measured at AC	34,636	11,994
Loans and receivables due from customers measured at AC	15,924,104	7,505,095
Other assets measured at amortized cost (AC)	510	14,360
Interest SWAP	40,093	-
Total interest income	**17,368,324**	**7,948,644**
Deposits and other liabilities due to banks, other financial institutions and the central bank at amortized cost (AC)	(693,376)	(191,306)
Deposits and other liabilities due to customers at amortized cost (AC)	(959,806)	(567,510)
Lease liabilities (Note 26)	(31,883)	(26,927)
Subordinated liabilities	(279,554)	(1,239)
Interest SWAP	(40,093)	-
Total interest expenses	**(2,004,712)**	**(786,982)**
Net interest income	**15,363,612**	**7,161,662**

5. FEE AND COMMISSION INCOME AND EXPENSES

RSD000	31.12.2021	31.12.2020
Fee and commission income from		
Current account	1,792,093	1,053,224
Payment card transactions	1,832,456	790,676
Payment transfer operations	2,720,530	1,016,865
Electronic banking	82,507	41,839
Guarantees issued	323,869	91,400
Credit transactions	45,224	31,917
Fee based on spot transactions	406,238	-
Fee for factoring	20,820	310
Insurance representation	88,782	51,082
Credit bureau	57,355	34,469
Financial derivatives	87,520	-
Exchange	313,991	-
Custody and brokerage	95,100	62,933
Other fees and commissions	126,426	84,438
Total	**7,992,911**	**3,259,153**
Fee and commission expenses		
Payment transfer operations	(393,405)	(210,456)
Payment card transactions	(1,250,314)	(351,413)
Guarantees issued	(78,500)	-
Insurance representation	(5,909)	-
Fee based on spot transactions	(342,004)	-
Credit bureau	(73,473)	(39,561)
Mediation fee	(52,899)	-
Financial derivatives	(60,726)	-
Exchange	(1,538)	-
Custody and brokerage	(11,355)	(9,919)
Other fees and commissions	(15,953)	(8,148)
Total	**(2,286,076)**	**(619,497)**
Net fee and commission income	**5,706,835**	**2,639,656**

Income and expenses on the basis of realized exchange rate differences for 2020 are presented within the line Net foreign exchange gains/(losses) and positive/(negative) currency clause effects in Note 9. Income on the basis of realized exchange rate differences amounts to RSD 846,634 thousand, while expenses on based on realized exchange rate differences amount to RSD 484,087 thousand.

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

RSD000	31.12.2021	31.12.2020
Gains on the fair value changes of derivatives	1,949,168	415,676
Losses on the fair value changes of derivatives	(1,043,054)	(529,346)
Gains on the fair value changes of financial assets at FVtPL	35,477	15,855
Losses on the fair value changes of financial assets at FVtPL	(42,673)	(10,898)
Net gain/(losses) on the changes in the fair value of financial instruments	**898,918**	**(108,713)**

7. NET LOSSES ON DERECOGNITION OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

RSD000	31.12.2021	31.12.2020
Losses on derecognition of financial instruments measured at FVtPL	(1,347)	-
Losses on derecognition of financial instruments measured at FVtOCI	(57,632)	(34,465)
Gains on derecognition of financial instruments measured at FVtPL	47,517	23,658
Gains on derecognition of financial instruments measured at FVtOCI	4,502	9,715
Net gains on derecognition of financial instruments measured at fair value	**(6,961)**	**(1,092)**

8. NET GAINS ON RISK HEDGING

RSD000	31.12.2021	31.12.2020
Gains on the changes in the fair value of hedged items – changes in the value of gold and other precious metals	2,158	7,334
Expenses on changes in the value of items subject to risk protection - Income from changes in the value of gold and other precious metals	(277)	-
Net gains on risk hedging	**1,881**	**7,334**

9. NET FOREIGN EXCHANGE GAINS/(LOSSES) AND CURRENCY CLAUSE EFFECTS

RSD000	31.12.2021	31.12.2020
Foreign exchange gains		
Unrealized foreign exchange gains	2,445,978	1,344,379
Realized foreign exchange gains	-	846,634
Contractual currency clause	156,049	128,104
Total foreign exchange gains	**2,602,027**	**2,319,116**
Foreign exchange losses		
Unrealized foreign exchange losses	(3,292,892)	(1,172,748)
Realized foreign exchange losses	-	(484,087)
Contractual currency clause	(155,153)	(134,456)
Total foreign exchange losses	**(3,448,045)**	**(1,791,292)**
Net foreign exchange gains/(losses) and positive currency clause effects	**(846,018)**	**527,825**

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

RSD000	31.12.2021	31.12.2020
Losses on modification of financial instruments	-	(309,069)
Impairment allowance of balance sheet exposures	(12,501,819)	(5,988,940)
Expenses of indirect write-offs of balance sheet positions - other assets	(333,849)	(141,690)
Provisions for losses on off-balance sheet exposures	(2,267,322)	(804,667)
Impairment allowance of financial assets measured at fair value through other comprehensive income (FVtOCI)	(162,889)	(65,851)
Expenses on provisions for cash and funds with the central bank	(107,276)	-
Write-off of irrecoverable receivables	(31,718)	(15,736)
Total losses	**(15,404,873)**	**(7,325,953)**
Reversal of impairment allowance of balance sheet exposures	12,044,720	3,007,426
Reversal of impairment allowance of balance sheet exposures-other assets	167,298	35,272
Reversal of provisions for losses on off-balance sheet exposures	1,846,201	665,612
Reversal of impairment allowance of financial assets measured at fair value through other comprehensive income (FVtOCI)	235,468	26,403
Recovery of receivables previously written off	580,448	279,636
Total gains	**14,874,135**	**4,014,349**
Net gains/(losses) from impairment of financial assets not measured at fair value through profit or loss (FVtPL)	**(530,738)**	**(3,311,604)**

In accordance with Accounting policy, the Bank calculates the effects of modification of loans contracted cash flow, comparing the net present value of future cash flows to the gross carrying value (Note 3.3 (f)). The effects of modification of contracted cash flows, the Group is recognized within income statement if materially significant. The amount of expenses from the modification calculated by the Group as of December 31, 2021, as a result of the current value change of the loans that were in moratorium, amounts RSD 306,069 thousand. The effect was posted within income statement with the other side of journal entry gross carrying value.

The increase in losses from impairment of financial assets not measured at fair value through profit or loss in 2021 is conditioned by the increase in the loan portfolio due to the integration with OTP banka Srbija ad Beograd.

Indirect write-off expenses and provisions for off-balance sheet items during 2020 include the effect of increasing expected credit losses due to deteriorating macroeconomic projections, and under the influence of the COVID-19 pandemic. The increase in expected credit losses on this basis is the result of both the increased expected probability of entering the status of default, and the increase in the portfolio where a significant increase in credit risk has been identified.

11. NET GAINS / (LOSSES) ON DERECOGNITION OF FINANCIAL ASSETS MEASURED AT MORTIZED COST

RSD000	31.12.2021	31.12.2020
Net gains on derecognition of financial assets measured at amortized cost	**172,023**	**145,730**
Gains on the sales of receivables	172,023	145,635
Gains on other significant modifications	-	95
Net losses on derecognition of financial assets measured at amortized cost	**(2,856)**	**(8,667)**
Losses on the sales of receivables	(2,856)	-
Losses on the reorganization plan	-	(8,667)
Net gains on derecognition of financial assets measured at amortized cost	**169,167**	**137,063**

12. OTHER OPERATING INCOME

RSD000	31.12.2021	31.12.2020
Other income from operations	184,861	193,089
Rental income per operating lease arrangements	64,934	55,904
Dividend and profit sharing income	75,244	122,146
Total other operating income	**325,040**	**371,139**

13. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

RSD000	31.12.2021	31.12.2020
Net salaries	(3,871,891)	(2,369,737)
Taxes on salaries and compensations	(414,524)	(270,498)
Contributions to salaries and compensations	(890,076)	(574,716)
Considerations to temporary and seasonal employees	(3,088)	(2,773)
Other personal expenses	(186,699)	(125,969)
Provisions for employee retirement benefits	-	(1,970)
Reversal of provisions for employee retirement and other benefits	16,057	21,485
Total salaries, salary compensations and other personal expenses	**(5,350,221)**	**(3,324,178)**

14. DEPRECIATION AND AMORTIZATION CHARGE

RSD000	31.12.2021	31.12.2020
Depreciation charge – property and equipment	(600,977)	(468,604)
Depreciation charge – investment property	(2,408)	(2,504)
Depreciation charge – leased properties	(479,105)	(321,201)
Depreciation charge – Intangible assets	(311,765)	(189,934)
Total depreciation and amortization charge	**(1,394,255)**	**(982,244)**

15. OTHER INCOME

RSD000	31.12.2021	31.12.2020
Reversal of unused provisions	240,606	45,188
Gains on the sales of property, equipment and intangible assets	54,608	39,296
Write-off of liabilities	4,491	21,290
Surpluses	2,088	4,034
Other income	169,413	81,064
Total other income	**471,206**	**190,872**

16. OTHER EXPENSES

RSD000	31.12.2021	31.12.2020
Cost of materials	430,597	297,711
Cost of production services	1,693,206	796,595
Rental costs per short-term lease contracts (Note 26)	17,914	16,595
Non-material costs	3,419,873	2,120,673
Taxes payable	274,597	184,125
Contributions payable	848,935	509,206
Other costs and charges	63,011	62,426
Costs of provisions for litigations	1,599,104	420,765
Shortages and damages	298	1,191
Other expenses	174,844	79,875
Losses on impairment of building properties	82,934	44,988
Total other expenses	**8,605,313**	**4,534,150**

As of December 31, 2021, non-material expenses are largely comprised of deposit insurance costs with deposit insurance agency RSD 882,047 thousand, life insurance costs of cash loan users RSD 538,946 thousand, intellectual services – IT services RSD 380,130 thousand and legal fees RSD 130,501 thousand as well as other intangible expenses (legal services – Corporate clients and SME, expenses of other fees – sale agents, professional services costs – control and collection of receivables, consulting services costs – projects without individually materially significant participation in total intangible expenses).

As of December 31, 2021, comparative data were: Deposit insurance cost with deposit insurance agency RSD 506,588 thousand, life insurance costs of cash loan users RSD 415,542 thousand, intellectual services – IT services RSD 350,331 thousand and legal fees RSD 71,037 thousand.

17. INCOME TAXES

RSD000	31.12.2021	31.12.2020
Current income tax expense	(377,582)	-
Deferred tax losses	(173,483)	(81,723)
Deferred tax gains	104,573	128,698
Total income taxes	**(446,492)**	**46,975**

a) Numerical Reconciliation between Total Tax Expense Stated in the Income Statement and the Product of the Profit before tax Multiplied by the Applicable Tax Rate

RSD000	31.12.2021	31.12.2020
(Loss)/profit before taxes	**6,203,153**	**(1,226,430)**
Income tax at the statutory tax rate of 15%	**(930,473)**	**183,965**
Tax loss available for carryforward	**-**	**-**
Tax effects of expense adjustment in the tax statement	(75,383)	(41,315)
Tax effects of transfer pricing adjustments	(857)	(237)
Tax effects of income adjustment in the tax statement	223,917	86,828
Tax effects of adjustments due to IFRS 9 first-time adoption	48,946	57,328
Tax loss utilization effects	286,569	-
Temporary difference effects - deferred taxes, depreciation/amortization and revaluation for tax purposes	14,580	(2,365)
Temporary difference effects - deferred taxes, provisions for litigations	80,893	40,655
Temporary difference effects - deferred taxes, provisions for retirement benefits	-	(21,973)
Temporary difference effects - deferred taxes, IFRS 9	(48,946)	(57,328)
Temporary difference effects - deferred taxes, other	(27,894)	443
Temporary difference effects - deferred taxes, other, CHF loans	(87,543)	87,543
Tax effects of capital gains	(17,844)	-
The effect of tax loss creation	-	(286,569)
The effect of tax credit for CHF loans	87,543	-
Total income/(expense) tax expenses	**(446,492)**	**46,975**

b) Tax benefit/(expense)

RSD000	31.12.2021	31.12.2020
(Loss)/profit before taxes	**6,203,153**	**(1,226,430)**
Expenses/(income) not recognized for tax purposes - temporary differences	9,170	(221,514)
Income not recognized for tax purposes - permanent differences	(1,319,991)	(462,516)
Taxable profit loss/(loss)	4,892,332	(1,910,460)
Capital gains	118,964	75,465
Utilization of tax losses carried forward	(1,910,461)	-
Utilization of tax credits carried forward	(583,622)	(75,465)
Taxable income base	2,517,213	-
Tax rate	15%	15%
Calculated income tax	(377,582)	-
Current income tax expense	**(377,582)**	**-**
Loss decrease through creation of deferred tax assets		
Profit decrease through reversal of deferred tax assets	**(68,910)**	**46,975**
Total tax benefits	**(446,492)**	**46,975**
Net profit/(loss)	**5,756,661**	**(1,179,455)**

18. CASH AND BALANCES HELD WITH THE CENTRAL BANK

RSD000	31.12.2021	31.12.2020
In RSD		
Gyro account	8,028,954	2,629,694
Cash on hand	8,375,285	4,235,439
Deposited RSD liquid asset surpluses	25,301,324	11,560,527
Total cash funds in RSD	**41,705,563**	**18,425,660**
In foreign currencies		
Cash on hand	6,056,408	4,632,993
Other cash funds	5,156	28,725
Obligatory foreign currency reserve held with NBS	42,910,529	10,111,897
Less: value adjustment	(107,276)	-
Total cash funds in foreign currencies	**48,864,817**	**14,773,615**
Gold and other precious metals	54,196	52,314
Total cash and balances held with the central bank	**90,624,576**	**33,251,589**

The Bank's obligatory RSD reserve represents the minimum RSD reserve set aside in accordance with the NBS Decision on Required Reserves of Banks with the National Bank of Serbia (Official Gazette of RS, no. 76/2018) Pursuant to the aforesaid Decision, the obligatory reserve is to be calculated at the rate of 5% on the portion of the RSD base comprised of liabilities maturing within 2 years, i.e. within 730 days, and at the rate of 0% on the portion of the RSD base comprised of liabilities with maturities of over 2 years, i.e. over 730 days. The RSD base for the calculation of the obligatory reserve is the amount of average daily balance of RSD liabilities during the preceding calendar month, except RSD liabilities indexed to a currency clause as follows:

- non-indexed liabilities arising from RSD deposits, borrowings, securities and other RSD liabilities to domestic legal entities and retail bank clients; and
- non-indexed liabilities arising from RSD deposits, borrowings and other RSD liabilities to foreign creditors.

18. CASH AND BALANCES HELD WITH THE CENTRAL BANK (Continued)

A portion of the obligatory foreign currency reserve was converted into obligatory RSD reserve at the rates of 38% and 30% for the obligatory reserves of up to and over 2 years, respectively.

The obligatory RSD reserve balance that had to be maintained from December 18, 2021 to January 17, 2022 amounted to RSD 32,194,921 thousand, where the calculated RSD portion of the reserve amounted to RSD 8,912,323 thousand, and the RSD equivalent of the reserve portion calculated in EUR and deposited in RSD amounted to RSD 23,282,598 thousand. The Bank is under obligation to calculate and maintain the average daily balance of the allocated obligatory RSD reserve on its gyro account over the accounting period. The calculated obligatory RSD reserve is deposited in RSD on the Bank's gyro account. As at December 31, 2021 the Bank was in full compliance with the regulations of the National Bank of Serbia with regard to the calculation and allocation of the obligatory RSD reserve.

The obligatory foreign currency reserve represents the minimum foreign currency reserve set aside in accordance with the NBS Decision on Required Reserves of Banks with the National Bank of Serbia (Official Gazette of RS, no. 76/2018), which prescribes that banks calculate the obligatory foreign currency reserve at the following rates**:**

- 20% on the portion of the foreign currency reserve comprised of liabilities maturing within 2 years, i.e. up to 730 days, and exceptionally at the rate of 100% on the portion of the foreign currency reserve comprised of RSD liabilities indexed to a currency clause maturing within 2 years, i.e. up to 730 days; and
- 13% on the portion of the foreign currency reserve comprised of liabilities with maturities of over 2 years, i.e. over 730 days, and exceptionally at the rate of 100% on the portion of the foreign currency reserve comprised of RSD liabilities indexed to a currency clause with maturities of over 2 years, i.e. over 730 days.

The foreign currency base for the calculation of required reserve is the amount of average daily balance of foreign currency liabilities during the preceding calendar month and the amount of average daily balance of RSD liabilities from the preceding calendar month indexed to a currency clause as follows:

- liabilities arising from deposits, borrowings, securities and other foreign currency liabilities to foreign creditors;
- liabilities arising from deposits, borrowings, securities and other foreign currency liabilities to domestic legal entities and other liabilities;
- foreign currency savings deposits held with other banks; and
- indexed liabilities arising from deposits, borrowings, securities and other RSD liabilities as well as indexed RSD deposits received through transactions the Bank performs on behalf of third parties if they exceed the amounts of loans the Bank disbursed from these deposits.

The Bank deposits the obligatory foreign currency reserve onto the foreign currency account with the National Bank of Serbia. During the year, the Bank was in full compliance with the regulations of the National Bank of Serbia with regard to the calculation and allocation of the obligatory foreign currency reserve. The obligatory foreign currency reserve balance that had to be maintained from December 18, 2021 to December May 17, 2022 amounted to EUR 334,714 thousand.

In 2021, the Bank’s short-term liquid asset surpluses were deposited with the National Bank of Serbia for periods from 1 to 6 days at the interest rate of 0.1% p.a.

19. PLEDGED FINANCIAL ASSETS

RSD000	31.12.2021	31.12.2020
In foreign currency		
Financial assets for securitizing liability settlement	463,080	1,494,796
Total pledged financial assets	**463,080**	**1,494,796**

As at December 31, 2021 pledged financial assets comprise the amount of RSD 463,080 thousand (December 31, 2020: RSD 1,494,796 thousand).

The amount of RSD 336,091 thousand relates to deposits placed as collateral by the Bank as a member of the VISA International Service Association and the Master International Service Association. The deposit is made for an indefinite period, with a variable interest rate of 1M USD LIBOR - 0.05%. Interest is calculated on a monthly basis. The amount of RSD 126,989 thousand refers to the deposit placed as collateral with OTP Bank Hungary for transactions with derivative financial instruments, the interest rate is variable and is related to EONIA, interest is calculated and paid monthly. The amount of RSD 2,185,903 thousand relates to repo securities sold through the regular auction of the National Bank of Serbia, with a maturity of three months.

20. RECEIVABLES UNDER DERIVATIVE FINANCIAL INSTRUMENTS

RSD000	31.12.2021	31.12.2020
Receivables from derivatives held for trading - Forward	17,263	-
Receivables from derivatives held for trading - Options	80,036	-
Receivables from derivatives held for trading - Swap	160,549	29,921
Total receivables under derivative financial instruments	**257,848**	**29,921**

21. SECURITIES

RSD000	31.12.2021	31.12.2020
Securities measured at fair value through profit or loss (FVtPL)	**8,837,351**	**7,975,389**
Treasury bills and public sector bonds	8,812,748	7,949,968
Securities of other financial institutions	13,432	15,600
Public sector securities	12	17
Other corporate shares	11,159	9,804
Securities measured at fair value through the other comprehensive income (FVtOCI) - Equity securities	**29,664**	**1,193,009**
Public company shares	9,800	1,187,102
Public sector shares	38	-
Corporate shares of non-residents	15,663	1,707
Other corporate shares	4,163	6,430
Shares of other customers	-	113,986
Shares of other customers - reclassified	-	77
Impairment (Note 31)	-	(116,293)
Securities measured at fair value through the other comprehensive income (FVtOCI) - Debt securities	**44,947,352**	**8,060,124**
Treasury bills and public sector bonds	40,924,950	8,060,124
Government bills and bonds of public companies	3,527,189	-
Treasury bills and bonds of other companies	495,213	-
Total Securities exposure	**53,814,367**	**17,228,522**

Impairment of debt securities measured at fair value through the other comprehensive income (FVtOCI) are recorded in equity in the amount of RSD 271,588 thousand as of December 31, 2021 (as of December 31, 2020: RSD 60,540 thousand).

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

RSD000	31.12.2021	31.12.2020
Loans per transaction accounts	9,443	13,860
Liquidity and working capital loans	2,277,311	2,996
Other loans	47,614	26,168
Other receivables	-	87,094
Interest and fees per deposits and off-balance sheet items	7,234	6,416
Total in RSD	**2,341,602**	**136,534**
Foreign currency accounts	5,960,752	4,049,502
Foreign currency cheques	60	60
Other loans	360,874	331,953
Other general-purpose deposits	412,120	764,915
Earmarked deposits placed in accordance with the regulations	4,703	4,703
Other receivables	1,673	1,673
Interest and fees per deposits and off-balance sheet items	819	560
Factoring recourse receivables in foreign currency	115,873	-
Total in foreign currencies	**6,856,874**	**5,153,366**
Impairment allowance (Note 31)	(436,895)	(334,032)
Total loans and receivables, net	**8,761,581**	**4,955,868**

As at 31 December 2021, other non-purpose foreign currency deposits in the amount of RSD 412,120 thousand were placed with banks in the country for a period of 6 months with an interest rate of 0.50%.

22. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

22.1. Loans and receivables due from customers – breakdown per product

RSD000	31.12.2021	31.12.2020
Loans per transaction accounts	3,450,170	1,628,356
Consumer loans	3,856,234	300
Loans for liquidity maintenance and working capital	139,626,712	48,776,900
Investment loans	71,885,934	27,114,426
Housing loans	115,417,376	21,408,118
Cash loans	123,878,779	58,360,874
Other RSD loans	23,268,835	11,205,991
Receivables arising from purchased placement - forfeiting in dinars	2,045,516	-
Receivables based on factoring without the right of recourse and reverse factoring	8,517,431	-
Receivables based on factoring with the right of recourse	1,259,359	85,443
Receivables for acceptances, bills of exchange and payments per guarantees called on	316,497	50,721
Other loans and receivables	14,856	28,033
Interest and fees per deposits and off-balance sheet items	539,553	223,595
Total in RSD	**494,077,252**	**168,882,757**
Loans for payment of imported goods and services	16,482,517	7,706,517
Other loans	1,257,751	149,058
Placements based on acceptance, endorsement and payments made under guarantees in foreign currency	132,701	-
Factoring recourse receivables in foreign currency	13,560	-
Other loans and receivables	10,094	3,567
Interest and fees per deposits and off-balance sheet items	4,015	20
Total in foreign currencies	**17,900,638**	**7,859,162**
Impairment allowance (Note 31)	(18,535,268)	(6,748,764)
Total loans and receivables, net	**493,442,622**	**169,993,155**

Loans to businesses are mainly approved for: financing daily liquidity (minuses per current account), procurement of working capital, as well as financing investments. Interest on loans approved in 2021 was calculated at an interest rate in the amount of one month, quarterly or six-month Belibor increased by an average of 2.77% per year for medium enterprises and large enterprises indexed loans/foreign currency loans, respectively for dinar loans in the amount of one month, quarterly or six-month Belibor increased by an average of 3.02% annually for medium enterprises and large enterprises.

During 2021 residents have been granted long-term loans for the purchase of housing with a repayment period of 5 to 30 years. Interest rates ranged from three-month Euribor increased by 1.85% to the three-month Euribor increased by 5.00%. The fixed interest rate ranged from 2.55% to 2.85%.

During 2021 residents have been granted RSD and indexed cash loans and refinancing loans with a repayment period of 4 to 71 months. Interest rates for RSD cash loans and refinancing loans with fixed interest rates ranged from 3.95% to 12.95%, while interest rates on indexed loans ranged from 3.5% to 4.95%. Interest rates for RSD cash loans and refinancing loans with variable interest rates ranged from three-month Belibor increased by 3.45% to three-month Belibor increased by 13.00%.

In 2021 loans to small business entities, entrepreneurs and registered agricultural holdings were approved. The average interest rate for loans earmarked for working capital financing was 3.48% for small business, or 5.25% for registered agricultural holdings. Investment loans for small businesses were approved at an average interest rate of 3.72%, while the interest rate for registered agricultural holdings was 4.77%.

22. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

22.2. Loans and receivables due from customers – breakdown per industry (Continued)

RSD000	31.12.2021	31.12.2020
Public companies	45,010,165	15,079,738
Corporate customers	195,434,064	71,663,041
Entrepreneurs	5,712,255	1,966,917
Public sector	6,735,376	2,164,815
Retail customers	236,995,254	77,289,951
Non-residents	1,654,466	13,596
Agricultural producers	1,322,799	1,542,543
Other customers	578,243	272,554
Total loans and receivables due from customers	**493,442,622**	**169,993,155**

23. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	stake	31.12.2021	31.12.2020
OTP Osiguranje a.d., Beograd	49%	149,650	-
Total investments in associates and joint ventures		**149,650**	**-**

On October 14th, 2015 OTP Osiguranje Belgrade increased basic capital from net assets by converting the reserves in basic capital. Increase of basic capital was done by increase in nominal value of shares for RSD 351 per each share, thus the value of each share increase from RSD 1,000 to RSD 1,351. This change was registered in Agency for legal entities with Decision number BD 86518/2015 from October 14th, 2015. After mentioned change Bank has same share in equity.

Bank owns 149,650 shares of total value as at December 31, 2021 RSD 202,177 thousand.

24. INVESTMENTS IN SUBSIDIARIES

RSD000	31.12.2021	31.12.2020
Equity investments in subsidiaries	788,229	474,131
Less: Impairment allowance	(32,715)	(32,715)
Total investments in subsidiaries	**755,514**	**441,416**

As of December 31, 2021, the Bank's investments in subsidiaries (gross) refer to:

	RSD000	Interest %
OTP Lizing d.o.o., Beograd	270,348	60%
OTP Leasing Srbija d.o.o., Beograd	314,098	100%
OTP Factoring Serbia d.o.o., Novi Sad	-	100%
OTP Investments d.o.o., Novi Sad	203,783	100%
Total investments in subsidiaries	**788,229**	**-**

Under Decision no. BD 45169/2019 of the Serbian Business Registers Agency dated May 16, 2019, the Bank acquired the sole (100%) ownership of the entity OTP Factoring Serbia d.o.o., Novi Sad amounting to RSD 1.

Under Decision no. BD 91170/2019 of the Serbian Business Registers Agency dated September 19, 2019, the ban sold 40% of its equity interest held in OTP Lizing d.o.o. Beograd amounting to RSD 180,232 thousand.

By acquiring OTP banka Srbija A. D. Belgrade, the bank acquired 100% ownership of the company OTP Leasing Srbija d.o.o Belgrade. The share in the capital of the company amounts to 314,098 thousand and is stated at cost.

25. INTANGIBLE ASSETS

RSD000	31.12.2021	31.12.2020
Licenses	258,892	269,452
Software	3,698,936	896,874
Other intangible assets	494,980	494,980
Total intangible assets	**4,452,808**	**1,661,306**
Accumulated amortization of other intangible assets	(288,130)	(789,385)
Accumulated amortization of intangible assets	(2,950,433)	(230,834)
Intangible assets, net book value	**1,214,245**	**641,087**

Other intangible assets pertain to the customer database and brand name determined on December 1, 2017 within the business combination of acquisition of Vojvođanska banka a.d., Novi Sad by OTP Group in accordance with IFRS 3. The customer database is amortized over the period of 11 years and the brand name until April 2021.

26. PROPERTY, PLANT AND EQUIPMENT

RSD000	31.12.2021	31.12.2020
Land	452,991	361
Buildings	10,033,548	7,714,267
Equipment	4,840,174	2,944,736
Equipment in progress	339,681	214,927
Leasehold improvements	770,710	272,544
Leases - ROU Assets	3,198,566	1,464,097
Total property, plant and equipment	**19,635,670**	**12,610,932**
Accumulated depreciation of property, plant and equipment	(5,842,328)	(2,719,532)
Accumulated depreciation of RoU	(1,464,162)	(536,397)
Property, plant and equipment, net book value	**12,329,180**	**9,355,003**

26. PROPERTY, PLANT AND EQUIPMENT (Continued)

26.1. Movements on property, plant and equipment and intangible assets:

RSD000	Land and Buildings	Equipment and Other Assets	Leases - ROU Assets	Investments in progress	Intangible Assets (Note 25)	Total
Purchase value						
Balance at January 1, 2021	7,987,172	2,944,736	1,464,097	214,927	1,661,306	**14,272,238**
Merger	3,772,830	1,897,656	1,523,597	36,765	2,864,267	**10,095,116**
Additions	10,673	32,223	772,752	375,867	267,496	**1,459,011**
Transfer from investment in progress	7,146	280,732	-	(287,878)	-	**-**
Sale	(424,970)	(5,103)	-	-	-	**(430,073)**
Write off	(95,601)	(310,071)	(561,880)	-	(340,261)	**(1,307,813)**
Balance at December 31, 2021	**11,257,250**	**4,840,173**	**3,198,566**	**339,681**	**4,452,808**	**24,088,479**
Accumulated depreciation and amortization						
Balance at January 1, 2021	781,986	1,937,546	536,397	-	1,020,219	**4,276,148**
Merge	1,577,869	1,314,430	668,022	-	2,246,838	**5,807,159**
Charge for the year (Note14)	172,161	428,815	479,104	-	311,767	**1,391,847**
Other	(28,125)	(5,103)	-	-	-	**(33,228)**
Write off	(27,179)	(310,071)	(219,361)	-	(340,261)	**(896,872)**
Balance at December 31, 2021	**2,476,712**	**3,365,617**	**1,464,162**	**-**	**3,238,563**	**10,545,054**
Net book value at December 31, 2021	**8,780,538**	**1,474,556**	**1,734,404**	**339,681**	**1,214,245**	**13,543,425**

RSD000	Land and Buildings	Equipment and Other Assets	Leases - ROU Assets	Equipment in Progress	Intangible Assets (Note 25)	Total
Purchase value						
Balance at January 1, 2020	8,130,320	2,727,695	1,314,450	90,844	1,482,615	**13,745,924**
Additions	8,833	17,046	31,308	816,386	196,586	**1,070,159**
Transfers from investments in progress	91,960	260,639	333,837	(686,436)	-	**-**
Decrease under IFRS 16 COVID-19 concessions	-	-	(34,430)	-	-	**(34,430)**
Reclassification to non-current assets held for sale	(2,838)	-	-	-	-	**(2,838)**
Sales	(127,440)	-	(39,128)	-	-	**(166,568)**
Shortages	-	(65)	-	-	-	**(65)**
Disposal and retirement	(113,663)	(60,579)	(141,940)	(5,867)	(17,895)	**(339,944)**
Balance at December 31, 2020	**7,987,172**	**2,944,736**	**1,464,097**	**214,927**	**1,661,306**	**14,272,238**
Accumulated depreciation and amortization						
Balance at January 1, 2020	749,971	1,670,007	321,219	-	846,949	**3,588,146**
Charge for the year	140,447	328,158	321,201	-	189,934	**979,740**
Other	10,242	-	7,489	-	-	**17,731**
Impairment	21,949	-	-	-	1,231	**23,180**
Reclassification to non-current assets held for sale	(105)	-	-	-	-	**(105)**
Decrease under IFRS 16 COVID-19 concessions	-	-	(23,873)	-	-	**(23,873)**
Sales	(33,799)	-	-	-	-	**(33,799)**
Shortages	-	(41)	-	-	-	**(41)**
Disposal and retirement	(106,719)	(60,578)	(89,639)	-	(17,895)	**(274,831)**
Balance at December 31, 2020	**781,986**	**1,937,546**	**536,397**	**-**	**1,020,219**	**4,276,148**
Net book value at December 31, 2020	**7,205,186**	**1,007,190**	**927,700**	**214,927**	**641,087**	**9,996,090**

26. PROPERTY, PLANT AND EQUIPMENT (Continued)

26.1. Movements on property, plant and equipment and intangible assets (Continued):

Due to the incomplete cadastral registers, as of December 31, 2021, the Bank had no proper title deeds for building properties with the net book value of RSD 340,448 thousand (December 31, 2020: RSD 414,159 thousand). The management is taking all the necessary action in order to obtain proper title deeds.

1) Right-of-use assets recognized in the Bank's statement of financial position:

RSD000	31.12.2021	31.12.2020
Property	1,697,027	927,700
Equipment	37,377	-
Total leased assets	**1,734,404**	**927,700**

Movements on the Bank's ROU assets:

	01.01.2021-31.12.2021			01.01.2020-31.12.2020		
RSD000	Buildings	Equipment	Total	Buildings	Equipment	Total
Purchase value						
Opening balance	**1,463,791**	**306**	**1,464,097**	**1,314,144**	**306**	**1,314,450**
Merge	1,388,960	134,637	**1,523,597**	-	-	**-**
Additions	744,745	28,007	**772,752**	31,308	-	**31,308**
Transfers from investments in progress	-	-	**-**	333,837	-	**333,837**
Decrease under IFRS 16 COVID-19 concessions	-	-	**-**	(34,430)	-	**(34,430)**
Reclassification to non-current assets held for sale	(561,880)	-	**(561,880)**	(181,068)	-	**(181,068)**
Closing balance	**3,035,616**	**162,950**	**3,198,566**	**1,463,791**	**306**	**1,464,097**
Accumulated depreciation and amortization						
Opening balance	**536,091**	**306**	**536,397**	**320,913**	**306**	**321,219**
Merger	567,974	100,048	**668,022**	-	-	**-**
Amortization	453,885	25,219	**479,104**	321,201	-	**321,201**
Decrease under IFRS 16 COVID-19 concessions	-	-	**-**	(23,873)	-	**(23,873)**
Reclassification to non-current assets held for sale	(219,361)	-	**(219,361)**	(89,639)	-	**(89,639)**
Other	-	-	**-**	7,489	-	**7,489**
Closing balance	**1,338,589**	**125,573**	**1,464,162**	**536,091**	**306**	**536,397**
Net book value	**1,697,027**	**37,377**	**1,734,404**	**927,700**	**-**	**927,700**

The Bank presents the right-of-use assets within the statement of financial position for the following underlying assets:

- commercial building
- branch office building,
- ATM space, advertising space
- ATM
- Vehicles

The average lease terms (useful lives of the presented right-of-use assets, viewed as from January 1, 2019):

- commercial building ~ 2 years,
- branch office building ~ 4 years
- ATM space ~ 2.5 years, and
- advertising space ~ 4.8 years.

26. PROPERTY, PLANT AND EQUIPMENT (Continued)

26.1. Movements on property, plant and equipment and intangible assets (Continued):

2) Effects recognized within the income statement for the period:

RSD000	31.12.2021	31.12.2020
Depreciation charge	479,105	321,201
Interest expense (Note 4)	31,883	26,927
Lease expenses from short-term lease arrangements (Note 16)	17,914	16,595
Expenses per variable payments not included in the lease liability measurement	-	285
Income from sublease of ROU assets	10,135	9,480

3) The Bank's commitments per operating/finance leases:

Future finance lease payments under IFRS 16 in arrangements where the Bank is the lessee are presented in the table below:

RSD000	31.12.2021	31.12.2020
Within a year	**604,669**	**299,723**
- principal	558,055	277,678
- interest	46,614	22,045
Within 2 years	**380,172**	**207,435**
- principal	344,643	190,500
- interest	35,529	16,935
Within 3 years	**314,921**	**154,163**
- principal	288,569	141,532
- interest	26,352	12,631
Within 4 years	**263,084**	**101,988**
- principal	243,417	92,211
- interest	19,667	9,777
Within 5 years	**172,881**	**75,283**
- principal	160,449	67,561
- interest	12,432	7,722
Within a period of over 5 years	**200,140**	**205,321**
- principal	181,960	186,142
- interest	18,180	19,179
Total finance lease liabilities	**1,935,867**	**1,043,913**

4) Lessor accounting – the Bank as the lessor

Operating lease arrangements involving the Bank as the lessor relate to the lease of the Bank's investment property to lessees (tenants) for periods from 1 to 40 years.

The Bank's future operating lease receivables:

RSD000	31.12.2021	31.12.2020
Within a year	45,540,084	41,878
Within 2 years	17,164,011	26,623
Within 3 years	14,880,782	10,916
Within 4 years	13,936,573	8,647
Within 5 years	13,164,735	4,418
Within a period of over 5 years	37,484,455	7,725
Total operating lease receivables	**142,170,640**	**100,207**

The Bank recognizes operating lease payments received as rental income on a straight-line basis over the lease term. The Bank's total rental income per operating lease arrangements amounted to RSD 64,934 thousand in 2021 (2020: RSD 55,904 thousand) (Note 12).

27. INVESTMENT PROPERTY

РСД000	Investment property
Purchase value	
Balance on January 1, 2021	165,838
Merger	100,727
Sale	(75,725)
Balance on December 31, 2021	**190,840**
Impairment	
Balance on January 1, 2021	15,714
Merger	65,685
Depreciation (Note 14)	2,408
Sale	(12,235)
Balance on December 31, 2021	**71,572**
Total balance as at December 31, 2021	**119,268**

RSD000	Investment property
Purchase value	
Balance on January 1, 2020	167,519
Sale	(1,681)
Balance on December 31, 2020	**165,838**
Impairment	
Balance on January 1, 2020	5,312
Depreciation (Note 14)	2,504
Sale	(75)
Impairment	7,972
Balance on December 31, 2020	**15,713**
Total balance as at December 31, 2021	**150,125**

28. CURRENT AND DEFERRED TAX ASSETS AND LIABILITIES

Tax assets (liabilities) components		
RSD 000	31.12.2021	31.12.2020
Current tax assets / (liabilities)	190,978	40,464
Deferred tax assets / (liabilities)	(27,600)	(114,850)
Balance as of:	**163,378**	**(74,386)**

Deferred tax assets and liabilities components		
RSD 000	31.12.2021	31.12.2020
Deferred tax assets/(liabilities) coming from the difference between net book value of the fixed assets and their net tax value	(316,327)	(480,948)
Deferred tax assets per unpaid public duties and unpaid employee benefits	4,203	3,485
Deferred tax assets from calculated and not paid severance for retirement	116,015	96,993
Deferred tax assets based on long-term provisions for the restructuring of the branch network	9,082	-
Deferred tax liabilities based on provisions for litigations	256,709	96,772
Deferred tax assets coming from IFRS 9 the first time adoption	57,328	114,656
Deferred tax assets per equity instruments	157	591
Deferred tax assets - tax credit coming from CHF index loan conversation	-	87,544
Deferred tax liabilities based on revaluation of treasury bills and treasury bonds	(147,462)	(24,141)
Deferred tax liabilities coming from actuarial gain	(7,305)	(9,802)
Balance as of:	**(27,600)**	**(114,850)**

28. DEFERRED TAX ASSETS AND LIABILITIES (Continued)

	2021						2020			
RSD 000	Deferred tax assets	Deferred tax liabilities	Deferred tax assets - merger by acquisition effect	Deferred tax liabilities - merger by acquisition effect	Income statement	Effect on capital	Deferred tax assets	Deferred tax liabilities	Income statement	Effect on capital
Deferred tax assets/(liabilities) coming from the difference between net book value of the fixed assets and their net tax value	(150,040)	(316,327)	150,040	-	14,580	-	-	(480,947)	(2,365)	-
Deferred tax assets per unpaid public duties and unpaid employee benefits	4,203	-	-	-	718	-	3,485	-	443	-
Deferred tax assets from calculated and not paid severance for retirement	65,844	-	50,171	-	(31,148)	-	96,993	-	(21,973)	-
Deferred tax assets based on long-term provisions for the restructuring of the branch network	731	-	8,351	-	731	-	-	-	-	-
Deferred tax liabilities based on provisions for litigations	177,666	-	79,044	-	80,893	-	96,772	-	40,655	-
Deferred tax assets coming from IFRS 9 the first time adoption	57,328	-	-	-	(57,328)	-	114,656	-	(57,328)	-
Deferred tax assets coming from actuarial loss	(2,391)	-	2,391	-	-	105	-	-	-	-
Deferred tax assets per equity instruments	157	-	-	-	-	(434)	591	-	-	-
Deferred tax assets - tax credit coming from CHF index loan conversation	-	-	-	-	(87,543)	-	87,544	-	87,543	-
Deferred tax liabilities based on revaluation of treasury bills and treasury bonds	202,517	-	-	(349,980)	1,806	216,053	-	(24,141)	-	(223)
Deferred tax liabilities coming from IFRS 9 the first time adoption	8,381	-	-	(8,381)	8,381	-	-	-	-	-
Deferred tax liabilities coming from actuarial gain	(7,305)	-	-	-	-	-	-	(9,802)	-	(259)
	357,091	**(316,327)**	**289,997**	**(358,361)**	**(68,910)**	**215,724**	**400,041**	**(514,890)**	**46,975**	**(482)**

29. NON-CURRENT ASSETS HELD FOR SALE AND ASSETS FROM DISCONTINUED OPERATIONS

RSD000	31.12.2021	31.12.2020
Non-current assets held for sale	6,164	6,164
Non-current assets held for sale, total balance	**6,164**	**6,164**

Non-current assets held for sale comprise the following:

Property	Surface area	Value
Business space, Knjaževačka bb. Niš	15.16м²	987
Land Poljna Trstenik parcel 4051	66.82 acres	2,444
Šid Kneza Miloša	150 м2	2,733
TOTAL 31.12.2021		**6,164**
Business space, Knjaževačka bb. Niš	15.16m²	987
Land Poljna Trstenik parcel 4051	66.82 acres	2,444
Šid Kneza Miloša	150 m2	2,733
TOTAL 31.12.2020		**6,164**

Properties classified as non-current assets held for sale are available for immediate sale in their current condition.

30. OTHER ASSETS

RSD000	31.12.2021	31.12.2020
In RSD		
RSD fee and commission receivables per other assets	51,670	22,482
RSD trade receivables from sales	11,325	11,175
Interest receivables per other assets	62	69
Total receivables for fees, sales, and other assets	**63,057**	**33,726**
Less: Impairment allowance	(30,290)	(23,716)
Receivables for fees, sales, and other assets, net	**32,767**	**10,010**
Receivables per advances paid to suppliers	88,305	15,936
Receivables per advances paid for property and equipment	145,301	2,356
RSD receivables from employees	2,523	12,774
Receivables arising from prepaid taxes and contributions	1,658	1,740
Other RSD receivables from operations	709,471	421,167
RSD suspense and temporary accounts	(6,293)	(9,375)
RSD receivables in settlement	1,049,022	575,275
Total other receivables and advances paid	**1,989,987**	**1,019,873**
Less: Impairment allowance	(339,965)	(184,338)
Other receivables and advances paid, net	**1,650,022**	**835,535**
Inventories	871	2,244
Assets acquired in lieu of debt collection	126,883	126,557
Tools and fixtures in use	2,641	2,967
Total inventories	**130,395**	**131,768**
Less: Impairment allowance	(63,600)	(48,198)
Inventories, net	**66,795**	**83,570**
In foreign currencies		
FX fee and commission receivables per other assets	2,555	57
Other receivables from regular operations for determining FX income	-	6,030
Total other receivables	**2,555**	**6,087**
Less: Impairment allowance	(30)	(5,989)
Other receivables, net	**2,525**	**98**
Receivables per advances paid to suppliers	17,572	13,007
Receivables per advances paid for property and equipment	5,228	4,935
FX receivables from employees	26,580	13,169
Other FX receivables from operations	28,064	6,536
FX suspense and temporary accounts	(6,977)	(10,242)
FX receivables in settlement	131,299	43,638
Total other receivables and advances paid	**201,766**	**71,043**
Less: Impairment allowance	(47,547)	(23,590)
Other receivables and advances paid, net	**154,219**	**47,453**
Deferred other RSD expenses	253,624	141,906
Other RSD prepayments	62,014	4,916
Deferred FX interest expenses	113	113
Deferred other FX expenses	155,981	69,731
Other accruals and deferrals in foreign currency	1,091,815	-
Total accrued receivables	**1,563,547**	**216,666**
Total other assets	**3,469,875**	**1,193,332**

30. OTHER ASSETS (Continued)

Receivables in settlement for the most part pertain to the receivables from the card operations in the amount of RSD 1,014,548 thousand (December 31, 2020: RSD 559,526 thousand).

Deferred other expenses in dinars mostly relate to deferred expenses of insurance premiums in the amount of RSD 85,614 thousand, IT services RSD 82,410 thousand and deferred expenses of VAT and withholding tax of RSD 43,871 thousand (December 31, 2020: RSD 71,586 thousand).

Movements on tangible assets acquired in lieu of debt collection

Types of assets acquired in lieu of debt collection	Residential property	Other property	Other assets	Total
Gross carrying value, beginning of year	137,432	13,840	5,796	157,068
Accumulated loss (impairment), beginning of the period	(69,906)	(41)	(5,796)	(75,743)
Merge	440	-	-	440
Additions	6,695	-	-	6,695
Sales	(6,810)	-	-	(6,810)
Accumulated loss (impairment)	(15,727)	-	-	(15,727)
Gross carrying value, end of year	137,757	13,840	5,796	157,393
Net book value at December 31, 2021	**52,124**	**13,799**	**-**	**65,923**

Types of assets acquired in lieu of debt collection	Residential property	Other property	Other assets	Total
Gross carrying value, beginning of year	196,787	13,840	5,796	216,423
Accumulated loss (impairment), beginning of the period	(56,110)	-	(5,796)	(61,906)
Additions	-	-	-	-
Sales	(59,355)	-	-	(59,355)
Accumulated loss (impairment)	(13,796)	(41)	-	(13,837)
Gross carrying value, end of year	137,432	13,840	5,796	157,068
Net book value at December 31, 2020	**67,526**	**13,799**	**-**	**81,325**

Due to incomplete real estate register, as of December 31, 2021, the Bank had no title deeds/real estate cadaster excerpts for the properties acquired in lieu of debt collection with the net book value of RSD 37,950 thousand. The Bank's management has been undertaking all the necessary action to obtain the said documents.

31. IMPAIRMENT ALLOWANCE PER BALANCE SHEET ITEMS

RSD000	31.12.2021	31.12.2020
Impairment allowance of:		
Cash and balances held with the central bank (Note 18)	107,276	-
Equity securities (Note 21)	-	116,293
Debt securities	271,588	60,540
Loans and receivables due from banks and other financial institutions (Note 22)	436,895	334,032
Loans and receivables due from customers (Note 22)	18,535,268	6,748,764
Other assets (Note 30)	417,832	237,633
Total impairment allowance at the reporting date	**19,768,859**	**7,497,262**

31. IMPAIRMENT ALLOWANCE PER BALANCE SHEET ITEMS (Continued)

Movements on the impairment allowance accounts on December 31, 2021 and December 31, 2020 were as follows:

RSD000	Accumulated impairment allowance, balance at beginning of year	Accumulated impairment allowance of the merged entities at April 29, 2021	Impairment allowance charge for the period	Reversal of impairment allowance	Write-offs, derecognition, sales of receivables, other	Foreign exchange differences	Accumulated impairment allowance, balance at year-end
As at December 31, 2021							
Cash and balances held with the central bank	-	-	107,276	-	-	-	107,276
Equity securities	116,293	-	-	-	116,293	-	-
Debt securities	60,540	283,626	162,889	235,468	(1)	-	271,588
Loans and receivables due from banks and other financial institutions	334,032	11,236	94,265	31,345	(36)	28,671	436,895
Loans and receivables due from customers	6,748,764	13,331,818	12,407,554	12,013,375	1,967,246	27,753	18,535,268
Other receivables	237,633	263,024	333,849	167,298	249,802	426	417,832
Total	**7,497,262**	**13,889,704**	**13,105,833**	**12,447,486**	**2,333,304**	**56,850**	**19,768,859**

RSD000	Accumulated impairment allowance, balance at beginning of year	Accumulated impairment allowance of the merged entities at April 26, 2019	Impairment allowance charge for the period	Reversal of impairment allowance	Write-offs, derecognition, sales of receivables	Foreign exchange differences	Accumulated impairment allowance, balance at year-end
As at December 31, 2020							
Equity securities	153,311	-	-	-	37,018	-	116,293
Debt securities	21,093	-	65,850	26,403	-	-	60,540
Loans and receivables due from banks and other financial institutions	366,104	-	6,406	6,363	-	(32,115)	334,032
Loans and receivables due from customers	4,766,992	-	5,982,534	3,001,064	999,474	(224)	6,748,764
Other receivables	199,101	-	141,690	35,272	67,581	(305)	237,633
Total	**5,506,601**	**-**	**6,196,480**	**3,069,102**	**1,104,073**	**(32,644)**	**7,497,262**

32. LIABILITIES UNDER DERIVATIVE FINANCIAL INSTRUMENTS

RSD000	31.12.2021	31.12.2020
Liabilities under derivatives held for trading - Forward	13,399	7,366
Receivables under derivatives held for trading - Options	80,036	-
Receivables under derivatives held for trading - Swap	113,303	153,358
Total liabilities under derivative financial instruments	**206,738**	**160,724**

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

RSD000	31.12.2021	31.12.2020
In RSD		
Transaction deposits	1,427,194	966,255
Earmarked deposits	1,379,317	204,429
Other deposits	13,291,856	5,111,513
Overnight deposits	740,000	590,000
Borrowings per repo transactions	-	1,104,776
Loans received	2,286,528	-
Other financial liabilities	568,341	463,220
RSD deposits and other liabilities	**19,693,236**	**8,440,193**
In foreign currencies		
Other earmarked deposits	54	33
Transaction deposits	2,050,390	634,988
Earmarked deposits	458,315	135,243
Other deposits	73,443,857	29,796,563
Overnight deposits	-	95,665
Borrowings	71,265,903	10,582,777
Other financial liabilities	74,051	24,656
Foreign currency deposits and other liabilities	**147,292,570**	**41,269,925**
Total deposits and other liabilities	**166,985,806**	**49,710,118**

During 2021, the Bank collected short-term dinar deposits on the domestic interbank market, mainly for a period of one day to one month, at market interest rates that had a stable trend and during the year ranged from 0% to 0.30%. As at December 31, 2021 overnight deposit in RSD 740,000 thousand is from the parent bank. Other deposits in RSD totaling RSD 13,301,896 thousand are dinar deposits of other financial organizations with different maturities (from one month to four years), with an average interest rate of about 1.96% year-on-year.

As at December 31, 2021, other foreign currency deposits in the amount of RSD 73,609,049 thousand (EUR 619,000 thousand), taken for a period of 1 month to 12 months at rates ranging from -0.32% to 0.86% for the euro.

As at December 31, 2021 the Bank had liabilities on the basis of long-term foreign currency loans received in the amount of RSD 56,439,408 thousand, mostly from OTP Financing Malta with variable interest rate (related to 3M EURIBOR).

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

33.1. Deposits and other liabilities due to customers – breakdown per product

RSD000	31.12.2021	31.12.2020
In RSD		
Transaction deposits	124,367,532	52,129,171
Savings deposits	7,782,032	4,440,121
Deposits securitizing approved loans	903,230	194,121
Earmarked deposits	2,677,340	962,684
Other deposits	30,474,360	14,530,921
Overnight deposits	345,005	7,744
Other financial liabilities	960,333	190,562
RSD deposits and other liabilities	**167,509,832**	**72,455,324**
In foreign currencies		
Transaction deposits	116,322,618	32,708,394
Savings deposits	86,135,406	41,412,299
Deposits securitizing approved loans	2,788,529	1,494,843
Earmarked deposits	2,555,545	1,277,615
Other deposits	3,676,434	748,914
Other financial liabilities	3,585,036	3,014,455
Foreign currency deposits and other liabilities	**215,063,568**	**80,656,520**
Total deposits and other liabilities	**382,573,400**	**153,111,844**

33.2. Deposits and other liabilities due to customers – breakdown per customer segment

RSD000	31.12.2021	31.12.2020
Public companies	8,608,179	3,084,018
Corporate customers	137,280,168	34,361,458
Entrepreneurs	10,229,637	5,264,009
Public sector	1,844,988	565,021
Retail customers	192,048,104	82,531,427
Non-residents	11,083,641	4,732,158
Agricultural producers	5,141,814	4,275,049
Other customers	16,336,869	18,298,704
Total deposits and other liabilities	**382,573,400**	**153,111,844**

33.3 Loans received

RSD000	31.12.2021	31.12.2020
Opening balance	**11,687,553**	**3,527,815**
Cash flow items	**12,501,761**	**8,159,414**
Withdrawal during the year-inflows	30,518,841	8,159,414
Repayments during the year - outflows	(18,017,080)	-
Non-monetary strikes	**49,363,117**	**324**
Accrued interest	10,641	805
Foreign exchange differences	1,520	(481)
Migrated loan status	49,367,420	-
Deferred costs	(16,464)	-
The final state	**73,552,431**	**11,687,553**

34. SUBORDINATED LIABILITIES

As at December 31. 2021, subordinated loans amounted to a total of RSD 14,724,802 thousand (linked with 3M EURIBOR and 6M EURIBOR) with a weighted interest rate of 2.98 %.

RSD000	31.12.2021	31.12.2020
Subordinated liabilities in foreign currency	14,697,763	1,175,802
Accrued interest payable on subordinated liabilities in foreign currency	27,039	1,239
Total subordinated liabilities	**14,724,802**	**1,177,041**

Subordinated liabilities in foreign value in the amount of RSD 14,724,802 thousand as of December 31, 2021. (December 31, 2020: RSD 1,177,041 thousand) relate to liabilities based on subordinated loans to OTP Financing Malta Company LTD, of which the amount of RSD 14,697,763 thousand is subordinated loans, while RSD 27,039 thousand is accrued interest.

On December 18, 2020, a subordinated loan agreement was concluded with OTP Financing Malta Company, in the nominal amount of EUR 10,000 thousand, which was withdrawn on December 31, 2020, maturing on December 18, 2030 and with an interest rate of 3M EURIBOR + 3.25 %. The balance on this loan as of December 31, 2021 is 1,176,864 thousand, of which the amount of 1,175,821 thousand refers to the subordinated loan, and the amount of 1,043 thousand to accrued interest.
On March 12, 2021, a new subordinated loan agreement was concluded with OTP Financing Malta Company, in the nominal amount of EUR 15,000 thousand with maturity on December 18, 2030 and an interest rate of 3M EURIBOR + 3.41%. The balance on December 31, 2021 amounts to1,766,220, of which the amount of 1,763,732 thousand relates to subordinated loans, and the amount of 2,489 thousand to accrued interest.
On April 30, 2021, when the merger with OTP Bank Srbija a.d. Belgrade realized, the Bank became the legal successor of additional 3 subordinated loans contracted with the following conditions:
- EUR 25,000 thousand with maturity on December 23, 2027 and interest rate 6M EURIBOR + 3.12%. The balance as at December 31, 2021 amounts to RSD 2,941,440 thousand, of which the amount of RSD 2,939,553 thousand relates to a subordinated loan, and the amount of RSD 1,888 thousand to accrued interest.
- EUR 25,000 thousand with maturity on October 31, 2028 and interest rate 6M EURIBOR + 4.17%. The balance as at December 31, 2021 amounts to RSD 2,958,543 thousand, of which the amount of RSD 2,939,553 thousand relates to a subordinated loan, and the amount of RSD 18,991 thousand to accrued interest.
- EUR 30,000 thousand with maturity on December 30, 2024 and interest rate 6M EURIBOR + 3.80%. The balance as at December 31, 2021 amounts to RSD 3,528,100 thousand, of which the amount of RSD 3,527,463 thousand thousand relates to a subordinated loan, and the amount of RSD 39,211 thousand to accrued interest.

On December 20, 2021. the contract for subordinated loan with OTP Financing Malta Company was concluded, in the nominal amount of EUR 20,000 thousand with maturity on December 19, 2031. and interest rate 3M EURIBOR +3.13%. The balance as at December 31, 2021 amounts to RSD 2,353,634 thousand, of which the amount of RSD 2,351,642 thousand relates to a subordinated loan, and the amount of RSD 1,992 thousand to accrued interest.

The extent to which Tier 2 instruments and/or subordinated liabilities are included in the calculation of Tier 2 capital of a bank during the final five years before the instruments mature is calculated as follows: the quotient of their nominal value and/or the principal amount, on the first day of the final five year period before their maturity and the number of calendar days in that period is multiplied by the number of the remaining calendar days of maturity of the instruments or subordinated liabilities on the day of the calculation.

RSD000	31.12.2021	31.12.2020
Opening balance	**1,177,041**	**-**
Cash flow items	**4,115,272**	**1,175,714**
Withdrawal during the year-inflows	4,115,272	1,175,714
Non-monetary strikes	**9,432,489**	**1,327**
Accrued interest	25,800	1,239
Foreign exchange differences	(87)	88
Migrated loan status	9,406,776	-
The final state	**14,724,802**	**1,177,041**

35. PROVISIONS

RSD000	31.12.2021	31.12.2020
Provisions for potential litigation losses	1,711,396	645,149
Provisions for losses per off-balance sheet items	1,241,857	237,454
Provisions for retirement benefits	266,953	214,045
Restructuring provisions	567,026	447,571
Total provisions	**3,787,232**	**1,544,219**

Movements on provisions are presented in the table below:

RSD000	31.12.2021	31.12.2020
Provisions for potential litigation losses		
Balance as at January 1	645,149	374,113
Increase due to merger by acquisition	526,960	-
Charge for the year	1,599,104	420,765
Reversal of provisions	(106,669)	(45,188)
Release of provisions – payment	(953,148)	(104,541)
Balance as at	**1,711,396**	**645,149**
Provisions for losses per off-balance sheet items		
Balance as at January 1	237,454	98,578
Charge for the year (Note 10)	2,849,883	804,667
Increase due to merger by acquisition	582,561	-
Reversal of provisions (Note 10)	(1,846,381)	(665,612)
Termination due to sale of receivables	(180)	-
Foreign exchange effects	901	(179)
Balance as at	**1,241,857**	**237,454**
Provisions for retirement benefits		
Balance as at January 1	214,045	235,670
Increase due to merger by acquisition	74,778	-
Actuarial losses	698	(1,727)
Charge for the year	13,625	1,970
Reversal of provisions	(29,682)	(21,485)
Release of provisions – payment	(6,511)	(383)
Balance as at	**266,953**	**214,045**
Other provisions		
Balance as at January 1	447,571	583,106
Increase due to merger by acquisition	449,306	-
Release of provisions – payment	(195,914)	(135,535)
Reversal of provisions	(133,937)	-
Balance as at	**567,026**	**447,571**

35. PROVISIONS (continued)

On December 31, 2021, the amount of the provision for retirement is RSD 266,953 thousand, while on December 31, 2020 it is RSD 214,045 thousand.

Upon calculating provisions for retirement benefits in 2021, the Bank used the following assumptions:

(1) The discount rate was used at 4.5% a year, which is determined by market yields of quality corporate bonds, i.e. long-term government bonds. NBS interest rates and the rate of yield on medium-term securities were used as auxiliary rates.
(2) The annual rate of increase in earnings is projected at 8% a year.
(3) The annual employee fluctuation rate is projected at a rate of 8%.
(4) Estimate of the number of employees who will receive a pension in the Bank, according to article of the Law, and pension and disability insurance.
(5) The discount period is equal to the number of years required for retirement. Two criteria are taken into account – age and tenure, shorter period than the two is taken as the number of years of discounting.
(6) Average Republican earnings for September 2021 amounts to RSD 91,132 thousand, the average earnings in the Bank is RSD 144,969.30.

Other restructuring provisions in the amount of RSD 567,026 thousand were formed in accordance with IAS 37 in accordance with the plan of reorganization and restructuring of the business network and employees in the commenced integration process with OTP Bank.

36. OTHER LIABILITIES

RSD000	31.12.2021	31.12.2020
In RSD		
Fees and commission payable per other liabilities	8,257	13,171
Trade payables	155,969	124,546
Advances received	54,046	26,810
Lease liabilities	1,151,827	824,375
Liabilities per managed funds	4,899	103
Other liabilities from operations	369,857	225,471
Liabilities in settlement	532,231	187,994
Total other liabilities	**2,277,086**	**1,402,470**
Net salaries	2,993	62
Liabilities for payroll taxes and payroll allowances	334	-
Liabilities for salary contributions and salary compensations	14	-
Other liabilities to employees	460	31
Total liabilities to employees	**3,801**	**93**
Value added tax payable (Note 36.1)	50,145	31,197
Other taxes and contributions payable (Note 36.1)	15,956	8,203
Total taxes and contributions payable	**66,101**	**39,400**
Total liabilities to employees, taxes and contributions payable	**69,902**	**39,493**
Accrued liabilities per other expenses	1,589,879	510,640
Deferred interest income	59,662	8,460
Deferred other income	208,360	52,407
Other accruals	1,073,670	92
Total accruals	**2,931,571**	**571,599**
In foreign currencies		
Fees and commission payable per other liabilities	27,999	5,907
Trade payables	41,591	93,877
Advances received	18,936	7,923
Lease liabilities	625,265	131,249
Liabilities per managed funds	1,417	838
Other liabilities from operations	13,323	1
Liabilities in settlement	86,075	4,675
Temporary and suspense accounts	6	6
Total other liabilities	**814,612**	**244,476**
Accrued liabilities for other expenses	179,657	30,837
Deferred other income	1,841	3,037
Other accruals	4,800	5,026
Total accruals	**186,298**	**38,900**
Total other liabilities	**6,279,469**	**2,296,938**

36.1. Taxes Payable

RSD000	31.12.2021	31.12.2020
Value added tax payable	50,145	31,197
Payroll taxes charged to the Bank	27	-
Contributions to salaries and other personal income borne by the bank	11	-
Other contributions charged	133	64
Other taxes and contributions payable	15,785	8,139
Total taxes payable	**66,101**	**39,400**

37. EQUITY

The Bank's equity includes issued capital, reserves, share issue premium, retained earnings and accumulated losses from previous years. The Bank's share capital is comprised of regular (common stock) shares.

RSD000	31.12.2021	31.12.2020
SHARE CAPITAL		
Ordinary (common stock) shares	56,830,752	31,607,808
Total	**56,830,752**	**31,607,808**
Share issue premium	2,564,892	2,563,562
Total share capital	**59,395,644**	**34,171,370**
RESERVES		
Reserves from profit	26,396,554	-
Total reserves from profit	**26,396,554**	**-**
Unrealized gains on changes in the fair value of debt instruments	711,493	100,403
Impairment of debt instruments	271,588	60,540
Unrealized losses on deferred taxes on debt instruments	(106,724)	(24,141)
Actuarial gains per defined employee benefit plans	41,398	55,543
Total unrealized gains	**917,755**	**192,345**
Unrealized losses on changes in the fair value of equity instruments	(1,048)	(3,942)
Unrealized gains on deferred taxes on equity instruments	157	592
Total unrealized losses	**(891)**	**(3,350)**
Total reserves	**916,864**	**188,995**
RETAINED EARNINGS		
Profit of the current year	5,756,661	-
Total retained earnings	**5,756,661**	**-**
Current year's loss	-	(1,179,455)
Prior years' accumulated losses	(1,451,822)	(1,780,469)
Prior years' accumulated losses of the merged entity	-	(734,733)
Total accumulated losses	**(1,451,822)**	**(2,515,202)**
Equity without the right of control		
TOTAL EQUITY	**91,013,901**	**30,665,708**

As at April 29, 2021. 478,865 ordinary shares of nominal value of RSD 49,540 were issued in the process of merging OTP Bank a.d. Belgrade. So on April 30, 2021. the total number of shares is 1,116,891. All issued shares of the Bank have been fully paid. On September 3, 2021, the Bank Assembly decided on a new emission of shares. The core capital of the Bank was increased by the issuance of 30,278 ordinary shares, individual nominal value of RSD 49,540, and in the total amount of RSD 1,500,000,000. On December 31, 2021 the Bank had 1,147,169 ordinary shares of individual value of RSD 49,540, which makes up the Bank's core capital in the amount of RSD 56,830,752,260.

The retained earnings from 2020 made by OTP Bank Belgrade in the amount of RSD 2,353,061,938 was allocated to the Other Reserves by the decision of the Bank Assembly of April 14, 2021. Also, OTP Bank Belgrade made a net profit of RSD 2,242,835,266 prior to the merger of Vojvodjanska Banka Novi Sad, which was audited by an external auditor and based on the decision of the Shareholder's Assembly of September 3, 2021 allocated to cover losses from earlier years.

Ordinary shareholders are entitled to pay a dividend according to the decision of the Bank Assembly on the distribution of business results and the right to vote in Bank Assembly, in accordance with the law and the Statute.

OTB Bank Plc. Budapest owns 100% of the Bank's shares as of December 31, 2021.

37. EQUITY (Continued)

Shareholder structure

December 31, 2021			
Ordinary shares in RSD000			
Shareholder	Book Value	Share Count	% of Interest
OTP Banka Plc Budapest, Hungary	56,830,752	1,147,169	100
Total ordinary shares	**56,830,752**	**1,147,169**	**100**

December 31, 2020			
Ordinary shares in RSD000			
Shareholder	Book Value	Share Count	% of Interest
OTP Banka Plc Budapest, Hungary	31,607,808	638,026	100
Total ordinary shares	**31,607,808**	**638,026**	**100**

37.1 Breakdown of the Bank's other comprehensive income net of taxes

RSD000	31.12.2021	31.12.2020
Actuarial gains (losses) on the defined benefit plans	(698)	1,468
Net (losses)/gains on the change in the fair value of equity instruments at FVtOCI	2,894	-
Net (losses)/gains on the change in the fair value of debt instruments at FVtOCI	(1,438,482)	(37,906)
Through other results based on impairment	(72,579)	39,447
Gains (losses) on the tax that applies to the rest of the result of the period	224,523	(223)
Other comprehensive income, net of taxes	**(1,284,342)**	**2,786**

38. COMMITMENTS AND CONTINGENT LIABILITIES

38.1. The Bank's Commitments

RSD000	31.12.2021	31.12.2020
Guarantees issued	67,552,465	8,065,709
Letters of credit issued	747,965	12,187
Total guarantees and other sureties issued	**68,300,430**	**8,077,896**
Commitments for undrawn RSD loans and facilities, irrevocable without prior notice	12,958,429	2,820,614
Other irrevocable commitments in RSD	2,117,352	114,052
Total irrevocable commitments	**15,075,781**	**2,934,666**
Commitments for undrawn RSD loans and facilities, revocable	105,555,645	29,147,224
Total commitments	**188,931,856**	**40,159,786**

38. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

38.1. The Bank's Commitments (Continued)

For contingent liabilities stated in off-balance sheet assets, the Bank estimated and formed a provision for expenses in the amount of RSD 1,241,857 thousand (2020: RSD 237,454 thousand), which is stated as a provision for losses on off-balance sheet assets in the Bank's balance sheet.(Note 35)

Breakdown of the Bank's irrevocable commitments:

RSD000	31.12.2021	31.12.2020
Framework facilities (overdrafts) per retail customers' current accounts	1,902,509	1,193,993
Framework facilities per retail credit cards	307,196	288,520
Framework facilities – guarantees for short-term loans	122,048	229,677
Framework facilities – guarantees for long-term loans	10,626,676	1,108,424
Letters of intent	2,117,352	114,052
Total irrevocable commitments for undrawn facilities	**15,075,781**	**2,934,666**

38.2. Litigation

As of December 31, 2021, the Bank was involved as a defendant in 58,579 cases.

The total value of litigation, which in case the Bank loses contingent on the aforesaid lawsuits and is obliged to pay some monetary amount (in the name of damages, debt and the like), which does not include disputes in which there is no monetary claim by the prosecutor to the Bank, amounts to RSD 7,564,023 thousand (December 31, 2020: RSD 1,147,533 thousand). The specified amount does not include interest and fees.

As disclosed in Note 35 to the financial statements, as of December 31, 2021, the Bank made provisions for losses contingent on the aforesaid lawsuits in the amount of RSD 1,711,396 thousand (December 31, 2020: RSD 645,149 thousand).
The Bank's management estimated that no material losses will arise from the outcome of the pending lawsuits in excess of the amount of provisions made in this respect.

38.3. Taxation Risks

The Republic of Serbia's tax legislation is subject to varying interpretations and changes occur frequently. In the Republic of Serbia, the statute of limitations on the tax liabilities is 5 years. In various circumstances, the tax authorities may have approaches to and interpretation of certain tax matters different from those of the Bank's management and the Bank may be assigned additional tax liability amounts, along with subsequent default interest and penalties.
The Bank's management believes that any varying interpretations will have no material effects on the Bank's financial statements.

39. DERIVATIVES RECORDED WITHIN OFF-BALANCE SHEET ITEMS

RSD000	31.12.2021	31.12.2020
Derivatives intended for hedging at contracted value - OPTIONS	14,465,563	-
Derivatives held for trading at contractual price - forwards	7,482,082	6,762,595
Derivatives held for trading at contractual price - swaps	43,244,738	34,708,323
Total derivatives	**65,192,383**	**41,470,918**

As at December 31, 2021, the Bank had contracted foreign exchange SWAP transactions with the parent bank and the NBS. Also, the Bank had concluded FORWARD transactions , interest rate swaps and Options with the parent bank and clients.
The following table provides fair values of derivatives presented as assets or liabilities within the statement of financial position and their notional (contracted) values:

39. DERIVATIVES RECORDED WITHIN OFF-BALANCE SHEET ITEMS (Continued)

	31.12.2021			31.12.2020		
	Fair value			Fair value		
RSD000	Contracted notional amount	Receivables under derivatives	Liabilities under derivatives	Contracted notional amount	Receivables under derivatives	Liabilities under derivatives
Currency forwards	7,482,082	17,263	13,399	6,762,595	-	7,366
Currency swaps	43,244,738	64,110	16,864	34,708,323	29,921	153,358
Options	14,465,563	80,036	80,036	-	-	-
Total	**65,192,383**	**161,409**	**110,299**	**41,470,918**	**29,921**	**160,724**

Currency SWAPs involve the simultaneous purchase and sale of two currencies in two different time periods. The bank contracts currency SWAPs for up to one and over one year.

Forward sale of foreign currency implies the purchase or sale of one currency for another currency which is executed on a certain date in the future, whereby the forward exchange rate is determined on the day of concluding the contract. The bank contracts currency forwards within one year.

An interest rate swap is a simultaneous purchase and sale of future interest rates (cash flows) based on a certain amount of principal, i.e. it is an exchange of fixed and variable interest rates.

40. OTHER OFF-BALANCE SHEET ASSETS

RSD000	31.12.2021	31.12.2020
Managed funds	6,294,052	773,507
Received financial asset collaterals	463,080	1,494,796
Received tangible asset collaterals	167,851,181	84,742,159
Guarantees and other sureties received	53,021,251	13,223,999
Savings bonds	5,044,029	5,051,690
Suspended interest	2,532,355	2,339,885
Accounting write-off under NBS Decision	23,996,852	21,757,817
Revocable commitments	105,495,913	29,147,225
Spot transactions	6,389,511	8,235,023
Irrevocable commitments	59,733	-
Other off-balance sheet items	3,862,462	3,816,842
Total other off-balance sheet assets	**263,065,262**	**133,200,695**

41. STATEMENT OF OTHER COMPREHENSIVE INCOME

During 2021 and 2020 the Bank made no adjusting reclassifications related to the components of other comprehensive income.

42. RELATED PARTY TRANSACTIONS

Transactions with related parties take the form of founder's contributions, loans and deposits, provision and purchase of services within regular operating transactions with subsidiaries and associates in which the Bank holds significant equity interests or where the Bank has relations with the parent bank or an entity related to the parent bank. Related party transactions are performed at arm's length.

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
December 31, 2021

42. RELATED PARTY TRANSACTIONS (Continued)

The following table presents the Bank's total receivables and payables to and from related parties as of **December 31, 2021**:

РСД000	OTP Investments	OTP Factoring	OTP Bank LTD Budapest	DSK Bank Plc	R.E.Four	MOL Serbia	JSC OTP Banka Russia	OTP FINANCING MALTA COMPANY LIMITED	OTP Lizing	OTP Leasing Srbija d.o.o.	OTP Osiguranje ADO BEOGRAD	Pevec	OTP BANKA d.d. Split	Crnogorska komercijalna banka ad Podgorica	SKB banka d.d. Ljubljana	Banka OTP Albania SHA
Receivables																
Receivables under derivatives	-	-	150,942	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and receivables due from banks and other financial institutions	5	2	616,052	-	-	-	(41,909)	-	15	2,229,052	30	-	1,159	-	-	-
Loans and receivables due from customers	-	-	-	-	15	330	-	-	-	-	-	3	-	-	-	-
Investments in associates and joint ventures	-	-	-	-	-	-	-	-	-	-	149,650	-	-	-	-	-
Investments in subsidiaries	171,068	-	-	-	-	-	-	-	270,348	314,098	-	-	-	-	-	-
Other assets	25	-	18,602	-	28	339	(9)	-	92	1,469	89,742	-	15	-	20	-
Total receivables	**171,098**	**2**	**785,596**	**-**	**43**	**669**	**(41,918)**	**-**	**270,455**	**2,544,619**	**239,422**	**3**	**1,174**	**-**	**20**	**-**
Liabilities																
Labilities under derivatives	-	-	69,770	-	-	-	-	-	-	-	-	-	-	-	-	-
Deposits and other liabilities due to banks, other financial institutions and the central bank	74,514	84,731	32,323,704	41,353,543	-	-	-	56,449,903	951,164	1,155,378	495,449	-	6,191	12,215	4,318	-
Deposits and other liabilities due to customers	-	-	-	-	78,817	727,083	-	-	-	-	-	119,624	-	-	-	-
Subordinated liabilities	-	-	-	-	-	-	-	14,724,802	-	-	-	-	-	-	-	-
Provisions	-	-	311	-	69	-	-	-	-	38,653	20,508	-	-	1,238	150	106
Other liabilities	4	-	126,938	-	52,702	454	-	-	16	247	26,071	68	31	24	-	15
Total liabilities	**74,518**	**84,731**	**32,520,723**	**41,353,543**	**131,588**	**727,537**	**-**	**71,174,705**	**951,180**	**1,194,278**	**542,028**	**119,692**	**6,222**	**13,477**	**4,468**	**121**
Equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Share capital	-	-	59,395,644	-	-	-	-	-	-	-	-	-	-	-	-	-
Total equity	**-**	**-**	**59,395,644**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total equity and liabilities	**74,518**	**84,731**	**91,916,367**	**41,353,543**	**131,588**	**727,537**	**-**	**71,174,705**	**951,180**	**1,194,278**	**542,028**	**119,692**	**6,222**	**13,477**	**4,468**	**121**
Total net	**96,580**	**(84,729)**	**(91,130,771)**	**(41,353,543)**	**(131,545)**	**(726,868)**	**(41,918)**	**(71,174,705)**	**(680,725)**	**1,350,341**	**(302,606)**	**(119,689)**	**(5,048)**	**(13,477)**	**(4,448)**	**(121)**
Guarantees and other sureties issued	-	-	141,098	-	-	-	-	-	-	-	-	-	-	155,060	74,962	11,758
Guarantees and other sureties issued in foreign currency	-	-	-	-	-	-	-	-	-	-	-	-	-	44,681	-	-
Guarantees for liabilities in foreign currency	-	-	19,139,150	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial assets to secure liabilities	-	-	126,989	-	-	-	-	-	-	-	-	-	-	-	-	-
Other derivatives at contracted notional amounts	-	-	39,031,940	-	-	-	-	-	-	-	-	-	-	-	-	-
Other off-balance sheet items - treasury transactions (spot, T+1)	-	-	2,190,095	-	-	-	-	-	-	-	-	-	-	-	-	-
Other off-balance sheet items – guarantees and other sureties received	-	-	141,099	-	-	-	-	-	-	-	-	-	-	261,676	74,962	11,758
Other off-balance sheet items – revocable commitments	-	-	-	-	10,000	-	-	-	-	664,856	352,746	-	-	-	-	-
Liabilities per RSD guarantees and other sureties issued	-	-	-	-	-	(1,121,607)	-	-	-	-	-	-	-	-	(57,579)	-
Liabilities per foreign currency guarantees and other sureties issued	-	-	(82,307)	-	-	-	-	-	-	-	-	-	-	(58,134)	(15,358)	-
Total off-balance sheet items	**-**	**-**	**60,688,064**	**-**	**10,000**	**(1,121,607)**	**-**	**-**	**-**	**664,856**	**352,746**	**-**	**-**	**403,283**	**76,987**	**23,516**

42. RELATED PARTY TRANSACTIONS (Continued)

The following table presents the Bank's total receivables and payables to and from related parties as of **December 31, 2020**:

RSD000	OTP Investments	OTP Factoring d.o.o. Novi Sad	OTP Bank Ltd Budapest	DSK Bank Plc	R.E. Four	MOL Serbia	JSC OTP Banka Russia	OTP Financing Malta Company limited	Otp Lizing	OTP Services	OTP Banka Srbija	OTP Insurance	Pevec doo	OTP Banka Hrvatska	Imos Šid	KITE doo Novi Sad
Receivables																
Receivables under derivatives	-	-	18,688	-	-	-	-	-	-	-	-	-	-	-	-	-
Loans and receivables due from banks and other financial institutions	2	1	303,029	-	-	-	14,860	-	22	-	87,102	-	-	-	-	-
Loans and receivables due from customers	-	-	-	-	10	172	-	-	-	90	-	-	5	-	2	1,377,893
Investments in subsidiaries	171,068	-	-	-	-	-	-	-	270,348	-	-	-	-	-	-	-
Intangible assets	-	-	10,444	-	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	25	1	209	-	122	278	-	-	701	-	16	-	-	-	6	-
Total receivables	**171,095**	**2**	**332,370**	**-**	**132**	**450**	**14,860**	**-**	**271,071**	**90**	**87,118**	**-**	**5**	**-**	**8**	**1,377,893**
Liabilities																
Liabilities under derivatives	-	-	152,106	-	-	-	-	-	-	-	7,439	-	-	-	-	-
Deposits and other liabilities due to banks, other financial institutions and the central bank	42,961	33,011	12,091,708	15,415,073	-	-	-	10,582,777	1,120,347	-	34,255	61,707	-	394	-	-
Deposits and other liabilities due to customers	-	-	-	-	67,457	423,384	-	-	-	479,055	-	-	33,488	-	6,297	150,059
Subordinated liabilities	-	-	-	-	-	-	-	1,177,041	-	-	-	-	-	-	-	-
Provisions	-	-	91	-	62	-	-	-	-	-	-	-	-	-	-	1,849
Other liabilities	-	-	27,214	-	49,434	234	-	-	-	-	31	2,062	68	-	-	1,210
Total liabilities	**42,961**	**33,011**	**12,271,119**	**15,415,073**	**116,953**	**423,618**	**-**	**11,759,818**	**1,120,347**	**479,055**	**41,725**	**63,769**	**33,556**	**394**	**6,297**	**153,118**
Equity																
Share capital	-	-	34,171,370	-	-	-	-	-	-	-	-	-	-	-	-	-
Prior years' losses – FTA IFRS 9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total equity	**-**	**-**	**34,171,370**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total equity and liabilities	**42,961**	**33,011**	**46,442,489**	**15,415,073**	**116,953**	**423,618**	**-**	**11,759,818**	**1,120,347**	**479,055**	**41,725**	**63,769**	**33,556**	**394**	**6,297**	**153,118**
Total net	**128,134**	**(33,009)**	**(46,110,119)**	**(15,415,073)**	**(116,821)**	**(423,168)**	**14,860**	**(11,759,818)**	**(849,276)**	**(478,965)**	**45,393**	**(63,769)**	**(33,551)**	**(394)**	**(6,289)**	**1,224,775**
Guarantees and other sureties issued	-	-	41,153	-	-	-	-	-	-	-	-	-	-	-	-	-
Commitments per undrawn loans	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	188,128
Pledged financial assets	-	-	126,987	-	-	-	-	-	-	-	-	-	-	-	-	-
Other derivatives at contracted notional amounts	-	-	19,070,109	-	-	-	-	-	-	-	1,349,712	-	-	-	-	-
Other off-balance sheet items - treasury transactions (spot, T+1)	-	-	681,170	245,478	-	-	-	-	-	-	2,369,861	-	-	-	-	-
Other off-balance sheet items – guarantees and other sureties received	-	-	41,153	-	-	-	-	-	-	-	-	-	-	-	-	-
Other off-balance sheet items – revocable commitments	-	-	-	-	10,000	-	-	-	-	-	-	-	-	-	-	129,000
Liabilities per RSD guarantees and other sureties issued	-	-	-	-	-	(559,367)	-	-	-	-	-	-	-	-	-	-
Liabilities per foreign currency guarantees and other sureties issued	-	-	(9,406)	-	-	-	-	-	-	-	-	-	-	-	-	-
Liabilities per financial assets	-	-	(126,987)	-	-	-	-	-	-	-	-	-	-	-	-	-
Total off-balance sheet items	**-**	**-**	**19,824,179**	**245,478**	**10,000**	**(559,367)**	**-**	**-**	**-**	**-**	**3,719,573**	**-**	**-**	**-**	**-**	**317,128**

42. RELATED PARTY TRANSACTIONS (Continued)

Income and expenses arising from related party transactions for the period from **January 1 through Decembar 31, 2021** were as follows:

RSD000	OTP Investments	OTP Factoring	OTP Bank LTD Budapest	DSK Bank Plc	R.E. Four	MOL Serbia	JSC OTP Banka Russia	OTP FINANCING MALTA COMPANY LIMITED	OTP Lizing	OTP Services	OTP Leasing Srbija d.o.o.	OTP Osiguranje ADO BEOGRAD	Pevec	OTP BANKA d.d. Split	IMOSSID ADZA PROIZV. TRG.I USLUGE	Crnogorska komercijalna banka ad Podgorica	OTP Bank Romania SA	SKB banka d.d. Ljubljana	Banka OTP Albania SHA	Mobiasbanca, OTP Group S.A
Income																				
Interest income	-	-	15,900	1,078	50	-	116	-	-	-	11,659	-	-	-	-	-	-	2	-	-
Fee and commissions income	27	21	355,761	28,459	150	74,358	36	-	4,626	486	11,548	54,489	129	137	60	426	3,111	256	26	-
Gains on changes in the fair values of financial instruments	-	-	1,866,162	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain on derecognition of financial instruments measured at fair value	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,790	-	-	-	-	-
Foreign exchange gains and positive currency clause effects	18	-	1,110,136	14,528	53	689	4,300	-	160	446	894	178	-	-	-	1	-	1	1	-
Gains on the reversal of assets not measured at fair value through profit or loss (FVtPL)	-	-	68	-	80	-	-	-	-	-	48,423	-	-	-	-	2,379	-	384	11,651	-
Other operating income	254	-	3,489	-	1,069	12	-	-	1,406	3,685	9,028	113,784	-	-	-	-	-	-	-	-
Other income	-	-	64	-	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total income	**299**	**21**	**3,351,580**	**44,065**	**1,404**	**75,059**	**4,452**	**-**	**6,192**	**4,617**	**81,552**	**168,451**	**129**	**137**	**1,850**	**2,806**	**3,111**	**643**	**11,678**	**-**
Expenses	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest expenses	(154)	-	(143,933)	(175,499)	(2,223)	(2,409)	-	(431,762)	(3,344)	(1,368)	(8,011)	(2,194)	-	-	-	-	-	-	-	-
Fee and commissions expenses	-	-	(429,539)	(18,561)	-	-	(8)	-	-	-	-	(5,909)	-	(319)	-	-	(4,135)	-	-	(5)
Losses on changes in the fair values of financial instruments	-	-	(869,028)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange losses and negative currency clause effects	(20)	-	(1,007,291)	(12,878)	(22)	(835)	(2,411)	(20,589)	(156)	(5)	(832)	(187)	-	(35)	-	-	-	(1)	-	-
Losses on impairment of financial assets not measured at fair value through profit or loss (FVtPL)	-	(1)	(1,660)	-	(87)	-	(353)	-	-	-	(109,771)	(20,691)	-	(3)	-	(1,702)	-	(109)	(11,758)	-
Other expenses	-	-	(146,623)	(1)	(6,898)	(9,661)	-	(1)	-	-	-	(69,255)	(813)	(24)	-	-	-	-	-	-
Total expenses	**(174)**	**(1)**	**(2,598,074)**	**(206,939)**	**(9,230)**	**(12,905)**	**(2,772)**	**(452,352)**	**(3,500)**	**(1,373)**	**(118,614)**	**(98,236)**	**(813)**	**(381)**	**-**	**(1,702)**	**(4,135)**	**(110)**	**(11,758)**	**(5)**
Total, net	**125**	**20**	**753,506**	**(162,874)**	**(7,826)**	**62,154**	**1,680**	**(452,352)**	**2,692**	**3,244**	**(37,062)**	**70,215**	**(684)**	**(244)**	**1,850**	**1,104**	**(1,024)**	**533**	**(80)**	**(5)**

42. RELATED PARTY TRANSACTIONS (Continued)

Income and expenses arising from related party transactions for the period from January 1 through December 31, 2020 were as follows:

RSD000	OTP Investments	OTP Factoring d.o.o. Novi Sad	OTP Bank Ltd Budapest	DSK Bank Plc	R.E. Four	MOL Serbia	JSC OTP Banka Russia	OTP Financing Malta Company limited	OTP Lizing	OTP Services	OTP banka Србије	OTP osiguranje	OTP банка Slovensko a.c	Pevec д.о.о.	OTP Banka Hrvatska	Imos Šid	KITE d.o.o Novi Sad	Crnogorska komercijalna banka AD Podgorica	OTP Bank Romania
Income																			
Interest income	-	-	9,675	531	53	-	54	-	-	-	1,837	-	-	-	-	-	25,429	-	-
Fee and commissions income	20	18	7,944	28	146	29,544	-	-	1,797	1,011	1,965	520	-	110	16	106	3,270	6	-
Other operating income	254	19	-	-	1,222	-	-	-	129,276	-	-	-	-	-	-	-	-	-	-
Gains on the reversal of assets not measured at fair value through profit or loss (FVtPL)	1	23	59	-	704	-	-	-	-	-	-	-	-	-	-	-	6,311	-	-
Gains on changes in the fair values of financial instruments	-	-	390,967	-	-	-	-	-	-	-	3,159	-	-	-	-	-	-	-	-
Other income	-	-	22	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Foreign exchange gains and positive currency clause effects	49	-	551,405	10,189	74	11,047	1,862	5,969	1,806	64	123,985	32	-	-	-	-	5,447	-	1,380
Total income	**324**	**60**	**960,072**	**10,748**	**2,199**	**40,591**	**1,916**	**5,969**	**132,879**	**1,075**	**130,946**	**552**	**-**	**110**	**16**	**106**	**40,457**	**6**	**1,380**
Expenses	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Interest expenses	(54)	-	(58,325)	(21,485)	(2,696)	(1,923)	-	(26,500)	(114)	(85)	(1,074)	(55)	-	-	-	-	-	-	-
Fee and commissions expenses	-	-	(3,757)	(14)	-	-	(5)	-	-	-	(418)	-	-	-	(25)	-	-	-	-
Losses on impairment of financial assets not measured at fair value through profit or loss (FVtPL)	-	(23)	(109)	-	(740)	-	-	-	-	-	-	-	-	-	-	-	(14,978)	-	-
Other expenses	-	-	(36,844)	-	(6,014)	(7,955)	-	-	-	-	-	(1,500)	(4)	(813)	-	-	-	-	-
Losses on changes in the fair values of financial instruments	-	-	(446,910)	-	-	-	-	-	-	-	(15,561)	-	-	-	-	-	-	-	-
Foreign exchange losses and negative currency clause effects	(39)	-	(569,027)	(15,185)	(59)	(44)	(5,379)	(5,576)	(245)	(43)	(94,281)	(62)	-	-	-	-	(194)	-	(155)
Total expenses	**(93)**	**(23)**	**(1,114,972)**	**(36,684)**	**(9,509)**	**(9,922)**	**(5,384)**	**(32,076)**	**(359)**	**(128)**	**(111,334)**	**(1,617)**	**(4)**	**(813)**	**(25)**	**-**	**(15,172)**	**-**	**(155)**
Total, net	**231**	**37**	**(154,900)**	**(25,936)**	**(7,310)**	**30,669**	**(3,468)**	**(26,107)**	**132,520**	**947**	**19,612**	**(1,065)**	**(4)**	**(703)**	**(9)**	**106**	**25,285**	**6**	**1,225**

42. RELATED PARTY TRANSACTIONS (Continued)

During 2021, the members of the Executive Board and Board of Directors were remunerated as follows;

RSD000	December 31, 2021	December 31, 2020
Gross salaries of Executive Board members	134,154	92,315
Net salaries of Executive Board members	115,265	78,852
Use of company automobiles by the Executive Board members	2,342	1,415
Gross remuneration to the Board of Directors	15,445	11,797
Net remuneration to the Board of Directors	8,940	7,337
Gross remuneration to the Audit Committee	185	-
Net remuneration to the Audit Committee	118	-

43. RISK MANAGEMENT

The Bank's Mission

The Bank's risk management activities at all its organizational levels are guided by the mission to achieve value for the Bank's shareholders through optimization of the return relative to the risks, taking into account the interests of the clients and employees, in the manner that is in conformity with the best banking practices and the regulatory requirements.

The Bank has established a comprehensive risk management system with the following objectives:

- setting up of a set of the basic risk management principles and standards throughout the Bank in order to maximize the use of its revenue generating potential and opportunities for creation of value for the shareholders;
- support to the Bank's business strategy by ensuring that the business goals are achieves under controlled risks in order to maintain stability of the revenues by protection against unexpected losses;
- improved use and allocation of the capital and increased return on invested capital aligned with risks by inclusion of the risks in the performance measurement;
- support to the process of decision-making by providing the necessary risk-related estimates;
- harmonization with the best practices in the industry and the local regulatory, quantitative and qualitative requirements; and
- ensuring that the risk management pays out by reducing overlapping and avoiding inadequate, excessive or obsolete policies, processes, methodologies, models, controls and systems.

Governing and Organizational Framework

The Bank's Board of Directors is responsible for establishment of a uniform risk management system and supervision of that system. In keeping with the aforesaid, the Board of Directors adopts strategies and policies for risk identification, measurements, monitoring and control, defines the Bank's internal organization that will ensure segregation of duties, competences and responsibilities of the employees in such a manner that conflicts of interest are prevented, and takes other actions with regard to the definitions of objectives and principles of risk management.

The Bank's Audit Committee contributes to the efficiency of the supervision of the risk management system. This committee, appointed by the Board of Directors, analyzes and oversees the application and adequate implementation of the adopted risk management strategies and policies on a monthly basis, as well as the functioning of the internal control system and analyzes and adopts draft strategies and policies that are submitted to the Board of Directors for adoption.

The Bank's Executive Board is responsible for identification of the risks the Bank is exposed to and for control of those risks in accordance with the framework defined by the Board of Directors. The Executive Board adopts procedures and other internal bylaws, which in a more detailed manner govern the processes and procedures of risk identification, measurement, monitoring and control.

The Internal Audit Function was set up for independent monitoring and control of the effectiveness of the internal control system and compliance of the Bank's operations, including implementation of the risk management framework. The Internal Audit is responsible to the Board of Directors.

Risk management is aligned with the organizational structure of the Bank within the Risk Management Division and the Finance Division as follows:

- Risk Management Division (Reporting, Provisioning and Risk Regulation Directorate, Market and Operational Risk Directorate, Collection Directorate, Retail Credit Risk Directorate and Corporate Credit Risk Directorate);

- Finance Division (ALM Directorate and Middle Office).

43. RISK MANAGEMENT (Continued)

43.1. Liquidity Risk

Liquidity risk is associated with the adverse effects of the Bank's inability to settle its liabilities when due on the Bank's financial result and capital.
The liquidity problem is expressed as a lack of liquidity assets to settle all overdue liabilities and cover unexpected outflows of deposits and non-deposit liabilities, due to the inability to obtain or difficulty obtaining liquid assets by selling liquid assets (market risk liquidity), i.e. inability or difficulty in obtaining new or renewed existing sources of funding at a reasonable market price (liquidity risk of funding sources).
Liquidity risk management plays a key role in careful and conscientious conduct of banking activities. Liquidity management is a continuous process of looking at liquidity needs in different business scenarios, as well as planning in exceptional circumstances. It is a process of securing and maintaining a satisfactory level of liquid assets based on analysis and view of liquidity demand, as well as changes in the Bank's balance sheet and off-balance sheet structure. In order to carry out these activities, the greatest attention is focused on analyzing the compliance of inflows and outflows across all currencies, deposit stability and other sources of funding of the Bank, as well as on the continuous analysis of financial market conditions, which affects the Bank's ability to obtain liquid assets or sell parts of liquid assets on the market under favorable conditions.
Liquidity risk management involves the process of identifying, measuring, mitigating and monitoring liquidity risks on a continuous basis. The adopted policies and procedures ensure adequate management of assets, which, with monitoring of cash flows and set limits on a daily and monthly basis, as well as the development of liquidity gaps on a monthly basis, should ensure that liquidity risks are minimized.
The level of liquidity indicators ranges within the framework stipulated by the NBS (liquidity indicator, narrower liquidity indicator and liquid asset cover indicator) as well as in accordance with defined internal limits.

	Liquidity coverage ratio	Quick liquidity ratio	Liquidity ratio
On the day 05.05.2021*	-	1.48	1.63
On the day 30.04.2021	136.37%	-	-
On the day 31.12.2020**	129.98%	1.59	1.72
On the day 31.12.2021	133.64%	1.62	1.79

* first Liquidity Ratio sent to the NBS
** sum of individual Liquidity Indicators without mutual liabilities and receivables

The Bank maintains the portfolio comprised of highly liquid securities (issued by the Republic of Serbia, denominated in RSD and EUR) and diversified assets that are easily convertible into cash in case of unforeseen and adverse fluctuations in the Bank's cash flows. The Bank also maintains the required level of RSD and foreign currency reserve as required by the National Bank of Serbia.

The Bank may call on liquid assets of its Parent Bank and, therefore, in case of deteriorating liquidity due to the financial market crisis the Bank may bridge its liquidity gap by borrowing from the Parent Bank.

The Bank's adopted policies and procedures ensure adequate asset management and adequate liquidity level planning. In addition to the liquidity indicators prescribed by NBS, the Bank uses the following methods for measuring liquidity risk exposure:

- Primary and operating liquidity level (liquid assets maturing up to a month and up to 3 months are compared to target values covering liabilities maturing in the period under review, corporate segment requirements and deposit shock, in stress cases;
- Regular stress testing; and
- Testing Contingency Financing Plan in Liquidity Crises.

In addition to regulatory daily liquidity indicators, the Bank closely monitors liquidity balance by measuring the total cash flows arising from all assets and liabilities, including off-balance sheet items. The liquidity gap report is compiled for all materially significant currencies which the Bank operates on a monthly basis. The liquidity gap report is used to identify significant discrepancies and to assess future liquidity needs, as well as excess liquidity.

43. RISK MANAGEMENT (Continued)

43.1. Liquidity Risk (Continued)

Total liquidity gap between the outstanding contractual maturities of financial assets and liabilities as of Decembar 31, 2021 was as follows:

RSD000	Up to a Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Matured	Without Defined Maturity	Total
Cash and balances held with the central bank	90,624,576	-	-	-	-	-	-	**90,624,576**
Pledged financial assets	-	-	-	-	-	-	463,080	**463,080**
Receivables under financial derivatives	60,570	3,369	7,726	9,708	-	-	176,475	**257,848**
Securities	5,290,485	8,638,300	3,744,444	32,923,817	3,163,053	-	54,268	**53,814,367**
Loans and receivables due from banks and other financial institutions	5,947,822	514,642	2,276,076	3,478	-	-	19,563	**8,761,581**
Loans and receivables due from customers	13,550,390	28,110,626	112,602,239	228,199,981	107,174,391	-	3,804,995	**493,442,622**
Other assets	1,156,844	1,071,241	-	-	-	261,520	180,919	**2,670,524**
Total assets	**116,630,687**	**38,338,178**	**118,630,485**	**261,136,984**	**110,337,444**	**261,520**	**4,699,300**	**650,034,598**
Liabilities under financial derivatives	20,913	-	4,115	5,235	-	-	176,475	**206,738**
Deposits and other liabilities due to banks, other financial institutions and the central bank	11,860,352	17,747,684	74,781,750	58,068,346	4,015,898	-	511,776	**166,985,806**
Deposits and other liabilities due to customers	336,895,953	12,940,874	20,856,771	8,143,893	814,930	-	2,920,979	**382,573,400**
Subordinated liabilities	-	5,523	21,516	3,527,463	11,170,300	-	-	**14,724,802**
Other liabilities	807,108	1,209,080	341,233	1,103,986	175,827	15,883	505,491	**4,158,608**
Total liabilities	**349,584,326**	**31,903,161**	**96,005,385**	**70,848,923**	**16,176,955**	**15,883**	**4,114,721**	**568,649,354**
Liquidity gap as of 31.12.2021	**(232,953,639)**	**6,435,017**	**22,625,100**	**190,288,061**	**94,160,489**	**245,637**	**584,579**	**81,385,244**
Liquidity gap as of 31.12.2020	**(99,297,263)**	**(8,069,517)**	**16,030,913**	**79,186,735**	**30,219,180**	**820,772**	**3,123,419**	**22,014,239**

The structure of asset and liability maturities as at December 31, 2021 is indicative of maturity mismatch between the outstanding maturities of assets and those of liabilities in the bucket of up to a month, primarily due to the maturity structure of deposits, i.e. significant share of demand and short-term deposits in the total deposits due to banks and customers. However, based on the historical data and experience, a significant portion of demand deposits may be regarded as a stable long-term source of financing given the transactions and withdrawals realized. In addition, a significant portion of term deposits are commonly renewed, i.e., placed for another term immediately upon maturity. At the same time, the Bank is in possession of highly liquid instruments - securities that can be pledged with the National Bank of Serbia at any time, as well as MM line of credit limit approved by its Parent Bank, available at any time.

43. RISK MANAGEMENT (Continued)

43.1. Liquidity Risk (Continued)

Total undiscounted liquidity gap between the outstanding contractual maturities of financial assets and liabilities as of December 31, 2020 was as follows:

RSD000	Up to a Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Matured	Without Defined Maturity	Total
Cash and balances held with the central bank	33,251,589	-	-	-	-	-	-	**33,251,589**
Pledged financial assets	-	740	-	1,176,562	-	-	317,494	**1,494,796**
Receivables under financial derivatives	6,601	14,244	4,012	5,064	-	-	-	**29,921**
Securities	1,402,880	2,870,446	6,627,582	6,286,486	-	-	41,128	**17,228,522**
Loans and receivables due from banks and other financial institutions	4,136,954	765,224	28,997	1,642	-	17,415	5,636	**4,955,868**
Loans and receivables due from customers	3,836,916	7,132,752	36,811,846	85,410,965	31,993,026	715,030	4,092,620	**169,993,155**
Other assets	459,838	355	-	32,000	-	352,555	27,065	**871,813**
Total assets	**43,094,778**	**10,783,761**	**43,472,437**	**92,912,719**	**31,993,026**	**1,085,000**	**4,483,943**	**227,825,664**
Liabilities under financial derivatives	111,752	5,951	39,654	3,367	-	-	-	**160,724**
Deposits and other liabilities due to banks, other financial institutions and the central bank	9,422,220	10,059,142	19,174,463	10,887,000	-	4,465	162,828	**49,710,118**
Deposits and other liabilities due to customers	132,399,493	8,725,645	8,064,591	2,350,663	372,900	249,314	949,238	**153,111,844**
Subordinated liabilities	-	1,239	-	-	1,175,802	-	-	**1,177,041**
Other liabilities	458,576	61,301	162,816	484,954	225,144	10,449	248,458	**1,651,698**
Total liabilities	**142,392,041**	**18,853,278**	**27,441,524**	**13,725,984**	**1,773,846**	**264,228**	**1,360,524**	**205,811,425**
Liquidity gap as of 31.12.2020	**(99,297,263)**	**(8,069,517)**	**16,030,913**	**79,186,735**	**30,219,180**	**820,772**	**3,123,419**	**22,014,239**
Liquidity gap as of 31.12.2019	**(73,786,462)**	**(5,100,493)**	**6,763,834**	**67,338,212**	**27,517,198**	**1,019,015**	**(978,729)**	**22,772,575**

43. RISK MANAGEMENT (Continued)

43.1. Liquidity Risk (Continued)

Total undiscounted liquidity gap between the outstanding contractual maturities of financial assets and liabilities as of December 31, 2021 was as follows:

RSD000	Up to a Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Matured	Without Defined Maturity	Total
Cash and balances held with the central bank	90,624,576	-	-	-	-	-	-	**90,624,576**
Pledged financial assets	-	-	-	-	-	-	463,080	**463,080**
Receivables under financial derivatives	60,570	3,369	7,726	9,708	-	-	176,475	**257,848**
Securities	5,290,485	8,638,300	3,744,444	32,923,817	3,163,053	-	54,268	**53,814,367**
Loans and receivables due from banks and other financial institutions	5,947,822	514,642	2,277,096	3,478	-	-	19,563	**8,762,601**
Loans and receivables due from customers	15,190,542	31,299,911	125,427,856	259,857,465	124,948,739	-	3,804,995	**560,529,509**
Other assets	1,156,844	1,071,241	-	-	-	261,520	180,919	**2,670,524**
Total assets	**118,270,839**	**41,527,463**	**131,457,123**	**292,794,468**	**128,111,792**	**261,520**	**4,699,300**	**717,122,505**
Liabilities under financial derivatives	20,913	-	4,115	5,235	-	-	176,475	**206,738**
Deposits and other liabilities due to banks, other financial institutions and the central bank	11,865,344	17,845,905	75,202,318	58,711,743	4,016,072	-	511,776	**168,153,158**
Deposits and other liabilities due to customers	336,970,698	13,031,630	21,203,501	8,194,490	816,980	-	2,920,979	**383,138,278**
Subordinated liabilities	-	40,719	431,463	5,072,553	12,107,973	-	-	**17,652,708**
Other liabilities	807,108	1,209,080	341,233	1,103,986	175,827	15,883	505,491	**4,158,608**
Total liabilities	**349,664,063**	**32,127,334**	**97,182,630**	**73,088,007**	**17,116,852**	**15,883**	**4,114,721**	**573,309,490**
Liquidity gap as of 31.12.2021	**(231,393,224)**	**9,400,129**	**34,274,493**	**219,706,461**	**110,994,940**	**245,637**	**584,579**	**143,813,015**
Liquidity gap as of 31.12.2020	**(98,665,050)**	**(6,887,221)**	**20,887,479**	**92,238,996**	**33,938,031**	**820,772**	**3,123,419**	**45,456,426**

43. RISK MANAGEMENT (Continued)

43.1. Liquidity Risk (Continued)

Total undiscounted liquidity gap between the outstanding contractual maturities for off-balance items as of December 31, 2021 was as follows:

December 31, 2021								
RSD000	Up to a Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Matured	Without Defined Maturity	Total
Guarantees issued	3,125,107	5,514,238	22,823,462	15,388,902	1,551,618	9,988	19,139,150	67,552,465
Letters of credit issued	181,703	431,176	135,086	-	-	-	-	747,965
Total guarantees and other sureties issued	**3,306,810**	**5,945,414**	**22,958,548**	**15,388,902**	**1,551,618**	**9,988**	**19,139,150**	**68,300,430**
Commitments for undrawn RSD loans and facilities, irrevocable without prior notice	203,049	529,070	2,624,507	952,837	8,381,057	267,909	-	12,958,429
Other irrevocable commitments in RSD	-	-	-	-	-	-	2,117,352	2,117,352
Total irrevocable commitments	**203,049**	**529,070**	**2,624,507**	**952,837**	**8,381,057**	**267,909**	**2,117,352**	**15,075,781**
Commitments for undrawn loans and facilities, revocable	1,602,576	595,191	7,663,483	20,291,055	9,752,418	3,261,763	62,389,159	105,555,645
Total commitments	**5,112,435**	**7,069,675**	**33,246,538**	**36,632,794**	**19,685,093**	**3,539,660**	**83,645,661**	**188,931,856**

December 31, 2021								
RSD000	Up to a Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Matured	Without Defined Maturity	Total
Derivatives held for trading at contractual price - FORWARDS	5,912,876	502,072	1,067,134	-	-	-	-	7,482,082
Derivatives held for trading at contractual price - SWAPS	24,823,289	1,181,857	763,810	16,449,557	26,225	-	-	43,244,738
Derivatives intended for hedging at contracted value - OPTIONS	-	-	-	-	14,465,563	-	-	14,465,563

43. RISK MANAGEMENT (Continued)

43.1. Liquidity Risk (Continued)

Total undiscounted liquidity gap between the outstanding contractual maturities for off-balance items as of December 31, 2020 was as follows:

December 31, 2020								
RSD000	Up to a Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Matured	Without Defined Maturity	Total
Guarantees issued	361,407	1,536,022	3,788,340	1,944,994	434,946	-	-	8,065,709
Letters of credit issued	9,907	2,280	-	-	-	-	-	12,187
Total guarantees and other sureties issued	**371,314**	**1,538,302**	**3,788,340**	**1,944,994**	**434,946**	**-**	**-**	**8,077,896**
Commitments for undrawn RSD loans and facilities, irrevocable without prior notice	99,628	475,063	855,585	1,160,434	191,540	2,550	35,814	2,820,614
Other irrevocable commitments in RSD	46,822	3,600	920	62,710	-	-	-	114,052
Total irrevocable commitments	**146,450**	**478,663**	**856,505**	**1,223,144**	**191,540**	**2,550**	**35,814**	**2,934,666**
Commitments for undrawn loans and facilities, revocable	2,745,973	5,209,068	11,499,810	7,693,487	819,861	-	1,179,025	29,147,224
Total commitments	**3,263,737**	**7,226,033**	**16,144,655**	**10,861,625**	**1,446,347**	**2,550**	**1,214,839**	**40,159,786**

December 31, 2020								
RSD000	Up to a Month	From 1 to 3 Months	From 3 to 12 Months	From 1 to 5 Years	Over 5 Years	Matured	Without Defined Maturity	Total
Derivatives held for trading at contractual price - FORWARDS	6,235,993	-	188,128	338,474	-	-	-	6,762,595
Derivatives held for trading at contractual price - SWAPS	18,611,049	14,229,007	1,521,857	346,410	-	-	-	34,708,323
Derivatives intended for hedging at contracted value - OPTIONS	-	-	-	-	-	-	-	-

43. RISK MANAGEMENT (Continued)

43.1. Liquidity Risk (Continued)

Liquidity Stress Test

In addition to the liquidity management in the normal course of business, the Bank does periodical stress testing as well in order to identify and measure its liquidity risk exposure in extraordinary circumstances and analyze its potential effects on the cash flows.

Stress testing compares the available liquid assets to the assumed outflow of customer deposit funds (deposit shock), assumed outflow of interbank deposits, guarantees and irrevocable credit lines. Available liquid assets include surplus/shortage assets in excess of the obligatory reserves, RSD cash balances and foreign currency account balances in excess of the amount required for the Bank's unhindered operation, short-term deposits placed with NBS and other banks, and liquidity reserves invested into the government securities. In addition, the Bank considers possibilities for obtaining funds in the interbank market and the loan funds it may draw from the Parent Bank.

43.2. Interest Rate Risk

Interest risk is the risk of adverse effects on the Bank's financial result and equity due to adverse market interest rate movements. The main types of interest risk are: risk of maturity time discrepancies (for asset and liabilities items related to a fixed interest rate) and re-determination of prices (for items related to variable interest rates), risk of yield curve, base risk and risk of optionality.

The risk management process of changing interest rates is done through monitoring, identifying, measuring and mitigating the impact that adverse interest rate movements can have on the Bank's financial results and equity.

The acceptable level of the Bank's interest rate risk exposure is defined by the limits set out by the Bank based on its risk assumption willingness and ability.

The basic principle of managing interest rate risk arising from the banking book is the principle of matching financial assets and liabilities per interest rate type (fixed or variable) and per maturity, i.e. per date of interest rate adjustment. The Bank informs the ALCO on the proportion of interest-sensitive assets and liabilities and on the compliance of the interest rate risk with the internally prescribed limits on a monthly basis.

For the purpose of measuring interest rate risk exposure, the Bank uses the GAP analysis (mismatch analysis). The size of the mismatch (GAP) for a certain time interval (bucket) is indicative of the Bank's exposure to the repricing risk.

43. RISK MANAGEMENT (Continued)

43.2. Interest Rate Risk (Continued)

The following table shows the Bank's exposure to interest rate risk as of December 31, 2021:

RSD000	0 - 30 days	30-90 days	90-180 days	180-360 days	1-2 years	Over 2 years	Non-interest bearing	Total
Cash and balances held with the central bank	33,334,112	-	-	-	-	-	57,290,464	90,624,576
Pledged financial assets	463,080	-	-	-	-	-	-	463,080
Receivables under financial derivatives	60,570	3,369	4,644	3,082	9,708	-	176,475	257,848
Securities	4,666,842	12,433,498	3,220,647	-	13,878,261	19,560,554	54,565	53,814,367
Loans and receivables due from banks and other financial institutions	8,337,088	408,286	-	-	-	-	16,207	8,761,581
Loans and receivables due from customers	265,635,525	155,003,418	21,323,850	9,564,036	16,126,883	19,272,456	6,516,454	493,442,622
Other assets	-	-	-	-	-	-	2,670,524	2,670,524
TOTAL ASSETS	**312,497,217**	**167,848,571**	**24,549,141**	**9,567,118**	**30,014,852**	**38,833,010**	**66,724,689**	**650,034,598**
Liabilities under financial derivatives	20,913	-	4,115	-	5,235	-	176,475	206,738
Deposits and other liabilities due to banks, other financial institutions and the central bank	15,087,356	75,214,131	39,340,936	33,146,845	322,733	861,075	3,012,730	166,985,806
Deposits and other liabilities due to customers	335,475,171	12,768,592	7,613,375	11,654,896	1,576,736	606,713	12,877,917	382,573,400
Subordinated liabilities	-	5,291,195	9,406,568	-	-	-	27,039	14,724,802
Other liabilities	-	-	-	-	-	-	4,158,608	4,158,608
TOTAL LIABILITIES	**350,583,440**	**93,273,918**	**56,364,994**	**44,801,741**	**1,904,704**	**1,467,788**	**20,252,769**	**568,649,354**
GAP at December 31, 2021	**(38,086,223)**	**74,574,653**	**(31,815,853)**	**(35,234,623)**	**28,110,148**	**37,365,222**	**46,471,920**	**81,385,244**
CUMULATIVE GAP at December 31, 2021	**(38,086,223)**	**36,488,430**	**4,672,577**	**(30,562,046)**	**(2,451,898)**	**34,913,324**	**-**	**-**
GAP at December 31, 2020	**15,425,580**	**59,704,050**	**5,420,604**	**(9,051,375)**	**1,317,895**	**7,475,203**	**(58,277,718)**	**22,014,239**
CUMULATIVE GAP at December 31, 2020	**15,425,580**	**75,129,630**	**80,550,234**	**71,498,859**	**72,816,754**	**80,291,957**	**-**	**-**

43. RISK MANAGEMENT (Continued)

43.2. Interest Rate Risk (Continued)

The following table shows the Bank's exposure to interest rate risk as of **December 31, 2020**:

RSD000	0 - 30 days	30-90 days	90-180 days	180-360 days	1-2 years	Over 2 years	Non-interest bearing	Total
Cash and balances held with the central bank	14,218,420	-	-	-	-	-	19,033,169	33,251,589
Pledged financial assets	190,507	1,177,302	-	-	-	-	126,987	1,494,796
Receivables under financial derivatives	6,601	14,244	-	4,012	5,064	-	-	29,921
Securities	1,402,879	2,870,446	4,563,114	2,064,469	1,420,324	4,866,162	41,128	17,228,522
Loans and receivables due from banks and other financial institutions	1,988,466	851,369	-	-	-	-	2,116,033	4,955,868
Loans and receivables due from customers	63,144,466	84,206,229	13,947,129	1,924,278	1,045,569	3,151,668	2,573,816	169,993,155
Other assets	-	-	-	-	-	-	871,813	871,813
TOTAL ASSETS	**80,951,339**	**89,119,590**	**18,510,243**	**3,992,759**	**2,470,957**	**8,017,830**	**24,762,946**	**227,825,664**
Liabilities under financial derivatives	111,752	5,951	35,655	3,999	3,367	-	-	160,724
Deposits and other liabilities due to banks, other financial institutions and the central bank	8,465,283	20,630,825	10,426,897	8,375,949	110,000	152,001	1,549,163	49,710,118
Deposits and other liabilities due to customers	56,948,724	7,602,962	2,627,087	4,664,186	1,039,695	390,626	79,838,564	153,111,844
Subordinated liabilities	-	1,175,802	-	-	-	-	1,239	1,177,041
Other liabilities	-	-	-	-	-	-	1,651,698	1,651,698
TOTAL LIABILITIES	**65,525,759**	**29,415,540**	**13,089,639**	**13,044,134**	**1,153,062**	**542,627**	**83,040,664**	**205,811,425**
GAP at December 31, 2020	**15,425,580**	**59,704,050**	**5,420,604**	**(9,051,375)**	**1,317,895**	**7,475,203**	**(58,277,718)**	**22,014,239**
CUMULATIVE GAP at December 31, 2020	**15,425,580**	**75,129,630**	**80,550,234**	**71,498,859**	**72,816,754**	**80,291,957**	**-**	**-**
GAP at December 31, 2019	**(7,866,724)**	**65,419,525**	**2,572,130**	**(11,196,039)**	**3,275,262**	**10,442,774**	**(39,874,353)**	**22,772,575**
CUMULATIVE GAP at December 31, 2019	**(7,866,724)**	**57,552,801**	**60,124,931**	**48,928,892**	**52,204,154**	**62,646,928**	**-**	**-**

43. RISK MANAGEMENT (Continued)

43.2. Interest Rate Risk (Continued)

Based on the GAP report on the interest-sensitive assets and liabilities, ALM Unit ,manages the banking book interest risk. The acceptable level of interest rate risk is defined by the limit of the maximum possible sensitivity of the Bank's net assets to the fluctuations in the market interest rates. The Bank examines several scenarios involving the parallel shifting of the yield curve as well as scenarios of the changes to the yield curve slopes (yield curve risk). Sensitivity to changes in interest rate risk is performed for each significant currency.

Scenario Analysis

The Bank conducts the following 6 stressful scenarios of interest rate movements in relation to the curve:
Scenario 1 and 2: Parallel shock upwards and parallel shock down (+/- 200 bps for foreign currencies; +/- 250 bps for RSD)
Scenario 3 and 4: Changing the shape of the yield curve (Steepener – short-term rates down and long-term rates upwards; Flattener – short-term rates upwards and long-term rates down)
Scenario 5 and 6: Short-term rates shock (short-term rates upwards; short-term rates downwards)

	Foreign currencies	RSD
Parallel shock	200	250 (or 99. percentile)
short term	250	300
Long-term	150	200

Scenario analysis	Interest rate change	Net weighted position in RSD	Net weighted position in EUR	Net weighted position in USD	Net weighted position - other	Net weighted position in the banking book Total
Scenario 1	Parallel up (+200 for FCY; +250 for RSD)	(97,014)	1,246,696	103,082	131,068	1,383,832
Scenario 2	Parallel down (-200 for FCY; -250 for RSD)	184,574	(1,248,832)	(108,857)	(137,532)	(1,310,647)
Scenario 3	Steepener (short rates down, long rates up)	(530,851)	(1,054,445)	(32,323)	(48,072)	(1,665,691)
Scenario 4	Flattener (short rates up, long rates down)	476,776	1,271,152	52,614	73,725	1,874,267
Scenario 5	Short rates up	338,978	1,561,299	85,245	113,974	2,099,496
Scenario 6	Short rates down	(356,612)	(1,621,152)	(88,831)	(118,772)	(2,185,367)
MIN		**(530,851)**	**(1,621,152)**	**(108,857)**	**(137,532)**	**(2,185,367)**

43. RISK MANAGEMENT (Continued)

43.3. Market Risks

Market risks are the possibility of adverse effects on the Banks's financial result and equity based on changes in the value of balance sheet positions and off-balance sheet items of the Bank resulting from price movements in the market. Market risks include foreign exchange risk, price risk on the basis of debt securities and on the basis of equity securities and commodity risk. In a broader sense, market risk includes the risk of changing interest rates in the banking book. The system of market risk control is achieved through the division and independence of risk-taking (front) functions from their monitoring (middle office) and management (Risk Management Department) as well as support activities (back office).

The Bank was exposed to foreign exchange risk throughout the year.

In 2021, the Bank held and acquired positions in the trading book and was therefore exposed to interest as well as price risk on the basis of debt securities. The trading book portfolio consisted of positions in derivatives and debt securities. In accordance with the Group's norms, the Bank is not allowed to invest in goods or derivatives based on goods. During 2021, exposure to market risks has been within defined limits and in line with the appetite for risk-taking.

43.3.1. Foreign Exchange Risk

Foreign exchange risk is the risk of negative effects on the financial result and capital of the Bank caused by changes in foreign exchange rates against the dinar.
Exposure to foreign exchange risk in a particular currency represents potential changes in the value of the Bank's receivables and liabilities in a particular currency that can be attributed to changes in the exchange rate for the observed currency. The Bank's foreign exchange risk in a particular currency is measured by the difference between the total amount of receivables and the total amount of liabilities denominated in that currency (foreign exchange open position). Management and control of foreign exchange risk exposure was in accordance with the defined tolerance, ie. risk appetite for foreign exchange risk, defined by the Market Risk Management Policy.
The foreign exchange risk ratio is the ratio of the total foreign currency net open position and the Bank's capital.

31.12.2021						
RSD000	EUR	CHF	USD	Other	RSD	Total
Cash and balances held with the central bank	46,502,001	991,777	777,390	593,649	41,759,759	90,624,576
Pledged financial assets	126,989	-	336,091	-	-	463,080
Receivables under financial derivatives	176,475	-	-	-	81,373	257,848
Securities	4,217,793	-	-	-	49,596,574	53,814,367
Loans and receivables due from banks and other financial institutions	4,693,479	288,346	2,536,316	1,174,333	69,107	8,761,581
Loans and receivables due from customers	317,791,927	123,933	261,785	-	175,264,977	493,442,622
Other assets	1,245,120	(812)	(2,050)	(629)	1,428,895	2,670,524
TOTAL ASSETS (I)	**374,753,784**	**1,403,244**	**3,909,532**	**1,767,353**	**268,200,685**	**650,034,598**
Liabilities under financial derivatives	176,475	-	-	-	30,263	206,738
Deposits and other liabilities due to banks, other financial institutions and the central bank	147,156,655	15,983	109,779	10,149	19,693,240	166,985,806
Deposits and other liabilities due to customers	193,700,310	8,577,737	10,878,284	2,097,949	167,319,120	382,573,400
Subordinated liabilities	14,724,802	-	-	-	-	14,724,802
Other liabilities	2,931,331	12	6,700	1,445	1,219,120	4,158,608
TOTAL LIABILITIES (II)	**358,689,573**	**8,593,732**	**10,994,763**	**2,109,543**	**188,261,743**	**568,649,354**
ON-BALANCE GAP (I) - (II)	**16,064,211**	**(7,190,488)**	**(7,085,231)**	**(342,190)**	**79,938,942**	**81,385,244**
OFFSET OFF-BALANCE SHEET ITEMS	**-**	**-**	**-**	**-**	**-**	**-**
OPEN LONG POSITION as of December 31, 2021	645,785	7,095	-	12,457	80,801,580	81,466,918
OPEN SHORT POSITION as of December 31, 2021	-	-	22,846	4,441	-	27,287
NET OPEN POSITION as of December 31, 2021	**645,785**	**7,095**	**22,846**	**16,898**	**80,801,580**	**81,494,205**
NET OPEN POSITION as of December 31, 2020	**790,163**	**11,342**	**11,902**	**4,134**	**21,076,287**	**21,893,828**

43. RISK MANAGEMENT (Continued)

43.3. Market Risks (Continued)

43.3.1. Foreign Exchange Risk (Continued)

31.12.2020						
RSD000	EUR	CHF	USD	Other	RSD	Total
Cash and balances held with the central bank	12,654,797	1,423,262	310,816	384,739	18,477,975	33,251,589
Pledged financial assets	126,986	-	190,508	-	1,177,302	1,494,796
Receivables under financial derivatives	-	-	-	-	29,921	29,921
Securities	2,352,525	-	-	-	14,875,997	17,228,522
Loans and receivables due from banks and other financial institutions	4,244,385	18,570	147,879	408,885	136,149	4,955,868
Loans and receivables due from customers	95,196,572	77,056	140,367	-	74,579,160	169,993,155
Other assets	36,437	(1,839)	(14)	(39)	837,268	871,813
TOTAL ASSETS (I)	**114,611,702**	**1,517,049**	**789,556**	**793,585**	**110,113,772**	**227,825,664**
Liabilities under financial derivatives	-	-	-	-	160,724	160,724
Deposits and other liabilities due to banks, other financial institutions and the central bank	37,775,804	437,426	3,043,163	13,553	8,440,172	49,710,118
Deposits and other liabilities due to customers	73,636,240	3,664,482	2,715,916	643,059	72,452,147	153,111,844
Subordinated liabilities	1,177,041	-	-	-	-	1,177,041
Other liabilities	923,237	1	3,443	1,401	723,616	1,651,698
TOTAL LIABILITIES (II)	**113,512,322**	**4,101,909**	**5,762,522**	**658,013**	**81,776,659**	**205,811,425**
ON-BALANCE GAP (I) - (II)	**1,099,380**	**(2,584,860)**	**(4,972,966)**	**135,572**	**28,337,113**	**22,014,239**
OFFSET OFF-BALANCE SHEET ITEMS	**(309,217)**	**2,573,518**	**4,984,868**	**(131,443)**	**(7,260,826)**	**(143,100)**
OPEN LONG POSITION as of December 31, 2021	790,163	-	11,902	6,661	21,076,287	21,885,013
OPEN SHORT POSITION as of December 31, 2021	-	11,342	-	(2,527)	-	8,815
NET OPEN POSITION as of December 31, 2021	**790,163**	**11,342**	**11,902**	**4,134**	**21,076,287**	**21,893,828**
NET OPEN POSITION as of December 31, 2020	**2,096,982**	**4,140**	**18,730**	**25,414**	**20,606,564**	**22,751,830**

The process of foreign currency risk management in the Bank in 2021. is in compliance with the limits set by the National Bank of Serbia, as well as with the Bank's internally prescribed limits, which are below the regulatory limits.

The limits of foreign currency risk are set so that the Bank protects itself against significant losses contingent on the movements in foreign currency to RSD exchange rates.

The main indicator of the Bank's foreign exchange risk exposure is the foreign exchange risk ratio, calculated as the total foreign currency net open position (including the absolute amount of the net open position in gold) relative to the Bank's regulatory capital. The maximum foreign exchange risk ratio (20%) is defined by NBS Decision of Capital Adequacy while the Bank's internally defined FX risk ration is below the regulatory limit.

43. RISK MANAGEMENT (Continued)

43.3. Market Risks (Continued)

43.3.1. Foreign Exchange Risk (Continued)

As of December 31, 2021, the Bank's foreign currency risk ratio equaled 0.24%.

Foreign exchange risk indicator		
	2021	2020
Foreign exchange risk indicator	0.24%	2.35%

The Bank established a system for measuring foreign exchange risk by establishing limits on the net open foreign exchange position, as well as on FX VaR.

FX VaR is a measure of potential maximum loss (risk) at the defined level of trust of distribution of income and expenditure, for a predefined period of posture. The Bank also applies 1-day FX VaR (for the purposes of daily foreign exchange risk management) and 10-day FX VaR (for the purposes of the ICAAP process). During 2021, the amount of open position, foreign exchange risk and FX Var are expressed within internally set limits and regulatory limits.

In accordance with the decision regulating the capital adequacy of the bank, the Bank also calculates the capital requirement of foreign exchange risk.
Foreign exchange risk reporting covers the system of internal and external reporting and is conducted daily.

43. RISK MANAGEMENT (Continued)

43.3.1 Market Risks (Continued)

Sensitivity Analysis

The following table provides details of the assessed effects of the middle exchange rate rise of 3%, 5% and 10% on the amount of open positions for each respective foreign currency and net open position and subsequently the isolated effect of the newly obtained net open positions on the financial result, capital and foreign exchange risk ratio of the Bank.

	31.12.2021			Stress +3%		Stress +5%		Stress +10%	
RSD000	Middle exchange rate	Open position (FX)	Open position (RSD)	Open position	Net impact on the result	Open position	Net impact on the result	Open position	Net impact on the result
CHF	113.64	62.44	7,095.26	7,308.11	212.86	7,450.02	354.76	7,804.78	709.53
EUR	117.58	5,492.21	645,785.36	665,158.92	19,373.56	678,074.63	32,289.27	710,363.90	64,578.54
USD	103.93	(219.83)	(22,846.13)	(23,531.51)	(685.38)	(23,988.43)	(1,142.31)	(25,130.74)	(2,284.61)
GBP	140.26	(31.66)	(4,441.00)	(4,574.23)	(133.23)	(4,663.05)	(222.05)	(4,885.10)	(444.10)
AUD	75.44	4.60	347.00	357.41	10.41	364.35	17.35	381.70	34.70
CAD	81.63	12.40	1,012.00	1,042.36	30.36	1,062.60	50.60	1,113.20	101.20
SEK	11.48	310.18	3,561.00	3,667.83	106.83	3,739.05	178.05	3,917.10	356.10
NOK	11.79	18.33	216.00	222.48	6.48	226.80	10.80	237.60	21.60
RUB	1.39	1,903.77	2,651.00	2,730.53	79.53	2,783.55	132.55	2,916.10	265.10
DKK	15.81	45.17	714.00	735.42	21.42	749.70	35.70	785.40	71.40
JPY	.90	529.58	478.00	492.34	14.34	501.90	23.90	525.80	47.80
HUF	.32	3,650.85	1,163.00	1,197.89	34.89	1,221.15	58.15	1,279.30	116.30
HRK	15.62	148.21	2,315.00	2,384.45	69.45	2,430.75	115.75	2,546.50	231.50
Net open position		**-**	**665,338**	**685,298**	**-**	**698,604**	**-**	**731,871**	**-**
Gold		-	47,724	49,156	-	50,110	-	52,496	-
Net impact on the financial result		**-**	**-**	**-**	**19,142**	**-**	**31,903**	**-**	**63,805**
Capital		**-**	**96,733,921**	**-**	**96,753,063**	**-**	**96,765,824**	**-**	**96,797,726**
FX risk ratio			**0.74%**		**0.76%**		**0.77%**		**0.81%**
Capital requirement for FX risk ratio		**-**	**57,045**	**-**	**58,756**	**-**	**59,897**	**-**	**62,749**

Based on the analysis presented in the table above, even in the event of major RSD depreciation against other currencies, the foreign exchange risk ratio would still remain far below the prescribed limit of 20%.

43.3.2. Equity Price Risk

Equity price risks entail risks of adverse effects on the Bank's financial performance and/or capital due to changes in the prices of debt or equity securities.

The capital requirement for price risk is equal to the sum of the capital requirement for general and specific price risk based on debt securities and the capital requirement for general and specific price risk based on equity securities and is calculated for business activities arising from the trading book.

Derivatives and bonds classified as trading financial instruments are recorded in the balance sheet at fair value.

As at December 31, 2021, the Bank held and acquired positions in the trading book and was accordingly exposed to price risk based on debt securities. The Bank has defined the trading book management process in the Trading Book Policy. The trading book portfolio consisted of positions in bonds of the Republic of Serbia and derivatives. The Bank has defined the trading book management process in the Trading Book Policy. Accordingly, the Bank calculated the general and specific price risk per debt securities in accordance with the NBS Decision on Capital Adequacy of Banks.

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk

Credit risk represents a possibility that the counterparty (borrower) may become unable to settle the liabilities to the Bank, partially or in full within according to the contractually agreed schedule. The Bank's business policies require and provide for the maximum protection of the Bank in respect of its credit risk exposure.

In order to establish an effective and efficient risk management process, the Bank has defined key responsibilities in the credit risk management process. The Board of Directors has final authority and responsibility regarding the risk management function, it approves policies and principles related to risk management.

The Bank's credit risk policy defines in detail the credit risk management process, which involves the organization of the credit risk management process, credit risk identification, measurement, alleviation and monitoring. This policy also deals with the concentration risk management and the system of internal controls of the credit risk management process as well as definition of credit risk limits used for monitoring credit risk exposure. The Bank's credit risk management policy is adopted on an annual basis and represents a framework for credit risk management as part of the uniform risk management system.

The Bank manages credit risk at the level of individual loans and at the level of the entire loan portfolio. In order to manage credit risk, the Bank had defined the crediting process that involves exposure approval and credit risk management as two separate processes.

The exposure approval process comprises the following steps: acceptance of requests (including client identification and related persons, client segmentation), risk assessment (including rating scoring, collateral assessment), approval of exposure, conclusion of contract and realization of placements.

The Bank assesses credit risk based on the quantitative and qualitative criteria taking into account characteristics of a specific borrower and loan, which enable clear loan rating and classification into appropriate risk categories according to their collectability. The purpose of customer assessment is to enable structural estimates of the customer creditworthiness and solvency.
The Bank uses internally developed rating models, whose primary goal is to assess the expected probability of entering debtor's non-payment status, based on predetermined statistical methodology or methodology based on expert assessment. Clients can be classified into a 9+1 rating category based on the application of the rating model. The level of risk associated with a particular rating category and the Bank's relationship to financing is shown in the following table.

Risk level	*Client rating category*		*Treatment by the bank*
Low risk	1 – 2 – 3	Credible	Risk can be taken
Medium risk	4 – 5	Credible	Risk can be taken
High risk	6 – 7	Credible	Risk can only be taken with restrictions
Particularly high risk	8 – 9	No Credible / high risk	As a rule, new risk cannot be taken. In exceptional cases, new risks can be taken only with the approval of the exception or within the defined credit policy limits.
Default status	10	Not Credible	No new risks can be taken

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

The lower and upper limits of each rating category, as well as the expected PD, are shown in the table below.

Rating category	*Expected PD*	*Lower limit*	*Upper limit*
1	0.04%	0.00%	0.27%
2	0.38%	0.27%	0.54%
3	0.71%	0.54%	0.93%
4	1.20%	0.93%	1.56%
5	2.02%	1.56%	2.62%
6	3.38%	2.62%	4.36%
7	5.93%	4.36%	8.07%
8	12.63%	8.07%	19.78%
9	44.47%	19.78%	100.00%

The Rulebook on the valuation of collateral determines which types of collateral are acceptable, how collateral is assessed and under what conditions it is accepted. All collaterals have accepted value that the Bank recognizes for mitigation of risk, and it may differ from market value depending on the level of risk associated with the collateral.

The placement approval process is detailed in the regulations for lending to clients in the corporate sector, small and medium enterprises and the retail. This is a joint process of the business sectors (Business Affairs Division and Retail Affairs Division) and Risk Management Division, in accordance with principle of division risk-taking activities from risk management activities. The Risk Management Division is responsible for determining client limits, independent risk assessment and risk acceptance decisions through approval of placements and/or defining credit criteria for approval of certain types of products. Exposure approval competencies, depending on the client segment and exposure amount, are regulated by the Rulebook on decision-making levels. The rulebook on decision-making levels determines the competencies and amounts to which authorized persons or individual bank bodies can decide on the bank's placements, on changing the agreed conditions, on deviation from standard business conditions, on collection, sale, write-off or attribution of receivables, the placement of The Bank's assets and the bank's borrowing, and other issues to be decided within the Bank’s operations.

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

After the realization of the placement, the monitoring process begins. Monitoring includes a range of activities through which the Bank continuously monitors the risks taken, as well as the client's economic activities, assets, financial condition, solvency, client's willingness to meet its obligations, changes in the client's legal status, condition and value of collateral.

The activity of continuous monitoring of the credit portfolio enables the Bank to spot any change that may affect the collection of receivables and intervene to protect its interests.

Monitoring is primarily done in accordance with the monitoring tasks defined for each client/placement. The early warning system is an integral part of the monitoring process and early warning signals are identified through the realization of monitoring tasks.

The realization of monitoring activities is under the jurisdiction of the Risk Management Division, which, based on the results of completed monitoring tasks, other data sources and using developed tools, analyzes the risks of clients/placements. The monitoring system also includes individual analysis of clients conducted by the Monitoring Board, which analyses significant exposures in the Bank's active portfolio on a monthly basis.

The Bank has established monitoring of loans based on updated data on the financial condition and credit worthiness of the debtor and the market value of the collaterals, which enables it to implement appropriate measures in case of deterioration in the financial condition and credit worthiness of the debtor or credit protection provider. In addition to client-level monitoring, the Risk Management Division performs monthly portfolio monitoring and reports on a monthly basis to the Monitoring Board (for clients of the corporate sector) and the Retail Credit Risk Management Commission, as well as on a quarterly basis the Executive Board, the Audit Board and the Management Board.

In accordance with the regulatory environment, which includes the expectations of domestic and international supervisory bodies, and since the Bank is a member of OTP Banking Group, the Bank has developed a framework for identifying and managing the so-called ESG risks in the economic lending process (E-environmental, S-social, G-governance), as an instrument for the transition to a sustainable economy.

The specified process of lending to the corporate sector has been improved by the introduction of the following elements:

- ESG Exclusion List – a list of activities and behaviors whose controversial nature and influence make them incompatible with the values of OTP Group, i.e. whose financing is avoided;
- ESG Heat Map by Sectors – contains the classification of economic activities with appropriate, predetermined categories of ESG risk
- ESG risk assessment (individual assessment of ESG risk levels in case of clients with materially significant amounts of exposure).

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Impairment and provisioning methodology

1. Staging

In accordance with the requirements of International Financial Reporting Standard 9 - Financial Instruments (IFRS 9), OTP Bank Srbija a.d. Novi Sad distributes funds valued at depreciation and fair value through a report on the overall result in three stages:

- Stage 1 - non-risk funds without a significant increase in credit risk from initial recognition,
- Stage 2 - non-risk funds with a significant increase in credit risk from initial recognition, but not credit impairment,
- Stage 3 - risky, credit impaired assets

Under the financial assets, according to the Financial Reserve Policy, credit receivables, exposure to states and other contracting parties, as well as debt securities valued at fair value through other comprehensive income and valued at amortized cost. In the following part of the note, data on amounts of financial assets and impairments is provided only for receivables considered financial assets. Other receivables are impaired by applying a simplified approach, and under the rule of total impairment in the event of a delay of over 90 days. Other receivables are not subject to this note.

Performing (stage 1) funds include all financial assets in case events and conditions for staging into stage 2 or 3 do not exist on the reporting date.

The financial asset demonstrates a significant increase in credit risk (stage 2) in the case of any of the following indicators, while at the same time the conditions for sorting into Stage 3 – non-performing assets are not met:

a) delay in payment exceeds 30 days (where the days of delay are based on the number of days of delay in accordance with the requirements prescribed by the Instruction for determining the status of non-payment of obligations of the National Bank of Serbia).
b) is classified as performing restructuring.
c) based on an individual decision, the placement currency has suffered a significant "shock" from the moment of loan payment and there is no protection against currency exchange rate change (hedging) in this regard.
d) the transaction /client rating exceeds the predefined value or falls under a specific range, or deteriorates to a predefined degree compared to the historical value. If the rating category for determining distribution to levels is not available, the following rule applies to determine stage 2: if the days of delay are greater than 10 days in the last 6 months, then the placement must be categorized into stage 2. The rating as an indicator for stage 2 is used six months after the placement is approved.
e) in the case of housing loans for the Retail, the LTV ratio exceeds the predefined rate (currently 125%), or deteriorates by a certain degree compared to historical value.
f) default status on the second loan of the client of the Retail unless there are conditions for the application of mutual default status (cross-default indicators).
g) client classification in Watch list 2 (during the placement monitoring process was determined the exposure classification indicates a significant increase in credit risk based on EWS (early warning indicator) or subjective rating).
h) in case there is a significant change in the macroeconomic environment resulting in a significant increase in credit risk during the expected lifespan of the financial asset, the Bank has the right to transfer the assets/parts of the portfolio affected by the change to stage 2. An example for the above mentioned is an increase in exposure in stage 2 due to the effects of assessing increased credit risk due to the Covid-19 pandemic.

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Impairment and provisioning methodology (Continued)

The client or financial asset is in non-performing status (stage 3) when default status (default definition complies with Group and NBS rules) on the reporting date. When calculating the amount of impairment by financial asset categorized to stages, the following process needs to be implemented:

- stage 1 (not risky): recognition of impairment in the amount of equal expected credit loss within 12 months,
- stage 2 (significant increase in credit risk): recognition of impairment in the amount of equal expected credit loss over the lifetime of exposure,
- stage 3 (non-risky): recognition of impairment in the amount equal to the expected credit loss over the lifetime of exposure.

For impairments expected over the lifetime of the financial assets, the Bank assesses the risk of default on the financial asset during its expected lifespan. 12-monthly expected credit losses are part of the credit losses expected over the lifetime and represent a loss over the lifetime that will arise if there is a failure to meet liabilities within 12 months after the reporting date (or a shorter period if the lifespan of the fund is less than 12 months).

The Bank assesses expected credit losses of financial assets in a way that should reflect:

- objective amount supported by probability determined by the assessment of a range of possible outcomes,
- time value of money and
- reasonable information that can be documented and available without unnecessary costs or efforts on the reporting date, past events, current conditions, and forecasts of future economic conditions.

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Individual Assessment:

Financial assets that do not belong to the retail segment are assessed individually, are above the materiality threshold (RSD 14 million at the level of gross exposure of the client/group of related parties) and are distributed to stage 3 (including purchased or approved impaired funds that meet these conditions).

Calculation, as well as all relevant factors for calculation (amortized cost, original and current EIR, contracted and expected cash flows (from business and/or collateral) for individual lifespan periods, other relevant information) and criteria for the same (including factors on which the classification is based to stage 3) must be documented individually.

The impairment allowance of the financial asset is equal to the difference between the value of the financial asset (gross book value) on the day of valuation and the present value of the expected cash flows of the financial asset discounted by the valuation date of the original effective interest rate of the financial asset (EIR)(calculated by initial recognition, or in the case of a variable rate, calculated because of the last interest rate change).

The assessment of expected future cash flows among clients subject to individual valuation is geared towards the future and contains the effects of possible changes in macroeconomic forecasts.

At least two scenarios are used to evaluate the expected cash flow of clients on an individual basis. One scenario, as a rule, predicts that the cash flows achieved will be significantly different from the contractual cash flows. Each scenario is assigned the probability of achievement. The current value of expected cash flows calculated as the average of expected cash flows of individual scenarios is used to calculate the impairment of the value of the assets.

Collective Assessment:

The following funds are subject to collective assessment:

- Retail receivables, regardless of the amount,
- all other financial assets that are below the threshold of material significance (RSD 14 million at the gross exposure level of the client/group of related persons),
- financial assets that are above the threshold of material significance, which are not allocated to level 3,
- purchased or approved impaired financial assets that meet the above conditions.

In the methodology of collective booking, credit risk and credit risk changes can be properly included by understanding portfolio risk characteristics. To do this, major risk factors are identified and used to form homogeneous portfolio segments that have similar risk characteristics.

Based on these homogeneous segments, historical data sets are formed to be used to calculate credit risk parameters for calculating expected credit loss (PD, LGD, EAD).

PD (probability of default), LGD (loss given default), EAD (exposure at default) are parameters derived from internally developed statistical models based on historical data and adjusted to reflect future information (forecasts of future economic conditions in different scenarios) which are weighted by the likelihood of the scenario.

PD is an estimate of the probability of the default status in a given time horizon. PD assessment is based on current conditions, adjusted assessment of future conditions that will primarily affect the PD (impact of macroeconomic factors). The migration matrix methodology applied in the Bank is based on payment delay intervals, default status labels, restructuring marks and behavioral rating information.

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Definition of ECL on the Individual and Collective Bases of Assessment (Continued)

Collective Assessment (Continued)

In the Bank, two types of PD parameter are calculated and applied:

- 12 monthly PD is used for receivables from stage 1,
- Lifetime (lifetime) PD rate of expected loss is used for receivables from stages 2 and 3.

LGD is an estimate of the expected loss in the event of default status. It is based on the difference between agreed cash flows and those the Bank expects to receive, taking into account cash flows from collateral.

According to the type of financial asset security, the Bank applies the following LGD models:

- Mortgage and residential loans of the Retail, secured loans to clients of small business and corporate sector: modified LGL methodology based on the Asset Quality Review methodology. The primary data source is collateral itself, but it also takes into account refunds from cash flows.
- Consumer loans and other unsecured financial assets: LGL methodology based on refunds based on historical data.

LGD models for secured financial assets are based on predicting the future value of collateral, taking into account possible changes in the value of collateral, the time until the realization of collateral, the probability of collateral success, expected deviations of the sale price from the estimated value of collateral, the cost of realization of collateral and the expected collection rate that does not originate from collateral. LGD models for unsecured financial assets are based on the assessment of expected collection (without the realization of collateral), the period in which inflows are expected based on collection and the length of the collection process. Calculation of LGD is made on the basis of a discounted cash flow.

EAD is the value of a financial asset on a report date or estimated value of a financial asset on a future date, taking into account expected changes in the value of that asset after the reporting date. For the purpose of determining the value of the financial asset on a future date, the Bank uses data from loan repayment plans.

For financial assets that have an off-balance sheet exposure in the calculation of EAD, credit conversion factors are used. They are based on conversion factors used for regulatory purposes of calculating capital adequacy.

The Bank uses both external and internal information relating to the future and is available without unnecessary costs or efforts in assessing a significant increase in credit risk, as well as measuring expected credit loss. The forecast of the movement of relevant macroeconomic variables is defined for both the "base case", that is, the scenario and the range of other possible scenarios for the movement of these variables.

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Definition of ECL on the Individual and Collective Bases of Assessment (Continued)

Collective Assessment (continued)

Up to five scenarios ranging from optimistic (lower PDs) to pessimistic (higher PDs) with assigned scenario probabilities are used for collective assessment of expected credibility. External information used to define scenarios includes economic data and forecasts published by state authorities and monetary authorities.

The basic variable that defines the scenarios is the change in GDP (gross domestic product), and the models, developed for ICAAP needs at OTP Group level, forecast a link between the basic variable and other macroeconomic variables (employment rate, exchange rate movement, interest rate...), as well as the impact on risk parameters. A description of the macroeconomic scenarios used to estimate expected credit losses, as well as the assigned probability of these scenarios emerging, was provided in the following tables:

For calculating expected losses with the balance as at December 31, 2021:

Macroeconomic scenarios	Weights of scenarios used on 31.12.2021	projection of GDP change			
		2021	2022	2023	2024
Baseline scenario	50.00%	6.95%	4.98%	4.55%	4.50%
Moderate stress scenario	30.00%	6.45%	3.08%	2.33%	2.20%
Serious stress scenario	20.00%	6.50%	-3.38%	-0.63%	3.48%

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Definition of ECL on the Individual and Collective Bases of Assessment (Continued)

Collective Assessment (continued)

For calculating expected losses with the balance as at December 31, 2020:

Macroeconomic scenarios	Weights of scenarios used on 31.12.2021	projection of GDP change			
		2021	2022	2023	2024
Baseline scenario	80.00%	-1.80%	3.40%	7.10%	3.70%
Stress scenario	20.00%	-2.80%	-2.00%	3.60%	2.40%

Macroeconomic scenarios	Scenario weights at 31.12.2020	Scenario weights used at 31.12.2021
Scenario 1	0.00%	0.00%
Scenario 2	0.00%	50.00%
Scenario 3	0.00%	0.00%
Scenario 4	80.00%	30.00%
Scenario 5	20.00%	20.00%

Update parameters for calculating expected credit loss

Updating parameters for calculating collective impairment allowance is performed at least once a year, and more often if necessary, in case of major events.

The Bank is risk parameters for calculating collective impairment allowance applied as of December 31, 2021 update in part:

1) Historical data, as one of the elements of the assessment of these parameters, in a way that the parameters are evaluated taking into account the historical data of the Bank and the attached entity, thus reflecting the characteristics of the merged portfolio;

2) Additionally, the Bank, when determining the PD parameter used in the calculation of impairments, divided the exposure group with days of delay of 0-30 depending on the classification to stages, depending on the rating specified based on the behavior model used on the day of calculation and based on the existence of DPD 10 + latency indicators in the last 6 months. Accordingly, exposures in this group of days of delay are divided into two subgroups of different risk stages with corresponding PD parameter values.

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Maximum Credit Risk Exposure

The Bank's maximum credit risk exposures, without taking into account collaterals or other credit risk mitigation methods, as of December 31, 2021 and December 31, 2020, are provided in the tables below. For on-balance sheet items, the exposures represent net carrying value s of receivables as per the balance sheet (statement of financial position) items.

RSD000	Assets exposing the Bank to credit risk			Assets not exposing the Bank to credit risk	Value reported in the Statement of financial position
31.12.2021	Gross carrying value	Accumulated impairment allowance/provisions	Net carrying value		
On-balance sheet items					
Cash and balances held with the central bank	76,245,963	107,276	76,138,687	14,485,889	90,624,576
Pledged financial assets	463,080	-	463,080	-	463,080
Financial assets at FVtPL, held for trading	-	-	-	9,095,199	9,095,199
Financial assets at FVtOCI	44,947,352	-	44,947,352	29,664	44,977,016
Loans and receivables due from banks and other financial institutions	9,198,475	436,894	8,761,581	-	8,761,581
Loans and receivables due from customers	511,977,890	18,535,268	493,442,622	-	493,442,622
Investments in subsidiaries	-	-	-	149,650	149,650
Intangible assets	-	-	-	755,514	755,514
Property, plant and equipment	-	-	-	1,214,245	1,214,245
Investment property	-	-	-	12,329,180	12,329,180
Current tax assets	-	-	-	119,268	119,268
Deferred tax assets	-	-	-	190,978	190,978
Non-current assets held for sale and discontinued operations	-	-	-	6,164	6,164
Other assets	-	-	-	3,469,875	3,469,875
Total on-balance sheet exposure	**642,832,760**	**19,079,438**	**623,753,322**	**41,845,626**	**665,598,948**
Off-balance sheet items					
Guarantees and sureties issued	49,161,281	385,773	48,775,508	-	48,775,508
Credit commitments	120,571,694	856,084	119,715,610	-	119,715,610
Total off-balance sheet exposure	**169,732,975**	**1,241,857**	**168,491,118**	**-**	**168,491,118**
Total credit risk exposure	**812,565,735**	**20,321,295**	**792,244,440**	**41,845,626**	**834,090,066**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
December 31, 2021

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Maximum Credit Risk Exposure (Continued)

RSD000	Assets exposing the Bank to credit risk			Assets not exposing the Bank to credit risk	Value reported in the Statement of financial position
31.12.2020	Gross carrying value	Accumulated impairment allowance/provisions	Net carrying value		
On-balance sheet items					
Cash and balances held with the central bank	24,330,842	-	24,330,842	8,920,747	33,251,589
Pledged financial assets	1,177,302	-	1,177,302	317,494	1,494,796
Financial assets at FVtPL, held for trading	-	-	-	29,921	29,921
Financial assets at FVtOCI	17,187,394	-	17,187,394	41,128	17,228,522
Loans and receivables due from banks and other financial institutions	5,289,900	334,032	4,955,868	-	4,955,868
Loans and receivables due from customers	176,741,919	6,748,764	169,993,155	-	169,993,155
Investments in subsidiaries	-	-	-	441,416	441,416
Intangible assets	-	-	-	641,087	641,087
Property, plant and equipment	-	-	-	9,355,003	9,355,003
Investment property	-	-	-	150,125	150,125
Current tax assets	-	-	-	40,464	40,464
Deferred tax assets	-	-	-	400,041	400,041
Non-current assets held for sale and discontinued operations	-	-	-	6,164	6,164
Other assets	-	-	-	1,193,332	1,193,332
Total on-balance sheet exposure	**224,727,357**	**7,082,796**	**217,644,561**	**21,536,922**	**239,181,483**
Off-balance sheet items					
Guarantees and sureties issued	8,077,706	50,745	8,026,961	-	8,026,961
Credit commitments	32,081,892	186,710	31,895,182	-	31,895,182
Total off-balance sheet exposure	**40,159,598**	**237,455**	**39,922,143**	**-**	**39,922,143**
Total credit risk exposure	**264,886,955**	**7,320,251**	**257,566,704**	**21,536,922**	**279,103,626**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
December 31, 2021

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

The gross carrying value and accumulated impairment of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) per Stage as of December 31, 2021:

31.12.2021	Gross carrying value					Accumulated impairment					
RSD000	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying value
Cash and balances held with the central bank	**76,245,963**	**-**	**-**	**-**	**76,245,963**	**107,276**	**-**	**-**	**-**	**107,276**	**76,138,687**
Pledged financial assets	**463,080**	**-**	**-**	**-**	**463,080**	**-**	**-**	**-**	**-**	**-**	**463,080**
Loans and receivables due from banks	8,835,782	-	362,694	-	**9,198,476**	74,200	-	362,695	-	**436,895**	**8,761,581**
Housing loans*	103,641,374	9,732,806	1,606,924	556,517	**115,537,621**	309,444	725,587	723,898	239,661	**1,998,590**	**113,539,031**
Loans and receivables due from large and medium-sized entities	226,095,830	13,501,601	6,298,361	469,539	**246,365,331**	1,654,613	681,571	4,861,331	348,376	**7,545,891**	**238,819,440**
Consumer loans	113,250,915	9,372,031	9,919,481	146,820	**132,689,247**	866,737	723,174	6,265,080	107,900	**7,962,891**	**124,726,356**
Loans and receivables due from small and micro entities	8,417,980	1,076,073	853,344	11,840	**10,359,237**	120,487	75,699	658,095	4,237	**858,518**	**9,500,719**
Loans and receivables due from municipalities	6,841,728	57,206	127,520	-	**7,026,454**	37,000	6,526	125,852	-	**169,378**	**6,857,076**
Loans at amortized cost (due from banks and customers)	**467,083,609**	**33,739,717**	**19,168,324**	**1,184,716**	**521,176,366**	**3,062,481**	**2,212,557**	**12,996,951**	**700,174**	**18,972,163**	**502,204,203**
Securities at FVtOCI	44,452,139	495,213	-	-	**44,947,352**	-	-	-	-	**-**	**44,947,352**
Total financial assets	**588,244,791**	**34,234,930**	**19,168,324**	**1,184,716**	**642,832,761**	**3,169,757**	**2,212,557**	**12,996,951**	**700,174**	**19,079,439**	**623,753,322**
Guarantees and sureties issued	46,348,058	2,745,272	67,951	-	**49,161,281**	284,650	57,608	43,515	-	**385,773**	**48,775,508**
Credit commitments	118,079,449	2,382,820	109,425	-	**120,571,694**	745,622	83,519	26,943	-	**856,084**	**119,715,610**
Total off-balance sheet exposure	**164,427,507**	**5,128,092**	**177,376**	**-**	**169,732,975**	**1,030,272**	**141,127**	**70,458**	**-**	**1,241,857**	**168,491,118**

*Line item of housing loans include cash loans secured with mortgages

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
December 31, 2021

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

The gross carrying value and accumulated impairment of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) per Stage as of December 31, 2020:

31.12.2020	Gross carrying value					Accumulated impairment					
RSD000	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Carrying value
Cash and balances held with the central bank	**24,330,842**	**-**	**-**	**-**	**24,330,842**	**-**	**-**	**-**	**-**	**-**	**24,330,842**
Pledged financial assets	**1,177,302**	**-**	**-**	**-**	**1,177,302**	**-**	**-**	**-**	**-**	**-**	**1,177,302**
Loans and receivables due from banks	4,956,188	-	333,712	-	**5,289,900**	320	-	333,712	-	334,032	**4,955,868**
Housing loans*	18,454,294	2,052,355	624,717	446,445	**21,577,811**	171,954	222,652	475,530	214,045	1,084,181	**20,493,630**
Loans and receivables due from large and medium-sized entities	83,828,508	3,873,221	881,987	566,708	**89,150,424**	528,794	437,146	709,443	443,500	2,118,883	**87,031,541**
Consumer loans	54,165,225	4,403,073	2,728,070	293,949	**61,590,317**	591,448	668,181	1,752,206	226,547	3,238,382	**58,351,935**
Loans and receivables due from small and micro entities	1,834,377	152,849	77,649	74,207	**2,139,082**	36,116	22,719	67,062	61,951	187,848	**1,951,234**
Loans and receivables due from municipalities	2,225,245	-	59,040	-	**2,284,285**	60,430	-	59,040	-	119,470	**2,164,815**
Loans at amortized cost (due from banks and customers)	**165,463,837**	**10,481,498**	**4,705,175**	**1,381,309**	**182,031,819**	**1,389,062**	**1,350,698**	**3,396,993**	**946,043**	**7,082,796**	**174,949,023**
Securities at FVtOCI	17,187,394	-	-	-	**17,187,394**	-	-	-	-	-	**17,187,394**
Total financial assets	**208,159,375**	**10,481,498**	**4,705,175**	**1,381,309**	**224,727,357**	**1,389,062**	**1,350,698**	**3,396,993**	**946,043**	**7,082,796**	**217,644,561**
Guarantees and sureties issued	8,036,298	40,001	1,408	-	**8,077,707**	46,876	2,643	1,227	-	50,746	**8,026,961**
Credit commitments	31,723,379	336,527	21,985	-	**32,081,891**	175,987	3,351	7,371	-	186,709	**31,895,182**
Total off-balance sheet exposure	**39,759,677**	**376,528**	**23,393**	**-**	**40,159,598**	**222,863**	**5,994**	**8,598**	**-**	**237,455**	**39,922,143**

*Line item of housing loans include cash loans secured with mortgages

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
December 31, 2021

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Gross book value at amortized cost and securities at fair value through other total result of Stage 2 according to indicators of significant increase in credit risk on December 31, 2021

December 31, 2021									
Total financial assets RSD000	**restructured non-problematic receivables**	**Receivables in arrears from 31 to 90 days**	**Non-problematic receivables from household customers for which the condition of mutual non-settlement status (cross-default) is not met ***	**Receivables in currency that has undergone significant change in value (CHF)**	**Mortgage-backed receivables with a collateral-to-collateral (LTV) ratio of more than 125%**	**Clients of the corporate sector classified in the risk category Watch list 2 based on the results of monitoring activities**	**Unfavorable credit rating (special risk category) on the observed date**	**Significant deterioration of the credit rating compared to the approval date**	**Receivables for which the bank does not apply the behavioral rating model, and which were overdue for more than 10 days in the past 6 months**
Receivables from households	**148,542**	**1,015,991**	**509,512**	**95,002**	**1,085,945**	**-**	**7,537,243**	**8,362,329**	**350,272**
Housing loans	50,685	181,251	156,519	95,002	1,085,945	-	4,109,298	4,054,106	-
Consumer and cash loans	97,857	754,838	345,549	-	-	-	3,405,430	4,245,770	29,909
Transaction accounts and credit cards	-	19,172	4,481	-	-	-	22,515	62,454	75,534
Other receivables	-	60,729	2,963		-	-	-	-	244,830
Receivables from the corporate sector	**3,115,907**	**125,739**	**418**	**-**	**-**	**7,571,450**	**3,764,161**	**-**	**57,206**
Loans to medium and large companies	3,115,631	65,107	-	-	-	6,740,977	3,579,886	-	-
Loans to micro and small enterprises	276	60,632	418	-	-	830,473	184,275	-	-
Loans to municipalities	-	-	-	-	-	-	-	-	57,206
Financial institutions	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-
Receivables from other clients	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans at amortized cost (placements with other banks and receivables from loans from customers)	**3,264,449**	**1,141,729**	**509,930**	**95,002**	**1,085,945**	**7,571,450**	**11,301,404**	**8,362,329**	**407,478**
Securities at fair value through other comprehensive income	-	-	-	-	-	495,213	-	-	-
Total financial assets	**3,264,449**	**1,141,729**	**509,930**	**95,002**	**1,085,945**	**8,066,663**	**11,301,404**	**8,362,329**	**407,478**

* clients for whom the default status is determined at the level of receivables, and for which there are problematic receivables that do not exceed the materiality threshold of 20% of the total exposure to that client

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
December 31, 2021

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Gross book value at amortized cost and securities at fair value through other total result of Stage 2 according to indicators of significant increase in credit risk on December 31, 2021

December 31, 2021									
Total off-balance exposure RSD000	**restructured non-problematic receivables**	**Receivables in arrears from 31 to 90 days**	**Non-problematic receivables from household customers for which the condition of mutual non-settlement status (cross-default) is not met ***	**Receivables in currency that has undergone significant change in value (CHF)**	**Mortgage-backed receivables with a collateral-to-collateral (LTV) ratio of more than 125%**	**Clients of the corporate sector classified in the risk category Watch list 2 based on the results of monitoring activities**	**Unfavorable credit rating (special risk category) on the observed date**	**Significant deterioration of the credit rating compared to the approval date**	**Receivables for which the bank does not apply the behavioral rating model, and which were overdue for more than 10 days in the past 6 months**
Receivables from households	**-**	**4,635**	**2,253**	**-**	**-**	**-**	**10,091**	**23,560**	**7,775**
Housing loans	-	-	-	-	-	-	-	-	-
Consumer and cash loans	-	-	-	-	-	-	-	-	-
Transaction accounts and credit cards	-	4,635	2,253	-	-	-	10,091	23,560	7,775
Other receivables	-	-	-	-	-	-	-	-	-
Receivables from the corporate sector	**-**	**70**	**-**	**77,274**	**-**	**3,907,870**	**1,094,563**	**-**	**-**
Loans to medium and large companies	-	56	-	77,274	-	3,675,084	874,472	-	-
Loans to micro and small enterprises	-	14	-	-	-	232,786	220,092	-	-
Loans to municipalities	-	-	-	-	-	-	-	-	-
Financial institutions	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-
Receivables from other clients	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans at amortized cost (placements with other banks and receivables from loans from customers)	**-**	**4,705**	**2,253**	**77,274**	**-**	**3,907,870**	**1,104,655**	**23,560**	**7,775**
Securities at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total financial assets	**-**	**4,705**	**2,253**	**77,274**	**-**	**3,907,870**	**1,104,655**	**23,560**	**7,775**

* clients for whom the default status is determined at the level of receivables, and for which there are problematic receivables that do not exceed the materiality threshold of 20% of the total exposure to that client

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Gross book value at amortized cost and securities at fair value through other total result of stage 2 according to indicators of significant increase in credit risk on December 31, 2020

December 31, 2020									
Total financial assets RSD000	**restructured non-problematic receivables**	**Receivables in arrears from 31 to 90 days**	**Non-problematic receivables from household customers for which the condition of mutual non-settlement status (cross-default) is not met ***	**Receivables in currency that has undergone significant change in value (CHF)**	**Mortgage-backed receivables with a collateral-to-collateral (LTV) ratio of more than 125%**	**Clients of the corporate sector classified in the risk category Watch list 2 based on the results of monitoring activities**	**Unfavorable credit rating (special risk category) on the observed date**	**Significant deterioration of the credit rating compared to the approval date**	**Receivables for which the bank does not apply the behavioral rating model, and which were overdue for more than 10 days in the past 6 months**
Receivables from households	**98,928**	**565,016**	**150,288**	**61,925**	**180,180**	**-**	**2,100,333**	**3,132,457**	**166,301**
Housing loans	33,364	42,040	64,115	61,925	180,180	-	790,757	879,973	-
Consumer and cash loans	65,564	468,983	83,482	-	-	-	1,298,450	2,240,050	-
Transaction accounts and credit cards	-	15,181	919	-	-	-	11,126	12,435	31,075
Other receivables	-	38,812	1,772	-	-	-	-	-	135,226
Receivables from the corporate sector	**2,565,528**	**74,456**	**-**	**-**	**-**	**1,109,419**	**276,667**	**-**	**-**
Loans to medium and large companies	2,565,528	64,960	-	-	-	984,213	258,520	-	-
Loans to micro and small enterprises	-	9,496	-	-	-	125,207	18,147	-	-
Loans to municipalities	-	-	-	-	-	-	-	-	-
Financial institutions	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-
Receivables from other clients	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans at amortized cost (placements with other banks and receivables from loans from customers)	**2,664,456**	**639,472**	**150,288**	**61,925**	**180,180**	**1,109,419**	**2,377,000**	**3,132,457**	**166,301**
Securities at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total financial assets	**2,664,456**	**639,472**	**150,288**	**61,925**	**180,180**	**1,109,419**	**2,377,000**	**3,132,457**	**166,301**

* clients for whom the default status is determined at the level of receivables, and for which there are problematic receivables that do not exceed the materiality threshold of 20% of the total exposure to that client

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Gross book value at amortized cost and securities at fair value through other total result of Stage 2 according to indicators of significant increase in credit risk on December 31, 2020

December 31, 2020									
Total off-balance exposure RSD000	**restructured non-problematic receivables**	**Receivables in arrears from 31 to 90 days**	**Non-problematic receivables from household customers for which the condition of mutual non-settlement status (cross-default) is not met ***	**Receivables in currency that has undergone significant change in value (CHF)**	**Mortgage-backed receivables with a collateral-to-collateral (LTV) ratio of more than 125%**	**Clients of the corporate sector classified in the risk category Watch list 2 based on the results of monitoring activities**	**Unfavorable credit rating (special risk category) on the observed date**	**Significant deterioration of the credit rating compared to the approval date**	**Receivables for which the bank does not apply the behavioral rating model, and which were overdue for more than 10 days in the past 6 months**
Receivables from households	**-**	**2,989**	**1,344**	**-**	**-**	**-**	**6,060**	**3,014**	**4,789**
Housing loans	-	-	-	-	-	-	-	-	-
Consumer and cash loans	-	-	-	-	-	-	-	-	-
Transaction accounts and credit cards	-	2,989	1,344	-	-	-	6,060	3,014	4,789
Other receivables	-	-	-	-	-	-	-	-	-
Receivables from the corporate sector	**-**		**-**	**-**	**-**	**342,977**	**15,354**	**-**	**-**
Loans to medium and large companies	-		-	-	-	315,307	11,794	-	-
Loans to micro and small enterprises	-	-	-	-	-	27,671	3,560	-	-
Loans to municipalities	-	-	-	-	-	-	-	-	-
Financial institutions	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-
Receivables from other clients	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loans at amortized cost (placements with other banks and receivables from loans from customers)	**-**	**2,989**	**1,344**	**-**	**-**	**342,977**	**21,414**	**3,014**	**4,789**
Securities at fair value through other comprehensive income	-	-	-	-	-	-	-	-	-
Total financial assets	**-**	**2,989**	**1,344**	**-**	**-**	**342,977**	**21,414**	**3,014**	**4,789**

* clients for whom the default status is determined at the level of receivables, and for which there are problematic receivables that do not exceed the materiality threshold of 20% of the total exposure to that client

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Transfers among Stages of the gross carrying values of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2021 and December 31, 2020 (continued)

Cash and balances held with the central bank	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2020	**24,330,842**	**-**	**-**	**-**	**24,330,842**
Increase due to acquisition	23,792,886	-	-	-	**23,792,886**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Repaid funds	-	-	-	-	**-**
Exposure increase	38,258,380	-	-	-	**38,258,380**
Exposure decrease	(10,136,145)	-	-	-	**(10,136,145)**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases due to creation and acquisition	-	-	-	-	**-**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	-	-	-	-	**-**
Gross carrying value at December 31, 2021	**76,245,963**	**-**	**-**	**-**	**76,245,963**

Cash and balances held with the central bank	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2019	**31,004,448**	**-**	**-**	**-**	**31,004,448**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Repaid funds	(8,978,210)	-	-	-	**(8,978,210)**
Exposure increase	6,153,521	-	-	-	**6,153,521**
Exposure decrease	(3,848,917)	-	-	-	**(3,848,917)**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases due to creation and acquisition	-	-	-	-	**-**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	-	-	-	-	**-**
Gross carrying value at December 31, 2020	**24,330,842**	**-**	**-**	**-**	**24,330,842**

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Transfers among Stages of the gross carrying values of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2021 and December 31, 2020 (continued)

Pledged financial assets	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2020	**1,177,302**	**-**	**-**	**-**	**1,177,302**
Increase due to acquisition	2,350,000	-	-	-	**2,350,000**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Repaid funds	-	-	-	-	**-**
Exposure increase	-	-	-	-	**-**
Exposure decrease	(1,572)	-	-	-	**(1,572)**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases due to creation and acquisition	463,080	-	-	-	**463,080**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	(3,525,730)	-	-	-	**(3,525,730)**
Gross carrying value at December 31, 2021	**463,080**	**-**	**-**	**-**	**463,080**

Pledged financial assets	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2019	**389,380**	**-**	**-**	**-**	**389,380**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Repaid funds	(389,379)	-	-	-	**(389,379)**
Exposure increase	-	-	-	-	**-**
Exposure decrease	-	-	-	-	**-**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases due to creation and acquisition	1,177,301	-	-	-	**1,177,301**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	-	-	-	-	**-**
Gross carrying value at December 31, 2020	**1,177,302**	**-**	**-**	**-**	**1,177,302**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
December 31, 2021

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Transfers among Stages of the gross carrying values of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2021 and December 31, 2020 (continued)

Loans and receivables due from banks	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2020	**4,956,188**	**-**	**333,712**	**-**	**5,289,900**
Increase due to acquisition	3,993,241	-	-	-	**3,993,241**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Repaid funds	(3,924,123)	-	-	-	**(3,924,123)**
Exposure increase	3,965,498	-	483	-	**3,965,981**
Exposure decrease	(2,859,626)	-	-	-	**(2,859,626)**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases due to creation and acquisition	2,708,524	-	-	-	**2,708,524**
Decrease due to write-off	-	-	(36)	-	**(36)**
Sales	-	-	-	-	**-**
Other adjustments	(3,920)	-	28,535	-	**24,615**
Gross carrying value at December 31, 2021	**8,835,782**	**-**	**362,694**	**-**	**9,198,476**

Loans and receivables due from banks	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2019	**6,343,339**	**-**	**366,075**	**-**	**6,709,414**
Transfer to Stage 1	45	-	(45)	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	(13)	-	13	-	**-**
Repaid funds	(2,241,890)	-	-	-	**(2,241,890)**
Exposure increase	1,578,430	-	-	-	**1,578,430**
Exposure decrease	(1,521,294)	-	(32,394)	-	**(1,553,688)**
Effects of modifications that do not lead to derecognition	797,592	-	63	-	**797,655**
Increases due to creation and acquisition	-	-	-	-	**-**
Decrease due to write-off	(1)	-	-	-	**(1)**
Sales	-	-	-	-	**-**
Other adjustments	(20)	-	-	-	**(20)**
Gross carrying value at December 31, 2020	**4,956,188**	**-**	**333,712**	**-**	**5,289,900**

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Transfers among Stages of the gross carrying values of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2021 and December 31, 2020 (continued)

Loans at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2020	**160,507,649**	**10,481,498**	**4,371,463**	**1,381,309**	**176,741,919**
Increase due to acquisition	419,958,601	38,543,204	19,812,729	468,383	**478,782,917**
Transfer to Stage 1	2,245,338	(2,177,619)	(67,719)	-	**-**
Transfer to Stage 2	(4,551,372)	4,686,777	(296,284)	160,879	**-**
Transfer to Stage 3	(884,837)	(779,084)	1,824,800	(160,879)	**-**
Repaid funds	(98,677,086)	(964,508)	(3,565,773)	(70,161)	**(103,277,528)**
Exposure increase	1,605,993	200,544	1,293,568	663,323	**3,763,428**
Exposure decrease	(190,275,984)	(18,525,197)	(5,158,866)	(76,065)	**(214,036,112)**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases due to creation and acquisition	168,320,381	2,274,102	2,308,890	-	**172,903,373**
Decrease due to write-off	-	-	(1,656,236)	(581,213)	**(2,237,449)**
Sales	-	-	(60,906)	(600,860)	**(661,766)**
Other adjustments	(856)	-	(36)	-	**(892)**
Gross carrying value at December 31, 2021	**458,247,827**	**33,739,717**	**18,805,630**	**1,184,716**	**511,977,890**

Loans at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2019	**136,717,235**	**3,703,660**	**4,281,344**	**1,667,085**	**146,369,324**
Transfer to Stage 1	1,329,602	(1,287,997)	(41,567)	(38)	**-**
Transfer to Stage 2	(5,464,108)	5,539,413	(97,421)	22,116	**-**
Transfer to Stage 3	(565,664)	(402,747)	990,489	(22,078)	**-**
Repaid funds	(30,871,550)	(410,469)	(563,547)	(74,410)	**(31,919,976)**
Exposure increase	672,076	18,257	41,682	385,647	**1,117,662**
Exposure decrease	(14,087,178)	(281,009)	(180,832)	(132,749)	**(14,681,768)**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases due to creation and acquisition	72,788,216	3,602,841	459,106	29,752	**76,879,915**
Decrease due to write-off	(11,000)	(451)	(517,791)	(118,816)	**(648,058)**
Sales	-	-	-	(375,200)	**(375,200)**
Other adjustments	20	-	-	-	**20**
Gross carrying value at December 31, 2020	**160,507,649**	**10,481,498**	**4,371,463**	**1,381,309**	**176,741,919**

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Transfers among Stages of the gross carrying values of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2021 and December 31, 2020 (continued)

Securities at FVtOCI and securities at AC	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2020	**9,237,425**	**-**	**-**	**-**	**9,237,425**
Increase due to acquisition	37,815,423	497,623	-	-	**38,313,046**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Repaid funds	(8,152,210)	-	-	-	**(8,152,210)**
Exposure increase	32,445	-	-	-	**32,445**
Exposure decrease	(972,514)	(2,410)	-	-	**(974,924)**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases due to creation and acquisition	2,965,840	-	-	-	**2,965,840**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	3,525,730	-	-	-	**3,525,730**
Gross carrying value at December 31, 2021	**44,452,139**	**495,213**	**-**	**-**	**44,947,352**

* the exposure due to reclassification of credit risk exposure is excluded from the total initial exposure

Securities at FVtOCI and securities at AC	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2019	**11,328,714**	**-**	**-**	**-**	**11,328,714**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Repaid funds	(4,541,890)	-	-	-	**(4,541,890)**
Exposure increase	-	-	-	-	**-**
Exposure decrease	(105,458)	-	-	-	**(105,458)**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases due to creation and acquisition	10,506,028	-	-	-	**10,506,028**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	-	-	-	-	**-**
Gross carrying value at December 31, 2020	**17,187,394**	**-**	**-**	**-**	**17,187,394**

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Transfers among Stages of the gross carrying values of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2021 and December 31, 2020 (continued)

Commitments and contingent liabilities	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2020	**31,723,379**	**336,527**	**21,985**	**-**	**32,081,891**
Increase due to acquisition	62,687,352	4,954,301	118,989	-	**67,760,642**
Transfer to Stage 1	16,721	(13,597)	(3,124)	-	**-**
Transfer to Stage 2	(48,807)	49,996	(1,189)	-	**-**
Transfer to Stage 3	(9,447)	(2,488)	11,935	-	**-**
Repaid funds	(38,963,663)	(394,494)	(64,661)	-	**(39,422,818)**
Exposure increase	12,108,691	102,472	12,783	-	**12,223,946**
Exposure decrease	(10,542,324)	(2,793,449)	(1,734)	-	**(13,337,507)**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases due to creation and acquisition	61,107,547	143,552	14,441	-	**61,265,540**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	-	-	-	-	**-**
Gross carrying value at December 31, 2021	**118,079,449**	**2,382,820**	**109,425**	**-**	**120,571,694**

Commitments and contingent liabilities	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2019	**24,057,916**	**49,755**	**23,121**	**-**	**24,130,792**
Transfer to Stage 1	35,414	(32,796)	(2,618)	-	**-**
Transfer to Stage 2	(20,226)	20,619	(393)	-	**-**
Transfer to Stage 3	(6,819)	(1,440)	8,259	-	**-**
Repaid funds	(11,803,129)	(17,285)	(9,003)	-	**(11,829,417)**
Exposure increase	3,990,235	12,379	2,391	-	**4,005,005**
Exposure decrease	(2,783,427)	(3,747)	(692)	-	**(2,787,866)**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases due to creation and acquisition	18,253,415	309,042	920	-	**18,563,377**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	-	-	-	-	**-**
Gross carrying value at December 31, 2020	**31,723,379**	**336,527**	**21,985**	**-**	**32,081,891**

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Transfers among Stages of the gross carrying values of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2021 and December 31, 2020 (continued)

Financial guarantees and sureties issued	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2020	**8,036,298**	**40,001**	**1,408**	**-**	**8,077,707**
Increase due to acquisition	27,170,143	2,320,731	86,846	-	**29,577,720**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	(468,339)	473,629	(5,290)	-	**-**
Transfer to Stage 3	(66)	-	66	-	**-**
Repaid funds	(12,648,026)	(128,730)	(15,298)	-	**(12,792,054)**
Exposure increase	1,303,150	14,424	219	-	**1,317,793**
Exposure decrease	(628,501)	(357,923)	-	-	**(986,424)**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases due to creation and acquisition	23,583,399	383,140	-	-	**23,966,539**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	-	-	-	-	**-**
Gross carrying value at December 31, 2021	**46,348,058**	**2,745,272**	**67,951**	**-**	**49,161,281**

Financial guarantees and sureties issued	Stage 1	Stage 2	Stage 3	POCI	Total
Gross carrying value at December 31, 2019	**8,878,794**	**-**	**1,545**	**-**	**8,880,339**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	(33,691)	33,691	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Repaid funds	(5,913,820)	-	-	-	**(5,913,820)**
Exposure increase	14,583	-	-	-	**14,583**
Exposure decrease	(286,425)	-	(137)	-	**(286,562)**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases due to creation and acquisition	5,376,857	6,310	-	-	**5,383,167**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	-	-	-	-	**-**
Gross carrying value at December 31, 2020	**8,036,298**	**40,001**	**1,408**	**-**	**8,077,707**

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Transfers among Stages of the impairment allowances of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2021 and December 31, 2020:

Cash and balances held with the central bank	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2020	**-**	**-**	**-**	**-**	**-**
Increase due to acquisition	-	-	-	-	**-**
Transfer to Stage 1	-	-	-	-	
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Reduction of the correction of repaid funds	-	-	-	-	**-**
Increase of impairment allowance	107,276	-	-	-	**107,276**
Decrease of impairment allowance	-	-	-	-	**-**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases in accruals and acquisitions	-	-	-	-	**-**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	-	-	-	-	**-**
Impairment allowance at December 31, 2021	**107,276**	**-**	**-**	**-**	**107,276**

Cash and balances held with the central bank	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2019	**-**	**-**	**-**	**-**	**-**
Transfer to Stage 1	-	-	-	-	
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Reduction of the correction of repaid funds	-	-	-	-	**-**
Increase of impairment allowance	-	-	-	-	**-**
Decrease of impairment allowance	-	-	-	-	**-**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases in accruals and acquisitions	-	-	-	-	**-**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	-	-	-	-	**-**
Impairment allowance at December 31, 2020	**-**	**-**	**-**	**-**	**-**

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Transfers among Stages of the impairment allowances of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2021 and December 31, 2020:

Loans and receivables due from banks	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2020	**(320)**	**-**	**(333,712)**	**-**	**(334,032)**
Increase due to acquisition	(11,236)	-	-	-	**(11,236)**
Transfer to Stage 1	-	-	-	-	
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Reduction of the correction of repaid funds	22,782	-	-	-	**22,782**
Increase of impairment allowance	(50,053)	-	(275)	-	**(50,328)**
Decrease of impairment allowance	8,563	-	-	-	**8,563**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases in accruals and acquisitions	(43,936)	-	-	-	**(43,936)**
Decrease due to write-off	-	-	(36)	-	**(36)**
Sales	-	-	-	-	**-**
Other adjustments	-	-	(28,672)	-	**(28,672)**
Impairment allowance at December 31, 2021	**(74,200)**	**-**	**(362,695)**	**-**	**(436,895)**

Loans and receivables due from banks	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2019	**(29)**	**-**	**(366,075)**	**-**	**(366,104)**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	46	-	(46)	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Reduction of the correction of repaid funds	-	-	2	-	**2**
Increase of impairment allowance	(291)	-	(3,905)	-	**(4,196)**
Decrease of impairment allowance	-	-	6,315	-	**6,315**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases in accruals and acquisitions	-	-	(2,164)	-	**(2,164)**
Decrease due to write-off	-	-	-	-	**-**
Sales	**-**	**-**	**-**	**-**	**-**
Other adjustments	-	-	32,115	-	**32,115**
Impairment allowance at December 31, 2020	**(320)**	**-**	**(333,712)**	**-**	**(334,032)**

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Transfers among Stages of the impairment allowances of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2021 and December 31, 2020:

Loans at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2020	**(1,388,742)**	**(1,350,698)**	**(3,063,281)**	**(946,043)**	**(6,748,764)**
Increase due to acquisition	(2,231,494)	(1,011,480)	(10,046,645)	(42,199)	**(13,331,818)**
Transfer to Stage 1	(2,023,037)	1,779,603	243,434	-	**-**
Transfer to Stage 2	267,778	(1,062,477)	885,863	(91,164)	**-**
Transfer to Stage 3	21,769	1,135,572	(1,249,021)	91,680	**-**
Reduction of the correction of repaid funds	826,494	248,475	597,971	-	**1,672,940**
Increase of impairment allowance	(961,124)	(4,166,490)	(5,177,166)	(15,149)	**(10,319,929)**
Decrease of impairment allowance	4,393,798	2,379,329	3,381,338	185,970	**10,340,435**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases in accruals and acquisitions	(1,891,600)	(163,722)	(32,304)	-	**(2,087,626)**
Decrease due to write-off	-	-	1,816,526	22,477	**1,839,003**
Sales	-	-	50,844	77,399	**128,243**
Other adjustments	(2,123)	(669)	(41,815)	16,855	**(27,752)**
Impairment allowance at December 31, 2021	**(2,988,281)**	**(2,212,557)**	**(12,634,256)**	**(700,174)**	**(18,535,268)**

Loans at amortized cost	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2019	**(542,101)**	**(227,406)**	**(3,030,609)**	**(966,876)**	**(4,766,992)**
Transfer to Stage 1	(330,281)	293,143	37,450	(312)	**-**
Transfer to Stage 2	100,534	(164,292)	70,975	(7,217)	**-**
Transfer to Stage 3	10,324	197,988	(215,841)	7,529	**-**
Reduction of the correction of repaid funds	-	-	-	-	**-**
Increase of impairment allowance	(1,337,064)	(1,682,077)	(1,662,549)	(524,685)	**(5,206,375)**
Decrease of impairment allowance	1,355,369	306,527	905,430	433,739	**3,001,065**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases in accruals and acquisitions	(696,597)	(74,724)	(55,113)	(40)	**(826,474)**
Decrease due to write-off	536	9	534,191	108,597	**643,333**
Sales	-	93	-	3,346	**3,439**
Other adjustments	50,538	41	352,785	(124)	**403,240**
Impairment allowance at December 31, 2020	**(1,388,742)**	**(1,350,698)**	**(3,063,281)**	**(946,043)**	**(6,748,764)**

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Transfers among Stages of the impairment allowances of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2021 and December 31, 2020:

Securities at FVtOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2020	**(60,540)**	**-**	**-**	**-**	**(60,540)**
Increase due to acquisition	(221,343)	(62,283)	-	-	**(283,626)**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Reduction of the correction of repaid funds	219,305	-	-	-	**219,305**
Increase of impairment allowance	-	-	-	-	**-**
Decrease of impairment allowance	-	16,162	-	-	**16,162**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases in accruals and acquisitions	(162,889)	-	-	-	**(162,889)**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	-	-	-	-	**-**
Impairment allowance at December 31, 2021	**(225,467)**	**(46,121)**	**-**	**-**	**(271,588)**

Securities at FVtOCI	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2019	**(21,093)**	**-**	**-**	**-**	**(21,093)**
Transfer to Stage 1	-	-	-	-	**-**
Transfer to Stage 2	-	-	-	-	**-**
Transfer to Stage 3	-	-	-	-	**-**
Reduction of the correction of repaid funds	26,403	-	-	-	**26,403**
Increase of impairment allowance	-	-	-	-	**-**
Decrease of impairment allowance	-	-	-	-	**-**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases in accruals and acquisitions	(65,850)	-	-	-	**(65,850)**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	-	-	-	-	**-**
Impairment allowance at December 31, 2020	**(60,540)**	**-**	**-**	**-**	**(60,540)**

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Transfers among Stages of the impairment allowances of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2021 and December 31, 2020:

Commitments and contingent liabilities	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2020	**(175,987)**	**(3,351)**	**(7,371)**	**-**	**(186,709)**
Increase due to acquisition	(323,544)	(17,540)	(4,996)	-	**(346,080)**
Transfer to Stage 1	(167,800)	160,742	7,058	-	**-**
Transfer to Stage 2	8,125	(10,108)	1,983	-	**-**
Transfer to Stage 3	300	2,967	(3,267)	-	**-**
Reduction of the correction of repaid funds	370,476	18,809	60,146	-	**449,431**
Increase of impairment allowance	(530,595)	(196,767)	(40,088)	-	**(767,450)**
Decrease of impairment allowance	899,098	145,077	12,871	-	**1,057,046**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases in accruals and acquisitions	(825,626)	(183,355)	(53,466)	-	**(1,062,447)**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	180	-	**180**
Other adjustments	(69)	7	7	-	**(55)**
Impairment allowance at December 31, 2021	**(745,622)**	**(83,519)**	**(26,943)**	**-**	**(856,084)**

Commitments and contingent liabilities	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2019	**(57,151)**	**(4,648)**	**(8,561)**	**-**	**(70,360)**
Transfer to Stage 1	(1,813)	-	1,813	-	**-**
Transfer to Stage 2	1,046	(1,426)	380	-	**-**
Transfer to Stage 3	102	488	(590)	-	**-**
Reduction of the correction of repaid funds	203,563	549	5,620	-	**209,732**
Increase of impairment allowance	(315,005)	(9,128)	(9,266)	-	**(333,399)**
Decrease of impairment allowance	287,723	15,539	5,463	-	**308,725**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases in accruals and acquisitions	(293,695)	(5,230)	(3,266)	-	**(302,191)**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	(757)	505	1,036	-	**784**
Impairment allowance at December 31, 2020	**(175,987)**	**(3,351)**	**(7,371)**	**-**	**(186,709)**

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Transfers among Stages of the impairment allowances of financial assets measured at amortized cost (AC) and securities at fair value through other comprehensive income (FVtOCI) for the years ended December 31, 2021 and December 31, 2020:

Financial guarantees and sureties issued	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2020	**(46,876)**	**(2,643)**	**(1,227)**	**-**	**(50,746)**
Increase due to acquisition	(138,569)	(46,790)	(51,123)	-	**(236,482)**
Transfer to Stage 1	(7,079)	5,722	1,357	-	
Transfer to Stage 2	3,647	(9,185)	5,538	-	**-**
Transfer to Stage 3	75	8,089	(8,164)	-	**-**
Reduction of the correction of repaid funds	102,422	5,068	10,145	-	**117,635**
Increase of impairment allowance	(140,057)	(86,041)	(14,780)	-	**(240,878)**
Decrease of impairment allowance	118,883	88,281	14,924	-	**222,088**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases in accruals and acquisitions	(176,639)	(19,907)	-	-	**(196,546)**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	(457)	(202)	(185)	-	**(844)**
Impairment allowance at December 31, 2021	**(284,650)**	**(57,608)**	**(43,515)**	**-**	**(385,773)**

Financial guarantees and sureties issued	Stage 1	Stage 2	Stage 3	POCI	Total
Impairment allowance at December 31, 2019	**(24,555)**	**-**	**(3,663)**	**-**	**(28,218)**
Transfer to Stage 1	-	-	-	-	
Transfer to Stage 2	769	(769)	-	-	**-**
Transfer to Stage 3	331	-	(331)	-	**-**
Reduction of the correction of repaid funds	37,556	801	4,954	-	**43,311**
Increase of impairment allowance	(54,010)	(2,900)	(3,620)	-	**(60,530)**
Decrease of impairment allowance	28,061	236	1,315	-	**29,612**
Effects of modifications that do not lead to derecognition	-	-	-	-	**-**
Increases in accruals and acquisitions	(35,080)	(11)	-	-	**(35,091)**
Decrease due to write-off	-	-	-	-	**-**
Sales	-	-	-	-	**-**
Other adjustments	52	-	118	-	**170**
Impairment allowance at December 31, 2020	**(46,876)**	**(2,643)**	**(1,227)**	**-**	**(50,746)**

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Modified Assets

In order to address the credit risk, the Bank commonly elects to modify the contractual terms of repayment rather than foreclose the collaterals. Such modifications may entail extension of the repayment period and/or new terms of crediting.

When the contractual cash flows of a financial assets have been renegotiated and the new arrangement or the modification does not result in derecognition of the asset under IFRS 9, the Bank will recalculate the gross carrying value of the asset and recognize a gain or loss on the modification in the income statement.

By means of its internal bylaws and instruction manuals the Bank has established a framework for management of forborne receivables. The Bank's management continuously monitors the modified financial instruments in order to ensure that all the criteria are met and that future payments are likely to occur.

Restructuring (forbearance) means approving a single loan repayment concessions to a borrower, due to the borrower's financial difficulties, that would not otherwise be approved, regardless of whether the loan/receivables is matured in part or in full, whether it is securitized or not or whether it is in the status of default or not.

The Bank identifies restructured (forborne) loans at the time of their modification and classifies them as non-performing forborne (Stage 3) or performing forborne (Stage 2). In addition, the Bank has set up an appropriate framework for monitoring and reclassification of the forborne loans and receivables, including their cure, i.e., exit from the forborne status.

The tables below present the forborne loans for FY 2021 and the comparative period (FY 2020):

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NOTES TO THE SEPARATE FINANCIAL STATEMENTS
December 31, 2021

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

***Modified Assets* (Continued)**

31.12.2021									
Balance sheet items	Write-off of principal	Write-off of accrued interest	Moratorium	Restructuring of interest payments	Restructuring of principal payments	Restructuring of collateral structure	Modification of other conditions	Refinancing	Total
Receivables from retail	**-**	**-**	**-**	**-**	**-**	**-**	**146,509**	**-**	**146,509**
Housing loans	-	-	-	-	-	-	5,482	-	5,482
Consumer and cash loans	-	-	-	-	-	-	141,027	-	141,027
Transaction and credit cards	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-
Receivables from the corporate	**-**	**-**	**-**	**279,292**	**3,350,751**	**4,818**	**-**	**28,100**	**3,662,961**
Large companies	-	-	-	279,292	43,872	-	-	27,824	350,988
Small and medium-sized enterprises	-	-	-	-	611,592	-	-	-	611,592
Micro enterprises and entrepreneurs	-	-	-	-	2,695,287	4,818	-	276	2,700,381
Financial institutions	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Receivables from other clients	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposure	**-**	**-**	**-**	**279,292**	**3,350,751**	**4,818**	**146,509**	**28,100**	**3,809,470**

* If, in addition to the restructuring of the principal, an additional modification was made in relation to the initial contract (restructuring of interest, change of collateral, etc.), the classification is done on the basis of an additional condition
* the total amount of restructuring during 2021 includes all modifications made, including those receivables where additional modifications have been made; among them the largest relate to (in 000 RSD)

BW Galerija d.o.o. Beograd-Savski Venac	2,159,164
VALJAONICA BAKRA SEVOJNO AD SEVOJNO	279,292
BIG BLUE GROUP DOO BEOGRAD	141,246
BAUWESEN DOO LAZAREVAC	27,824

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
December 31, 2021

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

***Modified Assets* (Continued)**

31.12.2021									
Off-Balance sheet items	Write-off of principal	Write-off of accrued interest	Moratorium	Restructuring of interest payments	Restructuring of principal payments	Restructuring of collateral structure	Modification of other conditions	Refinancing	Total
Receivables from retail	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Housing loans	-	-	-	-	-	-	-	-	-
Consumer and cash loans	-	-	-	-	-	-	-	-	-
Transaction and credit cards	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-
Receivables from the corporate	**-**	**-**	**-**	**-**	**1,447**	**-**	**-**	**-**	**1,447**
Large companies	-	-	-	-	-	-	-	-	-
Small and medium-sized enterprises	-	-	-	-	1,447	-	-	-	1,447
Micro enterprises and entrepreneurs	-	-	-	-	-	-	-	-	-
Financial institutions	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Receivables from other clients	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposure	**-**	**-**	**-**	**-**	**1,447**	**-**	**-**	**-**	**1,447**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
December 31, 2021

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

***Modified Assets* (Continued)**

31.12.2021								
Balance sheet receivables	Gross value as at December 31, 2020	Increase due to merger of entities	Restructured during the period	Discontinued to be considered restructured during the period.	Exchange rate impact	Other changes	Gross value as of December 31, 2021	Net value as of December 31, 2021
Receivables from retail	**1,024,977**	**167,134**	**139,824**	**84,659**	**-**	**(65,996)**	**1,350,598**	**595,026**
Housing loans	758,408	113,194	5,482	44,232	-	(41,111)	880,205	383,962
Consumer and cash loans	266,569	53,940	134,342	40,427	-	(24,885)	470,393	211,064
Transaction and credit cards	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-
Receivables from the corporate	**2,740,063**	**1,802,525**	**1,044,070**	**1,003,934**	**-**	**(89,146)**	**6,501,446**	**3,147,227**
Large companies	39,984	624,216	213,913	372,243	-	(21,111)	1,229,245	208,270
Small and medium-sized enterprises	91,779	573,727	610,145	545,123	-	(8,631)	1,812,143	431,878
Micro enterprises and entrepreneurs	2,608,300	604,582	220,012	86,568	-	(59,404)	3,460,058	2,507,079
Financial institutions	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Receivables from other clients	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposure	**3,765,040**	**1,969,659**	**1,183,894**	**1,088,593**	**-**	**(155,142)**	**7,852,044**	**3,742,253**

31.12.2021								
Off-Balance sheet receivables	Gross value as at December 31, 2020	Increase due to merger of entities	Restructured during the period	Discontinued to be considered restructured during the period.	Exchange rate impact	Other changes	Gross value as of December 31, 2021	Net value as of December 31, 2021
Receivables from retail	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Housing loans	-	-	-	-	-	-	-	-
Consumer and cash loans	-	-	-	-	-	-	-	-
Transaction and credit cards	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-
Receivables from the corporate	**-**	**-**	**1,447**	**-**	**-**	**-**	**1,447**	**822**
Large companies	-	-	-	-	-	-	-	-
Small and medium-sized enterprises	-	-	1,447	-	-	-	1,447	822
Micro enterprises and entrepreneurs	-	-	-	-	-	-	-	-
Financial institutions	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Receivables from other clients	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total exposure	**-**	**-**	**1,447**	**-**	**-**	**-**	**1,447**	**822**

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Credit Risk Exposure per Days past Due, Rating and Stage

During 2021 and 2020, the Bank developed internal models for customer credit rating. The tables below present credit risk exposure in 2021 according to the customer rating for the portfolio segments where the rating model was implemented. For loans and receivables where the rating model was not implemented, the credit risk exposure is presented per days past due and Stage.

Total loans are presented separately per days past due, comparatively as of December 31, 2021 and December 31, 2020:

December 31, 2021	Stage 1	Stage 2	Stage 3		
Loans due from banks - RSD000	12-month ECL, cumulative	Lifetime ECL, cumulative	Lifetime ECL, cumulative	POCI assets, cumulative	Total, cumulative
Not past due	8,834,767	-	-	-	**8,834,767**
Up to 30 days past due	996	-	-	-	**996**
From 31 to 60 days past due	-	-	-	-	**-**
From 61 to 90 days past due	-	-	-	-	**-**
Non-performing	-	-	-	-	**-**
Not past due	19	-	-	-	**19**
Up to 30 days past due	-	-	-	-	**-**
From 31 to 60 days past due	-	-	-	-	**-**
From 61 to 90 days past due	-	-	-	-	**-**
Over 90 days past due	-	-	362,694	-	**362,694**
Gross carrying value	**8,835,782**	**-**	**362,694**	**-**	**9,198,476**
Impairment allowance	74,201	-	362,694	-	**436,895**
Net carrying value	**8,761,581**	**-**	**-**	**-**	**8,761,581**

December 31, 2020	Stage 1	Stage 2	Stage 3		
Loans due from banks - RSD000	12-month ECL, cumulative	Lifetime ECL, cumulative	Lifetime ECL, cumulative	POCI assets, cumulative	Total, cumulative
Not past due	4,869,078	-	-	-	**4,869,078**
Up to 30 days past due	87,098	-	-	-	**87,098**
From 31 to 60 days past due	-	-	-	-	**-**
From 61 to 90 days past due	12	-	-	-	**12**
Non-performing	-	-	-	-	**-**
Not past due	-	-	7	-	**7**
Up to 30 days past due	-	-	-	-	**-**
From 31 to 60 days past due	-	-	-	-	**-**
From 61 to 90 days past due	-	-	-	-	**-**
Over 90 days past due	-	-	333,705	-	**333,705**
Gross carrying value	**4,956,188**	**-**	**333,712**	**-**	**5,289,900**
Impairment allowance	320	-	333,712	-	**334,032**
Net carrying value	**4,955,868**	**-**	**-**	**-**	**4,955,868**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
December 31, 2021

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Credit Risk Exposure per Days past Due, Rating and Stage (Continued)

December 31, 2021	Stage 1	Stage 2	Stage 3		
Retail loans, not subject to rating* - RSD000	12-month ECL, cumulative	Lifetime ECL, cumulative	Lifetime ECL, cumulative	POCI assets, cumulative	Total, cumulative
Not past due	6,812,249	284,660	-	39	**7,096,948**
Up to 30 days past due	249,647	158,576	-	7	**408,230**
From 31 to 60 days past due	727	60,035	-	3	**60,765**
From 61 to 90 days past due	561	24,214	-	-	**24,775**
Non-performing	-	-	-	-	**-**
Not past due	3,966	-	62,643	13	**66,622**
Up to 30 days past due	2	-	16,260	-	**16,262**
From 31 to 60 days past due	237	-	13,385	2	**13,624**
From 61 to 90 days past due	173	-	4,825	1	**4,999**
Over 90 days past due	-	-	1,085,957	32,296	**1,118,253**
Gross carrying value	**7,067,562**	**527,485**	**1,183,070**	**32,361**	**8,810,478**
Impairment allowance	49,561	32,503	786,327	31,953	**900,344**
Net carrying value	**7,018,001**	**494,982**	**396,743**	**408**	**7,910,134**

December 31, 2020	Stage 1	Stage 2	Stage 3		
Retail loans, not subject to rating* - RSD000	12-month ECL, cumulative	Lifetime ECL, cumulative	Lifetime ECL, cumulative	POCI assets, cumulative	Total, cumulative
Not past due	2,394,353	127,460	-	35	**2,521,848**
Up to 30 days past due	52,607	65,084	-	15	**117,706**
From 31 to 60 days past due	1,570	33,893	-	-	**35,463**
From 61 to 90 days past due	470	20,011	-	27	**20,508**
Non-performing	-	-	-	-	**-**
Not past due	-	-	47,039	8	**47,047**
Up to 30 days past due	-	-	17,941	1	**17,942**
From 31 to 60 days past due	-	-	10,910	1	**10,911**
From 61 to 90 days past due	-	-	3,675	-	**3,675**
Over 90 days past due	-	-	303,961	150,388	**454,349**
Gross carrying value	**2,449,000**	**246,448**	**383,526**	**150,475**	**3,229,449**
Impairment allowance	33,423	29,227	226,273	143,080	**432,003**
Net carrying value	**2,415,577**	**217,221**	**157,253**	**7,395**	**2,797,446**

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Credit Risk Exposure per Days past Due, Rating and Stage (Continued)

December 31, 2021	Stage 1	Stage 2	Stage 3		
Housing loans - RSD000	12-month ECL, cumulative	Lifetime ECL, cumulative	Lifetime ECL, cumulative	POCI assets, cumulative	Total, cumulative
Rating 1	14,130,514	14,108	-	-	**14,144,622**
Rating 2	70,302,757	849,197	-	52,581	**71,204,535**
Rating 3	10,144,262	108,711	-	21,389	**10,274,362**
Rating 4	3,330,570	52,192	-	30,734	**3,413,496**
Rating 5	2,355,009	18,375	-	28,648	**2,402,032**
Rating 6	905,132	35,583	-	9,027	**949,742**
Rating 7	2,170,961	3,765,727	-	17,514	**5,954,202**
Rating 8	302,169	408,731	-	2,384	**713,284**
Rating 9	-	1,764,275	-	29,202	**1,793,477**
Default	-	2,715,907	-	54,459	**2,770,366**
Without rating	-	-	1,606,924	310,579	**1,917,503**
Gross carrying value	**103,641,374**	**9,732,806**	**1,606,924**	**556,517**	**115,537,621**
Impairment allowance	309,444	725,587	723,898	239,661	**1,998,590**
Net carrying value	**103,331,930**	**9,007,219**	**883,026**	**316,856**	**113,539,031**

December 31, 2020	Stage 1	Stage 2	Stage 3		
Housing loans - RSD000	12-month ECL, cumulative	Lifetime ECL, cumulative	Lifetime ECL, cumulative	POCI assets, cumulative	Total, cumulative
Rating 1	10,784,552	151,429	-	23,891	**10,959,872**
Rating 2	3,144,139	30,246	-	7,627	**3,182,012**
Rating 3	1,196,948	30,351	-	6,032	**1,233,331**
Rating 4	515,365	24,444	-	7,593	**547,402**
Rating 5	253,252	6,410	-	5,465	**265,127**
Rating 6	399,482	784,137	-	2,645	**1,186,264**
Rating 7	51,818	125,276	-	5,137	**182,231**
Rating 8	-	481,255	-	12,985	**494,240**
Rating 9	-	418,049	-	18,132	**436,181**
Default	-	-	624,717	356,938	**981,655**
Without rating	2,108,738	758	-	-	**2,109,496**
Gross carrying value	**18,454,294**	**2,052,355**	**624,717**	**446,445**	**21,577,811**
Impairment allowance	171,954	222,652	475,530	214,045	**1,084,181**
Net carrying value	18,282,340	1,829,703	149,187	232,400	**20,493,630**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
December 31, 2021

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Credit Risk Exposure per Days past Due, Rating and Stage (Continued)

December 31, 2021	Stage 1	Stage 2	Stage 3		
Cash loans - RSD000	12-month ECL, cumulative	Lifetime ECL, cumulative	Lifetime ECL, cumulative	POCI assets, cumulative	Total, cumulative
Rating 1	27,405,089	45,420	-	-	**27,450,509**
Rating 2	3,015,123	117	-	-	**3,015,240**
Rating 3	10,575,564	3,627	-	219	**10,579,410**
Rating 4	16,020,926	4,920	-	2,270	**16,028,116**
Rating 5	19,130,194	11,565	-	483	**19,142,242**
Rating 6	11,398,877	16,163	-	2,681	**11,417,721**
Rating 7	11,427,903	15,085	-	4,658	**11,447,646**
Rating 8	5,572,395	267,343	-	199	**5,839,937**
Rating 9	1,637,282	4,603,255	-	5,024	**6,245,561**
Default	-	3,877,051	-	792	**3,877,843**
Without rating	-	-	8,736,411	98,133	**8,834,544**
Gross carrying value	**106,183,353**	**8,844,546**	**8,736,411**	**114,459**	**123,878,769**
Impairment allowance	817,176	690,671	5,478,753	75,947	**7,062,547**
Net carrying value	**105,366,177**	**8,153,875**	**3,257,658**	**38,512**	**116,816,222**

December 31, 2020	Stage 1	Stage 2	Stage 3		
Cash loans - RSD000	12-month ECL, cumulative	Lifetime ECL, cumulative	Lifetime ECL, cumulative	POCI assets, cumulative	Total, cumulative
Rating 1	1,515,358	-	-	-	**1,515,358**
Rating 2	5,235,790	953	-	319	**5,237,062**
Rating 3	7,424,556	2,532	-	2,331	**7,429,419**
Rating 4	8,065,737	6,189	-	2,567	**8,074,493**
Rating 5	5,898,191	7,023	-	3,636	**5,908,850**
Rating 6	5,039,325	11,427	-	3,035	**5,053,787**
Rating 7	1,894,520	261,560	-	2,087	**2,158,167**
Rating 8	364,899	2,306,220	-	10,049	**2,681,168**
Rating 9	-	1,527,888	-	3,406	**1,531,294**
Default	-	-	2,344,544	116,044	**2,460,588**
Without rating	16,277,849	32,833	-	-	**16,310,682**
Gross carrying value	**51,716,225**	**4,156,625**	**2,344,544**	**143,474**	**58,360,868**
Impairment allowance	558,025	638,954	1,525,933	83,467	**2,806,379**
Net carrying value	**51,158,200**	**3,517,671**	**818,611**	**60,007**	**55,554,489**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
December 31, 2021

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Credit Risk Exposure per Days past Due, Rating and Stage (Continued)

December 31, 2021	Stage 1	Stage 2	Stage 3		
Corporate loans - RSD000	12-month ECL, cumulative	Lifetime ECL, cumulative	Lifetime ECL, cumulative	POCI assets, cumulative	Total, cumulative
Rating 1	29,003,609	4,946,969	-	75	**33,950,653**
Rating 2	18,177,407	77,546	-	2	**18,254,955**
Rating 3	44,117,140	185,506	-	22	**44,302,668**
Rating 4	31,597,647	244,531	-	6	**31,842,184**
Rating 5	23,217,709	390,648	-	1	**23,608,358**
Rating 6	48,418,874	808,499	-	-	**49,227,373**
Rating 7	35,620,443	568,031	-	-	**36,188,474**
Rating 8	8,265,893	1,321,380	-	1	**9,587,274**
Rating 9	2,928,528	1,159,977	-	-	**4,088,505**
Default	59	4,931,793	-	-	**4,931,852**
Without rating	8,229	-	7,279,225	481,272	**7,768,726**
Gross carrying value	**241,355,538**	**14,634,880**	**7,279,225**	**481,379**	**263,751,022**
Impairment allowance	1,812,100	763,796	5,645,278	352,613	**8,573,787**
Net carrying value	**239,543,438**	**13,871,084**	**1,633,947**	**128,766**	**255,177,235**

December 31, 2020	Stage 1	Stage 2	Stage 3		
Corporate loans - RSD000	12-month ECL, cumulative	Lifetime ECL, cumulative	Lifetime ECL, cumulative	POCI assets, cumulative	Total, cumulative
Rating 1	991,097	31,892	-	4	**1,022,993**
Rating 2	1,754,249	30,391	-	26	**1,784,666**
Rating 3	26,137,976	22,879	-	8	**26,160,863**
Rating 4	18,670,510	44,254	-	2	**18,714,766**
Rating 5	9,236,370	95,575	-	-	**9,331,945**
Rating 6	10,525,894	69,756	-	-	**10,595,650**
Rating 7	10,719,880	6,501	-	6,242	**10,732,623**
Rating 8	4,270,566	30,018	-	-	**4,300,584**
Rating 9	-	258,670	-	-	**258,670**
Default	5,723	-	1,018,676	634,545	**1,658,944**
Without rating	5,575,865	3,436,134	-	88	**9,012,087**
Gross carrying value	**87,888,130**	**4,026,070**	**1,018,676**	**640,915**	**93,573,791**
Impairment allowance	625,340	459,865	835,545	505,451	**2,426,201**
Net carrying value	**87,262,790**	**3,566,205**	**183,131**	**135,464**	**91,147,590**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
December 31, 2021

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Credit Risk Exposure per Days past Due, Rating and Stage (Continued)

Total loans	Gross carrying value at 31.12.2021	Impairment allowance at 31.12.2021	Gross carrying value at 31.12.2020	Impairment allowance at 31.12.2020
Not past due	492,363,848	(6,284,361)	174,278,217	(3,052,025)
Up to 30 days past due	11,424,698	(518,690)	2,507,918	(215,756)
From 31 to 60 days past due	971,392	(169,421)	394,139	(94,481)
From 61 to 90 days past due	992,067	(530,277)	415,435	(166,707)
From 91 to 180 days past due	1,362,433	(647,211)	297,515	(162,449)
Over 180 days past due	14,061,927	(10,822,202)	4,138,597	(3,391,380)
Total	**521,176,365**	**(18,972,162)**	**182,031,821**	**(7,082,798)**

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Exposure per industry and geographic concentration as of December 31, 2021:

December 31, 2021	Vojvodina		Belgrade		Šumadija and Western Serbia		Southern and Eastern Serbia		Kosovo and Metohija		Foreign countries	
RSD000	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing
Gross book value												
Cash and balances held with the central bank	**8,028,955**	**-**	**68,217,008**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Pledged financial assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**463,080**	**-**
Financial assets measured at FVtOCI	**-**	**-**	**44,947,352**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Retail segment loans	**74,080,473**	**3,923,008**	**83,666,267**	**3,502,505**	**45,912,144**	**2,687,384**	**32,234,553**	**1,820,816**	**274,712**	**26,498**	**86,910**	**11,598**
Housing loans	32,379,024	632,292	53,185,188	709,105	17,698,642	424,690	10,203,507	141,392	69,881	1,981	83,875	8,044
Consumer and cash loans	38,775,553	2,880,585	28,153,519	2,525,792	27,160,170	1,982,678	21,191,059	1,528,697	192,302	22,031	56	177
Transaction account loans and credit cards	819,445	169,050	866,979	153,129	581,020	116,403	470,288	97,185	3,430	1,429	1,394	1,920
Other receivables	2,106,451	241,081	1,460,581	114,479	472,312	163,613	369,699	53,542	9,099	1,057	1,585	1,457
Corporate segment loans	**101,617,883**	**1,674,193**	**108,357,795**	**3,595,620**	**34,591,745**	**1,695,143**	**9,800,090**	**803,568**	**31**	**202**	**1,614,752**	**-**
Industry sector A	12,823,152	374,317	1,132,409	320	1,378,183	19,323	93,691	245,153	-	-	-	-
Industry sectors B, C and E	35,540,320	562,850	15,396,031	1,216,381	18,374,159	1,025,593	2,659,574	118,171	-	8	187,735	-
Industry sector D	27,331,166	-	6,029,195	185	85,757	165	100,193	22	-	-	7	-
Industry sector F	5,512,374	27,612	10,145,290	140,097	1,199,113	373,546	1,642,005	275,370	1	-	-	-
Industry sector G	11,642,096	596,854	26,835,474	1,731,922	9,739,726	192,741	3,989,008	120,418	22	188	2	-
Industry sectors H, I and J	3,180,192	65,867	22,713,016	338,976	1,439,042	49,433	739,531	26,169	2	5	1,414,227	-
Industry sectors L, M and N	5,588,583	46,693	26,106,380	167,739	2,375,765	34,342	576,088	18,265	6	1	12,781	-
Loans and receivables due from banks and other financial institutions	**5,129**	**1,709**	**2,751,578**	**356**	**1,124**	**14**	**116**	**10**	**-**	**-**	**6,077,815**	**360,624**
Total on-balance sheet exposure	**183,732,440**	**5,598,910**	**307,940,000**	**7,098,481**	**80,505,013**	**4,382,541**	**42,034,759**	**2,624,394**	**274,743**	**26,700**	**8,242,557**	**372,222**
Credit commitments	12,717,421	2,000	25,006,501	65,885	4,582,585	-	4,365,664	66	-	-	2,421,159	-
Guarantees and sureties issued	23,295,946	32,592	74,896,712	41,518	14,973,878	16,464	5,520,670	18,240	3,674	94	1,771,389	517
Total off-balance sheet exposure	**36,013,367**	**34,592**	**99,903,213**	**107,403**	**19,556,463**	**16,464**	**9,886,334**	**18,306**	**3,674**	**94**	**4,192,548**	**517**
Total financial liabilities	**219,745,807**	**5,633,502**	**407,843,213**	**7,205,884**	**100,061,476**	**4,399,005**	**51,921,093**	**2,642,700**	**278,417**	**26,794**	**12,435,105**	**372,739**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
December 31, 2021

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Exposure per industry and geographic concentration as of December 31, 2020:

December 31, 2020	Vojvodina		Belgrade		Šumadija and Western Serbia		Southern and Eastern Serbia		Kosovo and Metohija		Foreign countries	
RSD000	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing	Performing	Non-performing
Gross book value												
Cash and balances held with the central bank	**2,629,694**	**-**	**21,701,148**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Pledged financial assets	**-**	**-**	**1,177,302**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Financial assets measured at FVtOCI	**-**	**-**	**17,187,394**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Retail segment loans	**31,015,018**	**1,498,879**	**19,558,898**	**935,778**	**18,323,698**	**1,024,091**	**10,228,922**	**508,390**	**51,520**	**7,823**	**13,905**	**1,206**
Housing loans	6,975,298	412,040	7,732,045	251,553	4,406,570	267,163	1,462,358	48,667	6,266	2,232	13,618	-
Consumer and cash loans	22,353,701	838,734	11,608,576	633,686	13,423,328	587,779	8,469,896	395,159	44,639	5,094	143	434
Transaction account loans and credit cards	521,761	112,907	186,549	46,392	267,444	74,730	188,254	42,692	534	251	26	685
Other receivables	1,164,258	135,198	31,728	4,147	226,356	94,419	108,414	21,872	81	246	118	87
Corporate segment loans	**40,000,231**	**1,055,841**	**34,309,023**	**227,383**	**13,668,793**	**273,712**	**3,936,263**	**101,470**	**11**	**538**	**526**	**-**
Industry sector A	5,511,005	346,999	594,086	131	253,442	4,212	8,189	1,219	-	-	-	-
Industry sectors B, C and E	16,733,041	522,224	4,294,853	25,622	9,310,132	178,887	915,411	88,067	1	504	-	-
Industry sector D	280,313	-	2,874,072	433	97	12	10	-	-	-	14	-
Industry sector F	1,530,569	2,161	1,460,535	39,318	537,087	6,452	849,319	271	-	-	-	-
Industry sector G	5,475,321	160,881	10,273,399	61,455	2,735,877	67,350	1,629,005	9,368	10	33	2	-
Industry sectors H, I and J	8,274,855	18,575	7,776,912	27,001	733,347	12,655	357,413	1,609	-	1	1	-
Industry sectors L, M and N	2,195,127	5,001	7,035,166	73,423	98,811	4,144	176,916	936	-	-	509	-
Loans and receivables due from banks and other financial institutions	**5,502**	**1,674**	**899,134**	**71**	**1,384**	**6**	**47**	**10**	**-**	**-**	**4,050,119**	**331,953**
Total on-balance sheet exposure	**73,650,445**	**2,556,394**	**94,832,899**	**1,163,232**	**31,993,875**	**1,297,809**	**14,165,232**	**609,870**	**51,531**	**8,361**	**4,064,550**	**333,159**
Credit commitments	2,071,335	-	3,710,772	1,408	1,909,050	-	280,162	-	-	-	104,980	-
Guarantees and sureties issued	8,575,191	9,392	16,765,813	4,760	4,834,329	4,246	1,881,676	3,381	1,434	-	1,463	206
Total off-balance sheet exposure	**10,646,526**	**9,392**	**20,476,585**	**6,168**	**6,743,379**	**4,246**	**2,161,838**	**3,381**	**1,434**	**-**	**106,443**	**206**
Total financial liabilities	**84,296,968**	**2,565,786**	**115,309,490**	**1,169,400**	**38,737,254**	**1,302,055**	**16,327,070**	**613,251**	**52,965**	**8,361**	**4,170,993**	**333,365**

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December 31, 2021

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Industry sector A	Electricity, gas, steam and air conditioning supply
Industry sectors B, C and E	Construction industry
Industry sector D	Agriculture, forestry and fisheries
Industry sector F	Mining and quarrying, manufacturing and processing industry, water supply, waste water management, waste disposal control and similar activities
Industry sector G	Wholesale and retail trade and repair of motor vehicles and motorcycles
Industry sectors H, I and J	Transport and storage, hotel and restaurant services, information and communications
Industry sectors L, M and N	Real estate, professional, scientific and technical activities, arts, entertainment and leisure

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Collaterals

A security instrument (collateral) is defined as property or assets offered to securitize repayment of a loan or settlement of another liability. The primary source of collection of receivables for the Bank is the borrower's operating cash flow, while the collateral represents a secondary source of loan recovery.

The Bank's Rulebook in Collaterals defines the volume of acceptable collaterals per all loans and receivables and term for their acceptance depending on their value, as well as other security instruments the real value of which cannot be determined yet the Bank obtains those in order to mitigate the assumed credit risk.

The following are acceptable collateral types:

- Monetary deposits and securities – pledge liens instituted over cash deposits and securities;
- Mortgages instituted on residential (apartments and houses) and non-residential (commercial property, business premises, land and other non-residential property) real estate;
- Pledge liens instituted over movable assets (inventories, goods, vehicles, equipment, machinery, agro produce, gold, precious metals and precious stones, works of art) and over receivables; and
- Guarantees and sureties – bank guarantees (issued by domestic and foreign banks) acceptable to the Bank and co-sureties (guarantor).

LTV ratio represents the amount of a loan or a receivable relative to the appraised market value of the real estate received as collateral securing the loan.

The Bank's mortgage loans broken down per LTV ratio value for the retail and corporate loan portfolios as of December 31, 2021 and December 31, 2020 are presented in the tables below.

Due to the characteristics and the risk level of the portfolio, the retail segment loans allocated to Stage 3, i.e., Stage 3 receivables secured with mortgages due form retail customers, are presented separately as of December 31, 2021 and December 31, 2020. All the figures are stated in RSD '000.

RSD000	31.12.2021		31.12.2020	
LTV ratio - Retail loans	Receivables secured with mortgages assigned over property	Impairment allowance of the receivables secured with mortgages assigned over property	Receivables secured with mortgages assigned over property	Impairment allowance of the receivables secured with mortgages assigned over property
Below 50%	23,949,802	556,411	5,285,854	271,354
From 50% to 70%	38,677,272	605,760	7,987,386	241,702
From 70% to 90%	47,083,543	542,036	7,255,582	192,760
From 90% to 100%	3,138,659	97,015	254,624	55,152
From 100% to 120%	1,881,305	74,279	250,886	54,145
From120% to 150%	948,382	75,679	202,121	74,464
Over 150%	605,498	134,722	192,204	107,632
Total	**116,284,461**	**2,085,902**	**21,428,657**	**997,209**
Average LTV	65.10%		63.28%	

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Collaterals (Continued)

RSD000	31.12.2021		31.12.2020	
LTV ratio - Retail loans, Stage 3 loans	Receivables secured with mortgages assigned over property	Impairment allowance of the receivables secured with mortgages assigned over property	Receivables secured with mortgages assigned over property	Impairment allowance of the receivables secured with mortgages assigned over property
Below 50%	766,479	337,837	359,128	183,794
From 50% to 70%	588,425	263,998	147,675	87,487
From 70% to 90%	427,053	213,772	105,747	70,432
From 90% to 100%	94,012	62,095	60,055	49,380
From 100% to 120%	79,272	53,119	55,912	48,939
From120% to 150%	11,950	10,817	57,036	56,362
Over 150%	98,899	83,927	108,971	98,534
Total	**2,066,090**	**1,025,565**	**894,524**	**594,928**
Average LTV	66.40%		77.79%	

RSD000	31.12.2021		31.12.2020	
LTV ratio – Corporate loans	Receivables secured with mortgages assigned over property	Impairment allowance of the receivables secured with mortgages assigned over property	Receivables secured with mortgages assigned over property	Impairment allowance of the receivables secured with mortgages assigned over property
Below 50%	23,191,080	635,035	8,762,838	613,611
From 50% to 70%	16,790,918	420,653	2,738,713	35,239
From 70% to 90%	9,830,658	269,527	1,968,656	25,362
From 90% to 100%	5,562,419	133,353	4,945,356	79,401
From 100% to 120%	11,442,997	130,460	1,952,837	44,052
From120% to 150%	10,502,286	1,030,567	2,397,331	317,251
Over 150%	20,421,782	1,756,068	14,832,668	422,420
Total	**97,742,140**	**4,375,663**	**37,598,400**	**1,537,337**
Average LTV	140.00%		135.94%	

In accordance with the effective regulations and the Bank's internal bylaws, the Bank is required to obtain timely appraisals of the collaterals securing the extended loans.

Collaterals held by the Bank as of December 31, 2021 and December 31, 2020 per type, number and appraised value are presented in the table below:

	December 31, 2021		December 31, 2020	
Collateral type - in RSD000	Number of collaterals held by the Bank	Appraised collateral value	Number of collaterals held by the Bank	Appraised collateral value
Mortgage liens	34,848	370,116,354	11,773	113,693,453
Deposits	509	4,657,999	306	2,088,725
Pledge liens	1,223	78,219,938	750	53,762,848
Guarantees	7,179	50,781,101	1,649	13,168,981

43. RISK MANAGEMENT (Continued)

43.4. Credit Risk (Continued)

Collaterals (Continued)

The aggregate fair value of the collaterals foreclosed is presented in the table below:

RSD000	December 31, 2021	December 31, 2020
Fair value	527,587	104,468

Write-Off of Receivables

The Bank will reduce the gross carrying value of a financial asset when it no longer realistically expects either partial or full recovery of the financial asset. Write-off is an event of derecognition of a financial asset.

Additionally, the Bank makes the accounting write-off and transfers to the off-balance sheet items financial assets with low likelihood of recoverability.

In 2021, the Bank realized a total write-off of balance sheet receivables in the amount of RSD 2,557,505 thousand (RSD 1,035,380 thousand in 2020), of which RSD 260,446 thousand was directly written off (RSD 165,483 thousand in 2020) and transferred to off-balance sheet records RSD 2,297,059 thousand (in 2020 RSD 869,897 thousand).

43.5. Operational Risk

Operational risk is the risk from potential adverse effects on the Bank's financial result and capital due to (intentional or accidental) omissions or errors in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the Bank, as well as due to unforeseen external events. Operational risk also includes legal risk. Operational risk does not include strategic and reputational risk. Specific areas of operational risk include: information system risk, unethical business risk, model risk.

The process of operational risk management in the Bank consists of the following components:

a) collection of information on the operational risk events,
b) operational risk identification and assessment,
c) scenario analysis, and
d) key risk indicators
e) Measures to obtain operational risks

The main objective of operational risk management in the Bank is to ensure that the level of operational risk exposure complies with the Bank's risk management strategy and policies.

Collection of information on the operational risk events

The Bank has a system in place for reporting from each of its organizational units, where reporting officers collect data on operational risk events occurred. Such events are reported through the internally developed operational risk database. There are limits set up for entry of the events into the operational risk database as well as for additional measures to address and overcome operational risks the Bank is exposed to. The Bank performs quarterly analyses of the operational risk events reported, in order to improve and intensify the control system for elimination/reduction of losses arising from the operational risk events.

Operational risk identification and assessment

Operational risk identification and assessment are performed at least annually and entail a procedure where the Bank's organizational units determine their participation in individual predefined processes in the Bank and identify and assess operational risks they are exposed to. The main objective of the operational risk identification and assessment is to identify the operational risks the Bank is exposed to and define additional measures for minimization of the Bank's operational risk exposure.

43. RISK MANAGEMENT (Continued)

43.5. Operational Risk (Continued)

Scenario Analysis

Scenario analysis is performed once a year. The main purpose of the scenario analysis is to determine the Bank's operational risk exposure based on the predefined scenarios, i.e., to determine the probability and potential financial effects of the occurrence of the said predefined scenarios. Scenario analysis is intended to encompass operational risks that are less likely to occur but produce greater potential negative financial effects. The analysis is also performed for definition of additional measures for addressing and overcoming operational risks.

Key Risk Indicators

The Bank applies Key Risk Indicators (KRI) to monitor operational risk exposure. Key risk indicators are measures through which exposures to individual identified risks are monitored over time, in order to identify changes in exposure. By defining key risk indicators, the Bank achieves a proactive approach to operational risk management.

The Bank has developed a system of the key risk indicators used for monitoring of the Bank's exposure to individual operational risks, with defined limits for such risks. The set up limits represent the tolerance thresholds for acceptance of operational risks. In case the set limits are exceeded, additional measures for addressing and overcoming of operational risks are defined.

Business Continuity Plan (BCP)

In order to ensure the continuity of operation, the Bank's Board of Directors has adopted the Rulebook on Business Continuity with appendices (Impact Scale, Emergency Scale, List of Critical Processes, Members of the Crisis Management Committee and Process Owners and BCP Coordinators) and 25 separate Business Continuity Plans (BCPs) for the Bank's critical organizational units. Moreover, the Bank's Board of Directors has adopted the Instruction for Crisis Management and Communication during Crisis.

The Bank manages continuity of business operations based on the business impact analysis (BIA) and risk assessment.

Its purpose is to minimize operational, financial, legal, reputational and other material consequences brought about by interruption of operations as well as to ensure functioning of the critical business functions and/or their restoration to use within predefined timelines. BCP allows for normal course of operations to be established in a reasonable time frame (recovery time objective - RTO), in the instances of significant unanticipated partial or full stoppage in business operations.

The Bank tests its BCP on a regular basis, at least annually.

Externalization (Outsourcing) Risk

The Bank manages externalization risk via assessments and established control mechanisms before executing contracts with third parties or suppliers of services and undertakes the necessary protective measures against the adverse effects of externalization risk on its operation and reputation.

New Product Introduction Risk

The Bank actively manages new product introduction inasmuch as its overall risk management system includes and actively manages all risks arising from the new product introduction.

43. RISK MANAGEMENT (Continued)

43.5. Operational Risk (Continued)

Information System Risk

The Bank has developed a process of information system risk management which includes risk identification measurement, assessment, mitigation, monitoring and control. The Bank manages the information system risk in such a manner that it allows for unhindered managing safety of this system, its functionality and continuity of the Bank's operations.

Legal risk

Risk of negative effects on the financial result and capital of the Bank based on court or out-of-court proceedings related to the Bank's operations (obligations, labor relations, etc.).

Capital requirement for operational risk

For the purpose of calculating the regulatory capital requirement for operational risk, the Bank uses the approach of the basic indicator in accordance with the Decision on the capital adequacy of the Bank and at the group level, an advanced approach based on an internal model for measuring operational risk is applied.

Management structure

In order for operational risk management to be effective, it is necessary to have an appropriate management structure, led by a specialized Operational Risk Committee (ORC), as well as an appropriate organizational structure, the backbone of which is the Operational Risk Management Department, which proposes policies, plans and management procedures. operational risk, as well as the necessary management tools (data collection, KRI, RCSA, etc.).

43.6. Country Risk

Country risk relates to the country of origin of the Bank’s counterparty, i.e., it represents a possibility of negative effects on the Bank’s financial result and capital due to its inability to collect receivables from abroad caused by political, economic and social conditions in the borrower’s country of origin.
The Bank manages the country risk by analyzing the borrowers’ countries of origin, monitoring the credit ratings of these countries, setting up country risk exposure limits for certain countries and monitoring its exposures to certain countries and compliance with the limits set. Taking risks against banks outside the territory of the Republic of Serbia, the country risk assessment is also taken into account when approving the limit.

43.7. Counterparty Risk

The risk of the other counterparty is the possibility of negative effects on the financial result and capital of the bank due to non-settlement of the counterparty's obligation in the transaction before the final settlement of cash flows of the transaction, i.e. settlement of monetary obligations under that transaction. For the purpose of counterparty risk management, the Bank performs counterparty analyses, sets up limits on counterparty exposures per type and maturity of products/arrangements. Counterparty exposures and compliance with the set up limits are monitored on a daily basis.

43.8. Investment Risk

The Bank's investment risks are risks associated with the Bank’s equity investments in other legal entities and its own capital expenditures, which are made and monitored in accordance with the regulations of the National Bank of Serbia. The Bank has an appropriate policy and the relating bylaws in place to govern the investment risk management process. The risk is mitigated by means of an adequate internal limit system. During 2021, as at 31 December 2021, the Bank continuously took into account investment risks and investment risks were within the legally prescribed indicators.

43.9. Concentration Risk

In accordance with the Bank's adopted procedures, the Risk Management Division monitors the limits and concentrations of the Bank’s exposures to certain single legal entities or groups of related entities and entities related to the Bank, and ensures that such exposures are maintained within the limits defined by NBS. The Bank’s exposure to a single entity or a group of related entities may not exceed 25% of the Bank’s capital. The sum of the large Bank’s exposures cannot exceed 400% of its capital.
As of Decembar 31, 2021, the Bank did not exceed any of the prescribed limits.

44. CAPITAL MANAGEMENT

The capital management framework is intended for provision of sufficient capital to support the Bank in basic risk management and achievement of regulatory objectives and management's objectives regarding the credit rating. Capital management refers to the definition of the optimum capital the Bank needs to maintain taking into account the existing quality of assets and future crediting strategies.

The Bank's Capital Management Plan defines and ensures the following:

- Effective capital planning taking into account the prescribed capital adequacy, risk profile and the Bank; business objectives;
- Manner of achieving and maintaining adequate regulatory and internally available capital and capital adequacy ratios in order to secure feasible operations of the Bank in the event of unexpected losses and avoid exceeding regulatory limits.

As the Bank's regulator, the National Bank of Serbia defines and supervises compliance with the regulations on the Bank's regulatory capital and capital adequacy. The Bank reports on the capital adequacy to the National Bank of Serbia on a quarterly basis. The Bank monitors the capital adequacy ratios on a monthly basis.

In accordance with Basel III Standards, the Bank is required to calculate the following ratios:

- the common equity Tier 1 capital ratio, which represents the Bank's common equity capital relative to its total risk-weighted assets, expressed as a percentage;
- the core Tier 1 capital adequacy ratio, which represents the Bank's core (Tier 1) capital relative to its total risk-weighted assets, expressed as a percentage; and
- the total capital adequacy ratio, which represents the Bank's total capital relative to its total risk-weighted assets, expressed as a percentage.

The Bank is required to maintain its capital adequacy ratios listed above at the following minimum prescribed levels:

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

The Bank is also required to calculate and maintain the capital buffers in accordance with the regulations of NBS.

Capital buffers represent additional common equity share capital the Bank is obligated to maintain above the prescribed regulatory minimum, i.e., the capital that cannot be used for maintenance of the minimum prescribed capital adequacy ratios.

The following capital buffers are to be calculated and maintained in accordance with NBS regulations:

- capital conservation buffer,
- countercyclical capital buffer,
- capital buffer for a systemically important bank, and
- systemic risk buffer.

The Bank has been designated as a systemically important bank by the national Bank of Serbia.

The Bank is required to maintain the minimum amount of capital in RSD equivalent to EUR 10 million at the official middle exchange rate. The Bank is required to maintain at all times its capital at a level required for covering all the risks to which it is exposed or may be exposed in its operations.

The Bank's regulatory capital is the sum of the core (Tier 1) capital and supplementary (Tier 2) capital, where the core (Tier 1) capital is comprised of the common equity Tier 1 capital (CET 1) and additional Tier 1 capital.

44. CAPITAL MANAGEMENT (Continued)

Elements of the Bank's regulatory capital and its capital adequacy ratio are provided in the table below:

	31.12.2021	31.12.2020
RSD000	Basel III	Basel III
Core capital		
Face value of shares paid in except for preferred cumulative shares	56,830,752	31,607,808
Share premium	2,564,892	2,563,562
Current year's profit qualifying for inclusion in the core capital	(1,451,822)	(2,515,202)
Prior years' accumulated losses	-	(1,179,455)
Current year's loss	(1,214,245)	(641,088)
Intangible assets	-	(87,543)
Deferred tax assets contingent on the future profitability except for those arising from temporary differences, net of the relating deferred tax liabilities	787,665	208,048
Revaluation reserves and other unrealized gains	(142,387)	(19,053)
Unrealized losses on securities at FVtOCI		
Other reserves	26,396,554	-
Regulatory adjustment of the common equity Tier 1 capital	(54,279)	(53,242)
Gross receivables from a private individual debtor per approved consumer loans, cash loans and other loans where the credit indebtedness of the debtor prior to loan approval exceeded the percentage set in line with the Decision on Classification or will exceed it due to loan approval	(72,886)	(19,488)
Gross receivables from a private individual debtor (except for farmers and sole traders–entrepreneurs) per approved consumer loans, cash loans and other loans, which per contractual maturity criterion qualify for common equity capital deductibles	(194,783)	(39,704)
Common equity Tier 1 capital	**83,449,461**	**29,824,643**
Additional Tier 1 capital		
Core capital – Tier 1	**83,449,461**	**29,824,643**
Qualifying subordinated liabilities	13,284,460	1,175,802
Supplementary Tier 2 capital	**13,284,460**	**1,175,802**
Total regulatory capital at December 31	**96,733,921**	**31,000,445**
Risk-weighted assets		
Risk-weighted credit risk exposures	423,168,498	148,570,086
Risk-weighted foreign exchange risk exposures	-	728,477
Risk-weighted market (price) risk exposures	738,442	1,056,275
Credit exposure adjustment risk	225,756	
Risk-weighted operational risk exposures	50,006,363	20,787,800
Common Equity Tier 1 capital ratio (CET1 ratio)	**17.60%**	**17.43%**
Tier 1 capital ratio (T1 ratio)	**17.60%**	**17.43%**
Total capital adequacy ratio	**20.40%**	**18.11%**
Total capital buffer requirements (%)	**6.50%**	**5.19%**

44. CAPITAL MANAGEMENT (Continued)

As of December 31, 2021, the Bank achieved the following adequacy indicators in compliance with the regulations of the National Bank of Serbia, as provided in the table below:

RSD000	Prescribed	31.12.2021	31.12.2020
Amount of the Bank's capital	EUR 10 million	EUR 823 million	EUR 264 million
Total capital adequacy ratio	Minimum 8 %	20.40%	18.11%
Core capital Tier 1 ratio	Minimum 6%	17.60%	17.43%
Common equity Tier 1 capital ratio	Minimum 4.5%	17.60%	17.43%
Concentration risk ratio	Maximum 50%	9.17%	18.10%
The sum of the Bank's investments	Maximum 60%	12.89%	30.74%
Investments in non-FSI entities	Maximum 10%	0.01%	0.02%
Exposure to a single entity/a group of related entities	Maximum 25%	16.71%	24.12%
Sum of all large Bank's exposures	Maximum 400%	59.04%	95.89%
Liquidity ratios			
a) quick liquidity ratio	Minimum 0.5	1.62	1.37
b) liquidity ratio	Minimum 0.8	1.79	1.51
Liquidity coverage ratio	Minimum 100%	133.64%	130.62%
Foreign exchange risk ratio	Maximum 20%	0.24%	2.35%

The Bank monitors and controls the above listed adequacy indicators prescribed by NBS on an ongoing basis. In 2021, as well as in 2020, the Bank was in full compliance with the prescribed values of adequacy/performance indicators.

45. FAIR VALUES OF THE FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value is calculated based on the market information available as of the reporting date using valuation models.

Methods, Assumptions and Valuation Techniques Used in Determining Fair Value

The calculation of fair value is based primarily on external data sources (dealer quotations for government bonds and available stock exchange prices).

Bonds for which quotations are not available in adequate numbers or quotations are not up to date are valued by discounting future cash flows using a predefined curve for the relevant currency.

OTC derivatives are valued by discounting future cash flows using defined yield curves for a specific product and a specific currency. Yield curves for derivatives (FXS-curves) are stored daily in the position storage system of the OTP Banking Group (Condor + system). Using the model, bonds are also valued if there is no adequate number of quotations or quotations are not up to date.

To assess the fair value of the Bank's financial instruments, market and income approaches were used, i.e. information on similar financial instruments from the market, such as the applicable interest rate, maturity and sector affiliation, was used.

45. FAIR VALUES OF THE FINANCIAL INSTRUMENTS (Continued)

Methods, Assumptions and Valuation Techniques Used in Determining Fair Value (Continued)

The Bank uses the following hierarchy upon determining and disclosing the fair value of financial instruments:

Level 1: quoted prices in active markets for identical assets or liabilities (unadjusted); The fair value determined on the basis of quotations can be Level 1 if the frequency and volume of trading are satisfactory and there is consistency of prices. Derivatives that are traded in an organized manner, on the stock exchange, as well as shares and bonds for which there is an active market, are classified as Level 1.

Level 2: inputs observable for a given asset or liability either directly or indirectly that make use of information on the similar financial instruments present in active markets, quoted prices for identical or similar assets that are inactive or other market information from which the value of financial instrument can be derived (e.g. interest rates and yield curves observable in the usual quoted intervals); Instruments for which market quotes exist but whose market cannot be considered active due to limited liquidity are classified as Level 2. If market quotes are not available but fair value is determined using a valuation model (discounting future cash flows), all parameters models (yield curves, spreads) are available on the market, Level 2 is also assigned. OTC derivatives and less liquid stocks and bonds are classified as Level 2 instruments and

Level 3: unobservable inputs for financial assets and liabilities used unless relevant observable inputs are available; the Bank uses mark-to-model approach which deploys other than market information derived based on a theoretical model adequate for determining the value of financial instruments. Instruments whose fair value is determined on the basis of quotations that are not up-to-date or using models whose all inputs are not commercially available are classified as Level 3 of the hierarchy. Market-unavailable parameters most often refer to credit spreads that are derived from internally calculated measures. Shares for which there are no quotations, illiquid bonds, as well as loans and deposits are classified as Level 3.

In estimating the fair value of financial instruments as at 31 December 2021, the Bank used inputs of hierarchical levels 1, 2 and 3.

Financial Instruments Measured at Fair Value

Financial assets held at fair value of financial assets valued at fair valued through other comprehensive income are measured at fair value based on the available market inputs, i.e., using quoted market prices at the reporting date. If no such information is available, other valuation techniques are used to arrive at the fair value of these instruments.

In assessing the value of treasury bills and government bonds, the Bank used valuation techniques that it considered appropriate in the circumstances and for which it has sufficient data available to measure fair value, with maximum use of relative observable inputs, and striving to use inconspicuous inputs. The fair value of actively traded government bonds, quoted on the Bloomberg platform, and rated with a BVAL rating greater than or equal to 7 (on a scale of 1 to 10), are classified as Level 1 instruments.

The Bank elected to apply the combined market and income approaches and based its fair value assessment on the Level 2 inputs. The fair values were determined based on:

- prices available for RSD and EUR-denominated securities, i.e., the Bank used prices published by Bloomberg as of December 31, 2021, based on which a RSD zero coupon curve was generated for cash flow discounting purposes; the curve values are stored within the Kondor+ front office system; and
- prices obtained for specific maturities.

Shares for which there are no quotations, illiquid bonds are classified as Level 3 instruments. The fair value of currency swaps and forwards is calculated based on the discounting of estimated future cash flows. For discounting, the Bank uses market interest rates for financial instruments with the same remaining maturity.
The fair value of interest rate swaps is calculated as the difference between the discounted future cash flow at a fixed rate and the discounted future cash flow at a variable rate.

45. FAIR VALUES OF THE FINANCIAL INSTRUMENTS (Continued)

Financial Instruments with Far Values Approximate to their Carrying Values

For highly liquid financial assets and liabilities with short-term maturities (up to a year) it is assumed that their carrying values approximate their fair values. This assumption is also used for demand deposits, savings deposits and financial assets and liabilities with market-adjusted prices (subject to repricing, products at variable interest rates).

The following tables provide comparison of the carrying values and fair values of the financial instruments not carried at fair value. Non-financial assets and liabilities are not included:

	December 31, 2021				December 31, 2020			
RSD000	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Financial assets	**-**	**257,848**	**-**	**257,848**	**-**	**29,921**	**-**	**29,921**
Receivables under derivatives	-	257,848	-	257,848	-	29,921	-	29,921
Securities	**49,258,371**	**4,526,331**	**29,665**	**53,814,367**	**-**	**17,228,522**	**-**	**17,228,522**
Securities at FVtPL	8,837,351	-	-	8,837,351	-	7,949,969	-	7,949,969
Securities at FVtOCI	40,421,020	4,526,331	29,665	44,977,016	-	9,278,553	-	9,278,553
Financial liabilities	**-**	**206,738**	**-**	**206,738**	**-**	**160,724**	**-**	**160,724**
Derivative liabilities	-	206,738	-	206,738	-	160,724	-	160,724

The Bank used as an input in measuring fair value for assets and liabilities that are not measured at fair value but fair value is provided, whereby the calculated fair value deviates from bookkeeping, official and easily verified data.

The Bank obtained the inputs, i.e., data on the prevailing interest rates applicable to the contracts with similar characteristics, from the official website of the National Bank of Serbia, using:

- interest rates applied by banks to the retail/non-FSI loans per currency – newly approved loans as of November 30, 2021, and the most recent market data – as inputs for assessment of fair values of loans and receivables due from customers; the Bank classified such information as Level 3 inputs;
- interest rates applied by banks to the retail/non-FSI deposits, per currency – newly received deposits as of November 30, 2021, and the most recent market data – as inputs for assessment of fair values of deposits and other liabilities to form customers; the Bank classified such information as Level 3 inputs.

45. FAIR VALUES OF THE FINANCIAL INSTRUMENTS (Continued)

The following table shows a comparison of the carrying amount and fair value of financial instruments that are not carried at fair value.

The following table does not include non-financial assets and liabilities:

	December 31, 2021				
RSD000	Level 1	Level 2	Level 3	Total	Carrying value
Cash and balances held with the central bank	-	90,624,576	-	90,624,576	90,624,576
Pledged financial assets	-	463,080	-	463,080	463,080
Loans and receivables due from banks and other financial institutions	-	-	8,761,581	8,761,581	8,761,581
Loans and receivables due from customers	-	-	492,657,849	492,657,849	493,442,622
Other assets	-	-	3,469,875	3,469,875	3,469,875
	-	**91,087,656**	**504,889,305**	**595,976,961**	**596,761,734**
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	166,985,218	166,985,218	166,985,806
Deposits and other liabilities due to customers	-	-	382,573,251	382,573,251	382,573,400
Other liabilities	-	-	6,279,469	6,279,469	6,279,469
	-	**-**	**555,837,938**	**555,837,938**	**555,838,675**

	December 31, 2021				
RSD000	Level 1	Level 2	Level 3	Total	Carrying value
Cash and balances held with the central bank	-	33,251,589	-	33,251,589	33,251,589
Pledged financial assets	-	1,494,796	-	1,494,796	1,494,796
Loans and receivables due from banks and other financial institutions	-	-	4,955,868	4,955,868	4,955,868
Loans and receivables due from customers	-	-	170,048,467	170,048,467	169,993,155
Other assets	-	-	871,813	871,813	871,813
	-	**34,746,385**	**175,876,148**	**210,622,533**	**210,567,221**
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	49,710,118	49,710,118	49,710,118
Deposits and other liabilities due to customers	-	-	153,104,371	153,104,371	153,111,844
Other liabilities	-	-	1,651,698	1,651,698	1,651,698
	-	**-**	**204,466,187**	**204,466,187**	**204,473,660**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS
December 31, 2021

46. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

RSD000	31.12.2021		31.12.2020	
	<12 months	*>12 months*	*<12 months*	*>12 months*
Cash and balances held with the central bank	90,624,576	-	33,251,589	-
Pledged financial assets	-	463,080	317,494	1,177,302
Receivables under derivative financial instruments	71,665	186,183	24,858	5,063
Securities	17,673,229	36,141,138	6,680,967	10,547,555
Loans and receivables due from banks and other financial institutions	8,738,540	23,041	4,953,954	1,914
Loans and receivables due from customers	154,263,256	339,179,366	25,566,295	144,426,860
Investments in associates and joint ventures	-	149,650	-	-
Investments in subsidiaries	-	755,514	441,416	-
Intangible assets	-	1,214,245	641,087	-
Property, plant and equipment	-	12,329,180	9,355,003	-
Investment property	-	119,268	150,125	-
Current tax assets	190,978	-	-	40,464
Deferred tax assets	-	-	400,041	-
Non-current assets held for sale and discontinued operations	6,164	-	6,164	-
Other assets	3,441,664	28,211	1,193,332	-
TOTAL ASSETS	**275,010,072**	**390,588,876**	**82,982,325**	**156,199,158**
Liabilities under derivative financial instruments	25,028	181,710	157,357	3,367
Deposits and other liabilities due to banks, other financial institutions and the central bank	104,389,787	62,596,019	38,832,885	10,877,233
Deposits and other liabilities due to customers	370,693,598	11,879,802	150,288,274	2,823,570
Subordinated liabilities	27,039	14,697,763	1,239	1,175,802
Provisions	-	3,787,232	-	1,544,219
Deferred tax liabilities	-	27,600	-	514,891
Other liabilities	4,999,656	1,279,813	1,369,774	927,164
TOTAL LIABILITIES	**480,135,108**	**94,449,939**	**190,649,529**	**17,866,246**

47. ADDITIONAL INFORMATION ON CASH FLOWS

RSD000	31.12.2021	31.12.2020
In RSD:		
Gyro account (Note 18)	8,028,954	2,629,694
Cash on hand (Note 18)	8,375,285	4,235,439
Total RSD	**16,404,239**	**6,865,133**
In foreign currencies:		
Foreign currency accounts (Note 22)	5,936,136	4,049,502
Cash on hand in foreign currencies (Note 18)	6,056,408	4,632,993
Foreign currency cheques	60	60
Other monetary items in foreign currencies (Note 18)	5,156	28,725
Total cash funds in foreign currencies	**11,997,760**	**8,711,279**
Gold and other precious metals (Note 18)	54,196	52,314
Total cash and cash equivalents	**28,456,195**	**15,628,727**

For the purpose of preparing the statement of cash flows, the Bank includes the above items in cash and cash equivalents.

48. COMPLIANCE BETWEEN LIABILITIES AND RECEIVABLES

As of October 31, 2021, the Bank reconciled liabilities and receivables with legal entities and banks, in accordance with the Law on Accounting. Disclosure of non-compliant claims is given in accordance with the requirements of Article 22 of this Law.

The total amount of receivables and liabilities sent for compliance is RSD 862,284,479 thousand. The amount of reconciled liabilities and receivables is 94.85% of the total amount returned after reconciliation by clients, or 71.51% of the total amounts sent for reconciliation. The total amount of unmatched liabilities and receivables is RSD 4,080 thousand.

2021		
RSD 000	Assets	Liabilities
Mismatched number	348	256
Total matching number	7,968	8,423
% of mismatched number	**4.37%**	**3.04%**
Total mismatched	2,150	1,930
Total matching amount	360,782,796	289,282,553
% of mismatched amount	**0.00%**	**0.00%**

49. EXCHANGE RATES

The official middle exchange rates of the National Bank of Serbia for major currencies as determined at the interbank foreign exchange market and used in the translation of the statement of financial position components denominated in foreign currencies into dinars (RSD) as of the reporting date were as follows:

Currency	Official middle exchange rate on December 31, 2021	Official middle exchange rate on December 31, 2020
USD	103.9262	95.6637
CHF	113.6388	108.4388
EUR	117.5821	117.5802

50. EVENTS AFTER THE DATE OF THE REPORTING PERIOD

In the second half of February 2022 the military conflict between Russia and Ukraine escalated.
At this moment It is difficult to quantify the effects of the Ukrainian-Russian conflict regarding the business in Serbia.
At this stage management is closely monitoring all potential effects. The Bank is in close coordination with the local regulator as well as with the OTP Group. Currently no reliably estimate of the impact is available as events are unfolding day-by-day.
OTP Group is prepared to adjust to any kind of challenge, as one of the leading banking groups of central and east Europe our capital and liquidity is stable enough to handle any scenarios.
Based on the currently available information, we believe that there is no significant impact of this conflict on the current year's financial statements and there is no going concern uncertainty in relation with the Bank.

Novi Sad, March 15, 2022

Vladimir Pejčić Director of the Accounting Directorate	Branimir Spasić Member of the Executive Board	Predrag Mihajlović Chairman of the Executive Board

OTP banka Srbija a.d.
Novi Sad

otpbanka

Annual Business Report for 2021

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Predrag Mihajlović

Dear shareholders,

The previous year 2021 was rather challenging for us at OTP banka Srbija. Despite the changed working conditions and organization of everyday life caused by the pandemic, after 19 months of commitment, more than three thousand experts and professionals have successfully completed the integration. The current OTP banka Srbija a.d. Novi Sad started operating on May 05, 2021 and thus ended the process of integration of OTP banka Srbija a.d. Beograd (former Societe Generale Srbija) and Vojvođanska banka a.d. Novi Sad.

The most complex banking integration ever implemented in this region represents a strategic move of OTP Group, aiming to form the largest banking institution in Serbia. The new bank is a synergy of the best solutions of two major banking brands, as well as an ideal combination of value, tradition, technical progress, and superior customer experience.

The successfully implemented second integration in a short period and continuous growth in regular operations resulted in forming a bank that became the single largest creditor in the Serbian market; both in the corporate and retail segment, with a total of EUR 4.2 billion in net loans, with EUR 5.7 billion in assets, 2,789 employees, and over 766,000 active clients. The bank also maintained its leading position in leasing, factoring and e-commerce market services.

Our network of 184 branches in 91 cities and 294 ATMs is among the largest in our country, and we use it to maintain personal contact with our clients. At the same time, we are dedicated to innovation and digitalization of business that provides clients with new benefits with a focus on improving digital banking and user experience.

Our vision is for OTP banka to be recognized as a champion on the Serbian market in creating client experience through service and innovative solutions. We plan to achieve this by focusing on four strategic goals: 1) Building a digital culture, 2) Digitizing and improving operations, 3) Improving client experience and 4) Establishing data-based management.

Along that path, we rely equally on the use of advanced technologies and the dedication and expertise of our employees. We want to be leaders not only in lending and market share, but also in creating new and innovative solutions and services to provide our client with the best possible user experience. In achieving this goal, our values lead us to live innovations within OTP banka and believe in changes. For these reasons, we are developing the employee life cycle concept in order to continuously monitor and improve the experience of employees, but also to ensure that we demonstrate our company values equally to clients and among employees within our bank. This is because a company that wants to have a leading role must develop and grow continuously, whereby such development and growth are based on the development and growth of its people. Therefore, we launched number of programs in the bank aiming to support employees in living company values, including the latest from 2021: 1) DARe development program for 30 participants, whose goal is to support the bearers of changes and key competencies in the bank in their further development; 2) BFF (back-front office) workshops aimed at improving communication and cooperation among colleagues from various divisions in finding solutions with a common goal, which were attended by over 100 colleagues empowered to be agents of change in the bank; 3) Game Changers, as a way of promoting the bearers of changes that are recognized by the employees, their colleagues.

With the extraordinary efforts we have invested in achieving the set business goals and providing quality service to our clients under difficult circumstances, we have remained focused on the complex integration process and the challenges ahead. We have managed to improve the user experience by taking our clients' comments into account through our Elvis application, provide stronger support to the economy, development projects, as well as easier access to finance for the micro and SME segment.

In 2021, the bank achieved a positive operating result (before provisions and taxes) in the amount of RSD 6,444 million. Retail loans recorded growth of approximately 12% as compared to 2020 (if we observe the loan amount of the two merged banks), with a market share of 19%. During 2021, the Bank was the leader in the housing loan market with a market share of 21.8%, which means that every fifth property was actually purchased with a loan from OTP banka. In terms of cash loans, the Bank also holds a leading position with a market share of 20.2%. At the same time, the Corporate Division managed to exceed the expected market share in the segment of corporate loans and achieved a level of 16.3%. We have proved that we strongly support the SME sector by signing a contract with the European Bank for Reconstruction and Development (EBRD) on a loan in the amount of RSD 2.3 billion for further lending to small and medium enterprises (SMEs) in Serbia, primarily for SMEs operating in economically less developed parts of the country.

Responsibility is the foundation of OTP banka's operations in all aspects. Our business strategy is based to a significant extent on the principles of sustainable business through the realization of a balance between economic, social and environmental impacts and goals.

OTP banka remained the largest sponsor and official bank of the Serbian Olympic Committee during 2020 and 2021, when the Olympic Games were uncertain, and despite the uncertainty, renewed the sponsorship contract with the Serbian Olympic Committee in order to provide absolute support to our best Olympians.

We nurture cooperation with the Gallery of Matica Srpska, one of the most significant cultural institutions in the country, through the Responsible in Culture project, and support numerous projects dedicated to the digitization of cultural heritage, which we confirmed in November 2021 by implementing the DigiArt project, a virtual presentation of works of art from the collection of the Gallery of Matica Srpska.

One of our key strategic directions is green transition, i.e., commitment to sustainable business and environmental projects, as evidenced by the numerous green initiatives we have launched. This is also confirmed by the fifth cycle of the Generator Zero project, dedicated to supporting and rewarding innovative projects that represent sustainable solutions with a real and measurable impact on reducing carbon footprint, as one of today's biggest challenges. Due to recognizing the importance of combating climate change, OTP banka is the first bank in Serbia to join the Priceless Planet Coalition global initiative with the purpose of planting as many as 100 million trees in the next five years in areas around the world. We are also proud of the fact that our bank uses green energy only, which is confirmed by the EPS Green Certificate, while our central building uses its own solar panels.
In accordance with the EU Green Deal, our parent OTP Group has defined the pillars of the ESG (E-environmental, S-social, G-governance) strategy with the aim of becoming a regional leader in green financing and building a sustainable future. Being aware of the significance of sustainable business, we have started working on a local ESG strategy and formed a working group that discusses all aspects of ESG operations with experts from the Group on a weekly basis. The Bank has developed a framework for the identification and management of ESG risks in corporate lending, as an instrument for the transition to a sustainable economy.
In this annual report, we paid special attention to socially responsible business, woven into all pores of our activities. Our reporting process is in line with the internationally recognized standards of the Global Reporting Initiative (GRI), as well as with the United Nations Sustainable Development Goals. The report provides answers to 18 standardized

performance indicators in the most important areas, such as anti-corruption, employment practices, employee development, safety at work, personal data protection, advertising, and environmental protection. I am proud that the activities of OTP banka have directly contributed to the achievement of as many as nine UN Sustainable Development Goals.

We ended the previous year with great success thanks to the trust of our clients and partners, and the determination of our colleagues to walk side by side in achieving a common goal. And every goal is near when you know where you are going.

Sincerely,

Predrag Mihajlović

02 OTP Group

OTP Group is the leading financial group in the CEE region, with remarkable growth results, outstanding profitability and stable capital and liquidity positions.

The banking group provides universal financial services to 17 million clients, with 40,000 employees in 11 countries. It offers state-of-the-art digital solutions and a network of more than 1,700 branches. OTP Group's future-oriented operations and development efforts focus on the sustainability of the environment, society, and governance, while simultaneously aiming to strengthen its position as the best employer in the CEE region.

OTP Group is headquartered in Hungary and has a diverse and transparent ownership structure. The banking group has been listed on the Budapest Stock Exchange since 1995.

The entire business of the Group in 2020 was carried out smoothly, despite the extraordinary challenges imposed by the pandemic. Consolidated adjusted profit after tax for 2020 exceeded 310 billion forints, while adjusted ROE amounted to 13%.

In the first nine months of 2021, OTP Group generated an operating profit of 483.5 billion forints (+22% per annum). Total income increased by 10 percent per annum, with net interest income rising by 8 percent and net income from fees and commissions growing even faster, by 13 percent. Other net non-interest bearing income recorded a growth of 23% per annum. Based on consolidated adjusted profit of HUF 373.6 billion for the first nine months, the adjusted ROE for that period amounted to 18.8% (+5.7 percentage points per annum). With the exception of the Romanian subsidiary, the nine-month profit of all foreign subsidiaries exceeded the results in comparison to the entire 2020. The contribution of foreign subsidiaries increased by 4 percentage points annually, to 52 percent.

OTP Group is a pioneer in digitization and has been proactive for nearly 30 years in the field of digital transformation of its business and implementation of new technologies in the financial market. Strategic focus on innovation has introduced the possibility of working with 1,329 startup companies with 45 pilot projects implemented, with the fifth OTP Startup Partnership Program being underway, as the Group's most comprehensive innovation program, given that all members of the group, including OTP banka Srbija, are in search of startup partners which support their business goals. This program has received numerous awards for the best incubator and accelerator program in Europe.

In November 2021, the leadership position in innovation was reaffirmed when SambaNova Systems, a company that develops the most advanced software, hardware, and solutions for launching artificial intelligence applications in this industry, and OTP Group announced a strategic partnership for building the fastest AI supercomputer in Europe. For the most advanced language model in the world in a commercial bank, together they will implement a multi-framework AI system built upon the solution of the company SambaNova Dataflow-as-a-Service GPT. In cooperation with the Hungarian

Ministry of Innovation and Technology, the system will be available as a national resource for artificial intelligence, both for the public and private sectors, as well as for higher education.

The predecessor of OTP Bank, National Savings Bank, was established in 1949 as a national, state-owned bank for the provision of services related to retail deposits and loans. Its activities and powers gradually expanded over the following years. In 1990, National Savings Bank became a public company with a share capital of 23 billion forints. Its name was changed to National Savings and Commercial Bank. Subsequently, non-banking activities were separated from the bank, along with their supporting organizational units. The privatization of OTP Bank started in 1995. The ownership structure is currently characterized by diversity - shareholders are mostly private and institutional (financial) investors.

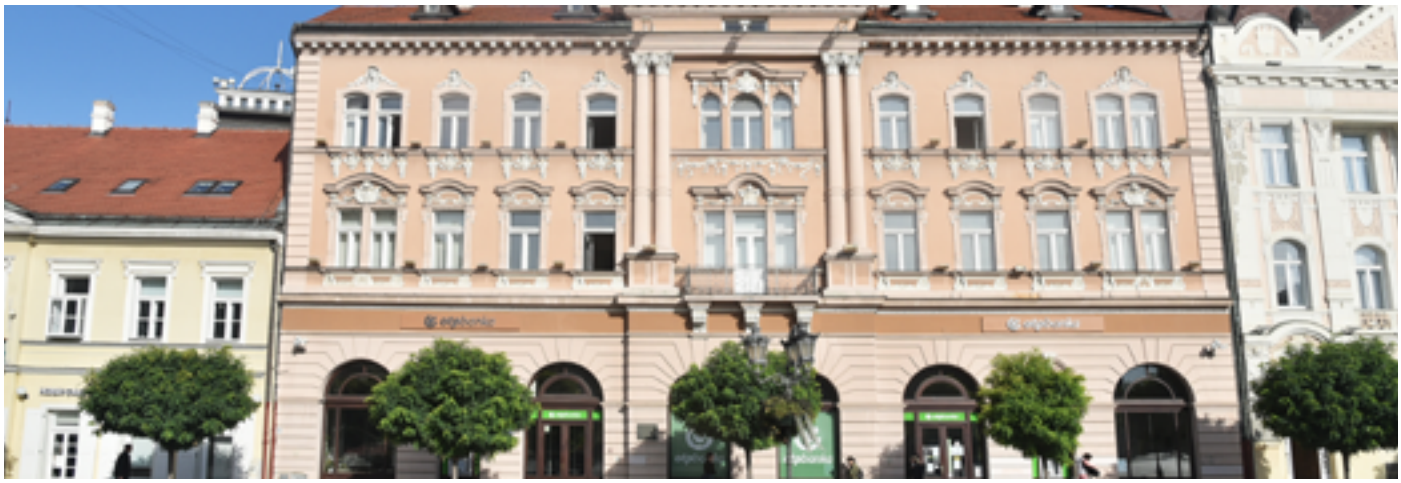
OTP Bank started its international expansion targeting Central and Eastern European countries, which offer great potential for economic growth similar to Hungary. In recent years, OTP Bank has completed several successful acquisitions and thus became a key player in the region. In addition to Hungary, OTP Group currently operates in Albania (OTP Albania), Bulgaria (DSK Bank), Croatia (OTP banka Hrvatska), Romania (OTP Bank Romania), Serbia (OTP banka Srbija), Slovenia (SKB Banka), Ukraine (CJSC OTP Bank), Russia (OAO OTP Bank), Moldova (Mobiasbanca) and Montenegro (Crnogorska komercijalna banka) via its subsidiaries.

OTP Group's strategic goal is to become the most successful universal banking group in Central and Eastern Europe. The banking group strives to constantly evolve in order to provide unique, convenient, and modern services to both retail and corporate clients, that are easier and quicker to access and which facilitate meeting the challenges of the digital age and fulfilling client expectations.

Sustainability is at the very top of OTP Group's priorities, with the aim of avoiding negative impacts on the environment and society, and exploiting the business improvement potential. OTP Group identifies its priorities in the field of sustainability in accordance with global challenges and trends, as well as with the expectations of stakeholders. Identified priorities include focusing on products that have a positive environmental and social impact, as well as financial education. The goal of OTP Group is to become the best equipped bank for the so-called "green" financing in Central Europe by 2023.

At the end of 2021, OTP received several awards from Global Finance New York, as the best bank in Hungary, the best bank for SMEs and the best private banking in Central and Eastern Europe, as well as the best financial laboratory for innovation in the world. The same magazine again named OTP Bank the safest bank in Hungary in 2021, thus joining the group of the World's Safest Banks.

Also, Euromoney Awards for Excellence 2021 awarded OTP Bank the "Best Bank in Central and Eastern Europe" award, together with the "Best Bank in Hungary" award, while the Bulgarian, Montenegrin and Albanian subsidiaries were also named the best banks.



03 OTP banka Srbija a.d. Novi Sad

The new OTP banka Srbija a.d. Novi Sad, created from the integration process between OTP banka Srbija a.d. Beograd (former Societe Generale Srbija) and Vojvođanska banka a.d. Novi Sad, has started operating on May 5, 2021. This was the most complex banking integration ever implemented in this region and represents a strategic move of OTP Group, aiming to form the largest banking institution in Serbia. This successful integration resulted in the creation of one of the leading financial institutions in Serbia in terms of assets, number of branches and the size of the loan and deposit portfolio. The headquarters of the integrated bank are located in Novi Sad, at Trg Slobode 5 in the city center. OTP banka Srbija is 100% owned by OTP Bank Hungary.

The successfully implemented integration, in April 2021, and continuous growth in regular operations, resulted in forming a bank that became the single largest lender in the Serbian market with a total of EUR 4.2 billion in net loans, with EUR 5.7 billion in assets, 2,789 employees, 294 ATMs and 184 branches in 91 cities across the country. The bank is also a leader in leasing, factoring and e-commerce market services.
The following figures best testify to the complexity of the integration process that took place between the two banks headquartered in two cities, Belgrade and Novi Sad, while the operational work was based on two different IT core banking systems:

- 19 months of integration process, more than 3,100 meetings, which is approximately 3,100 hours of meetings of teams from Budapest, Novi Sad and Belgrade
- Almost 600 people participated in the project
- More than 777,000 hours of work
- 30 work groups, 10 cross-functional teams, 6 Sponsors
- Nearly 100 million migrated data
- Over 8,300 tests were created and performed over multiple test cycles
- More than 6,000 incidents were identified and closed during the project
- 185 IT GAPs were developed
- A total of 5,094 training participants with 125 internal trainers and 19,377 hours of training
- 64 critical processes were modeled and 140 flow diagrams were created
- 1,159 normative acts were adopted during the integration

Despite the challenges in 2021, caused by the conditions of the coronavirus pandemic and the efforts of all employees to successfully complete the integration on time, retail loans recorded growth of approximately 20% as compared to 2020 if we observe the loan amount of the two merged banks, whereby OTP banka managed to reach a market share of 19%.

During 2021, the Bank was the leader in the housing loan market with a market share of 21.8%, which means that every fifth property was purchased with a loan from OTP banka. In terms of cash loans, the Bank also holds a leading position with a market share of 20.2%.

At the same time, the Corporate Division managed to exceed the expected market share in the segment of corporate loans and achieved a level of 16.3%.

OTP banka is focused on innovations and digitalization of its operations, thus providing its clients with new benefits with a focus on enhancing digital banking, numerous benefits for our card holders as well, using the phone as a card (with mCard and ApplePay), P2P payment and transferring funds to private individuals by e-mail and phone, and a lot more.

OTP Group also includes OTP Leasing Srbija, a leader in the leasing market in Serbia with a total financing of EUR 108 million in new facilities, which represents 19.5 percent of the market share in new production, as well as OTP Osiguranje, which provides life insurance services through OTP banka, as an insurance agent.

In 2021, OTP banka Srbija won prestigious awards for several of its top managers, for continuous and exceptional cooperation and achievements in foreign payment transactions, for its eCommerce service, but also for its socially responsible campaign, Circle of Support.

OTP banka is a member of various business organizations and associations, through which it actively promotes highly ethical business standards and strives to contribute to the development of socially responsible and sustainable practices through specific engagement. Some of these associations are: Association of Serbian Banks, Serbian Chamber of Commerce, ACI Serbia, American Chamber of Commerce, French Chamber of Commerce, Responsible Business Forum, Serbian Philanthropic Forum, Association of Serbian Economists, Association of Economists of Vojvodina, Foreign Investors Council, NALED, Digital Serbia Initiative and IAB. OTP banka is also a proud member of the Friends of UNICEF Club.

04 Macroeconomic environment and the Banking sector

During 2021, the international environment was still characterised by elevated uncertainty as to the impact of the future course of the pandemic and new virus strains on the pace of global economic growth, global prices of primary commodities and inflation. According to International Monetary Fund, reopening of economy after lockdown led to sudden recovery of global economic activities, higher growth of energy supplies demand and depletion of energy stocks, especially gas reserves in Europe IMF decreased the global growth projection for 2021 by 0.1 percentage point to 5.9%, due to worsening pandemic dynamics, supply disruptions and inflation. Higher growth of energy prices is projected to subside by the end of H1 2022. COVID-19 and global slowdown, had a less severe impact on Serbia compared to most European countries, due to achieved macroeconomic and financial stability and due to large and timely monetary and fiscal package.

In December 2021, inflation was at 7.9%, compared to December 2020, while the average inflation in 2021 was at 4.0%. The growth of inflation was caused by higher food and energy prices and exceptionally low levels of these prices in 2020, which were temporary factors beyond a significant direct impact of monetary policy. Core inflation in in the last eight years stood at 1.8%, confirming price stability, while it was at level of 3.5% in December 2021, which was significantly lower than headline inflation, suggesting that inflationary pressures are temporary. Under the NBS projection, inflation should return within the target band around mid-2022 and stabilize close to target midpoint by the end of year.

According to the SORS preliminary estimate of economic developments in 2021, Serbia's real GDP growth stood at 7.5%, exceeding the NBS's expectations and reinforcing the foundations 2022 growth. The growth was driven by recovery in service sectors, as well as growth in construction and industrial production. FDI inflow had positive effect on economic growth by reaching record levels of around 8% of GDP and fully covering Serbia's current account deficit, which is expected in the following years as well. Exports of goods and services grew during 2021, mainly driven by manufacturing, ICT and business.

In the medium term, economic growth is expected to range between 4.0% and 5.0%, as a result of continued investment cycle and implementation of large infrastructure projects, as well as the rise in personal consumption on the back of favourable labour market trends.

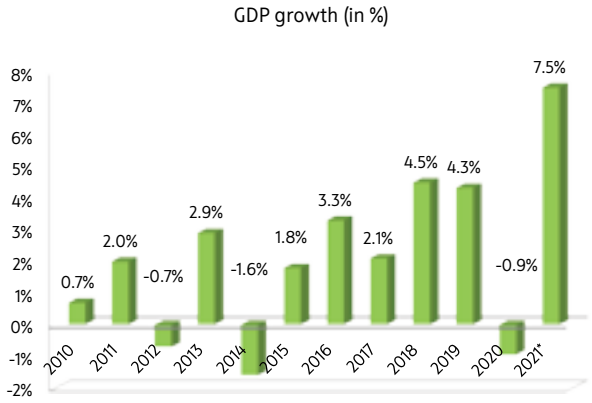
The key risks of the projection arise from the uncertainty of the pandemic course and the world energy prices. Capital flow toward Serbia as one of the emerging economies will remain

under the dominant sway of the decisions of leading central banks, the Fed and the ECB, which have decided to start reducing the volume of additional liquidity injected in the financial system, without raising their key interest rates. The priority of Serbia's monetary policy in the medium term will be delivering price and financial stability, together with supporting growth of economy and employment, further expansion of the export sector and a favourable investment environment.

Economic activity

COVID-19 and global slowdown, had a less severe impact on Serbia compared to most European countries, due to achieved macroeconomic and financial stability, growth momentum, fiscal space created in previous years, large and timely monetary and fiscal package, and structure of the economy. GDP recovery to pre-crisis level was accomplished already in Q1 2021 and real GDP y-o-y growth amounted to 7.5% in 2021, according to preliminary data of the Statistical Office, which was driven by recovery of service, construction and industry sectors. Projection of medium-term GDP growth was revised upward to range from 4%-5%, as a result of new investment cycle and planned infrastructure projects.

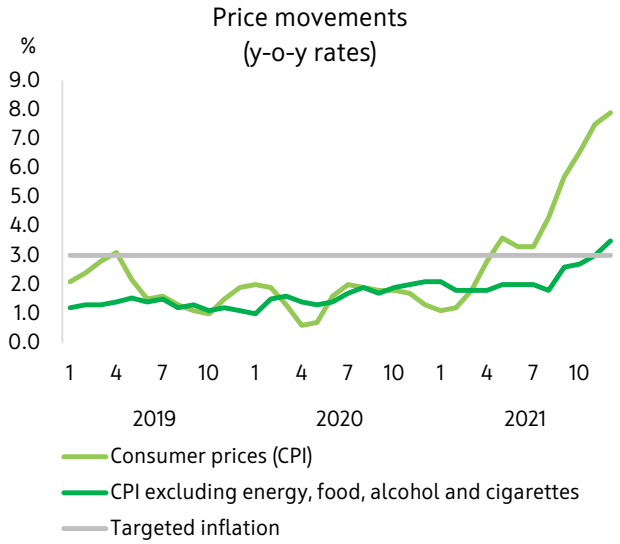
Risks from the international environment refer to the recovery of the Eurozone, value chain disruption, energy crisis and prices of primary products, and domestic risks to an agricultural season, higher inflow of FDI and the pace of growth of public investments.



* NBS projection

Inflation

In December 2021, inflation was at 7.9%, compared to December 2020, while the average inflation in 2021 was at 4.0%. The growth of inflation was driven by higher prices of food and energy, factors beyond a significant direct impact of monetary policy. Energy prices increased by 13.4% in December 2021, compared to December 2020, which was dictated mainly by growth of global oil price and local petroleum product prices. Overall in 2021, y-o-y core inflation averaged around 2.3%, while it was significantly lower than headline inflation in December 2021 at level of 3.5%. Low and stable core inflation is underpinned by the years-long relative stability of the exchange rate, which will be preserved going forward.



The risks to the projected inflation profile are associated mainly with primary agricultural commodity prices, global energy prices, the pace of global economic recovery and the persistence of disruptions to global supply chains. It is expected to strike a steady downward path starting from Q2 and return within the target band 3.0 ± 1.5% in the course of Q3.

Monetary policy

In 2020, the NBS lowered the reference interest rate to the historically lowest level of 1%, which was kept unchanged in 2021 despite significant inflation growth. Heightened cost-push pressures at home and abroad and the need to influence inflation expectations affected the decision of NBS to tighten monetary policy and increase the weighted average interest rate in reverse repo auctions by 48 basic points in Q3 2021. The NBS has thus used the flexibility of its monetary framework, which allows it to adjust monetary conditions even without changing the main interest rates. The priority of monetary policy in the medium term will be delivering price and financial stability, together with supporting faster growth of economy and employment, further expansion of the export sector and a favourable investment enviroment.

The trend of convergence of interest rates on dinar and euroindexed loans, present for a longer time already, particularly in the corporate sector, continued, contributing to the increase in the degree of the dinarisation of receivables to the level of 38.5% in November, and thereby to further strengthening of financial stability. In November 2021, total domestic loans accelerated to 9.0% in y-o-y terms, having in mind high base effect from previous year due to moratorium application. Growth of loans was mainly led by liquidity and current assets and investment loans within corporate sector, as well as good realization of housing loans. During 2021, the approval of loans under the Guarantee Scheme to micro, small and medium-sized enterprises and entrepreneurs, continued and provided a strong credit impulse to the real sector.

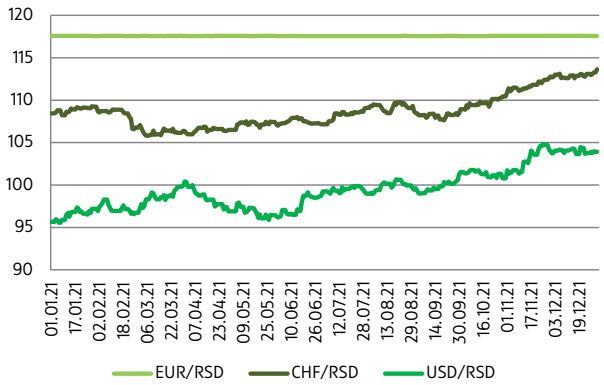
Reference interest rate (in %)

Exchange rate

Though depreciation pressures, triggered by the global spread of the pandemic, were present in 2020, stable movements of the EUR/RSD exchange rate continued, so its value remained almost unchanged. The dinar's stability was mainly supported by the NBS's FX liquidity provision to banks against the background of limited supply of foreign exchange and cash.

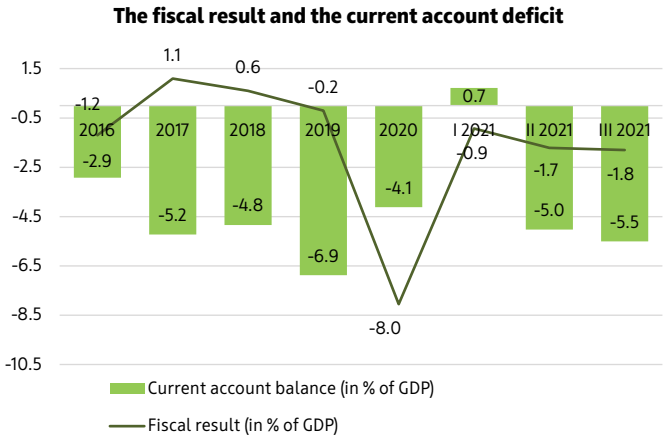
For most of 2021 appreciation pressures prevailed due to favorable balance of payments movements. In Q4 2021 depreciation pressures appeared as a consequence of higher demand for FX of domestic importers of energy, and partly due to lower holdings of dinar government securities by the nonresidents. In order to maintain relative stability in the domestic FX market, the National Bank of Serbia intervened on the IFEM both on the purchase side and on the sales side.

Exchange rate movements during 2021



The fiscal result and the current account deficit

During previous years, Serbia eliminated fiscal deficit, with government investments reaching near 5% of GDP. High deficit during 2020 was a consequence of high expenditures for support measures and purchase of medical equipment, as well as decrease in revenues. In 2021, another fiscal stimulus package was introduced aimed at most affected sectors and citizens and CAPEX continued to rise. Fiscal deficit is expected to be less than 5% of GDP at the annual level in 2022.



Foreign trade

Goods exports in period Jan-Nov 2021 increased by 26.8% y-o-y due to product and geographic diversification and export oriented investments, while goods import went up by 24.6% y-o-y.

Exports are expected to have a large contribute to economic growth, especially on the supply side, from past investments into tradable sectors, and on the demand side, from the more favourable growth outlook of most important trade partners. The rise in export supply is also suggested by the fact that FDI inflow to Serbia in 2021 reached EUR 3.9 bn, surpassing the previous record from 2019 and remaining channelled mainly to export-oriented sectors.

The international environment was still characterised by elevated uncertainty as to the impact of the future course of the pandemic and new virus strains. However, after the challenges stemming from the significantly higher price of natural gas and halts in supply chains, industrial production in the euro area is expected to pick up, which should reflect positively on our exports and manufacturing.

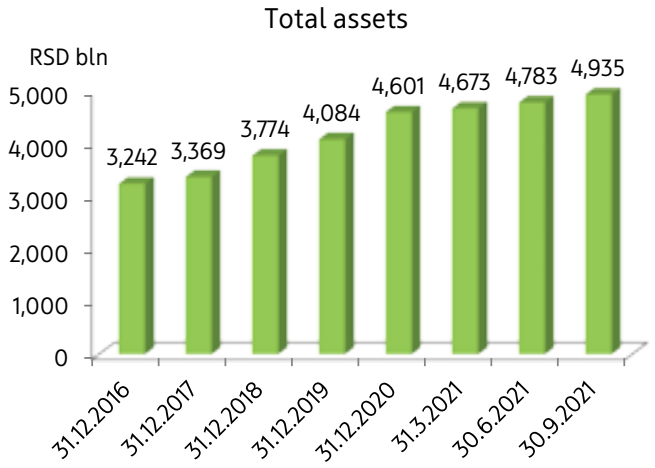
External debt and public debt

During first eleven months in 2021, public debt was lowered to the level of 56.4% of GDP (from 57.0% at the end of 2020). In September have been issued two Eurobonds worth a total of EUR 1.75 billion, part of which is aimed to repay the debt on the dollar bond of USD 700 million, matured in September. By further reliance on RSD and EUR denominated debt, the currency risk continues to decrease additionally.

Banking sector

At end of Q3 of 2021, the Serbian banking sector numbered 24 banks, among which foreign-owned banks still have a dominant share. The banking market is very saturated since the five largest banks have 57.7% of the market share, which is higher compared to the end of 2020 (53.5%). Consolidation of the banking market can be expected in the future in order to reduce the number of banks and to strengthen the market power of the largest banks.

At end of September 2021, total net balance sheet assets of the Serbian banking sector amounted RSD 4,935 billion, and total capital RSD 721 billion.



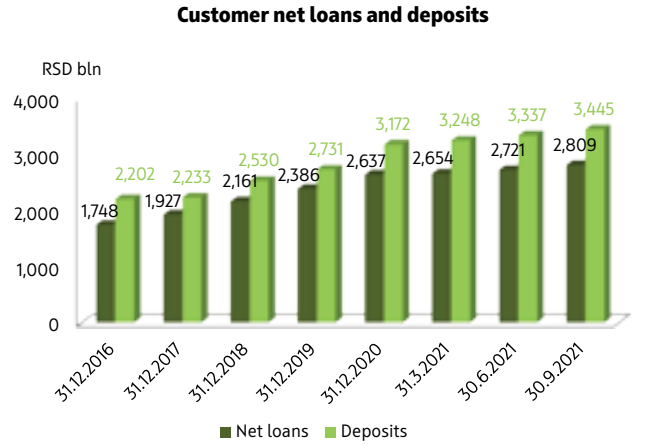
Net result in the overall banking sector achieved in the first nine months of 2021 amounted to RSD 44.8 billion, representing a increase of 2.7% compared to the same period previous year. A positive result was reported by 20 banks with total profit of RSD 45.5 billion, while 4 banks operated with a loss of RSD 0.7 billion.

Changes in key elements of banking sector profitability (in RSD mln)

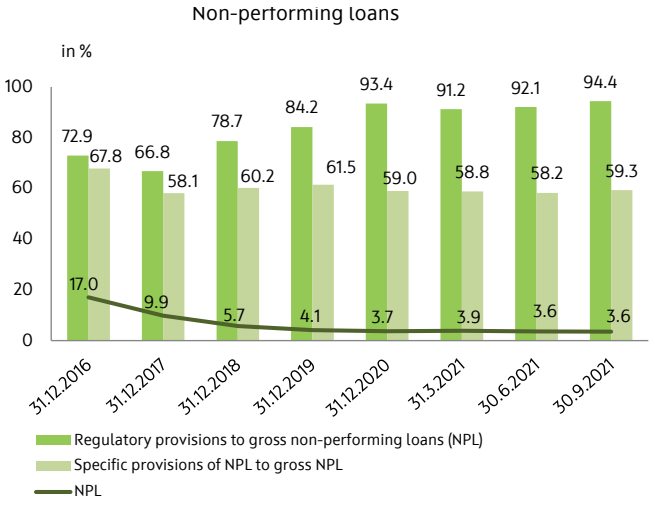
	30.09.2020.	30.09.2021.	Change
Net interest	96,357	85,691	-11%
Net fees	29,598	27,007	-9%
Credit losses	-14,677	-11,987	-18%
Exchange rate effect	6,586	6,141	-7%
Result	43,433	40,147	-8%

Total net loans of the banking sector in Serbia at the end of the third quarter of 2021 increased by 6.5% comparing to end of previous year. Measured by the share of dinar in total receivables, the dinarisation of corporate and household receivables reached record 38.5% in November.

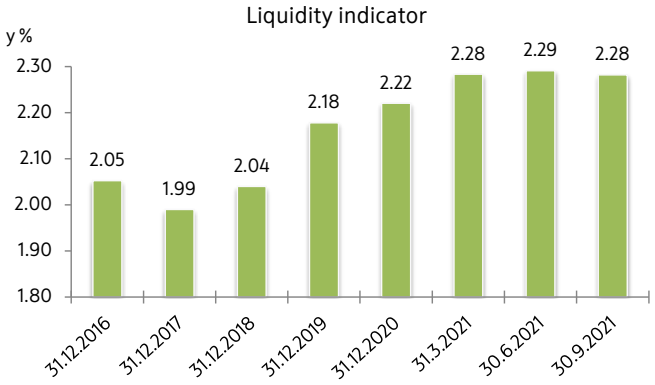
The main sources of financing of the banking sector in Serbia are still received deposits, which share in total liabilities was 68.9%. Total deposits at the end of the third quarter amounted to RSD 3,445 billion, which represents an increase of 8.6% as compared to end of last year. Since the beginning of the year till November, dinar household savings gained RSD 10.1 billion, or 11.0%, despite the pandemic-induced crisis, which indicates citizens' confidence in the stability and safety of the banking sector.



The gross NPL ratio was at level of 3.6% in September 2021. The NPL coverage remained high – in September, allowances for impairment to total loans stood at 94.4% of NPLs, and allowances for impairment to NPLs measured 59.3%.



The Serbian banking sector is still characterized by very high liquidity. At the end of the third quarter of 2021, the average monthly liquidity ratio stood at 2.28% (regulatory minimum is 1%), while the narrower liquidity ratio stood at 1.90% (regulatory minimum is 0.7%).



he Serbian banking sector is well capitalised. At the end of September 2021, capital adequacy ratio of the Serbian banking sector averaged 21.68%, well above the National Bank of Serbia regulatory minimum (8%). This data indicates the high resilience of the banking sector in Serbia.

05 Retail banking

In 2021 the Retail banking has remained focused on needs of its clients and building of long-term relationship. Continuous growth of lending to individulas is one of the main indicators of the support that the Bank provides to its clients, i.e. individulas. If the loans volume of two joined banks is taken into consideration, the 12% loan growth is recorded in 2021 compared to 2020. Besides that, the OTP Bank successed to achieve the 19% market share.

In last two-three years the house construction financing growth, buying of apartments and house loans demand is noticeable. During the 2021 the Bank was the leader on the house loans market with the 21.8% market share, which means that the every 5th property was bought by the OTP Bank loan. The Bank has taken the sales process improvement and the relevant products compliance related activities in the house-loan lending segment in order to provide improved customer experience as the first step in creating long-term relationship, that is characteristic for this product. At this point, years of co-operation with the Real Estate agencies and Properties cluster should be pointed out as they provide additional support in many loan applications realization.

Favorable trends in Retail banking are result of optimal price level and products combination. Special actions and promotion campaigns for cash loans are organized that contributed in their growth to the level of RSD 124 billion and the 20.2% market share in the cash loan market. Efficient work organization has also significantly contributed to cash loan growth in prolonged pandemic situation caused by Corona virus, where the focus of the OTP Bank was directed towards timely and adequate customer service and, above all, towards the health of the staff and the clients as well. In that sense, more attention is given to alternative service and sales channels with more intensive activities within the Contract Center.

Total deposits in Retail banking reached the level of RSD 205 billion with active clients increase. Market share of the OTP Bank individuals' deposits recorded the level of 10.8%

As the Retail banking has in its focus customer satisfaction, introducing of changes has continued, and within the system that encourages the innovation culture at the level of the Group, constant work on the offer that has useful value for clients and daily banking activities facilitation is implied.

The pandemic was accelerator towards the digital channels. During the last year a significant shift in favor of mobile banking is done. At the moment, in the OTP Bank there is more then 250 000 active digital users, out of which the individulas, that use mobile banking application, make the majority. Digital tools are put in function of time saving both of staff and clients, that additionally improves satisfaction of both sides. The digital banking already presents the platform for solving of simple financial transactions, that are at the same time the most common, while in the future arrival in the bank and the traditional

relationship establishment between the Bank and the client will be necessary only in case of complex financial requests solving.

The OTP Bank has enabled numerous new novelties such as online cash loan, P2P payment and Pay by link for transfer of funds to individuals by the e-mail of the phone. The Bank has introduced, amongst the firsts, use of the mobile as the payment card through the mCard service that applies payment by the digital Mastercard within the mBank application. Also, the clients may register their digital Mastercard payment card on the iPhone and use all the advantages of our Apple Pay service that enables safe and simple contact less payment.

The OTP Bank has gain in 2021 the Global Finance Magazine reward as the best bank for small and medium-size entriprises in Central and Eastern Europe. The reward has confirmed the efforts made in creating the Bank as the leader in this segment, and the added value lies in the fact that the Bank gain the reward during the pandemic period and the integration process of two banks. The OTP Bank has participated substantially in lending of small and medium-size enterprises during this and the previous year as well through the Guarantee scheme, helping the companies to overcome the difficulties caused by the pandemic situation. During 2021 year in the Small business segment the Bank has realized loans to legal entities and entrepreuners in total amount of RSD 6 billion approximately, out of which the loans unbder the Guarantee scheme cover significant part.

The European Bank for Reconstruction and Development has approved to the OTP Bank loan in the amount of EUR 20 million for further financing of small and medium-size enterprises in Serbia. The credit line will be used as a support to financing of private enterprises through the working capital and investment loans, primariy for small and medium-size enterprises that operate in economically less developed parts of the country.

The credit line is approved as a support to post pandemic recovery of Serbain economy and to strengthen it for mid and long term. With a wide regional coverage and focus on small and mid-size enterprises, the OPT Bank has a possibility to ensure more than necessary financing of small enterprises and to contribute to development of this segment in the whole country.

The OTP Bank has developed model of services for privage banking clients, which includes investment and financial consultancy services, and know-how in assets management as well. That was recognized and by renowned Global Finance magazine, that has pronounced the OTP Bank for the best bank for a private banking in Central and Eastern Europe. Taking into account the fact that private banking clients have very specific and extremely high expectations from their banks, the importance of this rewards gains one added value.

Behind this success is the fact that these needs of the clients have been recognized on time and very wide spectar of adjusted services, staff expertise in assets management area within the exclusive Eminent package has been provided to them, and financial and investement consulting services as well. Licensed investment consultants recommend to each client individually how they may invest their funds both on local and foreign market in accordance with their profile, financial plans and other factors as well. Local market knowledge is crucial here, and the advantage is a possibility of mix of their expertises in differenet areas, such as corporate business, leasing or insurance.

06 Corporate Banking

During 2021 year the banking business, hence and corporate business, was under the influence of higly challenging circumstances caused, primarly, by intergration process of two banks, ex-OTP Bank and Vojvođanska bank, followed by work process, products, corporate cultures, strategics aims compliance of these banks. Besides that, the Corporate segment sucessed to exceed the expected market share in the placed corporate loans and to achieve the 16.3% market share. Inrease of credit exposure is followed by the improvement of the exposure and it risk level through:

- Improvement of loans placement maturity directed towards long-tern financing increase withing the total portfolio;
- Increase of corporate loans in RSD, that is in accordance with the strategy of dinarization, together with additional internal currency risk headging measures;
- Portfolio diversification by financing types and by economy branches to which the client belong.

Increase of investment lending is noticeable by which the Bank keeps up with the market demands. Integration of banks open a possibility of financing of much bigger projects than it was a case befote the integration. Besides that, the Bank's expertise is on much higer level, thus the Bank may take into consideration different investment profiles from construction works financing, production capacities to energy effiecincy and green energy sources. It is expected the OTP Bank to be more active in project financing segment with a special focus on real estate construction sector.

Total gross corporate loans increased in 2021 through the improvement of co-operation with the existing and new clients, and the loans approval process under the Guarantee scheme continuation. During the 2021 the Bank has approved approximately RSD 200 billion to mid-size and corporate enterprises if the total loans amount of both banks is taken into consideration. This affected the corporate loans to reach the 16.3% market share at the end of 2021. The majority of approved loans were working capital loans, by which the previous years trend continues.

In corporate segment total deposits increased commpared to the previous year. The OTP Bank's corporate deposits recorded level of 11.5%.

After the sucussefully ended integration processs in May, 2021, the OTP Bank has continued developing innovative banking products and creating of unique solutions tailored to the clients needs. One of the areas that stood out in previous period is transactional banking and factoring, where the Bank is the leader on the local market.

When the factoring business is concerned, one of the things that makes the OTP Bank to stand out on the market is the fact that the clients see the Bank as a partner and consultant in solving everday financial challenges. Small and mid-sized enterprises may easily get liquidity funds and collect their receivables by giving the right to the Bank before the maturity date. Corporate enterprises most often choose the reverse factoring services, when the Banks pays out the obligations of the clients towards the vendors immediately upon invoicing. The OTP Bank offers simple technological solutions in the domain, the highest standard services and many years of experience.

Continuing its mission of maintaining long-term partnerships, during the 2021 the OTP Bank continued to improve and develop transactional banking services with constant focus on requests processing time optimization starting from request for opening and activation of current accounts, domesting and internations orders processing till the documentary business related requests.

The OTP Bank is one of the most innovative banks on the Serbian market, where especially the e-commerce services should be mentioned. During the 2021 year, over three and half million transactions have been realized, and at the end of the year the Bank gain the reward for Extraordinary Online Payment Experience and Best eCommerce Implementation Partner, as one of the most successful banks on the eCommerce market in Serbia. The Bank has improved the customer experience. During the payment, the 3D secure technology is applied, enabling security to the cardsholders and giving the great contribution to online commerce development all over the Serbia.

07 Risk management

General framework

Activities related to risk management at all organizational levels are guided by the mission of realizing shareholder value by optimizing the risk to return ratio, taking into account the interests of customers and employees in a manner that is consistent with best practice and compliance with regulatory requirements.

The risk management structure is organized in accordance with the Law on Banks, the relevant decisions of the National Bank of Serbia, which define the area of risk management and capital adequacy, as well as the Bank's Risk Management Strategy.

The general objectives of the Bank's risk management are:

- Establishment of basic principles and standards for risk management in the Bank;
- Support to the Bank's business strategy by ensuring that business goals are achieved with controlled risk;
- Improvement of the use and allocation of capital and increase of revenue from capital adjusted to risks by including risk in the measurement of business performance;
- Support to the decision-making process by providing the necessary information relating to the risks;
- Ensuring consistency with best practices and compliance with local regulatory, quantitative and qualitative requirements;
- Providing cost-effective risk management by reducing overlapping and avoiding inadequate, excessive or outdated policies, processes, methodologies, models, controls and systems.

The main strategic goals of the Bank in risk management area are:

- Improvements in retail credit approval process by implementation of fast, automated decision-making process based on high-qulity data and supported by flexible, OTP Group-wide technological solution.
- Further acceleration of corporate credit approval processes by development and technological support of state of art corporate credit approval workflow and a document repository.
- Improvement of data storage capacities, as well as implementation of data governance and data management framework, providing support to data driven decision making
- Further improvements of non-credit risk management framework
- Development of human resources focused on hiring, retention and

development of digital, analytical and technical skills
- Strengthening and improving risk management governance by revision of risk regulation architecture, implementation of risk control function and conducting of initiatives aimed on raising the risk culture and awareness thorough the organization.

Credit risk

Credit risk is the most significant material risk the Bank is exposed to.

The process of continuous measurement, monitoring and control of credit risk is based on:
- consistent tools for scoring and ranking credit placements in order to standardize and improve credit assessment, as well as to establish a system of limits in line with the level of estimated risk;
- the process of regular monitoring of credit exposures harmonized with regulatory requirements, as well as with best practice standards and
- information system and analytical techniques that allow measurement of credit risk in all relevant activities and provide adequate information on the content of the loan portfolio, including the identification of possible concentration of risk.

The basic method of mitigating credit risk is ensuring the collateral for a loan. The Bank's credit policies determine the types of eligible collateral in the form of funded and unfunded credit protection, whereas the conditions to obtain these collaterals, as well as the ratios for calculating the secured values in relation to the type of collateral for the purposes of loan processing, are in more detail regulated by other internal documents of the Bank.

The main types of collateral used by the Bank for the purposes of mitigating credit risk are: residential property mortgage, business property mortgage, pledge on equipment, inventory and receivables, letters of guarantee, financial assets (cash, securities) and sureties.

In accordance with the regulatory environment, which includes the expectations of domestic and international supervisory authorities, and as the Bank is a member of the OTP Group, the Bank has developed a framework for the identification and management of so called ESG risks in the process of lending to the Corporate clients (E-environmental, S-social, G-governance), as an instrument for the transition to a sustainable economy.

This process of lending to the Corporate clients has been improved by introducing following elements:
- ESG Exclusion List – a list of activities and behaviors whose controversial nature and impact appear to be incompatible with the values of the OTP Group, ie whose funding is avoided;
- ESG Heat Map by sectors – contains a classification of economic activities with appropriate, predetermined categories of ESG risk;
- ESG risk assessment (individual assessment of ESG risk levels in the case of clients with materially significant amounts of exposure).

The Bank realized a decrease of the NPL indicator in 2021, resulting in the value of the indicator of 3.96 as of 31.12.2021, as per the methodology of the National Bank of Serbia. The realised indicator was lower than the last year's by 0.2 percentage points, and somewhat higher than the NPL indicators of the banking sector, which is amounted to 3.6% in the third quarter 2021. The decrease in NPL indicators is the result of activities on the sale and collection of non-performing loans, write-off of bad assets that are fully impaired or assessed as non-performing, improvement of the loan portfolio quality, as well as by an increase in the performing loan portfolio.

Market risk

Market risk is the possibility of negative effects on the financial result and capital of the bank based on changes in the value of balance sheet and off-balance sheet items of the bank that occur due to market prices.

In terms of market risk, the Bank is exposed to foreign exchange risk for all positions from which market risk can raise and position risk based on debt securities arising from the trading book.

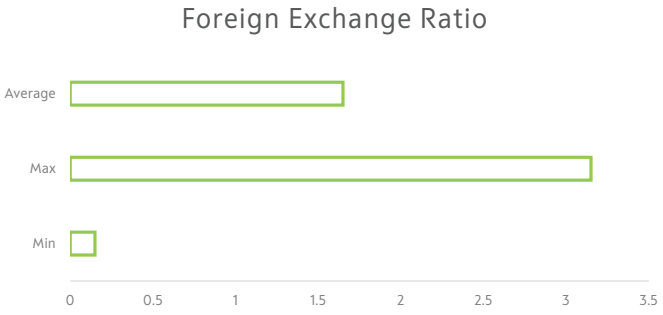
The trading book of a bank shall consist of all positions in financial instruments and commodities held either with trading intent or in order to hedge an exposure arising from positions in other financial instruments of the trading book and which are free of any restrictive covenants on their tradability or the ability to be hedged, as well as placements obtained for the purpose of making a profit from the difference between the purchase and sale price, ie on the basis of other price changes in a short period of time.

The Bank has positions in the trading book and accordingly has established and maintains appropriate functions of measuring, monitoring and controlling market risk, including:

- Market risk measurement processes that record all significant sources of market risk and assess the impact of changes in market risk factors in a way that is consistent with the scope of the Bank's activities. These measurement systems include VaR models and BPV models;
- Operational limits that ensure that exposures remain within levels which is consistent with internal policies and the Risk Management Strategy in terms of exposure to individual types of market risk, limitation of the open positions and establishing the stop loss limits;
- Measuring sensitivity to loss under stressful market conditions and taking these results into account when establishing certain limits for market risks;
- Adequate IT support for measuring, monitoring, controlling and reporting on market risk exposure with controls built into various risk measurement systems and applications;
- Reports that are regularly prepared and submitted to the Board of Directors, the Executive Board, senior management and all other relevant bodies.

The Bank manages foreign exchange risk through a system of limits and continuous monitoring of compliance of FX positions with the limit. In addition, the Bank measures the foreign exchange risk indicator on a daily basis in accordance with the regulations of the National Bank of Serbia and maintains it within the prescribed limits.

In order to hedge foreign exchange risk, the Bank monitors daily changes in the market, pursuing a policy of low level of exposure to foreign exchange risk and monitoring the results obtained during the regular stress test which are reported to ALCO, Board of Directors and Executive Board.

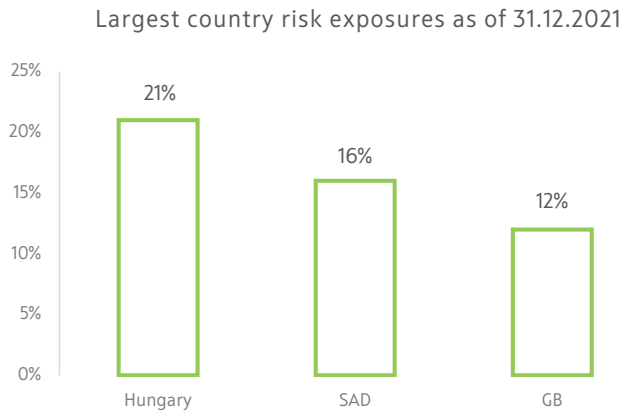


During 2021, the Bank has maintained the level of foreign exchange risk significantly below the regulatory level.

Country risk

The bank is exposed to Country Risk for all types of financing in a particular country, whether to the central government, a bank, a private company or an individual. Country risk is managed by the Bank through internally determined ratings, which represent the basis for establishing a system of limits on country risk exposures. Economic, political and other

events and circumstances in the countries to which the Bank is most exposed are continuously monitored and assessed. On average, the bank was most exposed to Hungary.



Counterparty risk

The counterparty's risk is the possibility of negative effects on the Bank's financial result due to the counterparty to a transaction could default before the final settlement of the transaction's cash flows or settlement of monetary liabilities under that transaction.

The Bank has defined the basic principles for reporting, action that can be taken in case of exceeding the limit, as well as the methodology for determining the internal rating, determining the limit and the method of determining the maximum possible exposure to the certain counterparty.

The counterparty limit system consists of internal and regulatory limits. The counterparty limits are determined individually for each counterparty taking into account the analysis of the counterparty, the identification of a group of related parties, the analysis of other information about the counterparty and other relevant information that may be useful in determining counterparty risk.

Operational risk

Operational risk is the risk of possible negative effects on the Bank's financial results and capital due to failure (unintentional and intentional) in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the Bank, and due to unforeseen external events. Operational risk also includes legal risk. Operational risk does not include strategic and reputational risk. Specific areas of operational risk include information system risk, unethical business risk (conduct risk), and model risk. The Bank's risk management system includes risks arising from the introduction of new products, services and activities related to the Bank's processes and systems, as well as risks arising from activities entrusted by the Bank to third parties.

Operational risk management includes activities for identification, monitoring and measurement of operational risks, which are carried out by monitoring the exposure to operational risk through:

- Collection of internal data on operational risks,
- Key risk indicators,
- Risk self-assessment,
- Analysis scenario,
- Assessment of operational risk when introducing / modifying new products and entrusting activities to third parties,
- Assess the impact of business interruptions.

Operational risk is an integral part of all products, activities, procedures and systems of the Bank. Operational risk management is an integral part of management functions at all levels and thus undergoes special methods of detection and assessment, definition of the limits, monitoring and control, all with the aim of developing appropriate risk mitigation measures and providing an opportunity to assess the risk profile of the Bank.

In order for operational risk management to be effective, it is necessary to have an appropriate management structure, led by a specialized Operational Risk Management Committee (ORC), as well as an appropriate organizational structure, based on the Operational Risk Management Department proposing policies, regulations, plans and procedures for operational risk management, as well as the necessary management tools (data collection, RCSA, Key

Risk Indicators, Scenario Analysis, etc.).

For the purpose of calculating the regulatory capital requirement for operational risk, the Bank uses the approach of the basic indicator in accordance with the Decision on the capital adequacy of the Bank.
Internal capital requirement for operational risk is quantified using a special approach based on internal losses and scenario analysis.

Business countinuity plan

In order to ensure business continuity, the Bank has implemented a Business Continuity Plan in order to enable uninterrupted and continuous operation of all significant systems and processes of the Bank, as well as limiting losses in emergency situations, and implies the existence of an alternative location (Disaster Recovery site). The Business Continuity Plan is based on business impact analysis and risk assessment. The key business activities for which it is necessary to maintain business continuity in emergency situations are identified. The Plan is regularly tested and updated in accordance with business changes, changes in products and activities, processes and systems, changes in the environment as well as business policy and strategy of the Bank.

08 Liquidity management and interest rate risk

Interest rate risk

Interest rate risk is the risk of possible negative effects on the financial result and capital of the Bank based on positions in the banking book due to changes in interest rates. The main types of interest rate risk are: risk of repricing which means maturity mismatch risk (for fixed and fixed interest rate asset and liability items) and re-pricing risk (for variable interest rate items), yield curve risk, base risk and embedded options risk, ie optionality risk.

The interest rate risk management process involves monitoring, identifying, measuring and mitigating the impact that adverse interest rate movements may have on the Bank's result and equity.

In order to adequately manage interest rate risk, the Bank has established limits that are monitored on a regular basis. Compliance with the limits is reported to the competent committees. The Bank was in line with prescribed limits and treasholds during 2021.

Liquidity risk

Liqudity is the Bank's ability to provide sufficient liquid assets to unconditionaly cover all due liabilities arising from balance sheet liabilities (withdrawal of deposits and other sources of financing), balance sheet assets (financing of new placements), as well as off balance sheet items.

Liquidity management represents a continued process of reviewing needs for liquidity under different operating scenarios, as well as planning under extraordinary circumstances. It is the process of securing and maintaining a satisfactory level of liquid assets on the basis of analysis and consideration of the demand for liquidity, as well as changes in the balance sheet and off-balance sheet structure of the Bank.

In order to reduce and/or limit this risk, the Bank in the liquidity management process shall attempt to:

- Continuously monitor and analyze all factors that affect the Bank liquidity;
- Maintains the required lefel of mandatory reserve in local and hard currencies in line with National Bank regulation;
- Manage optimum current daily liquidity by securing funds in sufficient amount and currency structure (for each currency) to secure smooth settlement of obligations and loan disbursement;
- Review and follow long-term liquidity position on the basis of liquidity gap projections, i.e. monitoring of matching of pecuniary inflows and outflows under balance sheet and off-balance items on the long term;
- Ensure diversification of sources of financing;

- Ensure diversification of sources of financing;
- Maintain top credit rating of liquid securities portfolio (securities issued by the NBS or the state of Serbia);
- Places liquidity excess in accordance with defined limits.

Liquidity level was above minimum during 2021 while excces of liquidity the Bank has placed in securities issued by state. In order to adequately manage liquidity risk, the Bank has defined limits for liquidity indicators. Liquidity indicators were in line with the defined limits during 2021.

Achieved liquidity indicators are in the following table:

Daily liquidity indicators	**2021.***
Average during period	1,66
Highest	1,90
Lowest	1,44
On 31st December	1,79

* The presented data cover period after Bank's integration ie.after 30.04.2021

In accordance with applicable regulations, the Bank also calculates Liquidity coverage ratio (LCR), which is a measure of the Bank's ability to provide sufficient liquidity assets in order to cover all due obligations under assumed stress conditions, The LCR was above the regulatory and internaly prescribed limit in 2021, and on 31st December 2021 was 133,64%.

09 Capital management and capital adequacy ratios

The main strategic goal of the Bank in terms of capital management is to strive to use available capital sources economically and in accordance with the defined perspectives of the Bank's business development. The Bank's capital management policy gives priority to covering the Bank's potential losses, negative effects arising from exposure to risks, in relation to the realization of returns. In the process of capital management itself, the focus is on continuous monitoring of capital adequacy. The level of the Bank's capital that is considered adequate is the level of capital that ensures the implementation of the Bank's strategy and business policy and at the same time enables the coverage of all risks to which the Bank is exposed in its operations. Capital management is based on:

- The process of identification, measurement, or risk assessment,
- Ensuring an adequate level of capital in accordance with the risks to which the Bank is exposed in its operations,
- Adequate incorporation of capital management into the bank's management and decision-making system,
- Regular analysis, monitoring and verification of the bank's capital management process.

The central function in the capital management process has the Bank's management - the Assembly, the Board of Directors and the Executive Board. The Bank's Assembly is responsible for deciding on all capital increases.

The Bank's Board of Directors is responsible for establishing a risk management strategy and supervising the risks assumed by the bank as part of its business activities, which are reflected in the level of bank capital adequacy, establishing a bank capital management strategy and adopting the Bank's business policy define the input data for the Bank's capital planning for the next business year.

As part of the capital management process, the Bank's Executive Board is responsible for incorporating capital planning into all business decisions and procedures related to business planning, timely informing the Board of Directors on capital needs and enabling adequate reporting to external bank supervisors on the level of capital adequacy.

The Bank's capital in 2021.

The Bank's total capital consists of share capital, additional share capital and supplementary capital.

Share capital consists of share capital based on ordinary shares, issue premium, revaluation reserves, profit reserves, losses of previous years, regulatory adjustments to the value of the bank's share capital elements, intangible investments, deferred tax assets that depend on future profitability of the Bank arise from temporary differences, less deferred tax liabilities and other deductible items defined by the Decision on Capital Adequacy.

Supplementary capital consists of subordinated liabilities which are included in the Bank's supplementary capital in accordance with the valid Decision on capital adequacy.

In accordance with the current Decision on Capital Adequacy, the Bank is obliged to calculate the following indicators:

- an indicator of the bank's share capital adequacy which is equal to the ratio of the bank's share capital and risk assets and cannot be below 4,5%
- an indicator of the bank's share capital adequacy which is equal to the ratio of the bank's share capital and risk assets and cannot be below 6%
- an indicator of the total capital adequacy of the bank which is equal to the ratio of capital and risk assets of the bank and cannot be below 8%.

Also, the Bank is obliged to maintain capital adequacy ratios increased in a way that allows it to cover the requirements for the combined protective layer of capital.

The Bank's risk assets represent the sum of the total amount of risk weighted exposures for credit risk, counterparty risk, price risk for trading book activities, foreign exchange risk, credit exposure adjustment risk for all business activities of the Bank and operational risk.

In 2021, the level of capital and the adequacy indicator had the following trend:

Capital In 000 RSD	31.03.2021	30.06.2021	30.09.2021	31.12.2021
Total capital	**32,833,444**	**91,992,861**	**93,900,223**	**96,733,921**
Tier 1 capital	**29,893,941**	**80,706,332**	**82,791,912**	**83,449,461**
Common equity Tier 1 capital	**29,893,941**	**80,706,332**	**82,791,912**	**83,449,461**
Share capital	31,607,808	55,330,780	55,330,780	56,830,752
Issuing premium	2,563,562	2,564,864	2,564,864	2,564,892
Retained earnings	0	26,396,554	26,396,554	26,396,554
Losses from previous years	-3,694,657	-3,694,657	-1,451,822	-1,451,822
Revaluation reserves	227,492	1,759,691	1,529,135	645,278
Intangible assets	-631,519	-1,223,902	-1,168,356	-1,214,245
Deductible items related to DTI ratio and maturity exceeding in case of cash, consumer and other loans placed to retail segment	-56,422	-285,135	-268,487	-267,669
Deferred taxes depending on future profitability	-87,543	-87,543	-87,543	0
Other CET 1 regulatory adjustments	-34,780	-54,320	-53,213	-54,279
Additional Tier 1 capital	0	0	0	0
Tier 2 capital	**2,939,503**	**11,286,529**	**11,108,311**	**13,284,460**
Subordinated liabilities	2,939,503	11,286,529	11,108,311	13,284,460
Total risk weighted assets	**174,138,444**	**444,691,199**	**452,984,265**	**474,139,059**
Total risk weighted assets for credit risk	153,068,506	394,368,688	402,501,610	423,168,498
Total risk weighted assets for market risk	282,138	596,460	730,514	738,442
Total risk weighted assets for operational risk	20,787,800	49,621,188	49,621,188	50,006,363
Total risk weighted assets for CVA risk	0	104,863	130,953	225,756
Total capital adequacy ratio 8%	**18.85%**	**20.69%**	**20.73%**	**20.40%**
Tier 1 capital adequacy ratio 6%	**17.17%**	**18.15%**	**18.28%**	**17.60%**
CET 1 capital adequacy ratio 4.5%	**17.17%**	**18.15%**	**18.28%**	**17.60%**

* data for March 2021 refers to the amount of capital and capital adequacy ratio of Vojvodjanska banka a.d. Novi Sad, whose legal successor is OTP banka a.d. Novi Sad

During 2021, the Bank maintained the level of capital adequacy within the regulatory framework.

In September 2021, the process of issuing new ordinary shares was carried out, which led to an increase in share capital and, consequently, total capital in the amount of 1,500 million RSD, which is visible in the capital for the last quarter of 2021.

In December 2021, a new subordinated line was withdrawn, in the amount of EUR 20 million, all with the aim of further strengthening the capital base and achieving the Bank's business goals.

10 Financial indicators of OTP Banka Srbija

In 000 RSD

Income Statement	2020	2021
Net interest income	7,161,662	15,363,612
Net fees and commissions income	2,639,656	5,706,835
Operating expenses*	-8,840,572	-15,349,789
Profit before tax	-1,226,430	6,203,153
Profit after tax	-1,179,455	5,756,661
Adjusted profit after tax **	**-93,284**	**9,389,661**
Balance Sheet		
Cash and balances with central bank	33,251,589	90,624,576
Loans and receivables	174,949,023	502,204,203
Securities	17,228,522	53,814,367
Other assets	13,752,349	18,955,802
Total Assets	**239,181,483**	**665,598,948**
Deposits and other liabilities to other banks, financial organizations, central bank and other customers	202,821,962	549,559,206
Reserves	1,544,219	3,787,232
Subordinated liabilities	1,177,041	14,724,802
Other liabilities	2,972,553	6,513,807
Total liabilities	**208,515,775**	**574,585,047**
Total equity	**30,665,708**	**91,013,901**
Total liabilities and equity	**239,181,483**	**665,598,948**
Key performance indicators		
Capital adequacy ratio (CAD)	18.11%	20.40%
Net interest margin (total assets %)**	3.15%	3.01%
ROA**	-0.04%	1.47%
ROE**	-0.30%	10.81%
Number of employees	**1,786**	**2,789**
Number of branches and sub branches	**122**	**184**
Total assets market share	**5.2%**	**13.0%***

** Operating expenses include wages, salaries and other personnel expenses, depreciation costs and other expenses*

***The result and indicators for 2021 are adjusted for expenses related to integration and result of first 4 month of ex OTP bank*

**** as of 30.09.2021*

The OTP Bank, created from integration of Vojvođanska Bank a.d. Novi Sad and OTP Bank Srbija a.d. Beograd, is the second biggest bank in Serbia by assets and the leader on the local market. Despite the integration process, which is treated as the most complex process realized in this region, the merge of two banks is successfully completed. Stable business performance of the new Bank resulted in assets (on balance sheet) increase , which on December 31, 2021 amounted to RSD 665,599 million, which represents the 8.2% increase compared to the previous year taking into account assets of both banks. Increase of loans and customers' receivables position had the most important infulence on assets (on balance sheet) increase, This increase has positevely affected and the loans market share increase to the level of 17.4% at the end of 2021 year

During 2021 year, the integration process of Vojvođanska Bank a.d. Novi Sad and OTP Bank Srbija a.d. Beograd continued causing increase of expenses related to the integration realization Profit after tax in 2021 amounts to RSD 5,757 million. If those one-off integration expenses are excluded and the first four months of ex-OTP Bank are added, the profit of the Bank would be RSD 9,390 million.

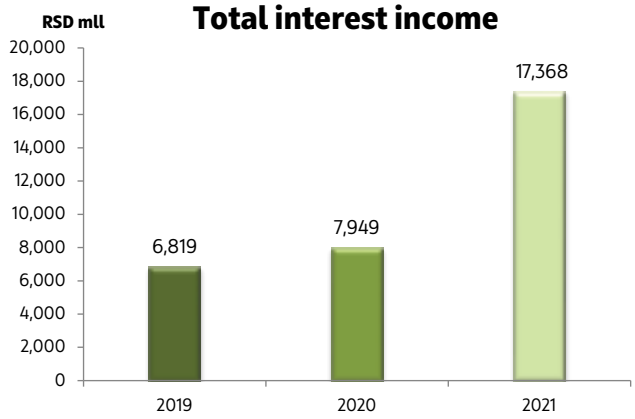
The OTP Bank successed to maintain the capital adequacy ratio significantly above the minimum requirements, thus the ratio on December 31, 2021 year was 20.4%. Aiming to keep all business performance indicators in accordance with set limits, during 2021 year the Bank has taken the subordinated loan from the Group member in the amount of EUR 115 million.

Income statement

The Bank realized positive operating result (before impairment and taxes) in the amount of RSD 6,444 million in 2021 year.

Income

The key policy rate decrease from 1.51% in 2020 to 1% in 2021 had affected interest rates downturn on the banking market. In accordance with that trend, the Banks has lowered rates on RSD loans, which affected the interest income decrease. The Bank has overcome this reduction partially through intensive lending activity, therefore the total interest income in 2021 recorded the amount of RSD 17,368 million. This represent more than doubled increase compared to the previous year due to the integration. If the total interest income of both banks is taken into consideration, and the income of the first four months of the ex-OTP Bank is added, an increase of 4.3% is noticeable due to increase of average performing loans volume. .

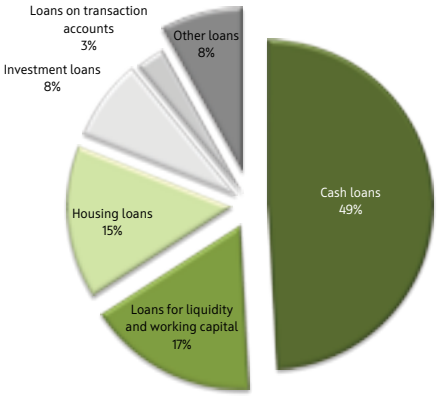


In total interest income structure, interest income on loans and securities have the highest share. Interest income on loans and receivables from customers participate with 91.7%, and income on securities with 7.7% in total interest income

Decrease of average volume of securities during 2021 year, as well as a decrease of interest rates, resulted in interest income reduction on securities. On the other hand, the Bank recorded respective interest income increase by 3.8 times due to integration of two banks approximately.

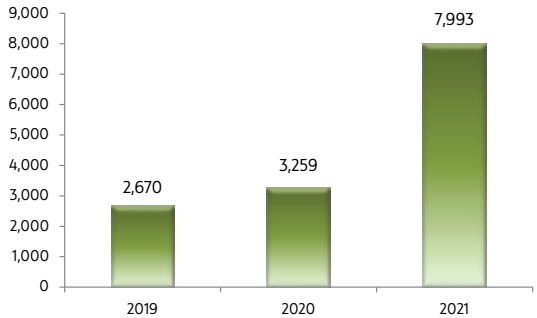
Interest income on loans and receivables from customers in 2021 makes 92% of total intrest income, which is lower result compared to the previous year. Interest rate decrease did not affected significantly decrease of interest income on loans as the NPL average volume was higher in 2021. Interest income on cash loans participated with 49% in total interest income, while the housing loans and working capital and liquidity loans participate with 15% and 17% respectively in the total interest income.

The structure of interest income on Loans



Fee and commission income in 2021 amounted to RSD 7,993 million. This is primarly result of income on payments and turnover fees, which make ~34% of total fee and commission income that is mainly performed by corporate clients. Also, in total fee and commission income the cards transations fees have significant participation ~23%, and account maintenance fees ~21%, that is result of clients' number increase.

Fee and commission income

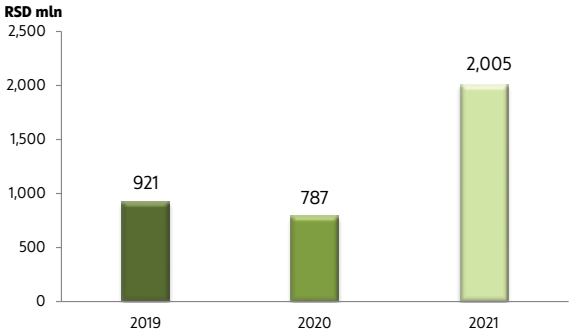


Expenses

Total interest expenses in 2021 year are RSD 2,005 million, that represent an increase of 155% compared to the last year and it is a result of integration of ex-OTP and Vojvođanska bank.

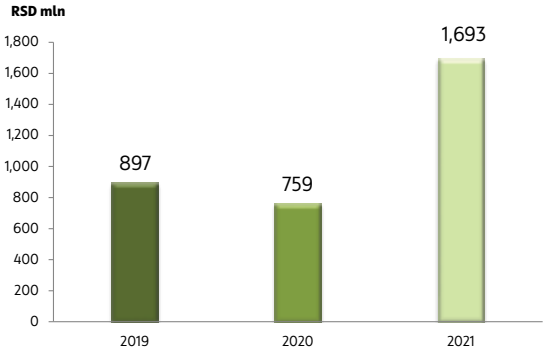
If the total interest expenses of both banks for 2021 year are taken into consideration, as well as the expenses of ex-OTP Bank for the period of the first four months of the year, increase of 13.5% is noticeable mainly due to increase of borrowings from the Group and the customers deposits as well.

Total interest expenses



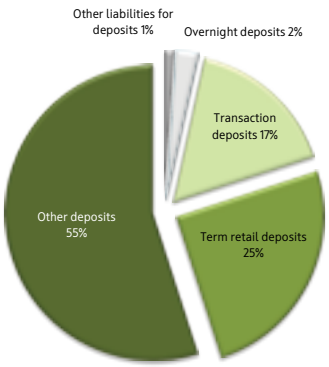
In interest expenses structure the major part refers to interest expenses on deposits from customers and other liabilities towards customers.

Deposits interest expenses



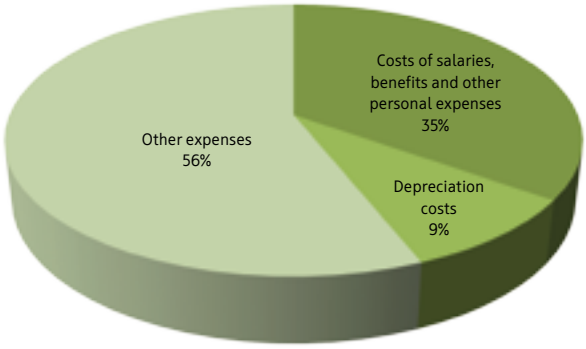
The biggest share in the interest expesnes on depostis from customers have savings accounts and other deposits (total 80%).

The structure of interest expense on deposits



Total operating expenses at the end of 2021 year were RSD 15,350 million that is above the 2020 year expenses by 74%. However, if expenses of two integrated banks are taken into consideration and if the ex-OTP Bank expenses for the period of the first four months are added as well, this increase amounts to 8.5%. In operating expenses structure, the major part take the other expenses, i.e. operating expenses ~56%. Salary and salary related contribution exepenses and other personnel expenses make 35% ad depreciation 9% of the total operating expenses.

Structure of operating expenses - 2021



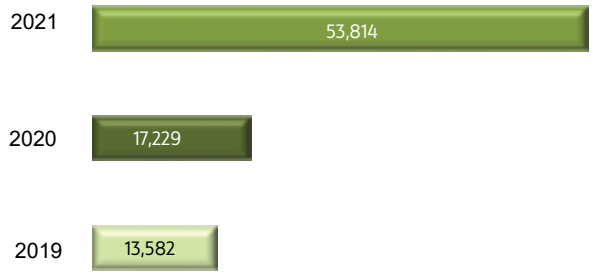
Balance sheet

The OTP Bank increased its balance sheet assets for RSD 426,417 million compared to the end of 2020 year, that is a result of integration of two banks, succeeding to improve in this way its position on the banking market; therefore, the Bank holds the second position in the banking sector. .

Securities

Securiteies, at the 31st of Dececember, 2021 recrord more than tripled increase compared to the 31st of December, 2020. However, if the data for 2021 year of two integrated bank are taken into consideration, a decrease of approximately RSD 4 billion in securities is noticeable. The Bank decreased its investment in government bonds aiming to increase lending actitvities' scope, while their share in the total assets amounts to ~8%.

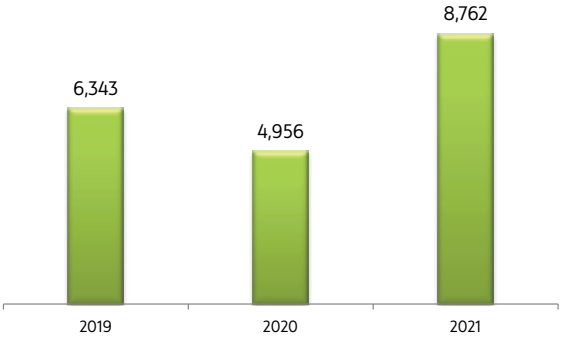
Securities (RSD mln)



Loans and receivables from banks and other financial organizations

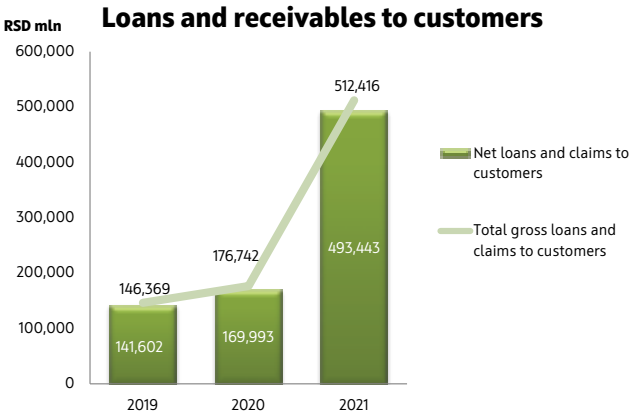
Net loans and receivables from banks and other financial organizations in 2021 are in accordance with achieved level of depositary and lending activities aiming to generate higher profitability of whole business.

Net loans and receivables to banks and other financial institutions (RSD mln)



Loans and receivables from customers

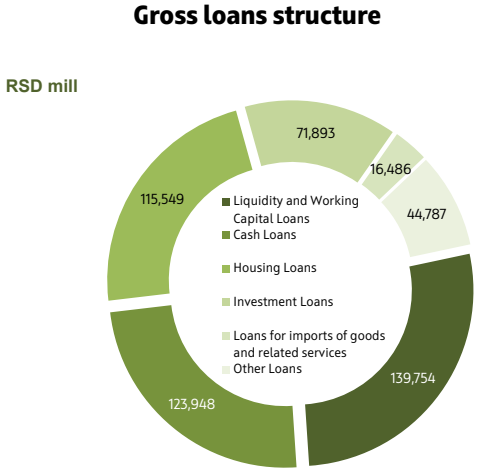
The OTP Bank increased the level of gross loans and receivables to customers during 2021 for about 3 times compared to the end of previous year, as a result of integration of two banks. The share of gross loans in total assets also increased from 71.1% (at the end of 2020) to 74.1% as of end of 2021.



In terms of sectoral structure, in the structure of gross loans, corporate and loans to public entities contribute with share of 48.3%. The largest part of corporate loans is loans with a foreign currency clause and foreign currency loans.

Retail sector participates with 48.2% in total gross loans and receivables from customers. Cash loans represent the largest share in total gross retail loans of 50.2%, while mortgage loans took part of 46.8%.

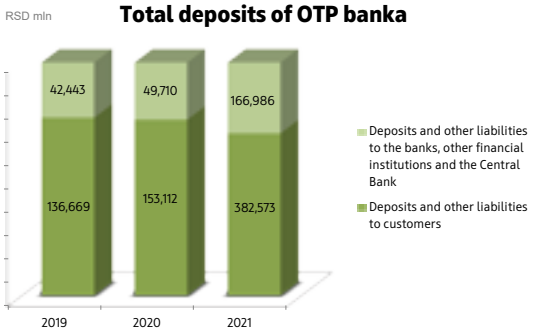
From the products point of view, in the gross loans structure, working capital loans have the largest share of 27.3%, while cash loans have share of 24.2% and housing loans 22.5%.



The ratio of gross loans to deposits from customers amounted to 134% as of 31.12.2021.

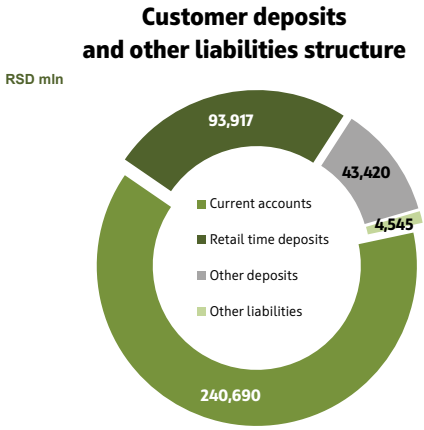
Deposits

Conditions for maintaining high level of liquidity and placement growth both to corporate entities and individuals were secured by increased level of deposits during 2021 year, Total deposits of the OTP Bank at the 31st of December, 2021 amounted to RSD 550 billion; the major part is coming from deposits from customers ~70%, while the financing from banks and other financial institutions was at the level of ~30%.



Savings deposits participate with 25% in total deposits while transaction deposits have largest contribution of 63%.

FX deposits participate with 56% in total customer deposits, with the largest part referring to retail term FX deposits. On the other hand, deposits in local currency mostly come from legal entities.



11 Plans for the future

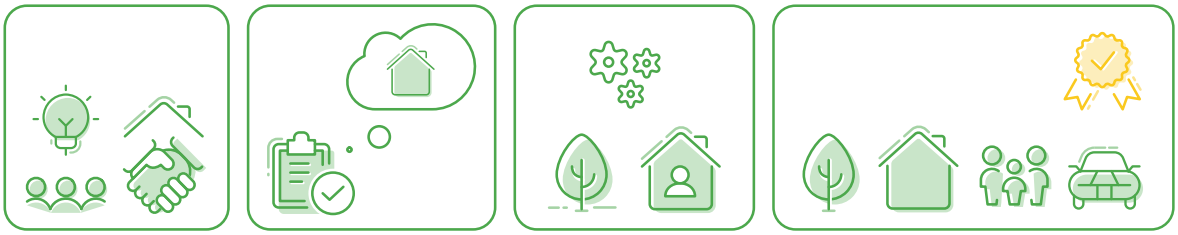
OTP banka Srbija has defined the following strategic objectives for the period 2022:

Four main strategic directions for the future:

1. build digital culture;
2. digitize and improve operations;
3. enhance customer satisfaction;
4. establish data driven management.

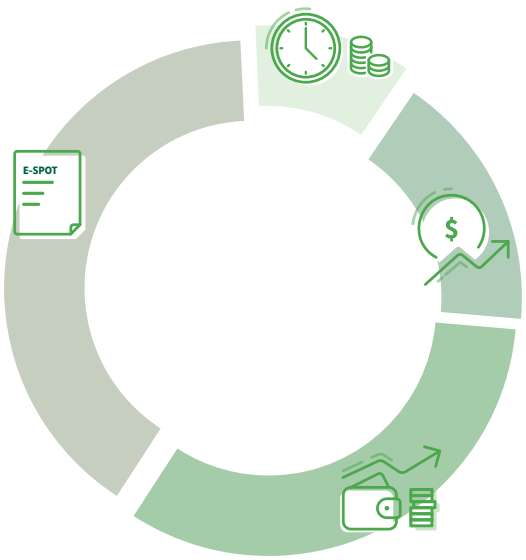
- commitment to create a bank which will be a long-term choice of our clients,
- defines innovative and high quality products and services which will be offered to the clients;
- performing activities and overall business that our clients are accustomed to;
- corporate social responsibility and support to community, clients and socially vulnerable groups

- strong risk management as a pillar of support in our Bank;
- the tendency to preserve the high capitalization of the Bank, while monitoring the internal indicators and indicators established by the NBS;
- maintaining optimal liquidity combining self-funding and group financing



The vision of the Bank is to become the leader of the Serbian market in the customer service quality and innovative solutions with the following main attributes, which also represent the corporate values of the bank:

- stable;
- reliable;
- customer focused;
- innovative



12 Significant events after reporting date

In the second half of February 2022 the military conflict between Russia and Ukraine escalated. At this moment It is difficult to quantify the effects of the Ukrainian-Russian conflict regarding the business in Serbia.

At this stage management is closely monitoring all potential effects. The bank is in close coordination with the local regulator as well as with the OTP Group. Currently no reliably estimate of the impact is available as events are unfolding day-by-day.

OTP Group is prepared to adjust to any kind of challenge, as one of the leading banking groups of central and east Europe our capital and liquidity is stable enough to handle any scenarios.

Based on the currently available information, we believe that there is no significant impact of this conflict on the current year's financial statements and there is no going concern uncertainty in relation with the Bank.

Non-financial statement

1 Foreword by the President of the Executive Board

Predrag Mihajlović

Dear friends, colleagues, partners,

The previous year 2021 was rather challenging for us at OTP banka Srbija. Despite the changed working conditions and organization of everyday life caused by the pandemic, after 19 months of commitment, more than three thousand experts and professionals have successfully completed the integration. The current OTP banka Srbija a.d. Novi Sad started operating on May 05, 2021 and thus ended the process of integration of OTP banka Srbija a.d. Beograd (former Societe Generale Srbija) and Vojvođanska banka a.d. Novi Sad.

The successfully implemented second integration in a short period and continuous growth in regular operations, resulted in forming a bank that became the single largest lender in the Serbian market and a leader in the leasing, factoring and e-commerce service market.

Our network of 184 branches in 91 cities and 294 ATMs is among the largest in our country, and we use it to maintain personal contact with our clients. At the same time, we are dedicated to innovation and digitalization of business that provides clients with new benefits with a focus on improving digital banking and user experience.

Our vision is for OTP banka to be recognized as a champion on the Serbian market in creating client experience through service and innovative solutions. We plan to achieve this by focusing on four strategic goals: 1) Building a digital culture, 2) Digitizing and improving operations, 3) Improving client experience and 4) Establishing data-based management.

Along that path, we rely equally on the use of advanced technologies and the dedication and expertise of our employees. We want to be leaders not only in lending and market share, but also in creating new and innovative solutions and services to provide our client with the best possible user experience. In achieving this goal, our values lead us to live innovations within OTP banka and believe in changes. For these reasons, we are developing the employee life cycle concept in order to continuously monitor and improve the experience of employees, but also to ensure that we demonstrate our company values equally to clients and among employees within our bank. This is because a company that wants to play a leader role must develop and grow continuously, whereby such development and growth are based on the development and growth of its people. This has led to a number of programs in the bank that aim to support employees in living company values, including the latest from 2021: 1) DARe development program for 30 participants, whose goal is to support the bearers of changes and key competencies in the bank in their further development; 2) BFF (back-front office) workshops aimed at improving communication and cooperation among colleagues from various divisions in finding solutions with a common goal, which were attended by over 100 colleagues empowered to be agents of change in the bank; 3) Change Champions, as a way of promoting the bearers of changes that are recognized by the employees, their colleagues.

Responsibility is the foundation of OTP banka's operations in all aspects. Our business strategy is based to a significant extent on the principles of sustainable business through the realization of a balance between economic, social and environmental impacts and goals.

OTP banka remained the largest sponsor and official bank of the Serbian Olympic Committee during 2020 and 2021, when the Olympic Games were uncertain, and despite the uncertainty, renewed the sponsorship contract with the Serbian Olympic Committee in order to provide absolute support to our best Olympians.

We nurture cooperation with the Gallery of Matica Srpska, one of the most significant cultural institutions in the country, through the Responsible in Culture project, and support numerous projects dedicated to the digitization of cultural heritage, which we confirmed in November 2021 by implementing the DigiArt project, a virtual presentation of works of art from the collection of the Gallery of Matica Srpska.

One of our key strategic directions is green transition, i.e., commitment to sustainable business and environmental projects, as evidenced by the numerous green initiatives we have launched. This is also confirmed by the fifth cycle of the Generator Zero project, which is dedicated to supporting and rewarding innovative projects that represent sustainable solutions with a real and measurable impact on reducing carbon footprint, as one of today's biggest challenges. Due to recognizing the importance of combating climate change, OTP banka is the first bank in Serbia to join the Priceless Planet Coalition global initiative with the purpose of planting as many as 100 million trees in the next five years in areas around the world. We are also proud of the fact that our bank uses green energy only, which is confirmed by the EPS Green Certificate, while our central building uses its own solar panels.

In accordance with the EU Green Deal, our parent OTP Group has defined the pillars of the ESG (E-environmental, S-social, G-governance) strategy with the aim of becoming a regional leader in green financing and building a sustainable future. Being aware of the significance of sustainable business, we have started working on a local ESG strategy and formed a working group that discusses all aspects of ESG operations with experts from the Group on a weekly basis. The Bank has developed a framework for the identification and management of ESG risks in corporate lending, as an instrument for the transition to a sustainable economy.

In the annual report, we paid special attention to socially responsible business, woven into all pores of our activities. Our reporting process is in line with the internationally recognized standards of the Global Reporting Initiative (GRI), as well as with the United Nations Sustainable Development Goals. The report provides answers to 18 standardized performance indicators in the most important areas, such as anti-corruption, employment practices, employee development, safety at work, personal data protection, advertising, and environmental protection.

I am proud that the activities of OTP banka have directly contributed to the achievement of as many as nine UN Sustainable Development Goals.

I hope that, by reading our report, you will see with how much enthusiasm and commitment we approach all projects and initiatives in the desire to contribute to the community in which we operate.

We ended the previous year with great success thanks to your trust and determination to walk side by side in achieving a common goal. And every goal is near when you know where you are going.

Sincerely,

Predrag Mihajlović

2 OTP Group

OTP Group is the leading financial group in the CEE region, with remarkable growth results, outstanding profitability and stable capital and liquidity positions.

The banking group provides universal financial services to 17 million clients, with 40,000 employees in 11 countries. It offers state-of-the-art digital solutions and a network of more than 1,700 branches. OTP Group's future-oriented operations and development efforts focus on the sustainability of the environment, society and governance, while simultaneously aiming to strengthen its position as the best employer in the CEE region.

OTP Group is headquartered in Hungary and has a diverse and transparent ownership structure. The banking group has been listed on the Budapest Stock Exchange since 1995.

The entire business of the Group in 2020 was carried out smoothly, despite the extraordinary challenges imposed by the pandemic. Consolidated adjusted profit after tax for 2020 exceeded 310 billion forints, while adjusted ROE amounted to 13%.

In the first nine months of 2021, OTP Group generated an operating profit of 483.5 billion forints (+22% per annum). Total income increased by 10 percent per annum, with net interest income rising by 8 percent and net income from fees and commissions growing even faster, by 13 percent. Other net non-interest bearing income recorded a growth of 23% per annum. Based on consolidated adjusted profit of HUF 373.6 billion for the first nine months, the adjusted ROE for that period amounted to 18.8% (+5.7 percentage points per annum). With the exception of the Romanian subsidiary, the nine-month profit of all foreign subsidiaries exceeded the results in comparison to the entire 2020. The contribution of foreign subsidiaries increased by 4 percentage points annually, to 52 percent.

OTP Group is a pioneer in digitization and has been proactive for nearly 30 years in the field of digital transformation of its business and implementation of new technologies in the financial market. Strategic focus on innovation has introduced the possibility of working with 1,329 startup companies with 45 pilot projects implemented, with the fifth OTP Startup Partnership Program being underway, as the Group's most comprehensive innovation program, given that all members of the group, including OTP banka Srbija, are in search of startup partners which support their business goals. This program has received numerous awards for the best incubator and accelerator program in Europe.

In November 2021, the leadership position in innovation was reaffirmed when SambaNova Systems, a company that develops the most advanced software, hardware, and solutions for launching artificial intelligence applications in this industry, and OTP Group announced a strategic partnership for building the fastest AI supercomputer in Europe. For the most advanced language model in the world in a commercial bank, together they will

implement a multi-framework AI system built upon the solution of the company SambaNova Dataflow-as-a-Service GPT. In cooperation with the Hungarian Ministry of Innovation and Technology, the system will be available as a national resource for artificial intelligence, both for the public and private sectors, as well as for higher education.

The predecessor of OTP Bank, National Savings Bank, was established in 1949 as a national, state-owned bank for the provision of services related to retail deposits and loans. Its activities and powers gradually expanded over the following years. In 1990, National Savings Bank became a public company with a share capital of 23 billion forints. Its name was changed to National Savings and Commercial Bank. Subsequently, non-banking activities were separated from the bank, along with their supporting organizational units. The privatization of OTP Bank started in 1995. The ownership structure is currently characterized by diversity - shareholders are mostly private and institutional (financial) investors.

OTP Bank started its international expansion targeting Central and Eastern European countries, which offer great potential for economic growth similar to Hungary. In recent years, OTP Bank has completed several successful acquisitions and thus became a key player in the region. In addition to Hungary, OTP Group currently operates in Albania (OTP Albania), Bulgaria (DSK Bank), Croatia (OTP banka Hrvatska), Romania (OTP Bank Romania), Serbia (OTP banka Srbija), Slovenia (SKB Banka), Ukraine (CJSC OTP Bank), Russia (OAO OTP Bank), Moldova (Mobiasbanca) and Montenegro (Crnogorska komercijalna banka) via its subsidiaries.

OTP Group's strategic goal is to become the most successful universal banking group in Central and Eastern Europe. The banking group strives to constantly evolve in order to provide unique, convenient and modern services to both retail and corporate clients, that are easier and quicker to access and which facilitate meeting the challenges of the digital age and fulfilling client expectations.

Sustainability is at the very top of OTP Group's priorities, with the aim of avoiding negative impacts on the environment and society, and exploiting the business improvement potential. OTP Group identifies its priorities in the field of sustainability in accordance with global challenges and trends, as well as with the expectations of stakeholders. Identified priorities include focusing on products that have a positive environmental and social impact, as well as financial education. The goal of OTP Group is to become the best equipped bank for the so-called "green" financing in Central Europe by 2023.

At the end of 2021, OTP received several awards from Global Finance New York, as the best bank in Hungary, the best bank for SMEs and the best private banking in Central and Eastern Europe, as well as the best financial laboratory for innovation in the world. The same magazine again named OTP Bank the safest bank in Hungary in 2021, thus joining the group of the World's Safest Banks.

Also, Euromoney Awards for Excellence 2021 awarded OTP Bank the "Best Bank in Central and Eastern Europe" award, together with the "Best Bank in Hungary" award, while the Bulgarian, Montenegrin and Albanian subsidiaries were also named the best banks.

3 OTP banka Srbija a.d. Novi Sad

The new OTP banka Srbija a.d. Novi Sad, created from the integration process between OTP banka Srbija a.d. Beograd (former Societe Generale Srbija) and Vojvođanska banka a.d. Novi Sad, has started operating on May 5, 2021. This was the most complex banking integration ever to be implemented in this region and represents a strategic move of OTP Group, aiming to form the largest banking institution in Serbia. This successful integration resulted in the creation of one of the leading financial institutions in Serbia in terms of assets, number of branches and the size of the loan and deposit portfolio. The headquarters of the integrated bank are located in Novi Sad, at Trg Slobode 5 in the city center. OTP banka Srbija is 100% owned by OTP Bank Hungary.

The successfully implemented integration, in April 2021, and continuous growth in regular operations, resulted in forming a bank that became the single largest lender in the Serbian market with a total of EUR 4.2 billion in net loans, with EUR 5.7 billion in assets, 2,789 employees, 294 ATMs and 184 branches in 91 cities across the country. The bank is also a leader in leasing, factoring and e-commerce market services.

The following figures best testify to the complexity of the integration process that took place between the two banks headquartered in two cities, Belgrade, and Novi Sad, while the operational work was based on two different IT core banking systems:

- 19 months of integration process, more than 3,100 meetings, which is approximately 3,100 hours of meetings of teams from Budapest, Novi Sad and Belgrade
- Almost 600 people participated in the project
- More than 777,000 hours of work
- 30 work groups, 10 cross-functional teams, 6 Sponsors
- Nearly 100 million migrated data
- Over 8,300 tests were created and performed over multiple test cycles
- More than 6,000 incidents were identified and closed during the project
- 185 IT GAPs were developed
- A total of 5,094 training participants with 125 internal trainers and 19,377 hours of training
- 64 critical processes were modeled and 140 flow diagrams were created
- 1,159 normative acts were adopted during the integration

Despite the challenges in 2021, caused by the conditions of the coronavirus pandemic and the efforts of all employees to successfully complete the integration on time, retail loans recorded growth of approximately 20% as compared to 2020 if we observe the loan amount of the two merged banks, whereby OTP banka managed to reach a market share of 19%.

During 2021, the Bank was the leader in the housing loan market with a market share of 21.8%, which means that every fifth property was purchased with a loan from OTP banka.

In terms of cash loans, the Bank also holds a leading position with a market share of 20.2%. At the same time, the Corporate Division managed to exceed the expected market share in the segment of corporate loans and achieved a level of 16.3%.

OTP banka is focused on innovations and digitalization of its operations, thus providing its clients with new benefits with a focus on enhancing digital banking, numerous benefits for our card holders as well, using the phone as a card (with mCard and ApplePay), P2P payment and transferring funds to private individuals by e-mail and phone, and a lot more.

OTP Group also includes OTP Leasing Srbija, a leader in the leasing market in Serbia with a total financing of EUR 108 million in new facilities, which represents 19.5 percent of the market share in new production, as well as OTP Osiguranje, which provides life insurance services through OTP banka, as an insurance agent.

OTP banka is a member of various business organizations and associations, through which it actively promotes highly ethical business standards and strives to contribute to the development of socially responsible and sustainable practices through specific engagement. Some of these associations are: Association of Serbian Banks, Serbian Chamber of Commerce, ACI Serbia, American Chamber of Commerce, French Chamber of Commerce, Responsible Business Forum, Serbian Philanthropic Forum, Association of Serbian Economists, Association of Economists of Vojvodina, Foreign Investors Council, NALED, Digital Serbia Initiative and IAB. OTP banka is also a proud member of the Friends of UNICEF Club.

The activities of OTP banka have directly contributed to the achievement of as many as nine UN Sustainable Development Goals.

Awards for OTP Bank in 2021

In the last quarter of 2021, OTP banka Srbija won prestigious awards for several of its top managers, for continuous and exceptional cooperation and achievements in foreign payment transactions, for its eCommerce service, but also for its socially responsible campaign, Circle of Support.

Winning these awards presented by the most influential and credible associations and media houses in Serbia confirms the efficient management and high professional level of management of OTP banka, which is recognized in the broader local and business community.

Predrag Mihajlović, the CEO of OTP banka Srbija, has been named Manager of the Year by the Serbian Association of Managers, which brings together more than 450 professional managers in Serbia. This award is one of the most prestigious awards of its kind in the local market and is the result of high expertise, significant business achievements and reputation of the CEO of OTP banka Srbija, as well as a number of impressive business successes that OTP Group has achieved in Serbia. The most significant successes include the successful integration with Vojvođanska banka, as well as taking a leading position in numerous banking areas. The Serbian Association of Managers gives these prestigious awards to managers, employers, companies and individuals who are committed to improving the business environment, promoting the managerial profession and leadership, socially responsible business, and a better life for the broader community.

The most influential and most read daily newspaper in Serbia, Blic, has positioned Predrag Mihajlović, President of the Executive Board, as 22nd in its traditional list of 300 most powerful people, which makes references to the achievements of the most influential and successful representatives of our country's business and public life. Laszlo Wolf, President of the Board of Directors of OTP banka Srbija and Deputy CEO of OTP Bank Hungary, has been recognized as the 13th most powerful foreigner in Serbia on Blic's list of 50 most powerful foreigners in Serbia.

Blic's List of 100 most influential women also included Marija Popović, member of the Executive Board in charge of Corporate (14th place), and Milena Mićanović, Head of the Communications and Public Relations Department (40th place). The list of the most influential women in Serbia traditionally gathers and reminds of all the most important women in the field of politics, economy, science, culture and public life, who marked the year with their extraordinary professional achievements. The fact that as many as two women from OTP banka were found on the list of the most influential women in 2021 is a confirmation of the OTP Group in its efforts to operate in all its markets in accordance with the gender equality principles.

OTP banka Srbija won two Hot Spot eCommerce Awards 2021 for outstanding user experience in online payments, as well as for the most successful implementation of e-Commerce services in the Serbian market. These significant awards were presented by the eCommerce Association of Serbia, emphasizing the great success that OTP banka has achieved in the segment of improving the user experience for its eCommerce users, but also the bank's contribution to the development of digital business in Serbia.

Deutsche Bank also presented an award to OTP banka Srbija for continuous and exceptional cooperation and achievements in foreign payment transactions in 2021. Deutsche Bank emphasized the quality of OTP banka in order execution, efficient communication, and cooperation in solving all challenges during 2021, especially having in mind the recently completed complex integration of the Bank, regulatory requirements, and the current pandemic.

3.1. Governance

In the spirit of responsible corporate governance, the Bank has in place guidelines to ensure that the Bank's operations comply with internationally recognized corporate governance rules and standards and that public disclosure of data on its governance and operations makes it a transparent and verifiable company.

The Bank operates within an efficient corporate governance framework by establishing a unified system of authorizations, procedures, and controls, in accordance with the provisions of domestic regulations and best international practices, striving to protect the interests of all stakeholders in the corporate structure. The Bank's priority is to create value for shareholders in combination with the implementation of socially responsible practices, activities, and initiatives.

In accordance with the Law on Banks, the bodies of the Bank are: the Assembly, the Board of Directors, and the Executive Board, of which the Board of Directors and the Executive Board are the governing bodies of the Bank.

The Bank's Board of Directors consists of 8 members. The mandate of a member of the Board of Directors is 4 years, with the possibility of reappointment.

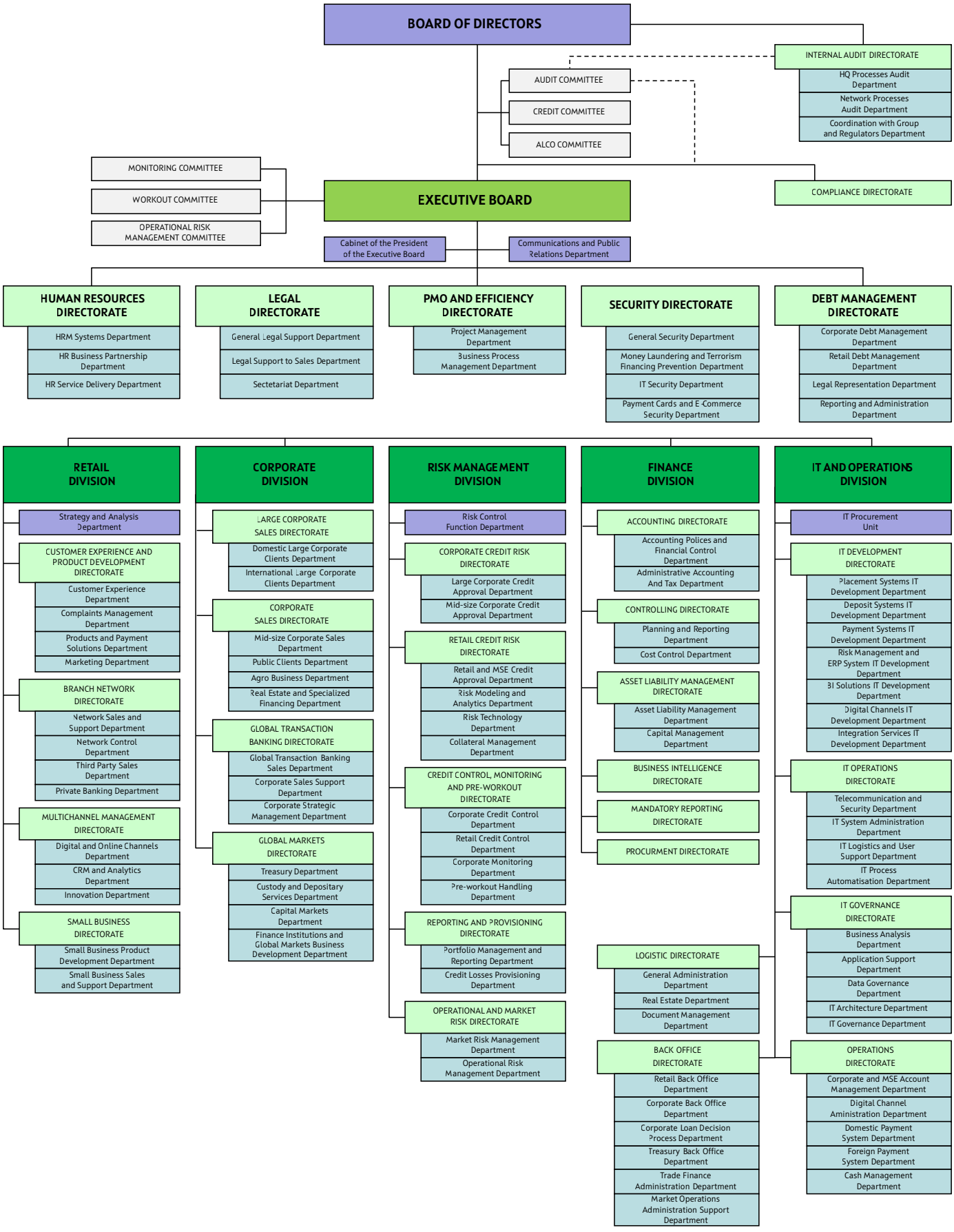
The Bank's Executive Board consists of 6 members. All members of the Executive Board are employees of the Bank, pursuant to the Law on Banks. The mandate of a member of the Executive Board is 5 years, with the possibility of reappointment.

All members of the Board of Directors and the Executive Board have been assessed by the National Bank of Serbia as persons with a good business reputation and appropriate qualifications. The Bank has in place Procedures for the appointment or reappointment of members of the Board of Directors and the Executive Board, which are in line with the Law on Banks and the Decision and Instructions of the National Bank of Serbia regulating this matter.

Details on members of the Board of Directors and the Executive Board of the Bank are publicly available on the Bank's website

https://www.otpbanka.rs/o-nama/rukovodstvo/

3.2. Organizational structure



4 Sustainability approach

Responsibility is the foundation of OTP banka's operations in all aspects. As one of the leading companies in the Serbian financial sector, we are aware that we play a significant role and affect the social and natural environment in which we operate. This is the reason why we base our business strategy to a significant extent on the principles of sustainable business through the realization of a balance between economic, social and environmental impacts and goals.

OTP banka's responsible operations are based on the following pillars:

- Responsibility towards the market
- Responsibility towards employees
- Environmental responsibility
- Responsibility towards the community

In line with the regulatory environment, which includes the expectations of domestic and international supervisory authorities, OTP banka submits explicit requests to financial institutions in order to identify and manage the so-called ESG risks (E-environmental, S-social, G-governance), as an instrument for the transition to a sustainable economy. The main focus is on the risks associated with climate changes and other aspects that adversely affect the environment. Regulatory requirements are not limited to business model development, strategy, and management, but also include risk management, especially in the field of credit risk.

According to the above requirements, OTP banka has improved its corporate lending process by introducing the following elements:

- ESG Exclusion List - The ESG Exclusion List aims to identify clients and activities posing a high risk for the environment, society, and reputation, in which direct business engagement of the bank is not desirable. The List is based on the OTP Group's Risk Management Strategy, internal bylaws and EBRD guidelines.

The Bank will not directly engage in business activities that are known to contain elements of human rights violations and/or damage to the environment, or that fall under the ESG Exclusion List. In the event that such violations are observed with existing clients, the Bank will negotiate corrective measures and steps to prevent new violations in the future.

Client screening according to the Exclusion List is required for credit products (including trade finance, documentary operations, as well as factoring and leasing products. List of activities and behaviors whose controversial nature and impact appear to be incompatible with OTP Group values;

- ESG Risk Heat Map by divisions - Based on the EBRD methodology, which took into account environmental and social factors, as well as physical and transition risks specific to the sector, the Bank has defined its own ESG Heat Map by divisions.

The ESG Heat Map categorizes activities into 4 ESG risk categories, representing different risk levels: low, medium, medium-high and high.
During the simplified assessment of ESG risk, the client's ESG risk is defined using the ESG Heat Map by divisions, while the ESG risk of the transaction arises from the loan use period and the client's ESG risk.

- ESG Due diligence

As compared to the simplified analysis, ESG due diligence contains the ESG Due Diligence Questionnaire used for collecting data on the client's ESG risk profile.

External ESG assessments and non-financial statements are taken into account in conducting ESG due diligence, whereby the Bank also relies on publicly available information, such as disclosing client data, media and external data providers.

Find out more about OTP banka's approach regarding this topic in the Financial Risk Management section.

4.1. Stakeholders

In line with the pillars of responsible business, we have identified the following stakeholder groups as the highest priority in the context of sustainability:

Clients - Creating innovative products tailored to the needs of our clients, measuring their satisfaction, as well as providing special financial support and incentives for vulnerable groups of clients are just some of the manners in which we contribute to the overall sustainability of the business.

Employees - Employees are our most significant resource, which is why it is extremely important for us to provide them with a stimulating work environment resulting in their professional and personal development. Equal opportunities for all employees, appreciating their opinions, questioning their satisfaction, nurturing team spirit, fair play relationships and professional ethics are just some of the important values of our corporate culture.

Suppliers - By empowering our suppliers and promoting sustainability in the supply chain, we contribute to employment and encourage the development of the local economy and local communities. We strive to maintain long-term partnerships based on equality and transparency.

Community - In addition to independently initiating projects aimed at the well-being of the community, we are involved in initiatives of wider social importance. Our priorities in this activity segment are supporting innovative projects and entrepreneurship, supporting sports, supporting projects in the field of preservation of cultural and historical heritage, contributing to financial education, as well as providing assistance to the local community, particularly the most vulnerable social groups. By joining local networks that promote sustainability as a healthy and desirable business model, we exchange best business practices and launch new initiatives. We believe that the successful development of the broader social community requires the joint action of the business, civil and state sectors.

Environment - By continuously improving energy efficiency, responsible resource management and reducing direct and indirect impact on the environment, we are implementing environmentally responsible practices. For us, economic growth is incomplete if it does not imply a responsible attitude towards natural resources and the environment.

4.2. Material topics

In line with the principle of materiality, and taking into account business objectives, broader economic and social context of sustainability, as well as the results of research on stakeholder attitudes, OTP Group has identified the following topics as material:

- Socio-economic compliance of business
- Anti-corruption
- Economic performance
- Prevention of anti-competitive behavior
- Market presence
- Anti-discrimination
- Public policies
- Indirect economic impacts
- Employee training and development
- Safety and health at work
- Diversity and equal opportunities
- Employment
- Safety practices
- Product portfolio with social and environmental impact
- Advertising and product labeling
- Personal data protection
- Local community
- Business compliance in the field of environmental protection
- Greenhouse gas emissions
- Energy

OTP Group members follow the list of identified topics and adapt it to the local context if necessary. The approach of OTP banka Srbija a.d. Novi Sad to these topics, as well as relevant quantitative and qualitative performance indicators in these fields are described in the Non-Financial Impacts chapter, while a tabular overview can be found in the GRI Index section.

5. Non-financial impacts

This year, for the first time, the annual business report of OTP banka Srbija a.d. Novi Sad contains a detailed overview of the company's non-financial performance, which reflects the integration of sustainability into all business aspects and is in line with non-financial reporting requirements defined in the Law on Accounting of the Republic of Serbia.

5.1. Compliance and anti-corruption

Internal documents governing the areas of compliance and anti-corruption in OTP banka are the Compliance Policy of OTP banka Srbija, the Anti-Corruption Policy, the Conflict of Interest Management Policy, and the Code of Ethics.

The compliance function is carried out in order to create a legal and ethical corporate culture which ensures prudent and ethical operations of the Bank in the long run. In implementing the compliance function, the Bank applies the following principles: independence, integrity, unhindered operation, objectivity, preventive and proactive approach, risk-based approach, proportionality, high level of professional diligence and competence, full coverage, efficiency, rationalization of compliance costs.

Activities performed within the compliance function include the Bank as a whole, as well as all its organizational units and activities. Persons performing entrusted activities or who are engaged as experts or advisors, whether natural or legal persons, must also meet compliance requirements and standards.

In accordance with legal regulations and standards of the OTP Group, the Bank has identified key principles that must be met when establishing internal lines of defense and security in order to promote the following:

- prudent operations of the Bank in accordance with legal and internal regulations;
- protection of the Bank's assets, as well as the interests and social goals of its shareholders and clients related to the Bank;
- uninterrupted and profitable operations of the Bank and continuous trust of clients.

The Bank's internal lines of defense consist of internal management and internal control functions. Internal control functions include the Risk Management Division, the Compliance Directorate, and the Internal Audit Directorate. Pursuant to the sustainability criteria (ESG), the Bank assesses and evaluates its activities from the aspect of its environmental impact (E), social justice (S) and related corporate governance issues (G), and ensures its compliance with relevant legal requirements.

The Bank has an acquired business interest as well as a statutory obligation to ensure that the personal interests of its employees and members of its governing bodies are not in conflict with the business interests and obligations of the Bank and its clients; that the Bank recognizes, prevents and manages conflicts of interest related to its various business activities; and that it regulates and ensures the assessment of supplier compliance (supplier screening).

The Bank is developing a Conflict of Interest Management Policy for investment and ancillary services related to its investment services, ancillary services and related financial services, which lead or may lead to a conflict of interest that could potentially cause adverse consequences for the business partner. This Policy also defines detailed rules and measures that enable the prevention, identification, and management of conflicts of interest that may harm the business partner.

OTP banka is committed to preventing corruption and has declared zero tolerance for all forms of bribery and unfair advantages. The provisions of the Anti-Corruption Rules adopted by the Bank have been formulated in accordance with applicable domestic and international legislation as well as the Wolfsberg Group's Anti-Corruption Guidelines, an association of thirteen global banks aimed at developing financial crime risk management frameworks and guidelines.

The purpose of the Rules is to define the Bank's principles for preventing corruption, identifying areas particularly at risk of corruption, as well as to serve as an underlying document for formulating regulatory documents necessary in the Bank's efforts and anti-corruption activities of employees.

The principles and provisions of the Policy cover the entire organization of the Bank, from its operations to the formulation of internal regulatory documents, through contracts concluded with partners to the actions of individual employees and apply to all activities of the Bank.

These Rules apply to all employees and contractual partners of the Bank as well as to all other persons participating in the performance of their activities.

The provisions set out in the Rules apply together with the provisions of the Code of Ethics.

During and in connection with the Bank's operations, all employees and all other contractual partners of the Bank are strictly prohibited from committing any act of corruption and from participating in or being involved in corruption. Violation of the prohibition of corruption results in consequences provided for in labor, civil and criminal law. The Bank is consistently and resolutely committed to the combat against corruption. In case of violation of the provisions of this Policy by any person, the Bank will take all necessary steps to prevent potential adverse consequences and avoid similar events in the future. The Bank ensures the full implementation of all domestic regulations, European Union regulations as well as international anti-corruption regulations (where applicable) and requires its employees and contractual partners to comply with these regulations.

The activities that are most exposed to the risk of corruption are: management of gifts and expenses for hospitality for business purposes, charity and sponsorship, connecting with contractual partners, assuming contractual obligations, purchase, management and maintenance of investments and assets, employment, procurement, management and sale of real estate.

The above list is not exhaustive and the Bank pays attention to all other activities that may

pose a risk of corruption. The Bank performs risk-based assessment at predefined intervals to determine which organizational units and activities are subject to anti-corruption activities.

During the first half of 2021, a semi-annual compliance risk assessment was performed, with anti-corruption being one of the topics. All directorates and branch network and business center representatives stated that the risk of exposure was low, and that there were no events in that period, which was also confirmed by expert assessment. Given that the 2021 results showed a low risk of corruption, no changes were proposed in the existing controls and the manner of exercising supervision over this area.

The Bank's governing bodies monitor the implementation of the provisions of the Policy by obtaining annual detailed information on the fulfillment of the requirements set out in the Policy.

The Bank pays special attention to ensuring that its employees and contractual partners are fully familiar with the provisions of this Policy. In the first quarter of 2021, online training was organized for all employees, except the governing bodies, on the topic of combating corruption. The aim of the training is to inform all employees and employees of the Bank of the following: regulatory framework related to anti-corruption, basic forms of corruption, activities that are most exposed to corruption in the Bank, basic operational principles of the Bank in the field of anti-corruption, obligations of employees in this field; established controls and mechanisms for reporting actions that contain elements of corrupt practices. Examples of active and passive corruption were also presented during the training. The frequency of trainings depends on the assessed risk to which the Bank is exposed; it is provided for in the Annual Work Plan for the following year, and if necessary, employee trainings can be conducted more often. Training for members of the governing bodies is planned for 2022.

The anti-corruption rules are also publicly available at any time on the Bank's website, as well as on the internal portal for the Bank's employees. The adoption of and amendments to this act are communicated to the heads of directorates.

Bank employees may report violations of the provisions set forth in this Policy through channels defined by the Code of Ethics. All such reports are examined in accordance with the applicable regulatory document of the Bank on reporting unethical conduct, which is published on the Bank's website. Persons reporting must not be subject to any discrimination or unfair treatment in relation to their reports. Violations can also be reported anonymously.

The reporting channels defined by the Code of Ethics include the following manners:

- in person, during working hours in the Compliance Directorate
- by calling the ethical issues hotline on 021 /4894 906 during working hours - 8 AM to 4 PM, Monday to Friday
- by mail, to the address of OTP banka Srbija a.d. Novi Sad, Compliance Directorate (Trg slobode 7, 21000 Novi Sad)
- via e-mail to: etickapitanja@otpbanka.rs

So far, there have been no recorded acts of corruption by employees, and no proceedings initiated against the company on this basis in the period between January 01, 2021 and December 31, 2021.

OTP Banka's Code of Ethics formulates clear and unambiguous guidelines and expectations in the field of ethical operations of the Bank and its subsidiaries, all for the purpose of protection and preservation of the Bank's values.

The Bank has adopted the Code of Ethics of OTP banka Srbija a.d. Novi Sad, which is constantly changing and developing in accordance with external and internal changes and requirements. The Code of Ethics is based on international standards and best practices, as well as the Bank's own practical experience, taking into account the requirements imposed on the Bank and their practical implementation. The binding corporate governance system of the Bank simultaneously contributes to the trust and satisfaction of clients, increasing the market value of shares and developing socially responsible behavior.
Supervision of compliance with ethical rules in the Bank is performed by the Ethics Committee in accordance with the basic principles and expected behaviors set out in the Code of Ethics.

The Bank considers it extremely important to inform all its employees of ethical standards and develop awareness of the standards of business ethics, so in order to achieve that goal, it implements the so-called ethical distance learning (e-learning) training that includes all employees.

The Bank also regularly supervises and monitors compliance with ethical standards.
The Code of Ethics prescribes obligations to the Bank's management and members of the Board of Directors, the Executive Board and the Audit Committee, its employees, as well as business partners with whom the Bank has signed a contract. For the purposes of the Code of Ethics, the term business partner means representatives, experts, intermediaries, advisors, agents, subcontractors, and suppliers, i.e., companies, entrepreneurs and individuals who have established a contractual legal relationship with the Bank. All the abovementioned persons are obliged to act in accordance with the provisions of the Code of Ethics for the entire duration of the employment or contractual legal relationship - both during and after working hours.

In addition to the anti-corruption and conflict of interest provisions, the Code of Ethics covers other relevant topics, such as anti-discrimination, prohibition of abuse, safe and healthy working environment, etc., described in more detail in the following chapters.

5.2. Work environment

As a responsible employer, OTP banka recognizes that investing in human resources is the key to business success, but also to the success of the entire community. Therefore, employee satisfaction with working conditions, as well as the availability of professional training, are among the Bank's top priorities. OTP banka applies and promotes high standards in the work environment, striving to observe and take into account the proposals, ideas and contributions of employees in order to achieve common goals.

At the end of 2021 (December 31, 2021), OTP banka employed 2,789 people, mostly in Belgrade (1,203) and Novi Sad (651), while 935 employees worked within the branch network in 84 other cities across Serbia.

Employee gender structure	**2021**	
	men	women
Number of employees	774	2015
Percentage of employees	27.75%	72.25%

Employee age structure	**2021**
Under 30	9.79%
30 to 50	68.55%
Over 50	21.66%

Workforce turnover	**2021**	
	men	women
Newly employed	91	219
Employees who left the company	186	403

The turnover rate in 2021 was 19.8%. The integration of two banks - OTP banka Srbija a.d. Beograd and Vojvođanska banka a.d. Novi Sad, which was finalized in April 2021, had a significant impact on the turnover rate.

OTP banka builds and nurtures a work environment in which the diversity of individuals is valued, respected and accepted. According to the Bank's Code of Ethics, discrimination based on the actual or perceived characteristics of an individual, such as race, color, citizenship, nationality or ethnic origin, language, religious or political beliefs, gender, gender identity, sexual orientation, financial status, genetic characteristics, health status, pregnancy, disability, marital and family status, conviction, age, appearance, membership in political, trade union and other organizations, political or other opinion, is prohibited.

The Code of Ethics also prohibits and does not accept behavior based on intimidation of employees, especially if it is used to induce employees to take actions contrary to the Bank's internal acts or applicable legal regulations. Any kind of behavior that would be manifested verbally, non-verbally or physically, and which results in prejudices that violate the dignity of a certain person, and create a threatening, hostile, degrading, aggressive, humiliating and insulting environment for him/her, is prohibited.

Cases of violations of the Code of Ethics can be reported by employees to the Compliance Directorate through the channels specified in the Code, as well as to the Human Resources Directorate. All reports, submissions and examinations are treated confidentially by the Bank, with the protection of the person who reported the violation, whereby the competent organizational part of the Bank examines the case and determines the necessary measures. In 2021, no complaints were received regarding human rights violations, and 72% of employees received training on the topic of human rights. All employees of the Bank are covered by the Collective Bargaining Agreement. According to its provisions, the employer is obliged to inform the Board of the representative union of the following: decisions and plans that affect the economic and social position of employees, trands and changes in salaries, average salaries and salary structure and their share in operating costs, as well as the structure of costs incurred once during the calendar year; the number of hours of overtime work, and upon the submitted request of the Union, preparations for determining redundancy and program adoption. The information shall be provided, if necessary, at the request of the representative trade union within 15 days from the submission of the request.

In addition to the guaranteed rights to maternity leave, disability benefits and retirement severance pay for all employees, full-time employees whose probationary period has expired are also provided with private health insurance. Employees are additionally insured in terms of private pension insurance, with the Bank's contribution to employee's individual account, based on loyalty of at least four years, in the form of a mandatory own investment in a voluntary pension fund.

	2021	
	Managers	**Employees (other than managers)**
Total number of training hours by employee categories	6,591	30,571
Average number of training hours per employee	17.25	12.7
	Men	**Women**
Total number of training hours by gender	9,481	27,681
Average number of training hours per employee	12.25	13.74

Right to maternity leave	**2021**	
Total number of employees who exercised the right to maternity leave	men	women
	3	187
Rate of return to work after maternity leave	men	women
	100%	96.23%
Rate of retention at the workplace 12 months after returning to work	men	women
	100%	100%

OTP banka firmly believes in the continuous improvement of the skills of its employees and implements a carefully designed training program, with the aim of professional development of employees. In addition to internal training, the Bank also provides financial support and opportunities to attend external courses and programs.

Moreover, the Bank designs and implements development and motivation systems for the purpose of hiring employees and further improving the selection process. In 2021, all employees went through the process of performance and individual development appraisal. We offer advice and support to employees who are approaching the end of their working life and planning retirement.

Within the OTP Lab startup program at the Group level, OTP banka received support for its idea of developing a platform for the mentoring process during probationary work. In 2021, the "OTPočni" program was launched at the level of our entire bank, in which all newly employed colleagues, their mentors and managers will participate. The aim of this platform is to facilitate the process of introducing and mentoring new colleagues during the probationary period, especially in remote work with great challenges, as well as to facilitate the integration of new employees into the job position and into the bank. This platform will enable the process to be structured, more efficient, timely and transparent, and thus ensure that the experience of all those involved in this process is improved.

In 2021, we launched "DARe", a development program for 30 participants whose goal is to support the bearers of changes and key competencies in the Bank in their further development. This completely online journey provides a different learning experience where employees, by independently choosing the dynamics, places and times for learning, further develop the competencies of the future - digital, agile and resilience. We believe that this adventure will be a strong driver and inspiration in achieving the Bank's strategy.
Health and safety at work are a priority for the Bank, in order to ensure a safe working environment, improve the quality of professional lives of employees and prevent related risks. By its Code of Ethics, the Bank has committed itself to provide its employees with a healthy and technically equipped workplace that is in line with labor law regulations, as well as the protection of their physical integrity and health.

The Bank adheres to local and international legal regulations on establishing and maintaining a safe and healthy work environment. Accordingly, the system of safety and health at work includes all employees. All employees also undergo training in safety and health at work, first aid and fire protection in line with the training plan and in accordance with the legally prescribed deadlines.

It is the obligation of every employee to comply with health and safety regulations related to the performance of work, and the provisions of the regulations on work, on safety and health at work and on fire protection apply thereto.

The Bank has concluded a contract with a company that provides services in the field of safety and health at work and appointed a person licensed for safety and health at work. The hired company performs preventive inspections of all facilities of the Bank and submits reports on identified shortcomings, which are then eliminated. Measurements of work environment conditions are performed in summer and winter, as provided by law. In cases of observed shortcomings, the same are then eliminated. All employees are also obliged to inspect their workplace and work equipment, as well as safety equipment before and during work, and to immediately report any observed shortcomings to their managers. The managers shall forward the reports to the Logistics Directorate. The person responsible

for safety and health at work and the Logistics Directorate are obliged to perform controls and the observed shortcomings must be eliminated within 8 days from the day of reporting. The employee is entitled to leave his/her workplace if he/she recognizes a life- and health-threatening danger.

	2021
Total number of injuries	15
Number of injuries with severe consequences*	7
Injury rate	0.53
Rate of injuries with severe consequences	0.25
*sprains, dislocations, fractures	

The collective bargaining agreement covering all employees of the Bank also regulates in detail the obligations and responsibilities of the employer in the field of safety and protection of life and health at work, the rights and obligations of employees in this field, the roles of employee representatives, and establishing a committee for safety and health at work. The Committee for Health at Work is composed of representatives of the employer and the Trade Union. Committee members are entitled to:

- participate in the process of assessing risks at the workplace and in the work environment
- have the risk assessment act constantly available to them
- collect data on dangers and hazards in the workplace and work environment that are not contained in the risk assessment act, and to initiate amendments thereto
- communicate directly with employees
- receive verbal and written petitions from employees
- communicate directly with managers - work process organizers
- communicate directly with the person performing safety and health at work operations
- give suggestions to the employer on all issues related to safety and health at work
- require the employer to take appropriate measures to eliminate or reduce the risk to the safety and health of employees
- place notices on the employer's bulletin boards about the activities they undertake
- inform employees of any current issues in the field of safety and health at work, with the prior approval of the director
- require supervision by the labor inspection, if they believe that the employer has not implemented appropriate measures for safety and health at work, and to attend the supervisory inspection.

5.3. Product labeling and advertising

Product advertising is the responsibility of OTP banka's Marketing Department, while the Communications and Public Relations Department is also actively involved in the external presentation of products and services, whereby the Online Sales Unit is particularly engaged in targeted online advertising. Advertising is subject to checks by the Bank's Legal Directorate and the Compliance Directorate.

All OTP banka's products must be presented in accordance with local regulations, which includes, among other things, a fully transparent presentation of product functionality and all associated costs, if any, as well as the manner in which the right to some of the products or services can be exercised. Legislation related to this field includes the Law on Advertising, the Decision of the National Bank of Serbia on Detailed Conditions for Advertising Financial Services, and the Law on the Protection of Financial Services Consumers.

In accordance with the Decision of the National Bank of Serbia on Detailed Conditions for Advertising Financial Services, an advertising message promoting services provided by the bank under loan contracts, contracts on issuing and using credit cards, contracts on overdrafts, and other loan services, which contains an interest rate or any numerical data relate to price or income - must contain a representative example with clearly and precisely stated information on the following:

- loan type;
- amount and variability of the annual nominal interest rate;
- effective interest rate (the amount of which must be presented
- so that it is more visible than other data);

- currency in which the loan is contracted;
- tenor for which the loan is contracted;
- loan indexation criteria;
- total loan amount that the beneficiary will repay at the end
- of the contracted period;
- all costs borne by the beneficiary.

In 2021, OTP banka did not record any cases of non-compliance with regulations related to the labeling of products and services, as well as voluntary codes and standards. There were also no cases of non-compliance with regulations and voluntary standards related to advertising.

The Contact Center (0800 23 23 22 and 011 30 11 555) is available to clients for all information on products and services, 8 AM to 8 PM on weekdays and 8 AM to 1 PM on Saturdays, toll-free for calls from landline and mobile networks in Serbia. They can also use the following e-mail addresses (stanovnistvo@otpbanka.rs for retail and privreda@otpbanka.rs for corporate clients).

In terms of complaint mechanisms, the Bank's goal is to ensure the prompt and efficient management of complaints in the best interest of its clients. The Complaint Management Department is responsible for this field, and the internal document regulating this topic is the Complaint Management Policy, published on the Bank's website. The Bank continuously monitors and acts in accordance with the laws and other regulations governing the protection of consumers and/or users of financial services, both in internal operations and in client relations.

Clients can submit their complaints via e-mail to prigovori@otpbanka.rs, as well as in all branches of the Bank, via the Contact Center or post. Upon the receipt of the complaint, the Bank will verify the allegations and respond to the client in writing as soon as possible, and no later than 15 days from the date of receipt of the complaint, or within 30 days in exceptional cases beyond the Bank's control. If the Bank fails to provide a response within the specified period or the client is not satisfied with it, the client may file a complaint to the National Bank of Serbia, Department for Financial Consumer Protection.

OTP banka reports to the National Bank of Serbia on complaints and the procedure for client complaints, in the manner determined by the National Bank of Serbia.

5.4. Personal data protection

The Bank is committed to the adequate protection of the personal data it processes, in accordance with the regulations, and where applicable (where this is not in conflict with domestic legislation), to the provisions of the General Regulation on Personal Data Protection. As part thereof, the Bank has established, manages and applies a system for regulation, implementation and audit, that ensures adequate personal data protection by meeting the criteria set forth by applicable legislation, as well as protection of the Bank's core business interests.

By adherence to the relevant legislation on personal data protection, as well as recommendations of both national and European Union data protection authorities and the European Data Protection Board, the Bank ensures compliance with best practices in this field.

The Compliance Directorate is responsible for privacy and personal data protection issues, and provides guidance and support to the Bank's organizational units and subsidiaries in terms of personal data protection. The Personal Data Protection Officer, who is also the Head of the Compliance Directorate, has been appointed within the Directorate. According to the systematization, in addition to the Personal Data Protection Officer, this topic is also dealt with by the Expert for personal data protection - an employee appointed to provide support to the Personal Data Protection Officer and to perform his/her tasks. In addition, the IT Security Department and the Information Security Manager perform information security and incident management tasks defined by the Rulebook on Personal Data Protection, and

which are the responsibility of the IT Security Department.

The independent legal status of the Personal Data Protection Officer ensures that the consideration of personal data protection issues is carried out at a high level.

In 2021, the Directorate provided support in the integration process, in the part of control of contractual documentation and its harmonization with the provisions of the Law on Personal Data Protection, and establishment of adequate control mechanisms of the integrated bank.

Each year, the Directorate conducts risk assessment of personal data protection through certain risk indicators by which it considers possible errors in performing operational tasks and shortcomings in control mechanisms, which serves as a solid basis for grasping the approach to managing personal data processing in the bank's organizational units. For 2021, it has been assessed that the risk of personal data protection is irrelevant.

The Bank has adopted the Rulebook on Personal Data Protection, the purpose of which is primarily to summarize important provisions on personal data processing - in particular the tasks and frameworks of cooperation among organizational units involved in data protection activities.

The Bank has adopted the Personal Data Protection Policy, which applies to all personal data of the Bank's clients that the Bank processes or uses to determine the purpose and manner of processing, as well as to other individuals interested in the Bank's products and those whose data are obtained by the Bank in performing its operations, in accordance with applicable legal regulations.

The Privacy Policy defines how data subjects, whose data are processed by the Bank, may exercise their rights. Data subjects may exercise their rights by filling in an application which can be obtained at any Bank branch or downloaded from the Bank's website. The Bank will respond to the request without delay, and no later than 30 days from the date of receipt of a complete and correct application. This deadline may be extended by another 60 days if necessary, taking into account the complexity and number of applications. The Bank shall notify the data subject of the extension and the reasons for that extension within 30 days from the date of receipt of the application.

During 2021, two complaints were received regarding violations of the right to privacy and protection of personal data, which were determined by the prescribed procedure to be unfounded from the aspect of personal data violation.

5.5. Environmental impacts

OTP banka carefully assesses its direct and indirect impacts on the environment, takes initiatives to prevent adverse impacts, and implements and supports initiatives that have a positive impact on the state of the environment.

One of our key strategic directions for the forthcoming period is the "green transition" in business, i.e., commitment to sustainable business and environmental sustainability. We have started this process with great strides, as evidenced by the numerous green initiatives we have launched. We also wish to encourage our clients to be environmentally responsible through the offer of new green banking products that we are intensively developing and which will include financial, expert, and advisory support. We also receive support for the green strategy from the parent OTP Group, which has, on behalf of all member banks, signed the United Nations Principles for Responsible Banking as a unique framework for sustainable business in this sector, developed through partnerships between banks around the world and the United Nations Environment Program Finance Initiative. We have thus joined the world's largest banking community focused on sustainable financing.

By signing the Principles for Responsible Banking, we confirm and demonstrate our commitment to sustainable banking, contributing to the sustainability of the community and the economy. The Principles serve as the guiding framework for ensuring that banks' strategies and practices are in line with the vision set by society for its future in the United Nations Sustainable Development Goals and the Paris Agreement on Climate Change. Banks that have signed the Principles are committed to being ambitious in their sustainability strategies, working to integrate and embed sustainability at the heart of their business, which enables them to stay on top of sustainable financing.

Based on the Principles, signatory banks measure the impact of their operations on the environment and society, set and implement targets in areas where their impact is the most significant, and report regularly and publicly on their progress. The Principles provide a framework for banks to systematically understand the risks and seize the opportunities arising from the transition to more sustainable economies.

Signatories of the Principles take the lead by showing how banking products, services and relationships can support and accelerate the changes necessary for achieving common prosperity, both for present and future generations, building a positive future for people and the planet. These banks are also joining the world's largest global banking community focused on sustainable financing, by sharing best practices and cooperating on practical guidelines and pioneering tools that benefit the entire sector.

Generator Zero

One of our most significant initiatives in this field in 2021 was the Generator Zero project. After the fourth cycle of this project, which ended in early 2021 and the topic of which was providing support to digitalization and digital projects - websites, applications and other digital platforms - that provide assistance and offer new opportunities for small and medium enterprises to successfully overcome the crisis caused by the COVID-19 pandemic, a new cycle was opened in late 2021. The fifth cycle of the Generator Zero project is dedicated to supporting and rewarding innovative projects that represent sustainable solutions with a real and measurable impact on reducing carbon footprint, as one of today's biggest challenges. The bid is intended for micro, small and medium enterprises, startup companies, startup informal teams and entrepreneurs. OTP banka's award for the winning solution, which will be chosen in March 2022, is a sum of

two million dinars, as well as long-term expert support in the field of business expansion and finding new development opportunities.

The importance of the Generator has been recognized by numerous partners: Mastercard, Schneider Electric, Bosch, ICT HUB, Serbia Innovates, Digital Serbia Initiative, Netokracija and BOS - Belgrade Open School, as well as OTP Lab - OTP Group's innovation hub, and PortfoLion investment fund. For the top finalists, the project partners shall also provide a number of valuable prizes.

More information on the project can be found on www.generator.rs.

The Generator Zero project has been implemented with the aim of increasing the knowledge of employees about how they can contribute to reducing the carbon footprint in their business and private environment. The bank's administrative buildings have been branded with educational messages on the topic of environmentally responsible behavior, while employees have also received content on the same topic through internal communication channels.

Priceless planet Coalition

Due to recognizing the importance of combating climate change, OTP banka is the first bank in Serbia, together with its parent bank in Hungary, to join Mastercard's global initiative called Priceless Planet Coalition with the purpose of planting as many as 100 million trees in the next five years in areas around the world where afforestation is most needed, according to scientific studies. Each of our clients who opens a new account and takes their Mastercard card immediately becomes part of the Priceless Planet program, which will then plant one tree on his/her behalf.

OTP banka has joined this international project of afforestation of endangered areas of the planet primarily with the aim of contributing to stopping the effects of climate change, but also in order to raise citizens' awareness of the significance of environmental protection. Through the Priceless Planet coalition, we are moving together with our clients towards the same goal - local contribution to achieving a positive impact on reducing carbon dioxide emissions and investing in environmental reconstruction.

In terms of the rational use of natural resources, OTP banka is focused on the topics in which it achieves the most significant impact, namely energy use and waste management. The Logistics Directorate is in charge of this field. The Bank's operations in this field are fully compliant with national legislation, which is confirmed by the fact that in 2021 there were no penalties or other types of sanctions against the Bank regarding non-compliance with laws and regulations.

All Bank branches and central buildings are connected to the Building Management System (BMS), which allows lighting to be turned off at the same time in all branches, i.e., prevents lighting from being switched on outside working hours, which contributes to energy efficiency. Room temperature is also regulated through this system, with the same goal.

The reconstruction of the building at Trg slobode 7 in Novi Sad was completed in 2021 and included the replacement of complete fluorescent and halogen lighting with LED, thus reducing electricity consumption. In addition, the air conditioning system was replaced with an A+ class system, which achieves the highest average energy savings in comparison to capacity. The replacement of fluorescent and halogen lighting with LED has been performed in 7 more branches which required minor adaptations.

The central building in Belgrade, at Bulevar Zorana Đinđića 50a/b, has a solar power plant on the roof, and the produced electricity goes directly to the EPS supply system, which additionally contributes to energy efficiency. The Bank has concluded an agreement on the complete supply of electricity from renewable sources (100% ZelEPS).

The Bank has in place a Waste Management Rulebook which regulates the waste management process. A waste management officer has been appointed and contracts have been concluded with companies that take over wastepaper and used furniture for recycling. Empty toner cartridges are taken over, and hazardous waste is delivered to authorized companies, in accordance with the Law on Waste Management. The total quantities of delivered waste are monitored annually, with the aim to reduce the amount of waste by reducing the amount of paper used due to digitization, as well as reduced use of products in plastic packaging. In 2021, 35 tons of paper and 4.3 tons of scrap metal were handed over for recycling.

Energy consumption	**2021**
Electricity from coal	37,769 GJ
Electricity from hydroelectric power plants	8,291 GJ
Fuels of different origins used by heating plants in Serbia	23,406 GJ
Natural gas	7,988 GJ
Fuel oil	1,435 GJ

Energy consumption	**2021**
Total electricity	46,059 GJ
Total heating energy	32,829 GJ

Energy produced and sold	**2021**
Solar energy	250 GJ

Energy intensity (2021)	25.8 GJ per employee

The Bank opts for the procurement of recycled toners and paper with FSC certification (wood-based paper from certified forests that are responsibly managed). Bearing in mind that the Bank's municipal waste includes plastic packaging, but the possibility of delivery for recycling has been reduced due to the dislocation of facilities and small quantities per facility, the plan is to stimulate the reduction of plastic packaging. As an initial step, it is planned that the Bank will stop purchasing plastic cups for water dispensers in the coming period.

5.6. Contribution to local community

In accordance with its long-term and strategic commitment, OTP banka as one of the leaders in the domain of corporate responsibility in the domestic market, continues to implement numerous projects aimed at contributing to the improvement of the wider social environment in which it operates.

We are deeply convinced that healthy and prosperous societies are based on constructive cooperation between the business, civil and public sectors. As in previous years, in 2021

we implemented significant projects in the segment of corporate responsibility, achieving successful cooperation with numerous civil society organizations and state institutions. OTP banka's support includes the realization of commodity and monetary donations, mentoring support, support in the promotion segment, corporate volunteering, and contribution to raising public awareness on certain topics of general importance.

Partnership with the Olympic Committee of Serbia

Support and investment in sports and promotion of Olympic values are one of the most important areas in our bank's corporate donations segment. We have been the official bank of the Olympic Committee of Serbia (OCS) for 20 years. This cooperation is by far the longest sponsorship in Serbian sports and is an example of fruitful, inspiring and successful cooperation between the business sector and sports institutions.

We strive to promote the values of Olympism, sports, and a healthy lifestyle outside of professional sports fields as well, primarily among school-age children. We have so far organized more than 70 Olympic trainings for them. Due to unfavorable epidemiological conditions caused by the pandemic, we have been unable to organize all the activities we planned.

Before the Tokyo Olympics, in June 2021, OTP banka Srbija and the Olympic Committee of Serbia organized an event called "Meeting the Olympians" held in the garden of the Olympic House in Belgrade, where media representatives were given the opportunity to talk to as many as 15 Olympians representing our country at the Tokyo Olympics. Milica Mandić, Tijana Bogdanović (taekwondo), Dušan Mandić, Filip Filipović (water polo), Tijana Bošković (volleyball), Jasmina Milovanović, Sanja Vukašinović (shooting), Aleksandar Kukolj, Marica Perišić, Milica Nikolić, Anja Obradović (judo), Bojan Zdelar (kayak), Marko Jevtović (table tennis), Velimir Stjepanović (swimming) and Mate Nemeš (wrestling) shared their expectations with media representatives before the world's largest sporting event.

"We believe that our athletes will follow the

Olympic motto 'Faster, Higher, Stronger' and do their best, and we, as their faithful long-term partner, wish them the best of luck and success in the fight for medals. It is precisely the common values and striving towards the set goal that unite us and motivate us to support the best among us. We will proudly follow and encourage them in their journey of representing our country and achieving top results", said the President of the Executive Board of OTP banka Srbija, Predrag Mihajlović.

In order for the fans to be as ready as possible to welcome this spectacle, but also to have time until then enriched with high-quality and informative sports content, a series of three videos has been recorded in which Olympians Dušan Mandić, Milica Starović and Nemanja Majdov describe their journey to Tokyo, filled with hard work, numerous sacrifices and, above all, the desire to win.

Our athletes returned with pride from the Tokyo Olympics with nine medals won, three gold, one silver and five bronze. On that occasion, Predrag Mihajlović, President of the Executive Board of OTP banka, congratulated all those who proudly represented our country at this most prestigious sports competition. "I would like to express my utmost gratitude and deep respect to all our participants at the Tokyo Games for presenting our country and themselves in the best manner, in accordance with the highest sports values. Few could remain indifferent to the dedication, fighting spirit, hard work and emotions they demonstrated in their performances, especially having in mind the year behind us and all the challenges it brought us. OTP banka has been dreaming and preparing for great things together with the Olympic Committee of Serbia for 20 years, and in this Olympic year we are achieving our goals, pushing the boundaries and, most importantly, we are here for each other. It provides us great joy to support our athletes and contribute to them proudly representing our country. I must

point out that OTP banka did not hesitate at any time regarding the continuation of cooperation under exceptional circumstances that led to the postponement of the Games, uncertainty about holding them, and competing without an audience. Because friends are there for each other in the hardest times, even in the midst of the pandemic, OTP banka has without hesitation extended the partnership for the next Olympiad and together we shall move towards new successes at the upcoming Paris 2024 Summer Olympics", said Mihajlović.

The great Olympic year was officially closed with the proclamation of the most successful athletes, teams and coaches in 2021. The proclamation was organized for the 28th time by the Olympic Committee of Serbia on December 26, 2021, traditionally at the House of the National Assembly of the Republic of Serbia, and broadcast live on RTS.

Predrag Vasić, a member of the Executive Board of OTP banka and Head of the IT and Operations Division, presented the award to the most successful men's team for 2021 - the Serbian national water polo team.

OTP banka's Visa Gold Olympic card was created with the aim of providing additional support to the Serbian Olympians, primarily in the phase of their preparations for the most prestigious sporting competitions. Part of the income from each transaction, without additional costs for clients, is donated by the bank to the Olympic Committee of Serbia in order to create better conditions for our athletes, and in addition to this support, OTP banka offers numerous additional benefits to Visa Gold Olympic card users.

In 2021, OTP banka's Circle of Support campaign, implemented in cooperation with the Olympic Committee of Serbia and the DNA Communication agency, won the CAMPAIGN WITH PURPOSE 2021 award at the first Festival of Socially Responsible Communication in Serbia. The project was created in the midst of the Covid-19 pandemic, and its protagonists were the most successful Serbian athletes who, through their encouraging and motivational messages, called for unity and solidarity, symbolically creating a "circle of support" in the broader community. "Campaigns with a purpose" are projects that, through the power of communication, addressed a certain social issue, drew public attention to it and offered possible solutions, as well as campaigns that directly affected the improvement of living conditions of children and individuals in Serbia.

"This award is especially important to us, given that with the Circle of Support project we wanted to show how important support is in a situation when we face difficult and unexpected life challenges, such as combating a pandemic. The campaign focuses on our Olympians, as role models for all of us and a special example of the importance of mental strength and stability in difficult and challenging moments. I thank them for responding to the invitation to be a part of this significant project and for showing that we can all count on their support whenever necessary. This award gives us an additional incentive to continue with socially responsible business, but also to set many other important goals for the benefit of the community", said Milena Mićanović, Head of Communications and Public Relations of OTP banka.

Investments in culture

Cooperation with the Gallery of Matica Srpska
OTP banka provides continuous support to projects dedicated to the preservation and presentation of national cultural heritage, primarily in cooperation with its partner, the Gallery of Matica Srpska, with which it has successfully implemented a number of projects in previous years. A project symbolically called DigitArt was implemented in 2021 and used to present the valuable collection of the Gallery of Matica Srpska in the state-of-the-art, digital format.

Thanks to the application of modern technologies, Sava Šumanović's sketchbook and an album with graphics and drawings by Serbian and Russian artists from the 18th and 19th centuries have been digitized in the form of a FlipBook application, while some of the most representative works of the abundant art collection of the Gallery of Matica Srpska located in the depot have been transferred to virtual reality. This project includes exhibits that have not been presented to the public so far. The project was implemented thanks to the valuable equipment that OTP banka Srbija donated to the Gallery of Matica Srpska and with the expert support of the Faculty of Technical Sciences in Novi Sad.

"Reviving and presenting works from the abundant collection of the Gallery of Matica Srpska for the first time, with the help of new technologies, has been a challenge but also a great honor for us. We want to bring art to life and make it accessible to a large number of people, which is the greatest value of this partnership. More than five years ago, we started our cooperation with the Gallery through the Responsible in Culture project, and we are proud that it has become fruitful and continues being upgraded with new ideas year by year", said Milena Mićanović, Head of Communications and Public Relations in OTP banka.

The digitization of 2D graphics and drawings, as well as the creation of two FlipBook web applications, which enable browsing of individual pages, with the possibility of enlarged display of details from digitized units, will be implemented in the first phase of the project. In this way, Sava Šumanović's sketchbook from 1917-1921 and an album with graphics and drawings by Serbian and Russian artists from the 18th and 19th centuries, including Hristofor Žefarović, Zaharije Orfelin, Zaharije Petrović, Jovan Četirević Grabovan, will become part of the Gallery's permanent exhibition in 2023. Using VR glasses on the spot or via the gallery's website, from January 2022, it is possible to enter the virtual world of the Gallery's depot, which contains one of the richest collections of its kind in our country.

The digitization of these works will greatly contribute to studying, protecting and presenting the national art treasure, and along that path, OTP banka and the Gallery of Matica Srpska continue their long-term partnership, for which the bank was awarded a thank you note on the Day of the Gallery of Matica Srpska.

Our Bank in Historic Buildings exhibition

For the purpose of presenting the magnificent history of famous buildings in Vojvodina to the general public, in November 2021, OTP banka officially opened a photography exhibition called Our Bank in Historic Buildings, at Trg slobode square in Novi Sad, in cooperation with Color Media Communications. The exhibition included 24 panels placed at the square, which presented four historic buildings of three cities in which the bank operates today: Novi Sad, Kikinda and Vršac. These buildings are among the most important facilities in these cities.

According to Milena Mićanović, Head of Communications and Public Relations of OTP banka, this exhibition was a project that introduced citizens to the rich history and architecture of Vojvodina in a picturesque manner: "With this photography exhibition, we want to remind people of the history of these truly magnificent buildings and to share some interesting facts and stories woven into their past. We wanted to revive a small part of this history and make it accessible to our fellow citizens. We are glad that we have the opportunity to operate in these very premises, which, like an encyclopedia, represent the rich cultural and historical treasury of our country."

During the seven-day exhibition, visitors had the opportunity to see photographs of Draxler's Palace, one of the most representative buildings in Kikinda, as well as a magnificent building in the center of Vršac dating back to the 19th century, known as Frisch's Palace. In addition, this exhibition also included photographs of the former Grand Hotel Mayer - today the headquarters of OTP banka and the two-story palace "Štedionica" at Trg slobode in Novi Sad, which once housed the Faculty of Philosophy, and is now used by OTP banka for its operations.

Support for the most vulnerable fellow citizens

Good Deeds Generator

As part of the Generator project, which has been advocating for strengthening domestic entrepreneurship for several years, in late 2019, OTP banka Srbija launched an initiative called the Good Deeds Generator, with the aim to increase the visibility of social entrepreneurship in Serbia and all its direct participants. The challenging times caused by the pandemic were yet another reason to support socially and environmentally responsible companies and projects in 2021 as well. The Bank supported and implemented the promotion of social enterprises Andramolje and EkoBag, as well as the Chrono, Game Recycling and Sounds of the Heart initiatives. The promotion was carried out through the Bank's social networks and other traditional media.

Our Belgrade

This year, and with utmost pleasure, OTP banka supported and joined the traditional humanitarian action called Our Belgrade, organized at several locations in July by the Responsible Business Forum, of which the Bank is a member.

The Bank's volunteers provided their contribution and helped members of the Evo Ruka Inclusive Center from Zemun Polje in making jams, cakes and greeting cards, the sale of which raises money for the work of the center and financing and implementation of thematic programs for children with disabilities.

The Evo Ruka Inclusive Center was founded in 2011 by parents of children with disabilities, in order to improve the quality of life of their children and provide them with a secure future. They have been developing a social enterprise for processing fruits and vegetables for several years, and have been producing jams, juices, ajvar and other products through a small workshop. They provide psychosocial support to parents of children with disabilities through online support groups. They organize volunteer youth camps in the summer and fall.

For OTP banka, corporate volunteering is one of the most significant ways to show responsibility towards the broader community, especially towards its most vulnerable groups. Volunteering provides a unique experience for bank employees who voluntarily donate their time and work to contribute to and participate in spreading the volunteer spirit. Every volunteer initiative is equally important because it encourages the development of social solidarity.

Support for the Save Food, Save Humanity campaign

OTP banka gladly responded to the invitation of the Coalition for Giving and joined the Save Food, Save Humanity campaign organized to mark the National Day of Giving, through exemption from commissions for all types of humanitarian payments made directly to the Serbian Philantrophic Forum's special-purpose account. The Bank has received a special award for its support of the campaign. This important day is traditionally celebrated on October 9, the birthday of our great scientist and philanthropist Mihajlo Pupin.

All donated funds were intended for the purchase of packages of basic foodstuffs for the most vulnerable citizens in remote and endangered areas of our country. Exemption from commissions was provided for all types of payments, i.e., both cash and non-cash payments, as well as for individuals and legal entities. In addition, OTP banka also supported the campaign through the promotion of the initiative on its internal and external communication channels.

"We pay special attention to supporting the local community and the socially endangered. Being aware of the fact that nearly half a million people live on the edge of poverty, and that according to official estimates, two million kilograms of food are thrown away every day in Serbia, we believe that there is a way to use the synergy of joint action between the public, business, and civil sectors, as well as all of us individually, to make a significant contribution to solving the issue of poverty. Exemption from commissions for humanitarian payments is a

way to motivate citizens to become individual donors, but also a contribution on the path to a better and more solidary society", said Milena Mićanović, Head of Communications and Public Relations of OTP banka.

The National Day of Giving and the Save Food, Save Humanity campaign is implemented as part of the Framework for Giving project, and implemented by the Coalition for Giving, led by the Ana and Vlade Divac Foundation. Other members of the Coalition are the Trag Foundation, Catalyst Balkans, SMART Kolektiv, the Serbian Philanthropy Forum, the Responsible Business Forum, and the Serbian Chamber of Commerce.

New Year's Humanitarian Garden

In late 2021, OTP banka supported the first New Year's humanitarian action of the Serbian Philantrophic Forum and the Coalition for Giving, New Year's Humanitarian Garden, organized in cooperation with the Jevremovac Botanical Garden and the Faculty of Biology of the University of Belgrade. By participating in this action, companies and their employees were given the opportunity to compete in decorating Christmas trees, and OTP banka received the award for the most beautifully decorated Christmas tree. The funds collected during this action were intended for the Save Food, Save Humanity campaign, as well as the renewal of the plant fund of the Jevremovac Botanical Garden.

The Friends of UNICEF Club

For years, OTP banka has been focused on improving the living conditions of children in Serbia, as a member of the Friends of UNICEF Club. Through regular monthly donations, the bank participates in projects and initiatives aimed at providing proper conditions for happy and safe upbringing and education of children in the country.

Financial education

In times of accelerated development of financial technologies, OTP banka has opened a special, permanent section on its website, dedicated to financial education. The site contains information on banking products and financial concepts that are educational in nature and may provide assistance in making high-quality financial decisions. The page contains the following categories of information: Lexicon of financial terms, Advantages of using electronic and mobile banking, Five reasons why digitalization is a salvation for small and medium enterprises.

In cooperation with the Novak Djokovic Foundation, the Bank participated in the School for Entrepreneurs project, intended for micro, small and medium enterprises. The Bank's representatives held two educational mentoring workshops, with the primary goal of improving knowledge of financial and digital solutions that may be of help to this segment of the economy, being the one most affected by the consequences of the Covid-19 pandemic.

During the European Money Week, the Bank organized educational workshops for micro and small enterprises, with the aim of introducing them to the most important functionalities and benefits of using electronic banking, in the context of business improvement and reduction of potential adverse consequences caused by the Covid-19 pandemic. It also presented the non-financial advisory and expert support that the banking sector can provide to this segment of the economy. During the European Money Week, the Bank organized prize and educational quizzes on its Facebook and Instagram pages, with the aim of recalling interesting facts about the history of banking in Serbia, as well as raising the level of knowledge about digital banking.

Participation in conferences

In 2021, the Bank supported several conferences dedicated to various topics in the sustainable business field. The Bank's representatives spoke about environmental sustainability, financial education for micro and small enterprises, as well as the significance of cooperation with civil society organizations. The conferences were organized by some of the most important organizations and associations of the non-profit sector, such as the Responsible Business Forum, the French Chamber of Commerce, the Belgrade Open School, SMART Collective and the like.

Support in local communities

In 2021, the Bank continued to support numerous important events in all regions in which it operates. The bank supported 25 events in the field of sports, culture, education, etc., in smaller local communities.

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Data in the non-financial report of OTP banka Srbija a.d. refer to 2021, if not stated otherwise.

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Annual report of OTP banka Srbija a.d. Novi Sad for the year that ended on December 31, 2021 is approved by the management of the OTP banka Srbija a.d. Novi Sad on March 15th, 2022.

OTP banka Srbija a.d. Novi Sad

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