

NATIONAL BANK OF SERBIA

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

INDEPENDENT AUDITORS' REPORT

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ANNUAL REPORT



**Building a better
working world**

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INDEPENDENT AUDITORS' REPORT

TO THE COUNCIL OF GOVERNORS OF NARODNA BANKA SRBIJE

Opinion

We have audited the financial statements of Narodna banka Srbije (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.

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

Based on the procedures undertaken, to the extent we are able to assess it, we report that:

1. the other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
2. the other information is prepared in accordance with requirements of the Law on Accounting of Republic of Serbia.

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

Other 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 5 April 2021.

Responsibilities of management and Those Charged with Governance for the financial statements

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

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

Those Charged with Governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

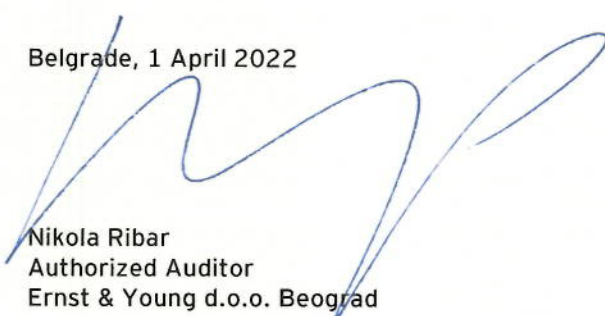
As part of an audit in accordance with Auditing Standards applicable in Republic of Serbia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Belgrade, 1 April 2022



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



**National Bank of Serbia
Financial Statements for the
Year Ended December 31, 2021**

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BALANCE SHEET
As at 31 December 2021
(in RSD thousand)

	<u>Note</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
ASSETS			
Cash and current accounts held with banks	16, 3.4	675,393,606	394,424,179
Gold and other precious metal	17, 3.5	228,166,766	208,078,233
Deposits	18, 3.3	95,202,904	199,312,402
Receivables for derivatives	3.3	2,462	6,959
Securities	19, 3.3	980,667,570	920,174,460
Loans and placements	20, 3.3	910,044	16,375,557
IMF membership quota and SDR holdings	21, 3.3	187,854,210	91,475,050
Intangible assets	22, 3.7	703,159	288,428
Property, plant and equipment	22, 3.7	19,603,828	19,157,663
Investment property	22, 3.7	407,692	407,692
Other assets	23	5,997,527	6,315,841
TOTAL ASSETS		<u>2,194,909,768</u>	<u>1,856,016,464</u>
LIABILITIES AND EQUITY			
Liabilities			
Liabilities under derivatives	3.3	602	69,442
Deposits and other liabilities to Government and financial organisations	24	798,086,390	748,773,102
Deposits and other liabilities to Government and other depositors	25	519,812,267	404,601,318
Liabilities to the IMF	26, 3.3	187,979,401	91,585,239
Provisions	27, 3.11	1,934,196	1,516,661
Current tax liabilities	28, 3.9	478,486	379,091
Dinars in circulation	29	295,311,307	266,698,917
Other liabilities	30	3,031,542	2,348,795
Total liabilities		<u>1,806,634,191</u>	<u>1,515,972,565</u>
Equity			
State-owned capital		187,698,256	187,698,256
Reserves		145,039,502	160,572,376
Retained earnings		55,537,819	(8,226,733)
Total equity	31	<u>388,275,577</u>	<u>340,043,899</u>
TOTAL LIABILITIES AND EQUITY		<u>2,194,909,768</u>	<u>1,856,016,464</u>

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

These financial statements were approved by the Governor:

.....
Jorgovanka Tabakovic, PhD
Governor

INCOME STATEMENT

For the period from 1 January to 31 December 2021

(in RSD thousand)

	Note	2021.	2020.
Interest income		12,427,367	13,989,388
Interest expenses		(4,290,878)	(4,272,933)
Net interest income	4, 3.1	8,136,489	9,716,455
Fee and commission income		5,745,761	4,998,408
Fee and commission expenses		(316,789)	(536,144)
Net fee and commission income	5, 3.1	5,428,972	4,462,264
Net gains/(losses) from financial instruments measured at fair value through profit and loss	6	94,150	(49,747)
Net losses from derecognition of financial instruments measured at fair value through other comprehensive income	7	(2,898,097)	(2,802,286)
Net exchange rate gains/(losses) and from contractual currency clause	8, 3.2	47,248,692	(16,548,851)
Net income from impairment of financial assets/net (expense) of impairment	9, 3.3, 32	318,817	(46,774)
Other operating income	10	6,778,894	5,595,301
Salaries, salary compensations and other personal expenses	11, 3.10	(5,422,342)	(5,208,114)
Depreciation costs	12, 3.7	(1,541,274)	(1,256,823)
Other income	13	1,872,261	1,735,234
Other expenses	14	(4,000,322)	(3,444,301)
PROFIT/(LOSS) BEFORE TAX		56,016,240	(7,847,642)
Income tax	28, 3.9	(478,486)	(379,091)
PROFIT/(LOSS) AFTER TAX	31	55,537,754	(8,226,733)

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

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Jorgovanka Tabakovic, PhD
Governor

STATEMENT OF OTHER COMPREHENSIVE INCOME
In the period from 1 January to 31 December 2021
(in RSD thousand)

	<u>2021.</u>	<u>2020.</u>
Profit/(Loss) for the period	55,537,754	(8,226,733)
Components of other comprehensive income which cannot be reclassified to profit or loss:		
Increase in revaluation reserves based on intangible assets and fixed assets	73,399	-
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	634,460	402,181
Actuarial (losses)/gains	(236,546)	179,412
Components of other comprehensive income that may be reclassified to profit or loss:		
(Negative)/Positive effects of change in value of debt instruments measured at fair value through other comprehensive income	(7,777,454)	3,745,188
Other comprehensive income for the period	(7,306,141)	4,326,781
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>48,231,613</u>	<u>(3,899,952)</u>

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

These financial statements were approved by the Governor:

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 Jorgovanka Tabakovic, PhD
 Governor

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021.

(in RSD thousand)

	State owned capital	Special reserves	Revaluation reserves	Fair Value Reserves	Actuarial gains (losses)	Retained earnings (losses)	Total
Balance as at 1 January, 2020	178,253,299	118,899,884	13,912,428	4,714,502	(195,692)	37,230,521	352,814,942
Distribution of profit from previous year	9,444,957	18,914,473				(37,230,521)	(8,871,091)
Increase in fair value reserve of equity instruments measured at fair value through other comprehensive income	-	-	-	402,181	-	-	402,181
Actuarial losses					179,412	-	179,412
Increase in fair value reserves of debt instruments measured at fair value through other comprehensive income	-	-	-	3,745,188	-	-	3,745,188
Net loss for the current year	-	-	-	-	-	(8,226,733)	(8,226,733)
Balance as of 31 December, 2020	187,698,256	137,814,357	13,912,428	8,861,871	(16,280)	(8,226,733)	340,043,899
Balance as at 1 January, 2020	187,698,256	137,814,357	13,912,428	8,861,871	(16,280)	(8,226,733)	340,043,899
Distribution of profit from previous year (Note 31)	-	(8,226,733)	-	-	-	8,226,733	-
Increase in revaluation reserves based on intangible assets and fixed assets	-	-	73,464	-	-		73,464
Transfer from reserves to retained earnings due to reversal of reserves			(65)			65	
Increase in fair value reserve of equity instruments measured at fair value through other comprehensive income	-	-	-	634,460	-	-	634,460
Actuarial losses	-	-	-	-	(236,546)	-	(236,546)
Decrease in fair value reserves of debt instruments measured at fair value through other comprehensive income	-	-	-	(7,777,454)	-	-	(7,777,454)
Net loss for the current year	-	-	-	-	-	55,537,754	55,537,754
Balance as at 31 December, 2021	187,698,256	129,587,624	13,985,827	1,718,877	(252,826)	55,537,819	388,275,577

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

Financial statements were approved by the Governor:

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 Jorgovanka Tabakovic, PhD
 Governor

CASH FLOW STATEMENT**In the period from 1 January to 31 December 2021****(in RSD thousands)**

	<u>2021</u>	<u>2020</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Interest receipts	13,343,366	13,673,217
Fee and commission receipts	5,922,949	5,478,083
Inflows from sales of products and services (Institute for Manufacturing Banknotes and Coins)	7,844,020	6,117,860
Inflows from other operating activities	2,467,637	2,076,487
Receipts from dividends and profit sharing	213,521	-
<i>Cash inflow from operating activities</i>	<u>29,791,493</u>	<u>27,345,647</u>
Interest payments	(3,423,862)	(3,378,889)
Fee and commission payments	(302,911)	(534,024)
Payments for operating expenses	(10,936,624)	(10,701,611)
<i>Cash outflow from operating activities</i>	<u>(14,663,397)</u>	<u>(14,614,524)</u>
Net inflow in deposits received	241,361,688	116,553,387
Net inflow/(outflow) in loans and placements	115,428,608	8,363,538
Net outflow in securities and other financial assets not intended for investment	(39,162,758)	(34,772,415)
<i>Net increase from operating activities before income tax</i>	<u>332,755,634</u>	<u>102,875,633</u>
Payment of the distributed result-transfer to the budget of the Republic of Serbia	-	(8,871,090)
Income tax paid	(379,091)	(533,905)
Net cash inflow/(outflow) from operating activities	332,376,543	93,470,638
CASH FLOW FROM INVESTING ACTIVITIES		
Inflows from sales of intangible assets, property, plant and equipment	-	-
Outflow for sale of intangible assets, property, plant and equipment	(2,076,713)	(1,538,978)
Net cash outflow from investing activities	(2,076,713)	(1,538,978)
CASH FLOW FROM FINANCING ACTIVITIES		
Net outflow from short-term borrowings	(451,523)	(1,034,094)
Net cash outflow from financing activity	(451,523)	(1,034,094)
Net increase/(decrease) in cash and cash equivalents	329,848,307	90,897,566
Cash and cash equivalents at the beginning of the period	402,124,571	347,603,811
Foreign exchange gains/(losses), net	42,835,209	(36,376,806)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (Note 2f)	<u>774,808,087</u>	<u>402,124,571</u>

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

These financial statements were approved by the Governor:

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Jorgovanka Tabakovic, PhD
Governor

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2021

1. BANK'S ESTABLISHMENT AND ACTIVITY

The National Bank of Serbia (hereinafter: the "Bank") draws its origins to the establishment and commencement of operations of the Privileged National Bank of the Kingdom of Serbia in 1884. In 1920 the Privileged National Bank of the Kingdom of Serbs, Croats and Slovenes was established, and in 1929 the Bank changed its official name to the National Bank of the Kingdom of Yugoslavia. Since 1946 the Bank performed its functions under the name of the National Bank of Yugoslavia (hereinafter: the "NBY"), as the central monetary institution of the FNRY (Federative National Republic of Yugoslavia), which was later renamed into the Socialist Federative Republic of Yugoslavia (hereinafter: the SFRY), and until dissolution of SFRY under the name of National Bank of the Federal Republic of Yugoslavia. In accordance with the Law on the Implementation of the Constitutional Charter of the State Union of Serbia and Montenegro that came in effect on February 4, 2003, the Bank continued to perform its function of the central bank of the Republic of Serbia (hereinafter: the "RS").

The position, organization, authority and functions of the National Bank of Serbia, as well as its relation to the authorities of the RS and international institutions, are defined by the Law on the National Bank of Serbia (Official Gazette of RS, nos. 72/2003 and 55/2004, 85/2005-other law and 44/2010, 76/2012, 106/2012, 14/2015, 40/2015 - Constitutional Court decision and 44/2018, (hereinafter: the Law) and the Constitution of the RS (Official Gazette of RS, nos. 98/2006 and 115/2021).

The Bank is independent in the performance of functions determined by the Law and other laws and is subject to the supervision of the National Assembly to which it is accountable for its work.

The primary objective of the Bank shall be to achieve and maintain price stability. In addition to its primary objective, the Bank shall also strive towards maintaining financial system stability. Without prejudice to its primary objective, the Bank shall support the pursuance of economic policy of the Government of the Republic of Serbia operating in accordance with the principles of market economy.

The Bank also performs the following functions:

- Determines and implements monetary and foreign exchange policies;
- Manages state foreign currency reserves;
- Establishes and implements activities and measures falling under its remit that relate to the maintaining and strengthening of financial stability;
- Issues banknotes and coins and manages cash flows;
- Regulates, oversees and promotes uninterrupted functioning of internal and external payment operations, in accordance with Law;
- Issues and revokes operating licenses to banks, supervises bank solvency and legal compliance of banking operations, and performs other activities in accordance with the law governing banks;
- Issues and revokes licenses, i.e. authorization for carrying out insurance operations, supervises such operations and performs other duties in line with the law governing the field of insurance;
- Issues and revoke licenses, i.e. authorization for carrying out finance lease operations, supervises such operations and performs other duties in line with the law governing finance lease operations;
- Issues and revokes licenses, i.e. authorization for carrying out the operations of a voluntary pension fund, supervises such operations and performs other duties in line with the law governing voluntary pension funds;

1. BANK'S ESTABLISHMENT AND ACTIVITY (Continued)

- Issues and revokes licenses , i.e. authorization for carrying out the operations of payment services and issuance of electronic money, supervises such operations and performs other duties in line with the law governing payment services;
- Issues and revokes payment institutions licenses for the provision of payment services, and electronic money institutions licenses for the issuance of electronic money, supervises the provision of payment services and the issuance of electronic money, and performs other tasks, in accordance with the law governing payment services;
- Performs activities of protection of the rights and interests of service users provided by banks, insurance companies, financial leasing providers, voluntary pension fund management companies, payment service providers and electronic money issuers, in accordance with the law;
- Determines whether the conditions for initiating the restructuring procedure in respect of banks and/or members of a banking group are met, to conduct the restructuring procedure, decides on the tools and measures to be applied and performs other activities relating to bank restructuring, in accordance with the law governing banks;
- Issues and revokes licenses to payment system operators, supervises such operations and performs other duties in line with the law governing payment services;
- Issues and revokes licenses for performing exchange transactions, supervises exchange and foreign exchange operations and performs other activities, in accordance with the law regulating foreign exchange operations;
- Performs specific statutory operations for the Republic of Serbia without compromising its own autonomy and independence;
- Performs other tasks within its scope of authority, in accordance with Law.

The governing bodies of the Bank are: Executive Board of the National Bank of Serbia (hereinafter: the Executive Board), the Governor of the National Bank of Serbia (hereinafter: the Governor) and the the Board of Governors of the National Bank of Serbia (hereinafter: the Council).

The Executive Board, comprised of the Governor and Vice-Governors, determines monetary and foreign exchange policies and establishes measures and activities for the purpose of strengthening stability of the financial system.

The Governor represents and acts as the agent of the Bank, manages the Bank's operation and is responsible for the implementation of decisions of the Executive Board and the Council, proposes regulations, general and individual acts to be enacted by the Executive Board and the Council, unless otherwise provided by the Law, enacts regulations, general and individual acts falling within the scope of authority of the National Bank of Serbia, which are not assigned by the Law to the authority of the Executive Board and the Council, regulates the internal organization of the National Bank of Serbia and the classification of jobs in the National Bank of Serbia, as well as labour relations of employees in the National Bank and performs other tasks defined by the Law and other legislation. The Governor shall be nominated by the President of the Republic and appointed by the National Assembly, for a six-year renewable term of office. The Bank has between two and four Vice-Governors, who are elected by the National Assembly, for a six-year renewable term of office at the Governor's proposal.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

1. BANK'S ESTABLISHMENT AND ACTIVITY (Continued)

Among other matters, the Council of the Governor adopts the Statute at the recommendation of the Executive Board, enacts the financial plan of the Bank, adopts the annual financial statements of the Bank, selects an external auditor, considers and discusses the external (independent) auditor's report and monitors the implementation of the auditor's recommendations throughout the National Bank of Serbia. The Council of the Governor consists of five members including the Chairman, who are appointed by the National Assembly at the proposal of the National Assembly committee in charge of financial affairs. The Council members are elected for a five-year renewable term of office and are not employed with the Bank.

The Bank is a legal entity headquartered in Belgrade, at 12 Kralja Petra Street. The activities of the National Bank of Serbia as determined by the law and other regulations are performed through the Bank's basic organizational units, branch offices in Belgrade, Novi Sad, Nis, Kragujevac and Uzice and the Institute for Manufacturing Banknotes and Coins - Topcider (hereinafter: "ZIN").

As at December 31, 2021 the bank had 2,332 employees (2020: 2.372 employees).

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

a) Statement of Compliance with the International Financial Reporting Standards

The accompanying financial statements of the Bank have been prepared in accordance with the International Financial Reporting Standards (IFRS).

b) Basis of Measurement

Financial statements are prepared at the historical cost principle, with exception of the following items:

- Gold and other precious metals, which are stated at fair value;
- Financial assets at fair value through profit and loss;
- Financial assets at fair value through other comprehensive income;
- Land and properties, which are stated at revalued value;
- Investment properties, which are stated at fair value;
- Works of art and museum objects and numismatic collection, which are stated at fair value;
- Provisions for retirement benefits and jubilee awards, which are stated at the present value of the future liabilities for retirement benefits and jubilee awards;
- provisions for litigation stated at estimated value of possible court outcomes;
- Foreign currency swaps, which are stated at fair value.

c) Use of Estimates

Preparation of financial statements in accordance with IFRS requires the Bank's management to use certain estimates in the application of the accounting policies. Areas that are subject to estimates of greater significance to the financial statements of the Bank are presented in Note 3.11.

d) Functional and Presentation Currency

The Bank's financial statements are presented in thousands of dinars (RSD). The Dinar is the Bank's functional currency and the official presentation currency in the Republic of Serbia.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (Continued)**e) New Standards, Interpretations and Revisions to Issued Standards**

The following standards, interpretations and amendments to the published standards have entered into force for the accounting period beginning on or after January 1, 2021:

- Amendments to IFRS 16 – leasing incentives as a result of COVID-19 pandemic, is applied to annual periods that start on or after 1, June 2020. with the permitted early application;
- Amendments to IFRS 16 – leasing incentives after June 30, 2021. as a result of COVID-19 pandemic, is applied to annual periods that start on or after January 1, 2021, with permitted early application; and
- Amendments to IFRS 9, MRS 39, IFRS 7, IFRS 4 and IFRS 16 – "Benchmark Interest Rate Reform – Phase 2", applicable to annual periods starting on or after January 1, 2021 - standard amendments addresses issues that could affect financial reporting when the existing benchmark interest rate is replaced with an interest rate without risk (RFR).
- Amendments to IFRS 9 "Financial Instruments" and IAS 39 "Financial Instruments: Recognition and Measurement" deal with the treatment of changing the basis for determining contractual cash flows of financial assets or financial liabilities resulting from the replacement of the benchmark interest rate, as well as the implications of a replacement on the special requirements of hedge accounting.
- Amendments IFRS 7 "Financial Instruments: Disclosures" refer to requests for additional disclosure to better understand the impact of benchmark interest rate reform on financial instruments and risk management strategies.

Regarding the reform of the benchmark interest rate, there was no need to change the Bank's risk management strategy. In the area of investing foreign exchange reserves, the Bank successfully switched to replacement benchmark rates, as it made the necessary adjustments to procedures, calculations and application solutions related to financial instruments and funds to which these rates apply, so it is not exposed to risks on this basis. financial, nor operational.

In the field of investing foreign exchange reserves, on 31.12.2021. The Bank had in its portfolio financial assets (securities) related to USD 3M LIBOR and which have yet to move to a replacement benchmark rate with a total market value of USD 27 million. These financial assets are due in 2022. In its portfolio, the Bank does not have derivative financial instruments that are subject to the benchmark interest rate reform.

The Bank's management discussed the impact of these standards and interpretations on the Bank's financial statements. Given the nature of the Bank's operations, the stated standards, interpretations and changes to published standards, according to the assessment, do not have a significant impact on the Bank's financial statements.

Until the date of the balance sheet, the following standards, interpretations and changes to published standards were issued, but did not take effect:

- Amendments to IAS 37 - Onerous (Harmful) Contracts - contract performance costs, effective for annual periods beginning on or after 1 January 2022;
- Amendments to IAS 16 - Property, Plant and Equipment: Pre-service Revenue, effective to Annual Periods Beginning on or After 1 January 2022 - Amendments to clarify the accounting treatment of net sales inflows from manufactured assets during the introduction of fixed assets in the state of use;

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

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

- Amendments to IFRS 3 - references to the conceptual framework in IFRS standards, applicable to annual periods beginning on or after 1 January 2022
- Annual Improvement Cycle of IFRS 2018-2020, including amendments to IFRS 9 Financial Instruments - impact of fee costs on the "10% test" for derecognition of financial liabilities, effective to annual periods beginning on or after 1 January 2022;
- Amendments to IAS 1 - classification of liabilities as short-term and long-term, effective to annual periods beginning on or after 1 January 2023;
- IFRS 17 and amendments to IFRS 17 - "Insurance Contracts", effective for annual periods beginning on or after 1 January 2023;
- Amendments to IAS 1 and IFRS Practical Guideline 2 - "Disclosure of Accounting Policies", effective for annual periods beginning on or after 1 January 2023;
- Amendments to IAS 8 - "Definition of Accounting Estimates", effective for annual periods beginning on or after 1 January 2023

e) New Standards, Interpretations and Revisions to Issued Standards (continued)

- Amendments to IAS 12 - "Deferred Taxes related to assets and liabilities arising from a single transactions"; and
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) - optional with an unlimited date of first application.

The Bank's management is currently reviewing the impact of these standards and interpretations on the Bank's financial statements, as well as the date of their entry into force. These standards, interpretations and changes to published standards, according to the assessment, will not have a significant impact on the Bank's financial statements in the period after their implementation.

f) Cash Flow Statement

The differences between cash and cash equivalents position at the end of the period in the Cash Flow Statement and the position Cash and cash Equivalents in the Balance Sheet are as follows:

In thousands of RSD

	Cash Flow Statement In period from 1 January to December 31,2021 - cash and cash equivalents at the end of period	Cash Flow Statement In period from 1 January to December 31,2020 - cash and cash equivalents at the end of period
Cash and current accounts held with banks (Note 16)	675,393,606	394,424,179
Funds in SRD (Note 21)	99,414,481	7,700,392
Total	774,808,087	402,124,571

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

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

g) Comparative data

Accounting policies and estimates relating to the recognition and valuation of assets and liabilities used in the preparation of these financial statements are consistent with accounting policies and estimates made in preparing the financial statements of the Bank for 2020. In the interest of better presentation, the Bank has adjusted the structure of comparative data in certain segments as a part of disclosures made through the notes to the financial statements as at December 31, 2021.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

a. Interest, Fee and Commission Income and Expenses

When calculating interest income or expense based on a financial asset or a financial liability, the effective interest rate is applied to the gross carrying amount of the asset or the amortized cost of liabilities. The gross carrying amount of the financial asset is the amortized cost of the financial asset before adjusting for the amount of the impairment. The amortized cost of a financial asset is the value of a financial asset at initial recognition, minus the principal repayment, increased or decreased by the amount of cumulative amortization using the effective interest method of any difference between the value of the financial asset at initial recognition and the amount at maturity and adjusted for the amount of impairment.

If the financial asset is not credit impaired, interest income is calculated using the effective interest rate on the amortized cost of a financial asset.

Interest income from financial assets that subsequently have become credit-impaired financial assets after initial recognition are calculated by applying the effective interest rate on the amortized cost of that asset.

Interest income from purchased or originated credit-impaired financial assets is calculated using the effective interest rate adjusted for credit risk on the amortized cost of that asset.

Fee and commission income from banking services are recognized as related services performed and fee and commission expenses are recognised as related services are received.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES**3.2. Foreign Currency Translation**

Business transactions performed in foreign currencies whose exchange rates are officially published by the Bank, are translated into dinars by applying the official middle exchange rates effective as at the transaction date, whereas for currencies whose exchange rates are not officially published by the Bank, recalculation is performed by applying the adequate exchange rates of the Bank effective as at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are translated into dinars by applying the official middle exchange rate prevailing at the statement of financial position date (if the currency rate is published by the Bank in the official exchange rate list) or at the appropriate rate of the Bank (for foreign currencies which are not published in the official exchange rate list).

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 exchange rate gains/losses and gains/losses from agreed currency clause. The structure of monetary assets and liabilities is presented in the framework of the foreign currency risk analysis in Note 32.

3.3. Financial Instruments

The Bank classifies its financial assets into the following categories:

- financial assets carried at amortized cost
- financial assets carried at fair value through other comprehensive income and
- financial assets carried at fair value through profit and loss.

The classification depends on the business model in which the assets are held and characteristic of cash flows related to those financial assets. Financial liabilities are classified as financial liabilities that are measured at amortized cost and financial liabilities that are carried at fair value through profit and loss.

The business model in which financial assets are held represents the way in which the Bank manages those funds in order to generate cash flows from a financial asset. The objective of the business model may be the collection of contractual and other fixed cash flows and cash flows from the sale of that asset or other, and the type of business model within which certain financial assets are held is determined on the basis of:

- policies and objectives related to certain financial assets (implementation of monetary and foreign exchange policies and other regulations and activities within the competence of the National Bank of Serbia, liquidity management, realization of manual compliance of financial assets and liabilities, realization of interest income, realization of income on the basis of change in fair value financial resources, etc.),
- the frequency, volume and point of sale of financial assets in the previous period, the reasons for these sales and expectations regarding future sales activities,
- the method of assessing the effectiveness of management and the manner of reporting in relation to financial assets,
- types of risks that affect certain financial assets and ways of managing these risks

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**3.3. Financial Instruments (Continued)**

Financial assets are classified in the category of financial assets that are carried at amortized cost if they are applied to a business model whose primary objective is the collection of contracted and other established cash flows, and if the cash flows that are incurred consist exclusively of principal payment and interest on the outstanding principal amount on a fixed date.

Financial assets are classified in the category of financial assets carried at fair value through other comprehensive income if they are applied to a business model whose basic objectives are the collection of contracted cash flows and sales and if the cash flows that are incurred consist exclusively of principal and interest payments on the outstanding amount of principal on a fixed date.

All other financial assets are measured at fair value through profit and loss.

The management determines the classification of assets and liabilities at initial recognition, and any subsequent reclassifications are made if the bank changes the business model for managing financial instruments.

Financial assets at fair value through other comprehensive income

Financial assets carried at fair value through other income are securities designated as securities carried at fair value through other comprehensive income if they reflection the business model of managing financial assets holding for collection and sale and if the cash flows arising consist exclusively and interest collection on outstanding amount principal on a fixed date. Financial assets carried at fair value through other income refer to government bonds, securities of the public sector, securities with high quality collateral, as well as government discounted securities and in the balance sheet are carried at fair value on balance sheet date as quoted in the financial market.

In addition to these securities, for the participation in the capital of international financial institutions on December 31, 2021, The Bank has opted for accounting for them at fair value through other comprehensive income. This choice was carried out on the basis of a single instrument at the time of initial recognition and cannot be revoked.

Also, on the date of initial recognition, the Bank may irrevocably classify an asset as an asset carried at fair value through profit and loss, although it meets the requirements of measurement at amortized cost or fair value measurement through comprehensive income, and only in cases where the objective is to eliminate or significantly reduce accounting mismatches that would otherwise arise.

The effects of changes in fair value are recorded within equity as a fair value reserve. During the holding of securities, the Bank determines the interest using effective interest rate and records revenues from the collection of coupons within the position of interest income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**3.3. Financial Instruments (Continued)***Financial assets at fair value through other comprehensive income (continued)*

For equity investments that are carried at fair value through other income, changes in fair value after initial recognition are reported in equity under reserves based on fair value and can never be recognized through profit or loss, even at the time of sale. Accumulated gains or losses recognized in the other result are transferred to retained earnings upon the expiry of the recognition of the investment.

Equity investments are not subject to impairment. The effects of changes in foreign exchange rates are included within the capital as a fair value reserves. Dividends are recorded under other operating income in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are valued at amortized cost less impairment charges. Loans are stated separately in position Loans and placements, while receivables are presented in other assets.

Financial assets carried at amortized cost

Financial assets carried at amortized cost are investments in debt securities where the Bank has a firm intention and the ability to hold these securities until maturity. These securities are valued at amortized cost less impairment costs.

Deposits

Deposits include time deposits in accounts with foreign banks with adequate investment rating and other deposits are stated at amortized cost.

Financial liabilities at amortized cost

Financial liabilities for repo transactions are measured at amortized cost. The difference between the cost and the redemption value is recognized in the income statement on the basis at the effective interest method.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)**3.3. Financial Instruments (Continued)***Swap transactions*

The Bank organizes a swap of auctions of the sale or purchase of foreign currency, which are a regular instrument for securing the foreign exchange, i.e. dinar liquidity of the banking sector. The aim of their organization was to encourage the development of the interbank swap of foreign exchange trading and the development of the market of instruments for protection against the risk of changing the foreign exchange rate.

At the balance sheet date, the Bank values swaps at fair value through profit and loss. The positive fair value of swaps is recognized as an asset within the derivative receivables, the negative as an obligation under the derivative liability, and the effects of the change in fair value are recognized in the income statement within position net profit on financial instruments carried at fair value through the income statement.

Membership Quota in the International Monetary Fund and special drawing rights and Obligations under the International Monetary Fund

Assets and liabilities to the International Monetary Fund expressed at initial cost in special drawing rights are estimated at the special drawing rights rate published by the International Monetary Fund - using the official middle exchange rate of the USD that is valid on the appropriate date. Transactions in Special Drawing Rights are converted into Dinars using the official middle exchange rate of the National Bank of Serbia at the time of the transaction.

Date of recognition and fair value

Regular purchases and sales of placements are recognized at the date of the transaction - the date on which the Bank pays for the purchase or receives funds from the sale of assets or at settlement date. All financial assets are initially recognized at fair value plus transaction costs, while financial assets at fair value through profit or loss are initially recognized at fair value without the stated costs.

The fair value of financial assets quoted on the stock exchange is determined on the basis of fair values. In the case of instruments for which there is no active market (not quoted on the stock exchange), the Bank determines their fair value based on an estimate using information on recent transactions on the market, using the discounted cash flow method or using the "option pricing" model.

Reclassification of financial assets

Reclassification of financial assets is carried out in the case of a change in the business model within which they are held. The effects of the reclassification of financial assets from the category measured at amortized cost and at fair value through other comprehensive income into the category of financial assets carried at fair value through profit and loss are reported as net gain/(loss) under reclassification of financial assets in the income statement, while other reclassifications, including their effects, are recorded within the positions of balance sheet.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES (Continued)

3.3. Financial Instruments (Continued)

Modification of financial instruments

Modification of financial instruments is a change in the established (contracted, prescribed or otherwise in accordance with the regulations established) cash flows of a financial instrument arising from renegotiation or otherwise. If, when modifying the financial instrument, it is estimated that the cash flows have not changed significantly, recognition of such financial instrument continues at modified amount, and the difference between the book value and the modified amount is recorded in the income statement. Otherwise, the financial instrument is derecognized and a new financial instrument is recognized. In assessing whether cash flows are substantially modified, the Bank uses the following criteria:

- discounted (present) value of cash flow on changed terms (modified value) changed by 10% or more in relation to discounted (present) value of remaining cash flow on terms of original financial instrument, or
- significantly changed conditions of the original financial instrument in accordance with the particular circumstances of the individual case, regardless of the extent to which the cash flow was changed (change of debtors, change of currency, introduction of the possibilities of conversion of claims into equity securities, change of fixed interest rate into variable and reversed and changes in classification of financial instruments).

Impairment of financial assets

Impairment of financial assets (allowance for expected credit losses) is carried out at each balance sheet date, for the amount expected credit losses of financial assets carried at amortized cost and financial assets carried at fair value through other comprehensive income. The expected credit loss is the amount of the present value of the estimated losses weighted by the risk of default.

The carrying amount of financial assets is decreased indirectly through the allowance account and is recorded within net income from decrease in impairment/(expenses) on impairment of financial assets. If, during next year, there is a decrease in the amount of recognized impairment loss, the previously recognized impairment loss is reduced by adjusting the allowance account and the amount of the adjustment is recognized in the income statement.

Impairment of financial assets is explained in detail in Note 32.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.3. Financial Instruments (Continued)

Write-offs of financial assets

Financial assets are written off directly in whole or in part, when there is no reasonable expectation of recovering a financial asset, either in whole or in part, as in the case where it is established that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out on an individual basis.

Financial assets that have been written off, and which are still the subject to collection are recorded as off-balance sheet items.

Derecognition

Financial assets cease to be recognized when the Bank loses control over the contractual rights over these instruments, which occurs when the rights to use the instruments are realized, expired, abandoned or transferred. The financial liability ceases to be recognized when the liability ceases to exist.

Offsetting of financial assets

The financial asset and financial liabilities are set off and the net balance is presented in the balance sheet only if there is a legal right to carry out offset and if there is an intention of the Bank to make the collection of funds and payment of liabilities in the net amount or to simultaneously collect funds and settle liabilities. Revenues and expenses are presented in the book on the net basis if the result (effect) of the offset reflects the substance of the transaction they originated from.

3.4. Cash and current accounts held with banks

Cash and cash equivalents include cash and balances on current accounts. Cash and current accounts held with banks are measured at amortized cost.

3.5. Gold and other precious metals

Gold and other precious metals are measured at fair value at the balance sheet date.

Precious metals, which are part of the foreign exchange reserves, were estimated at the price of gold and silver in the day-to-day fixing at the London Bullion Market Association, using the official US dollar average dinar exchange rate valid on the last day of the month, or on the basis of the price Platinum & Palladium Market Association, London fixing, using the official mid-dinar exchange rate for the US dollar that was valid on the last day of the month.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****3.5. Gold and other precious metals (continued)**

The effects of changes in the fair value of gold and other precious metals that are part of the foreign exchange reserves are presented in the profit and loss account, as gain/loss on the basis of exchange differences and the effects of the contractual currency clause. The effects of estimating the cost of refining gold, as at 31 December 2021, are presented in Note 17.

3.6. Inventories

The Bank's inventories comprise materials, work in progress and finished products of ZIN mostly, as well as precious metals used for making commemorative coins, and ZIN products intended for the market. These inventories are stated at the lower of cost and net realizable value.

3.7. Property, plant, equipment, investment property and intangible assets

Plant, equipment and intangible assets are stated at cost less any allowance for impairment. The Bank applied the allowed alternative method of measuring real estate that it uses, a part of other fixed assets (works of art and museum values) and parts of equipment (period furniture) at the revalued value.

Valuation of used real estate and investment real estate was performed by hiring an external independent appraiser using market (comparable prices of real estate subject to purchase / sale in the local market, with adjustments related to the physical condition of a particular property), yield (determining the present value of future cash flows during the economic life of funds by applying a capitalization rate that reflects the risk of achieving projected cash flows and time value of money) and cost approach (costs of building a new building, which deduct three possible forms of obsolescence: physical, functional and economic).

The increase in the revalued value of land that is reported in the Bank's accounting records, i.e. the recording of the difference between the estimated value and the current book value is expressed through an increase in revaluation reserves. The decrease in value on the basis of revaluation is recorded by a proportional decrease in the purchase value and accumulated depreciation of fixed assets, and the increase in value on the basis of revaluation - by a proportional increase in the purchase value and accumulated depreciation of fixed assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.7. Property, plant, equipment, investment property and intangible assets (continued)**

The amounts of accrued revaluations are recorded in favour of the total remaining results, for the positive effects of the estimation, and are accumulated on the accounts of revaluation reserves within the capital. The negative effects of the assessment are recognized as the expense of the profit and loss account, unless the revaluation reserve has been formed for the specific asset in the previous periods, in which case the negative effects are recognized in the balance of the total other comprehensive income, to the level of previously formed revaluation reserves. Positive effects of the valuation are recognized in favour of the profit and loss account only up to the amount of previously recognized negative valuation effects the event that individual items in previous periods had a negative effect of the appraisal recognized at the expense in the profit and loss account.

Investment property is valued at fair value. The effects of the change in fair value are disclosed at the expense or in favour of the profit and loss account within other income or other expenses.

Calculation of depreciation of property, plant and equipment and intangible assets begins when these assets are put into use. Depreciation is calculated equally on the cost of property, plant and equipment using the following annual rates, which were not changed during 2021, with a view to completely disposing of assets during their useful life:

Computers	25%
Furniture and other equipment	3.34%-20%
Motor vehicles	14.29% - 20%
Intangible assets	25% i.e. the deadline prescribed by the contract

During 2021, harmonization of accounting records with the remaining life of real estate was performed. In this regard, the total correction of the present value of real estate amounts to RSD 52,097 thousand and is presented in Note 22.

The cost of repairs and maintenance of property, plant and equipment generated to preserve the asset's useful life is recognized as an expense at the time of formation. Capitalization of investment costs is permitted only if it increases or extends the use value of the assets.

The gains arising from the sale of property, plant and equipment are credited to other operating income. The losses incurred in the disposal and disposal of property, plant and equipment are recorded at the expense of other expenses. Revaluation reserve on disposal and write-offs of assets transferred to retained earnings.

The Law on Public Property prescribes that the Government of the Republic of Serbia decides on the disposal of immovable property used by the Bank and the establishment of a mortgage on such real estate.

3.8. Funds for operations on behalf of third parties

Funds for transactions in the name and for the account of third parties, which are managed by the Bank for remuneration, are not included in the balance sheet of the Bank but are carried out within off-balance sheet items.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.9. Corporate Income Tax***Current taxes*

The Bank is a tax payer in accordance with the provisions of the Law on Corporate Income Tax of the Republic of Serbia and the Regulations on the Contents of the Tax Balance for Non-Profit Organizations - Taxpayers of Corporate Taxes, explained in more detail in Note 28.

Deferred taxes

Deferred income taxes are calculated according to the balance sheet on all temporary differences on the balance sheet date between the present value of assets and liabilities, in the financial statements, and their values for purposes of taxation. The Bank does not account for and does not disclose deferred taxes due to the absence of temporary differences.

3.10. Employee Benefits

In accordance with regulations effective in the Republic of Serbia, the Bank is under obligation to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employees by the employer in the amounts calculated by applying the specific legally prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees and to transfer the withheld portions on their behalf directly to the appropriate Government funds. The contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

For short-term employee benefits, the Bank recognizes within expenses the undiscounted amount of short-term employee benefits expected to be paid in exchange for the services rendered.

For long-term benefits, the Bank recognizes a discounted amount of fees that are expected to be paid in exchange for the services provided by employees. The Bank implements a defined remuneration plan for employees in accordance with internal acts, according to which the employee is entitled to severance pay in the amount of three times the earnings he earned for the month preceding the month in which his employment is terminated or in the amount of three times the average monthly salary per employee paid in for the month preceding the month in which his employment is terminated, depending on which of these two amounts is more favourable.

The last estimate of the present value of liabilities based on the established compensation plan was made as of December 31, 2021.

The Bank uses the best possible estimates of the variables when determining the total cost of provisioning for termination benefits. The basic assumptions of the assessment are explained in Note 27.

In the financial statements of the Bank as at December 31, 2021, provision was made on the basis of the estimated present value of retirement funds for retirement after fulfilled conditions, as well as the provision based on the estimated present value of jubilee awards. The Bank applied the actuarial method of lending to the projected unit for determining the present value of its liabilities and all actuarial assumptions, primarily demographic (mortality and disability), in accordance with IAS 19 - "Employee Benefits".

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.10. Employee Benefits (Continued)**

Actuarial gains and losses and costs of previously performed services are recognized in the income statement when they occur, while actuarial gains and losses on retirement benefits are recognized in the statement of other comprehensive income.

Payments for unused annual holidays from the current year represent short-term liabilities of the Bank. In the financial statements of the Bank as at December 31, 2021, provision was made for funds for the payment of compensation for the days of unused annual leave for 2021, which employees did not use during 2021. The Bank's obligation shall cease if the employee does not use the holiday until June 30 of the following year. The bank is obliged to pay compensation for unused annual leave only in case of unused vacation in case of termination of employment.

3.11. Summary of Key Accounting Estimates and Assumptions

The presentation of the financial statements requires the Bank's management to use best estimates and reasonable assumptions that affect assets and liabilities amounts, disclosures of contingent liabilities and receivables as of the date of preparation of the financial statements, and the income and expenses arising during the reporting period. These estimations and assumptions are based on information available as at the date of preparation of the financial statements. Actual amounts may vary from these estimates.

Estimates and assumptions are subject to constant review. Changes to accounting estimates are recognized in the period when they are made if their impact is limited to that period or in future periods, in case when the change impacts future periods as well.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of financial assets

Expected credit losses of financial assets are estimated for an individual financial asset or for a group of financial assets with the same characteristics, taking into account all relevant and available quantitative and qualitative information, related to past, present and future events.

Impairment of financial assets implies defining criteria that determine whether the credit risk of a financial asset has been increased in relation to the initial recognition of that financial asset by defining, selecting and accepting an appropriate internal methodology by the management, as explained in Notes 3.3 and 32.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**3.11. Summary of Key Accounting Estimates and Assumptions (Continued)***Fair Value of Assets*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

Bank's policy is to disclose fair value information on those financial assets and financial liabilities for which published market information is readily available or such value may be calculated by applying certain alternative valuation techniques, and whose fair value is materially different from their recorded amounts. As per the Bank's management, amounts presented in the financial statements reflect fair value which is most reliable and useful for financial reporting purposes, in accordance with International Financial Reporting Standards.

Fair value of financial instruments for which an active market does not exist is determined by applying adequate methods of estimating future cash flows of assets that are discounted by applying an adequate discount rate to their fair value. The Bank applies its professional judgment in the selection of adequate methods and assumptions. Fair values information is set out in Note 32.

Provisions for Long-Term Employee Benefits

The Bank has independently calculated provisions for employee retirement benefits and jubilee awards by using its professional judgment to determine the discount rate, income growth rate and employee turnover rate based on the available information, which is explained in detail in Notes 3.10 and 27.

Depreciation and Amortization Rates Applied

The calculation of depreciation and amortization, as well as depreciation and amortization rates are based on the estimated economic useful life of property, plant, equipment and intangible assets. Once a year the Bank assesses economic useful life based on current assumptions.

Provisions for Litigations

The Bank estimates the probability of occurrence of an unfavourable event that is the result of a past event, and if it is estimated that the event will occur with probability greater than 50%, the Bank makes provisions in the total amount of the liability. The Bank is cautious in its estimates, but due to high level of uncertainty, in some cases, the estimate might not be consistent with eventual future outcome of the litigation.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

4. NET INTEREST INCOME

(in RSD thousand)

	For the year ended December 31,	
	2021	2020
Interest income from:		
Debt securities:		
- in dinars	4,603,087	3,179,814
- in foreign currency	7,422,144	9,883,186
Deposits placed:		
- in dinars	111	126
- in foreign currencies	360,046	861,031
Loans approved:		
- in dinars	10,342	32,249
Repurchase transactions	26,181	32,052
Other placements:		
- in dinars	71	689
- in foreign currency	5,385	241
<i>Total</i>	<i>12,427,367</i>	<i>13,989,388</i>
Interest expenses arising from:		
Securities in dinars	(1,690,745)	(1,458,343)
Deposits in dinars:		
- required special reserve of banks in dinars	(340,858)	(611,779)
- surplus liquid assets of banks	(91,532)	(577,367)
- transaction deposits	(230)	(343)
Deposits in foreign currencies:		
- time deposits	(3,146)	(60,616)
- demand deposits	(203)	(2,625)
Negative interest on financial assets in foreign currency	(2,053,436)	(1,293,582)
Repurchase transactions	(84,567)	(226,302)
Liabilities to IMF	(21,217)	(16,509)
Borrowings	(435)	(22,314)
Other	(4,509)	(3,153)
<i>Total</i>	<i>(4,290,878)</i>	<i>(4,272,933)</i>
Net interest income	8,136,489	9,716,455

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

4. NET INTEREST INCOME (Continued)

The stated amount of Net interest income includes interest income and expense, calculated using the effective interest method, which relate to the following:

	Thousands of RSD	
	Year ended December 31,	
	2021	2020
Interest income arising from:		
Financial assets measured at amortized cost	5,005,223	4,106,202
Financial assets at fair value through other comprehensive income	7,422,144	9,883,186
Total	12,427,367	13,989,388
Interest expenses arising from:		
Financial liabilities measured at amortized cost	(3,815,670)	(4,075,251)
Financial assets at fair value through other comprehensive income	(475,208)	(197,682)
Total	(4,290,878)	(4,272,933)
Net interest income	8,136,489	9,716,455

5. NET FEE AND COMMISSION INCOME

	Thousands of RSD	
	Year ended, December 31,	
	2021	2020
Fee and commission income in dinars:		
- fees for RTGS and clearing operations	1,588,509	1,410,390
- fees for enforced collection	1,534,479	1,311,908
- fees for supervision over insurance operations	474,157	485,054
- other fees in dinars	377,071	353,069
Fee and commission income in foreign currencies		
- fees for foreign currencies	1,601,112	1,226,187
- operating fees in the name and on behalf of third parties	86,816	101,291
- other fees in foreign currency	83,617	110,509
<i>Total</i>	<i>5,745,761</i>	<i>4,998,408</i>
Fee and commission expenses in dinars:		
- commission based on the sales of bill of exchange forms	(13,893)	(12,537)
- other fees and commissions in dinars	(4,440)	(1,905)
Fee and commission expenses in foreign currencies:		
- foreign account maintenance fees and foreign payment transactions	(92,156)	(69,789)
- fee for foreign exchange and currency transactions	(206,300)	(451,913)
<i>Total</i>	<i>(316,789)</i>	<i>(536,144)</i>
Net fee and commission income	5,428,972	4,462,264

The total reported income and expense on fees and commissions relates to financial assets and financial liabilities that are measured at amortized cost.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

6. NET (LOSS)/GAINS FROM FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH PROFIT AND LOSS

	Thousands of RSD	
	Year ended	
	December 31,	
	2021	2020
Income from sales and changes in fair value of swap transactions	126,582	12,673
Expenses from sales and changes in fair value of swap transactions	(32,432)	(176,420)
Net income/(loss)	94,150	(49,747)

7. NET LOSSES FROM DERECOGNITION OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	Thousands of RSD	
	Year ended	
	December 31,	
	2021	2020
Income from derecognition (sale) of financial assets measured at FVOCI	940,668	2,246,292
Loss from derecognition (sale) of financial assets measured at FVOCI	(3,838,765)	(5,048,578)
Net loss	(2,898,097)	(2,802,286)

8. NET INCOME/(EXPENSE) FROM FOREIGN EXCHANGE RATE AND EFFECTS OF CONTRACTED FOREIGN CURRENCY

	Thousands of RSD	
	Year ended	
	December 31,	
	2021	2020
Net income/(expenses) from foreign exchange rate and effect of contracted foreign currency:		
- cash and current accounts held with banks	1,585,063	(694,654)
- gold and other precious metals	10,315,372	19,969,093
- deposits, loans and placements	7,646,791	(5,272,343)
- securities	30,074,429	(31,236,473)
- IMF assets and liabilities	(6,317)	5,407
- liabilities arising from received deposits and other liabilities to banks, financial organizations, state and other depositors	(2,435,664)	705,968
- other assets and other liabilities	69,018	(25,849)
Total net income/(expense) from exchange differences and effects of contracted currency clause	47,248,692	(16,548,851)

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

9. NET INCOME FROM IMPAIRMENT OF FINANCIAL ASSETS/NET (EXPENSE) OF IMPAIRMENT

a) Structure of income and expenses

	Thousands of RSD	
	Year ended	
	December 31,	
	2021	2020
Income from impairment allowances:		
- of financial assets at amortized cost	364,405	61,933
- of financial assets at FVOCI	29,273	18,493
Income from collected written-off receivables	896	258
<i>Total</i>	<i>394,574</i>	<i>80,684</i>
Expenses from impairment:		
- of financial assets at amortized cost	(36,147)	(116,026)
- of financial assets at FVOCI	(39,610)	(11,432)
<i>Total</i>	<i>(75,757)</i>	<i>(127,458)</i>
Net income from impairment of financial assets/Net (expense) of impairment	318,817	(46,774)

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

9. NET INCOME FROM IMPAIRMENT OF FINANCIAL ASSETS/NET (EXPENSE) OF IMPAIRMENT(Continued)

b) Movements on the Accounts of Impairment Allowances

<u>In thousands of RSD</u>	Cash and current accounts held with banks (Note 16)	Deposits held with banks (Note 18)	Securities* (Note19)	Loans and placements (Note 20)	Other assets (Note 23)	Total
Balance as at January 1, 2021	814,221	2,570,030	516,184	1,506,678	325,216	5,732,329
Change for the period-financial assets	-	15,560	8	8,881	11,698	36,147
Change for the period-supplies	-	-	-	-	1,690	1,690
Reversed impairments	-	(16,926)	(318,964)	(15,729)	(12,786)	(364,405)
Foreign exchange effects	60,386	221,742	-	-	12,835	294,963
Write-offs	-	-	(885)	(10,416)	(4,867)	(16,168)
Other	-	-	-	917	1	918
Balance as at December 31, 2021	874,607	2,790,406	196,343	1,490,331	333,787	5,685,474
Balance as at January 1, 2020	881,710	2,819,520	459,018	1,519,525	342,625	6,022,398
Change for the period-financial assets	-	25,066	57,166	20,488	13,306	116,026
Change for the period-supplies	-	-	-	-	4,525	4,525
Reversed impairments	-	(26,145)	-	(22,627)	(13,161)	(61,933)
Foreign exchange effects	(67,489)	(248,411)	-	-	(14,344)	(330,244)
Write-offs	-	-	-	(11,712)	(7,705)	(19,417)
Other	-	-	-	1,004	(30)	974
Balance as at December 31, 2020	814,221	2,570,030	516,184	1,506,678	325,216	5,732,329

* In accordance with IFRS 9, the effect of impairment of debt securities through other comprehensive income are recognised through other comprehensive income and profit and loss and do not decrease carrying amount of related debt securities in the balance sheet.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

10. OTHER OPERATING INCOME

<u>In thousands of RSD</u>	<u>2021</u>	<u>Year ended December 31, 2020</u>
Income from operations – ZIN	6,300,097	5,210,591
Income from the sale of bill of exchange forms	138,991	125,370
Rental income	17,566	17,128
Increase in the value of inventories	26,629	177,009
Dividend income	213,521	-
Other income	82,090	65,203
Other operating income	<u>6,778,894</u>	<u>5,595,301</u>

Income from ZIN operations refers to the income from the sales of ZIN products - products of the Institute for Manufacturing Banknotes and Coins, which operates within the Bank. In addition to manufacturing banknotes and coins for circulation and numismatic money, ZIN is involved in production of documents, securities and other products.

Dividend income realized in 2021 in the amount of RSD 213,521 thousand, refers entirely to equity investment in the capital of the Bank for International Settlements, Basel, and on that basis there were no realized income during 2020.

11. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

<u>In thousands of RSD</u>	<u>2021</u>	<u>Year ended December 31, 2020</u>
Salaries, salary compensations, taxes and contributions	5,049,919	5,017,926
Losses from provisions		
for retirement and other employee benefits	179,859	12,259
Temporary and seasonal employees	53,182	56,717
Jubilee awards	36,861	29,651
Financial aid to employees	26,721	26,027
Retirement benefits	60,332	54,602
Remunerations to the Council members	11,263	10,932
Other personal expenses	4,205	-
Total salaries, salary compensations and other personal expenses	<u>5,422,342</u>	<u>5,208,114</u>

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

12. DEPRECIATION COSTS

<u>In thousands of RSD</u>	<u>2021</u>	<u>Year ended December 31, 2020</u>
Depreciation and amortization of:		
- intangible assets	186,051	100,394
- building properties	263,342	233,803
- equipment	1,090,918	921,656
- other assets	963	970
Total depreciation costs	<u>1,541,274</u>	<u>1,256,823</u>

13. OTHER INCOME

<u>In thousands of RSD</u>	<u>2021</u>	<u>Year ended December 31, 2020</u>
Income from reversal of provisions for litigations (Note 27)	5,158	36,915
Income from registered fixed assets and small inventory	-	6,352
Revaluation surplus	3	
Other	1,867,100	1,691,967
Total other income	<u>1,872,261</u>	<u>1,735,234</u>

Of the total amount of other income the largest part in the amount of RSD 1,816,631 thousand (2020: RSD 1,589,408 thousand), refers to income from bankruptcy estates of legal entities under the authority of the Deposit Insurance Agency.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

14. OTHER EXPENSES

<u>In thousands of RSD</u>	Year ended	
	2021	December 31, 2020
Costs of materials	2,301,918	1,724,039
Cost of production services:		
- transportation services	17,697	11,588
- telecommunication services	44,305	37,219
- automatic data transfer	146,392	143,014
- maintenance	299,065	403,131
- rental costs	7,630	7,982
- marketing and advertising	795	623
- official gazettes and magazines	6,344	6,097
- finishing costs – ZIN	15,081	11,636
- other services	31,078	29,078
Non-material expenses:		
- business travel expenses	3,723	3,106
- employee commuting allowance	72,273	62,959
- fees to voluntary pension funds	117,301	114,972
- employee professional training costs	5,197	2,253
- intellectual services	267,586	346,011
- security services (for property and money)	53,917	43,699
- public utilities	19,146	15,387
- entertainment	6,112	6,775
- insurance premiums	67,397	65,865
- other non-material expenses	99,166	83,796
Tax expenses:		
- property tax	46,480	46,511
- value added tax payable	99,192	139,292
- other taxes payable	26,908	24,260
Contributions paid	8,063	8,984
Other costs	74,512	57,799
Decrease I the value of inventories	56,352	41
Provisions for litigations (Note 27)	19,529	22,212
Other expenses	87,163	25,972
Total other expenses	4,000,322	3,444,301

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

15. FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Classification of financial assets and financial liabilities

The following table summarizes the financial assets and financial liabilities according to the categories to which they are classified:

<u>In thousands of RSD</u>	<u>Note</u>	<u>Valued at amortized cost</u>	<u>Valued at fair value through profit and loss</u>	<u>Valued at fair value through other comprehensive income- mandatory</u>	<u>Valued at fair value through other comprehensive income- optionally</u>	<u>Total December 31, 2021</u>
Balance as at December 31, 2021						
Financial assets						
Cash and current accounts held with banks	16	675,393,606	-	-	-	675,393,606
Deposits	18	95,202,904	-	-	-	95,202,904
Receivables for derivatives		-	2,462	-	-	2,462
Securities	19	110,912,451	-	857,620,411	12,134,708	980,667,570
Loans and placements	20	910,044	-	-	-	910,044
IMF membership quota and SDR holdings	21	187,854,210	-	-	-	187,854,210
Other assets	23	1,081,264	-	-	-	1,081,264
Total		1,071,354,479	2,462	857,620,411	12,134,708	1,941,112,060
Financial liabilities						
Liabilities from derivatives		-	602	-	-	602
Deposits and other liabilities to banks and other financial organisations	24	798,086,390	-	-	-	798,086,390
Deposits and other liabilities to Government and other depositors	25	519,812,267	-	-	-	519,812,267
Liabilities to the IMF	26	187,979,401	-	-	-	187,979,401
Dinars in circulation	29	295,311,307	-	-	-	295,311,307
Other liabilities	30	2,742,323	-	-	-	2,742,323
Total		1,803,931,688	602	-	-	1,803,932,290

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

15. FINANCIAL ASSETS AND LIABILITIES (Continued)

Classification of financial assets and liabilities (Continued)

<u>In thousands of RSD</u>	<u>Note</u>	<u>Valued at amortized cost</u>	<u>Valued at fair value through profit and loss</u>	<u>Valued at fair value through other comprehensive income- mandatory</u>	<u>Valued at fair value through other comprehensive income- optional</u>	<u>Total December 31, 2020</u>
Balance as at December 31, 2020						
Financial assets						
Cash and current accounts held with banks	16	394,424,179	-	-	-	394,424,179
Deposits	18	199,312,402	-	-	-	199,312,402
Receivables for derivatives		-	6,959	-	-	6,959
Securities	19	119,725,851	-	788,948,361	11,500,248	920,174,460
Loans and placements	20	16,375,557	-	-	-	16,375,557
IMF membership quota and SDR holdings	21	91,475,050	-	-	-	91,475,050
Other assets	23	1,163,521	-	-	-	1,163,521
Total		822,476,560	6,959	788,948,361	11,500,248	1,622,932,128
Financial liabilities						
Liabilities from derivatives		-	69,442	-	-	69,442
Deposits and other liabilities to banks and other financial organisations	24	748,773,102	-	-	-	748,773,102
Deposits and other liabilities to Government and other depositors	25	404,601,318	-	-	-	404,601,318
Liabilities to the IMF	26	91,585,239	-	-	-	91,585,239
Dinars in circulation	29	266,698,917	-	-	-	266,698,917
Other liabilities	30	2,114,806	-	-	-	2,114,806
Total		1,513,773,382	69,442	-	-	1,513,842,824

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NOTES TO THE FINANCIAL STATEMENTS
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16. CASH AND CURRENT ACCOUNTS HELD WITH BANKS

<u>In thousands of RSD</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Cash on hand:		
- in local currency	26	33
- in foreign currency	248,633,497	234,958,695
<i>Total</i>	<u>248,633,523</u>	<u>234,958,728</u>
Current accounts:		
- with domestic banks and NBS	19,913,845	10,932,910
- with foreign banks	407,720,845	149,346,762
Allowance for impairment	(874,607)	(814,221)
<i>Total</i>	<u>426,760,083</u>	<u>159,465,451</u>
Total cash and current accounts held with banks	<u>675,393,606</u>	<u>394,424,179</u>

SDR holdings at IMF's current account (including reserve tranche), amounted to RSD 99,414,481 thousand (December 31, 2020: 7,700,392 thousand), are presented in Note 21.

17. GOLD AND OTHER PRECIOUS METALS

<u>In thousands of RSD</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Gold and standard tradable gold bullions	78,883,420	75,302,675
Gold and substandard gold bullions	148,216,719	131,655,665
Other precious metals	<u>1,066,627</u>	<u>1,119,893</u>
Total gold and other precious metals	<u>228,166,766</u>	<u>208,078,233</u>

The Bank estimated the cost of refining as at December 31, 2021, in order to assess the material significance of the estimated amounts in the overall financial statements and to consider the possible need to adjust the fair value of gold and other precious metals. Estimated refinement costs as at December 31, 2021, in the amount of RSD 172,805 thousand (December 31, 2020 150,363 thousand), do not represent a material amount within the meaning of IAS 8 "Accounting Policies, Changes in Accounting Policies and Errors".

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

18. DEPOSITS

<u>In thousands of RSD</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Deposits:		
- time deposits	9,978,545	201,865,558
- other deposits	14,765	16,874
<i>Total</i>	<u>97,993,310</u>	<u>201,882,432</u>
Allowance for impairment of time deposits	<u>(2,790,406)</u>	<u>(2,570,030)</u>
Total deposits	<u>95,202,904</u>	<u>199,312,402</u>

Time deposits include short-term deposits placed with foreign banks and call deposits that do not have specified maturities but are drawn or raised in accordance with the Bank's needs.

The management of investments in deposits with banks abroad is done on the basis of the Strategic Guidelines for Managing the Foreign Exchange Reserves of the Bank, as explained in Note 32.

19. SECURITIES

<u>In thousands of RSD</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Securities in RSD:		
Securities measured at amortized cost	111,108,794	120,242,035
Allowance for impairment of securities measured at amortized cost	<u>(196,343)</u>	<u>(516,184)</u>
<i>Total securities in RSD</i>	<u>110,912,451</u>	<u>119,725,851</u>
Securities in foreign currency:		
Securities measured at FVOCI:		
- mandatory	857,620,411	788,948,361
- optional	12,134,708	11,500,248
<i>Total securities in foreign currency</i>	<u>869,755,119</u>	<u>800,448,609</u>
Total securities	<u>980,667,570</u>	<u>920,174,460</u>
<u>In thousands of RSD</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Securities in RSD:		
Securities measured at amortized cost		
Banknotes and bonds of domestic banks in		
Bankruptcy and liquidation	141,045	459,018
Coupon bonds	110,967,749	116,501,292
Discount securities	-	3,281,725
Allowance for impairment of securities measured at amortized cost	<u>(196,343)</u>	<u>(516,184)</u>
Total	<u>110,912,451</u>	<u>119,725,851</u>

NOTES TO THE FINANCIAL STATEMENTS
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19. SECURITIES (Continued)

Coupon bonds are in the amount of RSD 110,967,749 thousand, refer to government and corporate bonds, in response to COVID - 19, were obtained by the Bank during 2020. through permanent purchases from banks on the secondary market, in order to support the smooth functioning of the interest rate and credit channel of monetary policy during the pandemic

The Bank's regulations governing monetary operations, i.e. the conditions and manner of conducting open market operations, provide criteria under which the Bank may accept securities issued by domestic companies, as explained in Note 32.

<u>In thousands of RSD</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Securities in foreign currency:		
Securities measured at FVOCI- Mandatory		
Coupon bonds	800,834,880	687,731,433
Discount securities	56,785,531	101,216,928
Total	857,620,411	788,948,361

Coupon Securities in foreign currency relate to foreign government bonds (including government securities with floating interest rates *Floating Rate Notes* - FRN), foreign public sector securities (Supranational, Subnational, Agencies, Sovereign) including FRN, as well as foreign securities with high quality collateral (covered bonds) in the amount of RSD 800,834,880 thousand (December 31, 2020: RSD 687,731,433 thousand). Securities are denominated in EUR, USO, GBP and CAD.

Discount securities in foreign currency relate to foreign state discount securities (T-bills) of maturity up to one year, in the amount of RSD 56,785,531 thousand (December 31, 2020: RSD 101,216,928 thousand), and represent short-term securities denominated in EUR and USO

The change in fair value, as well as the expected credit losses of these assets are stated within the capital fair value reserve position (note 31).

The management of financial assets at fair value through other comprehensive income is done on the basis of the Strategic Guidelines for Managing Foreign Exchange Reserves of the Bank, as explained in note 32.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

19. SECURITIES (Continued)

<u>In thousands of RSD</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Equity securities measured at FVOCI (Optional)		
Equity investments in foreign currencies:		
- Bank for International Settlements, Basel	12,133,996	11,499,577
- S.W.I.F.T. scri	712	671
Total	12,134,708	11,500,248

As at December 31, 2021, , the increase in reserves based on the change in the fair value of equity securities amounted to RSD 634,460 thousand (December 31, 2020: RSD 402,181 thousand). Realized dividend income amounts to RSD 213,521 thousand (December 31, 2020: -).

20. LOANS AND PLACEMENT

<u>In thousands of RSD</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Loans and placements:		
- loans to banks in bankruptcy and liquidation	404,716	415,116
- loans to commercial banks	530,465	530,465
- loans by repo transactions	-	15,433,873
- loans from primary emission	956,639	956,639
- housing loans approved to employees	502,521	539,786
- other placements	6,034	6,356
<i>Total</i>	<i>2,400,375</i>	<i>17,882,235</i>
Allowance for impairment of loans and placements:		
- loans to banks in bankruptcy and liquidation	(404,716)	(415,116)
- loans from primary emission	(956,639)	(956,639)
- housing loans approved to employees	(128,976)	(134,923)
<i>Total</i>	<i>(1,490,331)</i>	<i>(1,506,678)</i>
Total loans and placements	910,044	16,375,557

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

21. IMF MEMBERSHIP QUOTA AND SDR HOLDINGS

<u>In thousands of RSD</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Membership quota (Holdings of Currency)	88,439,729	83,774,658
Membership quota (Reserve Tranche)	6,803,616	6,444,734
SDR holdings (SDR Holdings)	92,610,865	1,255,658
Total	187,854,210	91,475,050

As at December 31, 2020, the Republic of Serbia's membership quota in the International Monetary Fund (including reserve tranche) amounted to RSD 95,243,345 thousand (December 31, 2020: RSD 90,219,392 thousand).

The membership quota stated as a placement denominated in special drawing rights (*Special Drawing Rights* - SDR) amounts to SDR 654,800 thousand (December 31, 2020: SDR 654,800 thousand).

By International Monetary Fund Board of Governors Decision dated August 2, 2021, which entered into force on August 23, 2021, Republic of Serbia was granted funds for the general allocation of special drawing rights in the total amount of SDR 627,596,351.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

22. INTANGIBLE ASSETS, PROPERTY, PLANT, EQUIPMENT AND INVESTMENT PROPERTY

Movements on property, plant, equipment, investment property and intangible assets are presented in the following table:

<u>In thousands of RSD</u>	<u>Land</u>	<u>Buildings</u>	<u>Equipment</u>	<u>Other Fixed Assets</u>	<u>Investments in progress</u>	<u>Total</u>	<u>Investment Property</u>	<u>Intangible Assets</u>
Cost/revalued amount								
Opening balance as at January 1, 2020	2,630,793	75,877,58	13,775,988	356,646	-	92,641,285	407,692	2,258,977
Additions	-	-	95,014	-	1,101,861	1,196,875	-	220,233
Transfer from investment in progress	-	250,199	837,264	114	(1,087,577)	-	-	-
Sales, transfers, disposals and shortages	-	-	(224,870)	(119)	-	(224,989)	-	(96)
Surpluses and subsequently registered assets	-	-	6,303	50	-	6,353	-	-
Other	-	-	-	-	(14,284)	(14,284)	-	14,283
Balance as at December 31, 2020	2,630,793	76,128,057	14,489,699	356,691	-	93,605,240	407,692	2,493,397
Additions	-	-	-	-	1,834,354	1,834,354	-	547,281
Transfer from investment in progress	-	302,829	1,462,036	228	(1,765,093)	-	-	-
Revaluation- positive effects	-	-	-	73,467	-	73,467	-	-
Sales, transfers, disposals and shortages	-	-	(360,276)	(566)	-	(360,842)	-	(1,194)
Surpluses and subsequently registered assets	-	-	-	-	-	-	-	-
Other	-	(63,125,741)	(1,881)	-	(53,500)	(63,181,122)	-	53,501
Balance as at December 31, 2021	2,630,793	13,305,145	15,589,578	429,820	15,761	31,971,097	407,692	3,092,985
Accumulated Depreciation/Amortization								
Opening balance as at January 1, 2020	-	65,809,820	7,679,292	26,216	-	73,515,328	-	2,104,671
Depreciation	-	233,803	921,662	970	-	1,156,435	-	100,394
Sales, transfers, disposals and shortages	-	-	(224,168)	(18)	-	(224,186)	-	(96)
Balance as at December 31, 2020	-	66,043,623	8,376,786	27,168	-	74,447,577	-	2,204,969
Depreciation	-	263,342	1,090,919	963	-	1,355,224	-	186,051
Sales, transfers, disposals and shortages	-	-	(359,442)	(565)	-	(360,007)	-	(1,194)
Остало	-	(63,075,525)	-	-	-	(63,075,525)	-	-
Balance as of December 31, 2021	-	3,231,440	9,108,263	27,566	-	12,367,269	-	2,389,826
Present value as at December 31, 2021	2,630,793	10,073,705	6,481,315	402,254	15,761	19,603,828	407,692	703,159
Present value as at December 31, 2020	2,630,793	10,084,434	6,112,913	329,523	-	19,157,663	407,692	288,428

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

**22. INTANGIBLE ASSETS, PROPERTY, PLANT, EQUIPMENT AND INVESTMENT
PROPERTY (Continued)**

Fair Value Hierarchy

The Bank measures the fair value of land, buildings, a portion of other fixed assets (works of art), a portion of equipment (period furniture) and investment property using the fair value hierarchy to categorize inputs used to measure fair value according to their quality in the manner disclosed in Note 32.

The fair values of assets as at December 31, 2021 carried at fair value per hierarchy level in accordance with IFRS 13 can be presented as follows:

<u>In thousands of RSD</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Land	-	-	2,630,793	2,630,793
Buildings	-	-	10,073,705	10,073,705
Other fixed assets – works of art, museum values and numismatic collection	-	-	360,807	360,807
Equipment- period furniture	-	-	196,731	196,731
Investment property	-	-	407,692	407,692
December 31, 2021	-	-	13,669,728	13,669,728

Overview of Valuation Techniques and Significant Unobservable Inputs

As at 31 December 2021, the Bank performed assessment of the numismatic collection value, based on catalog reference data. The effects of the assessment are stated within other income, in the amount of RSD 3 thousand and revaluation reserves, in the amount of RSD 73,464 thousand. The Bank's management believes that there were no movements and changes in the market during 2020 that would lead to significant deviations in value and that the assessment made by an independent external appraiser as at December 31, 2018, 2019 and 2020 reflects the carrying amount as at December 31, 2021.

The fair value of the revaluation assets as at December 31, 2021 and the present value of revalued assets that would have been recognized that the assets were recorded at the cost method is shown as follows:

<u>In thousands of RSD</u>	<u>Land</u>	<u>Buildings</u>	<u>Equipment and other fixed assets</u>	<u>Investment Property</u>	<u>Total</u>
Fair value as of December 31, 2021	2,630,793	10,073,705	557,538	407,692	13,669,728
The present value of revalued assets at the cost method as of December 31, 2021	967,585	9,707,836	169,459	298,243	11,143,123

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

23. OTHER ASSETS

<u>In thousands of RSD</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Advances paid	167,554	446,162
Fee and commission receivables	216,535	196,188
Receivables from the sales of finished products and services	97,511	163,137
Receivables from employees	84,008	82,471
Other receivables from operations	736,233	771,578
Inventories		
- Finished products	959,265	925,747
- Work in progress	209,652	240,126
- Semi-finished products	309,578	332,651
- Material	2,017,493	1,926,353
- Spare parts	224,053	244,299
- Commemorative coins and commercial packages of cash	155,393	155,695
- Gold and silver, which is not cashable	587,108	587,108
- Other	300,382	310,946
<i>Total inventories</i>	<u>4,762,924</u>	<u>4,722,925</u>
Deferred other expenses	35,999	34,602
Other assets	230,550	223,994
<i>Total</i>	<u>6,331,314</u>	<u>6,641,057</u>
Allowances for impairment of:		
Fee and commission receivables	(66,481)	(68,762)
Receivables from the sales of finished products and services	(18,310)	(19,108)
Receivables from employees	(141)	(1,191)
Other receivables from operations	(40,891)	(39,928)
Inventories	(50,555)	(51,457)
Other assets	(157,409)	(144,770)
<i>Total</i>	<u>(333,787)</u>	<u>(325,216)</u>
Total other assets	<u>5,997,527</u>	<u>6,315,841</u>

From the total amount of Other assets, RSD 1,117,605 thousand are measured at amortized cost (December 31, 2020: RSD 1,198,211 thousand).

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**24. DEPOSITS AND OTHER LIABILITIES TO BANKS AND OTHER
FINANCIAL ORGANIZATIONS**

<u>In thousands of RSD</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Transaction deposits in dinars:		
- obligatory reserves of the banks	279,789,027	251,925,795
- central deposits	19,913,845	10,932,910
- other transaction deposits in dinars	31,260	411
<i>Total</i>	<u>299,734,132</u>	<u>262,859,116</u>
Transaction deposits in foreign currencies:		
- obligatory reserves of the banks	315,857,690	267,917,102
- other transaction deposits in foreign currencies	5,548,532	7,309,660
<i>Total</i>	<u>321,406,222</u>	<u>275,226,762</u>
Total transaction deposits	621,140,354	538,085,878
Transaction deposits in foreign currencies:		
- time deposits	59,348,135	117,378,956
- cash in valuts of commercial banks	70,770,694	60,729,496
<i>Total</i>	<u>130,118,829</u>	<u>178,108,452</u>
Other deposits in foreign currencies:		
- time deposits	10,337	82,148
- other deposits	1,784,565	1,511,131
<i>Total</i>	<u>1,794,902</u>	<u>1,593,279</u>
Total other deposits	131,913,731	179,701,731
Liabilities arising from repurchase transactions	44,501,840	30,000,165
Other financial liabilities	530,465	985,328
Total other liabilities	45,032,305	30,985,493
Total deposits and other liabilities to banks and other financial organizations	<u>798,086,390</u>	<u>748,773,102</u>

24. DEPOSITS AND OTHER LIABILITIES TO BANKS AND OTHER FINANCIAL ORGANIZATIONS (Continued)*Transaction Deposits*

Transaction deposits of banks and other financial institutions in dinars represent current accounts of banks and other financial institutions with the Bank. Obligatory reserves in dinars are held on the current accounts of commercial banks with the Bank, where banks are under obligation to maintain the average daily balance of their obligatory reserves in the reporting period at or above the level of calculated obligatory reserves.

On the amount of realized average daily balance of allocated dinar required reserves in the accounting period that does not exceed the amount of calculated dinar required reserves, in 2021, the Bank paid interest in the amount of 0.10% annually (2020: 0.75% by March 17, 0.50% by April 17, 0.25% by June 17 and 0.10% by the end of the year, annually).

Mandatory foreign currency reserve refers to the obligation of commercial banks to hold non-interest bearing deposits with the Bank in accordance with rules prescribed by the Law and relevant bylaws.

NOTES TO THE FINANCIAL STATEMENTS
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25. DEPOSITS AND OTHER LIABILITIES TO GOVERNMENT AND OTHER DEPOSITORS

<u>In thousands of RSD</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Transaction deposits in dinars:		
- deposits of the Ministry of Finance and Treasury Department	223,668,059	204,298,435
- other transaction deposits in dinars	2,587,300	2,607,828
<i>Total</i>	<i>226,255,359</i>	<i>206,906,263</i>
Transaction deposits in foreign currencies:		
- deposits of the Ministry of Finance and Treasury Department	181,710,603	105,723,940
- other transaction deposits in foreign currencies	9,840	20,225
<i>Total</i>	<i>181,720,443</i>	<i>105,744,165</i>
Total transaction deposits	407,975,802	312,650,428
Other deposits in dinars:		
- cash held with the Treasury Department	1,284,825	1,611,813
- other deposits	406,185	6,671
<i>Total</i>	<i>1,691,010</i>	<i>1,618,484</i>
Other deposits in foreign currencies:		
- deposits of the Revolving Loan Fund	773,286	791,769
- special-purpose deposits – Ministry of Finance	42,375,493	34,544,722
- other special-purpose deposits	37,199,180	24,087,128
- special purpose deposits – donations for direct And indirect users of budget funds of the Republic of Serbia, i.e. local authorities	3,125,159	5,252,765
- deposits related to the seized foreign currency	3,607,963	3,312,029
- time deposits	1,653,507	1,518,386
- other deposits in foreign currencies	21,249,101	20,675,887
- other financial liabilities	161,766	149,720
<i>Total</i>	<i>110,145,455</i>	<i>90,332,406</i>
Total other deposits	111,836,465	91,950,890
Total deposits and other liabilities to Government and other depositors	519,812,267	404,601,318

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26. LIABILITIES TO THE IMF

<u>In thousands of RSD</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Securities and other liabilities regulating the Bank's status with the IMF	88,441,707	83,776,522
Liabilities to the IMF in SDR	99,528,589	7,807,364
Interest accrued	9,105	1,353
Total liabilities to the IMF	187,979,401	91,585,239

27. PROVISIONS

<u>In thousands of RSD</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Provisions for employee retirement benefits	977,768	708,902
Provisions for employee jubilee awards	631,529	469,959
Provisions for unused vacations	209,899	223,930
Provisions for litigations	115,000	113,870
Total provisions	1,934,196	1,516,661

Movements on Provisions

<u>In thousands of RSD</u>	<u>Provisions for retirement benefits</u>	<u>Provisions for jubilee awards</u>	<u>Provisions for unused vacations</u>	<u>Provisions for litigations</u>	<u>Total</u>
Balance as at January 1, 2020	864,337	528,527	177,081	143,136	1,713,081
Change for the period (Note 11, 14 and 31)	-	-	55,569	22,212	77,781
Release of provisions during the period	-	-	-	(14,563)	(14,563)
Reversal of provisions (Note 13)	(155,435)	(58,568)	(8,720)	(36,915)	(259,638)
Balance as at December 31, 2020	708,902	469,959	223,930	113,870	1,516,661
Balance as at January 1, 2021	708,902	469,959	223,930	113,870	1,516,661
Change for the period (Note 11, 14 and 31)	268,866	161,570	4,992	19,529	454,957
Release of provisions during the period	-	-	-	(13,241)	(13,241)
Reversal of provisions (Note 13)	-	-	(19,023)	(5,158)	(24,181)
Balance as at December 31, 2021	977,768	631,529	209,899	115,000	1,934,196

27. PROVISIONS (Continued)**Provisions for Retirement Benefits and Jubilee Awards**

Provisions for retirement benefits and jubilee awards were established on the basis of the report of the certified actuary and are presented in the amount of discounted present value of future payments.

The basic assumptions on which the assessment relies include the following:

- 1) Discount rate of 3.6% (yield on fifteen-years Government Eurobonds of the Republic of Serbia);
- 2) The expected annual growth rate of salaries that comprise: annual salary growth rates of 11.71% for 2022 and a rate of 7.5% after 2022;
- 3) Employee fluctuation rate: 0.23% for ZIN and 1.21% for the Bank's headquarters and branches based on the Bank's data on the number of employees who went to disability pension in the period from 2016 to 2021;
- 4) Disability rate: average rate of 0.26% for ZIN and 0.21% for headquarters and branch offices, based on the data of the National Bank of Serbia on the number of employees who went to disability pension in the period from 2016 to 2021;
- 5) Mortality tables published for the Republic Institute for Statistics 2010-2012, separate probabilities for female and male gender were used.

On the basis of the same assumptions, the Bank made a provision based on jubilee awards paid to employees by the Bank in accordance with internal acts after fulfilling a certain number of years of service.

Provisions for Litigations

Provisions for litigations totaling RSD 115,000 thousand as at December 31, 2021 (December 31, 2020: RSD 113,870 thousand)) were formed based on the estimates of the outcomes made by the Bank's Legal Department in respect of the lawsuits related to the Bank's functions, estimates made by the Human Resources Department in respect of the labour lawsuits and those made by the Bank's attorney. The amount of provisions formed represents the best possible estimate of the Bank's management in respect of expected expenses arising from legal suits with outcomes estimated as unfavourable for the Bank.

28. CURRENT TAX LIABILITIES

The Bank calculates and pays income taxes in accordance with the Corporate Income Tax Law of the Republic of Serbia and Rules on the Contents of the Tax Balance for Non-Profit Organizations- Corporate Income Tax Payers. The ultimate tax base to which the statutory corporate income tax rate of 15% is applied is determined by the tax balance for non-profit organizations applying the chart of accounts effective for the Bank, which is submitted within 180 days from the expiration date of the period for which the tax liability is determined. Payment of the income tax is made within the time prescribed for filing the tax return and tax balance.

The amount of taxable profit is calculated on the basis of revenues generated on the market, i.e. income from the sale of products and services, for expenses related to revenues realized on the market: costs of salaries, compensation of salaries and other personal expenses, depreciation costs and other operating expenses. Revenues realized on the market relate mostly to the operating income of ZIN, income from the sale of bill of exchange forms and rental income explained in Note 10.

NOTES TO THE FINANCIAL STATEMENTS
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28. CURRENT TAX LIABILITIES (Continued)

Expenses incurred in connection with revenues generated on the market are partly accounted for and presented in proportion to the share of revenues generated on the market in the total income of the taxpayer.

The income tax expense for 2021 as per the final calculation amounted to RSD 478,486 thousand (December 31, 2020: RSD 379,091 thousand).

Tax balance for the National Bank of Serbia

<u>In thousands of RSD</u>	<u>2021</u>	<u>Year ended December 31, 2020</u>
Income earned in the market		
- revenues from the sale of products and services	6,533,014	5,417,567
Expenses arising in relation to the income earned in the market		
- Salaries, salary compensations and other personal expenses	(858,411)	(857,172)
- Depreciation costs	(457,004)	(442,451)
- Other operating expenses	(2,027,693)	(1,590,673)
Tax base	3,189,906	2,527,271
Statutory income tax rate (effective tax rate)	15%	15%
Income tax expense	478,486	379,091

29. DINARS IN CIRCULATION

Cash in circulation totaling RSD 295,311,307 thousand (December 31, 2020: RSD 266,698,917 thousand) represents the Bank's liability toward payment transaction participants. This amount includes neither money in circulation held in vaults of commercial banks presented within Deposits and other liabilities to banks and other financial organizations (Note 24), nor money in circulation held with the Treasury Department, as presented within Deposits and other liabilities to government and other depositors (Note 25).

30. OTHER LIABILITIES

<u>In thousands of RSD</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Trade payables:		
- domestic	196,991	159,108
- foreign	74,813	31,880
Advances received:		
- in dinars	250,246	203,259
- in foreign currencies	14,583	8,541
Liabilities for employee salaries	238,031	232,865
Foreign currency liabilities to domestic banks for replacement of foreign currency cash	175,664	397,471
Inheritance liabilities	26,357	16,609
Other accruals	24,390	22,190
Taxes and contributions payable	61,354	86,324
Other liabilities from operations	1,969,113	1,190,548
Total other liabilities	3,031,542	2,348,795

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31. EQUITY

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

<u>In thousands of RSD</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
State-owned capital	187,698,256	187,698,256
Reserves:		
- Special reserves	129,587,624	137,814,357
- Revaluation reserves	13,985,828	13,912,428
- Fair value reserves	1,718,877	8,861,871
- Actuarial losses	(252,827)	(16,280)
Retained earnings/(losses)	<u>55,537,819</u>	<u>(8,226,733)</u>
Total other liabilities	<u>388,275,577</u>	<u>340,043,899</u>

The Republic of Serbia is the sole owner of the Bank's entire capital.

The Bank's equity comprises state-owned capital and reserves. Pursuant to the Law, the minimum amount of the Bank's core capital shall amount to RSD 10 million. The core capital of the Bank totalled RSD 187,698,256 thousand as at December 31, 2021, (December 31, 2020: RSD 187,698,256 thousand, which is above the prescribed threshold. Special reserves are used for loss absorption. Losses exceeding the minimum level of the core capital are covered from the reserves and core capital if the funds therefrom are not sufficient to cover for the losses incurred, the losses are covered with the funds from the Republic of Serbia Budget or securities issued for this purpose by the Republic of Serbia and transferred to Bank. If the Republic of Serbia fail to cover for the Bank's loss, such loss is subsequently absorbed from the earnings realized in the future periods.

Fair value reserves represent a cumulative net change in the value of equity and debt securities measured at FVOCI. This amount also includes the amount of impairment of debt securities.

Profit Allocation

Pursuant to the Law, until the minimum amount of the core capital is achieved, the entire profit of the Bank is allocated to the core capital. Upon reaching the minimum amount of thereof, the entire profit of the Bank is allocated to special reserves of the Bank, until such reserves shall have reached the level of RSD 20 billion.

Upon reaching the minimum amount of the core capital and special reserve amount referred to in the paragraph above, the profit share originating from foreign exchange gains, gains from agreed currency clause and revaluation reserves of the Bank is allocated to the core capital (33.3%) and to special reserves (66.7%), while the remaining profit which does not come from foreign exchange gains, gains from agreed currency clause and revaluation reserves is allocated to the core capital (10%), special reserves (20%) and to the Budget of the Republic of Serbia (70%).

In 2021, the Bank made a loss after tax in the amount of RSD 55,537,754 thousand (in 2020 made a profit in the amount of RSD 8,226,733 thousand).

The table below shows the distribution of profit for 2021, harmonized with the Decision on adoption of financial statements of the National Bank of Serbia for 2021, which will be subject to adoption by the Council. Loss coverage for the previous 2020 is harmonized with the Decision on the adoption of the financial statements of the National Bank of Serbia for 2020.

NOTES TO THE FINANCIAL STATEMENTS
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31. EQUITY (Continued)

<u>In thousands of RSD</u>	<u>December 31, 2021.</u>	<u>December 31, 2020</u>
Gains/(Losses) arising from exchange rate gains and From agreed currency clause	47,248,692	(16,548,851)
Profit arising from revaluation reserves	65	-
1. Total gains/(losses) profit arising from exchange rate from agreed currency clause and revaluation reserves	47,248,757	(16,548,851)
2. Profit not originating from exchange rate gains, gains from agreed currency clause and revaluation reserves	8,289,062	8,322,118
Profit/(Loss) (1+2)	<u>55,537,819</u>	<u>(8,226,733)</u>
Allocation of profit arising from exchange rate gains, gains from agreed currency clause and revaluation reserves (1)		
1.1) core capital increase 33.3%	15,733,836	-
1.2) special reserve increase 66.7%	31,514,921	-
	<u>47,248,757</u>	<u>-</u>
Allocation of profit not originating from exchange rate gains, gains from agreed currency clause and revaluation reserves (2)		
2.1) transfer the RS budget 70%	5,802,344	-
2.2) core capital increase 10%	828,906	-
2.3) special reserve increase 20%	1,657,812	-
	<u>8,289,062</u>	<u>-</u>
Total core capital increase (1.1+2.2)	16,562,742	-
Total special reserve increase (1+2/1.2+2.3)	33,172,733	(8,226,733)
Special reserve increase (2.1)	5,802,344	-
Profit/(Loss)	<u>55,537,819</u>	<u>(8,226,733)</u>

In 2021, the Bank, on the basis of operating activities, i.e. activities that can be influenced, generated a profit in the amount of RSD 8,767,548 thousand. In accordance with the Law on Corporate Income Tax, the Bank has an obligation to pay income tax for 2021 in the amount of RSD 478,486 thousand. In this regard the profit that did not arise from exchange rate differences, the effects of the currency clause and revaluation reserves amounts to RSD 8,289,062 thousand.

32. RISK MANAGEMENT POLICIES

Basic financial risks to which the Bank is exposed to in its daily operations are the following:

- credit risk,
- liquidity risk,
- interest rate risk and
- currency risk.

Given that the primary purpose of the Bank is to preserve stability of prices and financial stability in the Republic of Serbia, its financial risk management framework is different from those of other commercial financial institutions. The majority of financial risks in the Bank arise from the management of foreign currency reserves and financial market operations.

Management of foreign exchange reserves is based on Strategic Guidelines for Managing the Bank's Foreign Exchange Reserves, which are determined by the Executive Board. The Strategic Guidelines define the criteria for foreign exchange reserve placement, aims of using the reserves, as well as the global investment framework and more. Tactical guidelines for foreign exchange reserve management are developed on the basis of the Strategic Guidelines, and are adopted by the Bank's Executive Board at the proposal of the Bank's Investment Committee.

The Tactical Guidelines for managing foreign exchanges reserves are carried out by the Management of Foreign Exchange Reserves Department within the Monetary and Foreign Exchange Operations Sector. The Risk Management and Risk Control Division, operates within the Management of Foreign Exchange Reserves Department, in charge of creating and maintaining the framework for managing the financial risks of foreign exchange reserves, monitors and analyzes these risks on a daily basis and reports monthly to the Executive Board.

As with the majority of central banks, the very nature of the Bank's business operations and its functions exposes it to a number of operational and reputational risks.

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32. RISK MANAGEMENT POLICIES (Continued)

Financial Instruments (Assets and Liabilities)

The following table presents the net exposure of the Bank in financial assets and liabilities as at December 31, 2021 and 2020:

<u>In thousands of RSD</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Financial assets		
Cash and current accounts held with banks	675,393,606	394,424,179
Deposits	95,202,904	199,312,402
Receivables for derivatives	2,462	6,959
Securities	980,667,570	920,174,460
Loans and placements	910,044	16,375,557
IMF membership quota and SDR holdings	187,854,210	91,475,050
Other assets	1,081,264	1,163,521
Total financial assets	<u>1,941,112,060</u>	<u>1,622,932,128</u>
Financial liabilities		
Liabilities under derivatives	602	69,442
Deposits and other liabilities to banks and other financial organisations	798,086,390	748,773,102
Deposits and other financial liabilities to Government and other depositors	519,812,267	404,601,318
Liabilities to the IMF	187,979,401	91,585,239
Dinars in circulation	295,311,307	266,698,917
Other liabilities	2,742,323	2,114,806
Total financial liabilities	<u>1,803,932,290</u>	<u>1,513,842,824</u>

Credit risk

Credit risk is the risk of default, i.e. the possibility that assets will not be timely and/or fully recovered or will not be collected with the planned/contracted dynamics and the tables below show the maximum exposure of the financial assets as of December 31, 2021 and December 31, 2020.

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32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Credit quality of financial assets

The following table sets out information about the credit quality of financial assets measured at amortised cost, except cash and IMF membership quotas, and financial assets measured at fair value through other comprehensive income, except equity instruments that are optionally measured at FVOCI, net:

<u>In thousands of RSD</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>December 31, 2021</u>
FINANCIAL ASSETS				
Cash and current accounts held with banks				
Gross carrying amount	426,760,084	-	874,607	427,634,691
Impaired amount	-	-	(874,607)	(874,607)
Net carrying amount	426,760,084	-	-	426,760,084
Deposits				
Gross carrying amount	95,206,431	-	2,786,879	97,993,310
Impaired amount	(3,527)	-	(2,786,879)	(2,790,406)
Net carrying amount	95,202,904	-	-	95,202,904
Securities measured at amortized cost				
Gross carrying amount	110,967,749	-	141,045	111,108,794
Impaired amount	(55,298)	-	(141,045)	(196,343)
Net carrying amount	110,912,451	-	-	110,912,451
Securities measured at FVOCI				
Net carrying amount	857,620,411	-	-	857,620,411
Provisions for expected credit losses*	(56,624)	-	-	(56,624)
Gross carrying amount (Note 19)	857,620,411	-	-	857,620,411
Loans and placements				
Gross carrying amount	915,958	69,012	1,415,405	2,400,375
Impaired amount	(71,434)	(19,302)	(1,399,595)	(1,490,331)
Net carrying amount	844,524	49,710	15,810	910,044
IMF membership quota and SDR holdings	99,414,481	-	-	99,414,481
Other assets				
Gross carrying amount	1,003,754	21,721	339,021	1,364,496
Impaired amount	-	(1,178)	(282,054)	(283,232)
Net carrying amount	1,003,754	20,543	56,967	1,081,264

* In accordance with IFRS 9, the effect of impairment of debt securities at fair value through other comprehensive income is recognized through other comprehensive income and income statement, and they do not reduce the carrying amount of securities in the balance sheet.

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32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Credit quality of financial assets (Continued)

<u>In thousands of RSD</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>December 31, 2021</u>
FINANCIAL ASSETS				
Cash and current accounts held with banks				
Gross carrying amount	159,465,451	-	814,221	160,279,672
Impaired amount	-	-	(814,221)	(814,221)
Net carrying amount	159,465,451	-	-	159,465,451
Deposits				
Gross carrying amount	199,317,120	-	2,565,312	201,882,432
Impaired amount	(4,718)	-	(2,565,312)	(2,570,030)
Net carrying amount	199,312,402	-	-	199,312,402
Securities measured at amortised cost				
Gross carrying amount	119,783,017	-	459,018	120,242,035
Impaired amount	(57,166)	-	(459,018)	(516,184)
Net carrying amount	119,725,851	-	-	119,725,851
Securities measured at FVOCI				
Gross carrying amount	788,948,361	-	-	788,948,361
Provisions for expected credit losses	46,286	-	-	46,286
Gross carrying amount* (Note 19)	788,948,361	-	-	788,948,361
Loans and placements				
Gross carrying amount	16,371,396	70,333	1,440,506	17,882,235
Impaired amount	(66,878)	(15,245)	(1,424,555)	(1,506,678)
Net carrying amount	16,304,518	55,088	15,951	16,375,557
IMF membership quota and SDR holdings	7,700,392	-	-	7,700,392
Other assets				
Gross carrying amount	1,075,918	6,705	354,656	1,437,279
Impaired amount	-	(1,322)	(272,436)	(273,758)
Net carrying amount	1,075,918	5,383	82,220	1,163,521

32. RISK MANAGEMENT POLICIES (Continued)**Credit risk (Continued)*****Credit quality of financial assets (Continued)***

The basic exposure of the Bank to credit risk is principally inherent to managing foreign exchange reserves. When investing foreign currency reserves, the Bank relies on the principles of liquidity and safety. The Bank strives to invest foreign exchange reserves in such a manner that it realizes as high return on investment as possible without jeopardizing liquidity and safety.

The analysis and measurement of credit risk inherent in the Bank's portfolio is performed in accordance with the generally accepted methods, including the requirements of minimum credit rating.

Securities invested in must be at least rated as A- for state-issued bonds, A+ for public sector bonds and AA for bonds securitized with collaterals, according to *Standard & Poor's*, *Moody's Investor Service (Moody's)* and *Fitch Ratings*.

Banks maintaining deposits placed by the Bank, unless collateralized, must have a minimum long term credit rating of AA-, according to *Standard & Poor's*, *Moody's* and *Fitch Ratings*. For each bank, the individual credit limit is determined based on the bank's credit rating, prior experience in operations with that bank and by analyzing data on its business performance. Individual credit limits are determined in the List of Authorized Issuers and Banks, in which it is permissible to place deposits, which is approved by Executive Board.

There are no limitations to placements with central banks and international financial institutions.

The exception from the previous paragraphs relates to funds held on the regular current accounts of the Bank held with banks without the required credit rating, used for international payment transactions.

The Bank's placements in dinar securities refer to government and corporate securities acquired through permanent purchases from banks on the secondary market as part of monetary policy measures taken in response to the COVID-19 pandemic in 2020. According to external rating agency S&P, the Republic of Serbia has a credit rating of BB+ with a positive outlook, according to Fitch Ratings it has a credit rating of BB+ with a stable outlook, while according to Moody's it has credit rating Ba2 with stable outlook. The condition for accepting corporate bonds in monetary operations is that the company, their issuer, has a credit rating of the Business Registers Agency at least at the level of "(D) acceptable" creditworthiness.

Impairment of financial assets

The Bank will recognise a loss allowance (disclosure of a value adjustment i.e. loss allowance for expected credit loss) for the expected credit losses of financial assets that are measured at amortized cost and financial assets at fair value through other comprehensive income.

Expected credit loss is the amount of the present value of estimated credit losses, with the respective risks of a default occurring as the weights.

Financial assets are classified as impairment level 1, 2 or 3 based on an assessment of whether the credit risk has been significantly increased in relation to the risk that existed at the date of initial recognition of those financial assets.

32. RISK MANAGEMENT POLICIES (Continued)**Credit risk (Continued)*****Impairment of financial assets (Continued)***

Financial assets are classified within the impairment level 1 if they are determined to have low credit risk or if the credit risk has not been significantly increased since initial recognition of those financial assets. For these financial assets the loss allowance is measured at an amount equal to 12-month expected credit losses.

Financial assets are classified within the impairment level 2 if it is estimated that the credit risk has been significantly increased in relation to the risk that existed at the date of initial recognition and for these financial assets the loss allowance is measured at an amount equal to the life time expected credit losses.

Financial assets are classified within the impairment level 3 if it is estimated that the credit risk has been significantly increased, so that the value of these financial assets can be considered to be impaired, and for these financial assets the loss allowance is measured at an amount equal to the life time expected credit losses.

Financial assets whose credit value is impaired at initial recognition are required to be classified in impairment level 3 and remain at that level throughout the life cycle,

When defining the criteria for assessing the increase in credit risk that are considered significant, all financial assets for which the estimated credit losses are assessed are applied criteria that are consistent with the criteria in use in the regular management of credit risks for the related financial assets, including the consideration of qualitative indicators, and in particular:

- changes in the terms of a financial asset established (contracted, determined or otherwise established in accordance with the regulations), which would then differ significantly from market conditions,
- changes in the internal / external credit rating of the debtor,
- significant changes in the economic branch (in financial and/or economic conditions),
- changes in the operating result of the debtor,
- a significant increase in the credit risk of other financial assets of the same borrower,
- changes in the value of the collateral or third-party guarantees,
- past due information,
- other relevant indicators.

Regardless of the criteria used in the regular credit risk management for the related financial assets - if it is not proven otherwise, it is considered that there has been a significant increase in the credit risk of all financial assets that were due on the last day of the reporting period, and contractual payments are more than 30 days past due.

The value of the financial asset is impaired (credit - impaired assets) when one or more events that have a detrimental impact on the estimated future cash flow of that financial asset occur, and then the asset is classified within impairment level 3.

32. RISK MANAGEMENT POLICIES (Continued)**Credit risk (Continued)*****Impairment of financial assets (Continued)***

Evidence of the impairment of the value of all financial assets subject to the assessment of expected credit losses include, in particular, available information on the following events:

- significant financial difficulties of the debtor,
- breach of contract or other established conditions, such as default or past due event,
- debt restructuring for economic or legal reasons related to the financial difficulties of the debtor,
- the obvious possibility that bankruptcy proceedings or other forms of financial reorganization will be initiated against the debtor,
- the cessation of the existence of an active market for a financial asset due to the financial difficulties of the borrower,
- purchase or issue of a high-discount financial asset that reflects the incurred credit losses.

Regardless of the criteria used in the regular credit risk management for the related financial assets - if it is not proven otherwise, it is considered that the financial asset has become a defaulting status (impairment level 3) if it is due on the last day of the reporting period, and contractual payments are more than 90 days past due.

Expected credit losses of financial assets are estimated on an individual or collective basis for financial assets with the same characteristics, taking into account all relevant and available quantitative and qualitative information, related to past, present and future events.

The ways in which it is determined whether the financial assets have a low credit risk and the procedures on the basis of which it is estimated whether the credit risk is significantly increased on the reporting date in relation to the date of initial recognition, as well as the procedures for assessing the amount of the impairment, the method and the techniques used to estimate the impairment, the models used to measure expected credit losses are set out in the methodologies for assessing the impairment on the basis of expected credit losses within the relevant organizational units of the Bank, for:

- cash and current accounts held with banks,
- foreign exchange reserves,
- financial assets obtained in the framework of activities related to the implementation of monetary policy and instruments envisaged by the Law and other laws,
- IMF membership quota and special drawing rights holdings,
- other assets and receivables.

32. RISK MANAGEMENT POLICIES (Continued)**Credit risk (Continued)*****Impairment of financial assets (Continued)***

The nature of **Cash and current accounts held with banks** is such that these assets are currently available, and the expected credit loss for the 12 months and for the entire lifetime of these financial assets is the same. As long as this financial asset is currently available, it is considered that the credit risk is negligible and that the expected credit loss is zero. Also, bearing in mind that asset on current accounts held with banks, whose credit ratings are of the investment rank, these assets have low credit risk and it is considered that there has been no significant increase in credit risk until their credit rating remains at that level. The inability to dispose of these financial assets for more than one or two working days in case of technical difficulties, is a basic indicator that their value is credit-impaired. As additional relevant information for determining the credit risk status, knowing the default in the performance of the obligations of other account holders, i.e. delays in fulfilling the obligations towards the creditors, as well as the information published by the rating agency, such as the assignment of status D and other information on possibility of bankruptcy proceedings.

Credit risk of **foreign exchange reserves** (deposits and securities in foreign currency) is quantified through the *default* model, based on the probability of loss of the counterparty. The parameters for measuring credit risk are as follows:

- the amount exposed to the risk (the maximum amount that may become a loss in the case of a failure to settle the contractual obligation), equal to the carrying amount of the placements,
- probability of default (the probability of a counterparty default), which, depending on the composite credit rating of the bank/issuer, is calculated as an average *default* rate for one year according to rating agencies *Standard & Poor's* and *Moody's*,
- loss for a given probability, obtained as a 1 - recovery rate (the level by which the loss can be recovered due to the inability of the counterparty to fulfil its obligation) and
- the expected credit loss, which represents the average potential loss of the carrying amount of assets that is the result of an event in the market, and is related to credit risk.

Placements of foreign exchange reserves with banks or issuers whose credit rating of the investment grade has low credit risk. The reduction of the credit rating for one level lower than the investment grade is considered a significant increase in the credit risk, in which case parameter used is value of probability of loss for the remaining lifetime of the financial asset, that is calculated as the average default rate according to *Standard & Poor's* and *Moody's* for the appropriate period.

Any default in the fulfilment of obligations by the counterparty more than one or two working days in the event of technical difficulties, is the basic indicator that the value of the foreign exchange reserves placement is credit-impaired. As additional relevant information for determining status of impairment of these assets, may be used cognition about the delay of the bank with which deposits are placed or securities issuers, in fulfilment of obligations towards other creditors, as well as information published by the rating agency, such as the granting of a status D and other information on the possibility of bankruptcy proceedings.

32. RISK MANAGEMENT POLICIES (Continued)**Credit risk (Continued)*****Impairment of financial assets (Continued)***

The credit quality of foreign exchange reserves is continuously monitored and, if necessary, it is reacted in order to reduce credit risk to a minimum. Given the high credit quality of instruments in the Bank's foreign exchange reserves and the fact that the methodology for assessing impairment based on expected credit losses provides for an increase in calculated expected credit losses in the event of a decrease in credit quality of instruments/counterparties, in 2021 and 2020, marked by a virus pandemic COVID-19, there was no need to change the methodology for assessing impairment based on expected credit losses.

Financial assets acquired in the framework of activities related to the implementation of the monetary policy and instruments envisaged by the Law and other laws are low credit risk assets in cases of settling the debtor's obligations at maturity, when issues are not expected on the basis of the borrower's creditworthiness and when they are covered by appropriate means of security.

Criteria for determining a significant increase in credit risk are the default of debt obligations, the decrease in the creditworthiness of the debtors, the decrease in the value of the collateral, significant credit risk increase in other financial assets of the same debtor, regional or global economic and financial crisis, specific issues related to individual groups of banks or companies, issues in maintaining the current liquidity of the bank and other debtors, issues related to deterioration of indicators of the risk of business of the borrower and other available information.

Criteria for determining the default status are: significant problems with the borrower's creditworthiness, restructuring for economic or legal reasons related to the borrower's financial difficulties, the possibility of bankruptcy proceedings or other forms of financial reorganization.

The estimate of expected credit losses in repo transactions of securities and liquidity loans is calculated as the sum of the values of all possible losses, each weighted by the probability of occurrence of that loss. The assessment of the probability of default is made based on the "credit rating", i.e. the default rate set by the rating agencies Standard & Poor's and Moody's for the level of credit rating that the Republic of Serbia has. The basic probability of loss determined in this way is adjusted by the probability of loss of the parent bank, as well as the internal assessment of banks' ratings determined on the basis of monitoring basic risk indicators, business model analysis, corporate governance and internal control system, solvency, liquidity and capital adequacy risks, and the adequacy of liquid assets, as well as on the basis of operational data available internally.

Estimation of the amount of impairment of financial assets related to permanent operations with securities, regulated by the Decision on conditions and manner of conducting open market operations (except corporate bonds) and placements in securities in dinars and foreign currency, acquired outside monetary policy activities (except for corporate bonds), is performed on the basis of the number of days of delay in settling liabilities, if these assets are classified in the first level of impairment. If these assets are classified in impairment level 2 or 3, the impairment calculation is performed in accordance with the calculation applied to corporate bonds, with the exception of the scoring factor.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Impairment of financial assets (Continued)

The assessment of expected credit losses in permanent operations related to corporate bond placements is based on data from rating agencies Standard & Poor's and Moody's on default rates on credit ratings for the Republic of Serbia and data from the Business Registers Agency on the company's creditworthiness.

In addition, the assessment is made on the basis of other significant data, such as the number of days of illiquidity of the company in the last 12 months, data on the prohibition of disposing of funds in bank accounts, etc., as well as on operational data on companies has (expected movements of basic macroeconomic indicators of the country, assessment of the stability of the financial system, knowledge of problems in the operations of individual companies or groups of companies, etc.).

For other assets and liabilities which are subject of credit risk assessment at the level of defined groups and subgroups, the estimate of expected credit losses is based on the average historical loss rates for defined segments, based on the migration matrix, the length of the delay in settling the debtor's obligations and the level of insurance of their collection.

The following tables show the balance and changes in impairment and provisions on the basis of expected credit losses by type of financial asset and impairment levels for 2021 and 2020:

CASH AND CASH EQUIVALENTS

<u>In thousands of RSD</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance January 1, 2021	-	-	814,221	814,221
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Foreign exchange effects	-	-	60,386	60,386
Balance December 31, 2021	-	-	874,607	874,607
Balance December 31, 2020	-	-	881,710	881,710
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Foreign exchange effects	-	-	(67,489)	(67,489)
Balance December 31, 2020	-	-	814,221	814,221

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Impairment of financial assets (Continued)

Deposits

<u>In thousands of dinars</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance January 1, 2021	4,718	-	2,565,312	2,570,030
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change for the period	15,560	-	-	15,560
Reversed impairments	(16,926)	-	-	(16,926)
Foreign exchange effects	175	-	221,567	221,742
Balance December 31, 2021	3,527	-	2,786,879	2,790,406
Balance January 1, 2020	6,029	-	2,813,491	2,819,520
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change for the period	25,066	-	-	25,066
Reversed impairments	(26,145)	-	-	(26,145)
Foreign exchange effects	(232)	-	(248,179)	(248,411)
Balance December 31, 2020	4,718	-	2,565,312	2,570,030

Securities measured at amortised cost

<u>In thousands of dinars</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance January 1, 2021	57,166	-	459,018	516,184
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change for the period	8	-	-	8
Reversed impairments	(1,876)	-	(317,088)	(318,964)
Other	-	-	(885)	(885)
Balance December 31, 2021	55,298	-	141,045	196,343
Balance January 1, 2020	-	-	459,018	459,018
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change for the period	57,166	-	-	57,166
Balance December 31, 2020	57,166	-	459,018	516,184

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Impairment of financial assets (Continued)

Securities measured at FVOCI

<u>In thousands of RSD</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance January 1, 2021	46,286	-	-	46,286
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change for the period	39,610	-	-	39,610
Reversed impairments	(29,272)	-	-	(29,272)
Balance December 31, 2021	56,624	-	-	56,624
Balance January 1, 2020	53,347	-	-	53,347
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	-	-	-
Change for the period	11,432	-	-	11,432
Reversed impairments	(18,493)	-	-	(18,493)
Balance December 31, 2020	46,286	-	-	46,286

Credit and placements

<u>In thousands of RSD</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance January 1, 2021	66,878	15,245	1,424,555	1,506,678
Transfer to stage 1	15,329	(6,207)	(9,122)	-
Transfer to stage 2	(7,771)	19,390	(11,619)	-
Transfer to stage 3	(2,310)	(5,511)	7,821	-
Change for the period	7,031	760	1,090	8,881
Reversed impairments	(7,723)	(4,375)	(3,631)	(15,729)
Write-offs	-	-	(10,416)	(10,416)
Other	-	-	917	917
Balance December 31, 2021	71,434	19,302	1,399,595	1,490,331
Balance January 1, 2020	61,245	9,207	1,449,073	1,519,525
Transfer to stage 1	28,163	(13,419)	(14,744)	-
Transfer to stage 2	(10,769)	25,437	(14,668)	-
Transfer to stage 3	(13,678)	(7,422)	21,100	-
Change for the period	10,585	6,969	2,934	20,488
Reversed impairments	(8,668)	(5,527)	(8,432)	(22,627)
Write-offs	-	-	(11,712)	(11,712)
Other	-	-	1,004	1,004
Balance December 31, 2020	66,878	15,245	1,424,555	1,506,678

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Impairment of financial assets (Continued)

Other assets

<u>In thousands of RSD</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
Balance January 1, 2021	-	1,322	272,436	273,758
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	(2)	2	-
Change for the period	-	2,431	9,267	11,698
Reversed impairments	-	(2,613)	(10,173)	(12,786)
Foreign exchange effects	-	40	12,795	12,835
Write-offs	-	-	(2,273)	(2,273)
Balance December 31, 2021	-	1,178	282,054	283,232
Balance January 1, 2020	-	712	291,217	291,929
Transfer to stage 1	-	-	-	-
Transfer to stage 2	-	-	-	-
Transfer to stage 3	-	(686)	686	-
Change for the period	-	3,101	10,205	13,306
Reversed impairments	-	(1,803)	(11,358)	(13,161)
Foreign exchange effects	-	(2)	(14,342)	(14,344)
Write-offs	-	-	(3,915)	(3,915)
Other	-	-	(57)	(57)
Balance December 31, 2020	-	1,322	272,436	273,758

Other non-credit risk assets include inventories, advances and deferred fees and charges in the total amount at December 31, 2021 of RSD 4.916.263 thousand (December 31, 2020: RSD 5.152.320 thousand).

During 2021, no reclassification or modification of financial assets was performed.

Also in 2021, there are no financial assets which are credit impaired, and whose conditions have been significantly modified, so that asset has been derecognized and new financial instrument recognised.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Concentration of Credit Risk in Financial Assets

a) Concentration per Region

<u>In thousands of dinars</u>	<u>Serbia</u>	<u>Europe</u>	<u>USA and Canada</u>	<u>Asia</u>	<u>Other</u>	<u>Total</u>
Financial assets						
Cash and current accounts held with banks	19,913,845	405,698,796	901,920	10,549	234,974	426,760,084
Deposits	36,545	73,695,208	21,471,151	-	-	95,202,904
Securities	110,912,451	582,294,999	170,318,149	105,007,263	-	968,532,862
Credit and placements	910,044	-	-	-	-	910,044
IMF membership quota and SDR holdings	-	-	99,414,481	-	-	99,414,481
Other assets	1,077,082	3,719	463	-	-	1,081,264
Total as at December 31, 2021	132,849,967	1,061,692,722	292,106,164	105,017,812	234,974	1,591,901,639
Total as at December 31, 2020	148,226,420	793,317,736	246,968,887	104,043,790	134,702	1,292,691,535

b) Concentration per Industry

<u>In thousands of dinars</u>	<u>Banks</u>	<u>Public sector (Government and public companies)</u>	<u>Other financial organizations</u>	<u>*Other foreign consumers (except banks)</u>	<u>Retail customers</u>	<u>Other legal entities sector</u>	<u>Total</u>
Financial assets							
Cash and current accounts held with banks	426,760,084	-	-	-	-	-	426,760,084
Deposits	95,186,088	15,975	841	-	-	-	95,202,904
Securities	94,184,803	108,602,346	37,046,565	726,389,043	-	2,310,105	968,532,862
Credit and placements	536,499	-	-	-	373,545	-	910,044
IMF membership quota and SDR holdings	-	-	99,414,481	-	-	-	99,414,481
Other assets	189,654	676,750	2,655	117,510	88,759	5,936	1,081,264
	616,857,128	109,295,071	136,464,542	726,506,553	462,304	2,316,041	1,591,901,639
Total as at December 31, 2021	472,057,577	118,093,731	12,953,169	686,778,624	491,731	2,316,703	1,292,691,535
Total as at December 31, 2020	472,057,577	118,093,731	12,953,169	686,778,624	491,731	2,316,703	1,292,691,535

* Issuers of securities: the international financial institutions (Supranational), a federal unit of the most developed countries (Subnational-municipal) and financial institutions with state support (Agency).

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NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

32. RISK MANAGEMENT POLICIES (Continued)

Credit risk (Continued)

Concentration of Credit Risk in Financial Assets (Continued)

c) Concentration per Credit Rating

<u>In thousands of dinars</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Securities in foreign currency		
- Coupon bonds:		
AAA	395,006,013	361,873,514
AA+	136,227,421	94,067,837
AA	133,059,187	102,144,415
AA-	13,841,210	25,282,333
A+	73,530,266	71,208,273
A	11,437,895	5,249,139
A-	37,732,888	27,905,922
Total	800,834,880	687,731,433
- Discounted securities:		
AAA	23,709,373	28,114,721
AA+	10,030,147	27,118,296
AA	17,727,701	26,544,624
AA-	5,318,310	7,670,815
A+	-	11,768,472
Total	56,785,531	101,216,928
-Time Deposits:		
No rating (risk-free)*	2,185,983	8,238,298
AAA	28,843,692	113,182,356
AA	64,136,685	75,214,808
AA-	-	2,646,506
Total	95,166,360	199,281,968
Coupon securities:		
-government bonds of the Republic of Serbia-the rating of the Republic of Serbia**	83,396,206	88,907,042
- corporate securities		
The issuer's credit rating from "(B) very good" to "(D) acceptable" rating of the Serbian Business Registers Agency***	27,516,245	27,537,084
Discount securities:		
- treasury bills of the Republic of Serbia - the rating of the Republic of Serbia **	-	3,281,725
Укупно	110,912,451	119,725,851

* Deposits with BIS Basel are not subject to credit rating and are treated as zero risk investments.

** According to external rating agencies S&P and, the Republic of Serbia has a credit rating of BB + with a positive outlook, Fitch credit rating of BB+ with a positive outlook, while according to Moody's it has a credit rating of Ba2 with a stable outlook.

*** Rating of creditworthiness (scoring) is an objectified assessment determined on the basis of data from financial statements in the last five and at least three years, and when making scoring, the financial performance of the company is evaluated and analyzed through indicators for credit rating, taking into account basic tendencies in the area of which the activities are performed. In addition, other important data are included, such as the number of days of illiquidity in the last 12 months and alike. The condition for accepting corporate bonds in monetary operations is that the company, their issuer, has a credit rating of the Serbian Business Registers Agency at least at the level of "(D) acceptable" creditworthiness.

32. RISK MANAGEMENT POLICIES (Continued)**Credit risk (Continued)***c) Concentration per Credit Rating (Continued)*

<u>In thousands of RSD</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Funds in current accounts with foreign banks		
(used for international payment operations):		
- Assets in international financial institutions (without rating)	12,054	11,093
- Foreign banks with ratings AAA	23,970,121	24,626,057
- Foreign banks with ratings AA+	382,570,769	123,603,026
- Foreign banks with ratings AA, AA-, A+, A and A-	293,094	130,697
- Foreign banks with ratings BBB+ and BB+ and BB	201	161,668
Total	<u>406,846,239</u>	<u>148,532,541</u>
Other financial assets exposed to credit risk	121,356,178	36,202,814
Total	<u>1,591,901,639</u>	<u>1,292,691,535</u>

Other financial assets exposed to credit risk are assets that are not subject to the Bank's investment in accordance with the guidelines for the management of foreign exchange reserves and internal instructions and reflect the following structure:

<u>In thousands of RSD</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Current account funds with domestic banks	19,913,845	10,932,910
Deposits (and interest) given for housing construction to employees	36,544	30,435
Loans per repo transactions	-	15,433,873
Funds in special drawing rights	99,414,481	7,700,392
Other assets	<u>1,991,308</u>	<u>2,105,204</u>
Total	<u>121,356,178</u>	<u>36,202,814</u>

Liquidity risk

Liquidity risk relates both to the risk of the inability to finance the Bank's assets from funds with equal maturities and interest rates, and to the risk of not being able to collect assets at adequate price and within agreed timelines.

The Bank's daily activities are focused on ensuring the necessary liquidity, i.e. settlement of all liabilities when due. The Bank assesses liquidity risk by identifying it and by controlling changes in the sources of financing necessary to attain business targets determined in the Bank's strategy. In addition, as a part of liquidity risk management strategy, the Bank is in possession of a portfolio of liquid assets, including funds held on accounts with foreign banks and bonds issued by international financial institutions, most developed states and/or their federal units and financial institutions supported by those states, as well as the bonds issued on the basis of first-class collaterals, in line with Guidelines for managing foreign exchange reserves.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

32. RISK MANAGEMENT POLICIES (Continued)

Liquidity risk

The following table presents the analysis of maturities of the Bank's assets and liabilities according to their contractually-agreed terms of payment or assumed liquidity. The contractual maturities of assets and liabilities are determined based on the outstanding agreed maturity periods as of the statement of financial position date.

In thousands of dinars	Up to one month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Without specified maturity	Total
Cash and current accounts held with banks	675,393,606	-	-	-	-	-	675,393,606
Deposits	58,333,539	34,646,846	-	14,756	-	2,207,763	95,202,904
Receivables for derivatives	-	-	-	-	-	2,462	2,462
Securities	56,091,271	45,496,955	222,074,402	629,275,755	15,594,479	12,134,708	980,667,570
Loans and placements	6,034	-	122	1,626	371,797	530,465	910,044
IMF membership quota and SDR holdings	99,414,481	-	-	-	-	88,439,729	187,854,210
Other assets	492,012	-	-	15	-	589,237	1,081,264
<i>Total</i>	<i>889,730,943</i>	<i>80,143,801</i>	<i>222,074,524</i>	<i>629,292,152</i>	<i>15,966,276</i>	<i>103,904,364</i>	<i>1,941,112,06</i>
Liabilities under derivatives	-	-	-	-	-	602	602
Deposits and other liabilities to banks and other financial organisations	409,142,976	-	-	-	-	388,943,414	798,086,390
Deposits and other financial liabilities to Government and other depositors	409,913,691	-	-	-	-	109,898,576	519,812,267
Liabilities to the IMF	9,105	-	-	-	-	187,970,296	187,979,401
Dinars in circulation	-	-	-	-	-	295,311,307	295,311,307
Other liabilities	1,089,572	-	-	63,077	-	1,589,674	2,742,323
<i>Total</i>	<i>820,155,344</i>	<i>-</i>	<i>-</i>	<i>63,077</i>	<i>-</i>	<i>983,713,869</i>	<i>1,803,932,29</i>
Liquidity gap as at December 31, 2021	69,575,599	80,143,801	222,074,524	629,229,075	15,966,276	(879,809,505)	137,179,770
Cumulative gap as at December 31, 2021	69,575,599	149,719,400	371,793,924	1,001,022,999	1,016,989,275	137,179,770	-
Liquidity gap as at December 31, 2020	(286,532,461)	162,147,386	282,819,366	548,126,270	21,156,994	(618,628,251)	109,089,304
Cumulative gap as at December 31, 2020	(286,532,461)	(124,385,075)	158,434,291	706,560,561	727,717,555	109,089,304	-

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32. RISK MANAGEMENT POLICIES (Continued)**Liquidity risk**

The liquidity gap arises from the specificity of the Bank as a central bank, its role as the main monetary institution and regulator of the banking system and to its functions autonomously and independently and determine and implement monetary and foreign exchange policies. Dinar liquidity flows in the banking sector depend on the implementation of the monetary policy of the Bank and the activities of the state.

The maturity of most of the Bank's liabilities depends on the nature of monetary policy instruments. Changes related to reserve requirements, repo-transactions and deposit of surplus liquid assets in dinars, as well as government deposits in dinars, do not automatically decrease or increase liquidity of the Bank, but relate to the most common change in the structure of liabilities of the Bank, given the consequent spilling over of funds between banks, between banks and the state, and the change of certain types of claims on the Bank, and consequently the obligations of the Bank (decrease in placements through repo operations leading to an increase in balances on current accounts of banks and / or deposit account surplus, but the overall balance of the Bank's liability can stay at the same level) .

On the other hand, the foreign currency obligations of the Bank, including potential liabilities arising from foreign exchange interventions on the foreign exchange market, are provided by highly liquid foreign assets managed by the Bank in accordance with the Strategic Guidelines for the management of Foreign Exchange Reserves.

In response to the COVID-19 virus pandemic, the Bank did not change the way it manages liquidity risk for foreign exchange placements, bearing in mind that due to highly set criteria for liquidity and security of financial instruments in foreign exchange reserves, this risk has already been reduced to a minimum measure.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

32. RISK MANAGEMENT POLICIES (Continued)

Fair Value Information

The following table presents a comparison of the carrying amounts (as adjusted for impairment) to the fair values of all financial assets and liabilities of the Bank as at December 31, 2021 and 2020:

<u>In thousands of RSD</u>	<u>Carrying Value</u>		<u>Fair Value</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Financial assets				
Cash and current accounts held with banks	675,393,606	394,424,179	675,393,606	394,424,179
Deposits	95,202,904	199,312,402	95,202,904	199,312,402
Receivables for derivatives	2,462	6,959	2,462	6,959
Securities	980,667,570	920,174,460	980,667,570	920,174,460
Loans and placements	910,044	16,375,557	910,044	16,375,557
IMF membership quota and SDR holdings	187,854,210	91,475,050	187,854,210	91,475,050
Other assets	1,081,264	1,163,521	1,081,264	1,163,521
Total	<u>1,941,112,060</u>	<u>1,622,932,128</u>	<u>1,941,112,060</u>	<u>1,622,932,128</u>
Financial liabilities				
Liabilities under derivatives	602	69,442	602	69,442
Deposits and other liabilities to banks and other financial organisations	798,086,390	748,773,102	798,086,390	748,773,102
Deposits and other financial liabilities to Government and other depositors	519,812,267	404,601,318	519,812,267	404,601,318
Liabilities to the IMF	187,979,401	91,585,239	187,979,401	91,585,239
Dinars in circulation	295,311,307	266,698,917	295,311,307	266,698,917
Other liabilities	2,742,323	2,114,806	2,742,323	2,114,806
Total	<u>1,803,932,290</u>	<u>1,513,842,824</u>	<u>1,803,932,290</u>	<u>1,513,842,824</u>

Fair Value Hierarchy

The bank values impairment based on the fair value methodology below:

- Level 1: Quoted market price in an active market for identical instruments.
- Level 2: Valuation inputs which are not quoted market price for identical instruments in market, instead are based on observable inputs, either directly (i.e., as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets from similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation techniques include inputs not based on observable and available data and as such have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant adjustments or assumptions are required to reflect differences among the instruments.

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32. RISK MANAGEMENT POLICIES (Continued)

Fair Value Information

Fair Value Hierarchy (Continued)

Fair Value Hierarchy of Financial Assets and Liabilities Measured at fair value

Fair values of financial assets and liabilities measured at fair value categorized per fair value hierarchy levels in accordance with IFRS 13 are provided below:

<u>In thousands of dinars</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
As of December 31, 2021				
Financial assets				
Receivables for derivatives	-	2,462	-	2,462
Securities	855,263,031	-	14,492,088	869,755,119
Total:	855,263,031	2,462	14,492,088	869,757,581
Financial liabilities				
Liabilities under derivatives	-	602	-	602
Total:	-	602	-	602
As of December 31, 2020				
Financial assets				
Receivables for derivatives	-	6,959	-	6,959
Securities	761,827,323	-	38,621,286	800,448,609
Total:	761,827,323	6,959	38,621,286	800,455,568
Financial liabilities				
Liabilities under derivatives	-	69,442	-	69,442
Total:	-	69,442	-	69,442

32. RISK MANAGEMENT POLICIES (Continued)**Fair Value Information****Fair Value Hierarchy (Continued)***Fair Value Hierarchy of Financial Assets and Liabilities Measured at fair value (Continued)***a) Financial Assets and Liabilities at fair value - required**

Receivables for derivative in the amount of RSD 2,462 thousand as at December 31, 2021 (2020: RSD 6,959 thousand) relate to the positive change in the fair values of derivatives (swap transactions of purchase and sale of foreign currency), which is expressed as an asset.

Liabilities under derivatives in the amount of RSD 602 thousand as at December 31, 2021 (2020: RSD 69,442 thousand), refer to the negative fair values of derivatives and are stated as liabilities.

Inputs for calculating the fair value of swaps available on the market are the valid reference rate of the NBS, the EURIBOR of the respective maturity and the valid official middle exchange rate EUR/RSD.

Swap transactions are stated at the spot, i.e. the forward rate at which the Bank should buy or sell foreign currency and in off-balance sheet records. The swap transactions reported in off-balance sheet records in the total amount of RSD 3,536,855 thousand (2020: RSD 37,296,427 thousand) relate to the swap sale of foreign currency in the forward part of RSD 1,767,497 thousand (2020: forward part of RSD 6,471,183 thousand) and swap purchase of foreign currency, namely the forward part of RSD 1,767,497 thousand dinars (2020: forward part of RSD 30,825,244 thousand).

Securities in the amount of RSD 855,263,931 thousand as at December 31, 2021 (2020: RSD 761,827,323 thousand), assigned to Level 1 of the fair value hierarchy, related to government bonds (including government securities with floating rate note - FRN), securities of Public Sector (Supranational, Subnational, Agencies, Sovereign) including FRN, securities with high quality collateral (covered bonds), as well as state discounted T-bills, measured at fair value based on market prices quoted on financial markets. Debt securities in the amount of RSD 2,357,380 thousand as at December 31, 2021 (2020: RSD 27,121,038 thousand) are allocated to level 3 of the fair value hierarchy and refer to discounted government securities (T-bills) measured at official price for similar instruments where certain adjustments or assumptions are required to reflect differences between instruments, that is their price is adjusted for the spread fixed at the date of purchase of security.

NOTES TO THE FINANCIAL STATEMENTS
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32. RISK MANAGEMENT POLICIES (Continued)

Fair Value Information

Fair Value Hierarchy (Continued)

Fair Value Hierarchy of Financial Assets and Liabilities Measured at fair value (Continued)

b) *Financial Assets and Liabilities at fair value – optional*

The remaining part of securities in the amount of RSD 12,134,708 thousand as at December 31, 2021 (2020: RSD 11,500,248 thousand) allocated to level 3 of the fair value hierarchy refers to equity investment in Bank for International Settlements Basel (hereinafter: BIS Basel), where the Bank owns 2,920 shares. Bank measured these shares at fair value, based on the net present value of BIS Basel shares, discounted by 30%.

This method of calculating fair value was established on the basis of the decision of the International Court of Justice in Hague, which refers to the purchase of shares of BIS Basel in 2001 and to the determination of the value of the share of BIS Basel based on its net assets reduced by 30% as a basis for recording all subsequent transactions in bonds, which is the established practice of central banks.

Fair Value Hierarchy of Financial Assets and Liabilities not Measured at Fair Value

The estimated fair values of financial assets and liabilities that are not measured at fair value per fair value hierarchy levels in accordance with IFRS 13 are presented below:

<u>In thousands of RSD</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total Fair Value</u>	<u>Carrying Value</u>
As at December 31, 2021					
Financial assets					
Cash and current accounts held with banks	-	675,393,606	-	675,393,606	675,393,606
Deposits	-	-	95,202,904	95,202,904	95,202,904
Securities	-	110,912,451	-	110,912,451	110,912,451
Loans and placements	-	-	910,044	910,044	910,044
IMF membership quota and SDR holdings	-	99,414,481	88,439,729	187,854,210	187,854,210
Other assets	-	-	1,081,264	1,081,264	1,081,264
Total	-	885,720,538	185,633,941	1,071,354,479	1,071,354,479
Financial liabilities					
Deposits and other liabilities to banks and other financial organizations	-	-	798,086,390	798,086,390	798,086,390
Deposits and other liabilities to the Government and other depositors	-	-	519,812,267	519,812,267	519,812,267
Liabilities to the IMF	-	-	187,979,401	187,979,401	187,979,401
Dinars in circulation	-	-	295,311,307	295,311,307	295,311,307
Other liabilities	-	-	2,742,323	2,742,323	2,742,323
Total	-	-	1,803,931,688	1,803,931,688	1,803,931,688

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December 31, 2021

32. RISK MANAGEMENT POLICIES (Continued)

Fair Value Information

Fair Value Hierarchy (Continued)

Fair Value Hierarchy of Financial Assets and Liabilities Measured at fair value (Continued)

<u>In thousand of dinars</u>	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Fair Value Total</u>	<u>Carrying Value</u>
As at December 31, 2020					
Financial assets					
Cash and current accounts held with banks	-	394,424,179	-	394,424,179	394,424,179
Deposits	-	-	199,312,402	199,312,402	199,312,402
Securities	-	119,725,851	-	119,725,851	119,725,851
Loans and placements	-	-	16,375,557	16,375,557	16,375,557
IMF membership quota and SDR holdings	-	7,700,392	83,774,658	91,475,050	91,475,050
Other assets	-	-	1,163,521	1,163,521	1,163,521
Total	-	521,850,422	300,626,138	822,476,560	822,476,560
Financial liabilities					
Deposits and other liabilities to banks and other financial organizations	-	-	748,773,102	748,773,102	748,773,102
Deposits and other liabilities to the Government and other depositors	-	-	404,601,318	404,601,318	404,601,318
Liabilities to the IMF	-	-	91,585,239	91,585,239	91,585,239
Dinars in circulation	-	-	266,698,917	266,698,917	266,698,917
Other liabilities	-	-	2,114,806	2,114,806	2,114,806
Total	-	-	1,513,773,382	1,513,773,382	1,513,773,382

For financial assets and liabilities that are not measured at fair value, fair values are calculated only for the purpose of disclosing information on the estimated fair values of such instruments. The Bank's management considers that there are no materially significant differences between the carrying values and respective fair values of certain items of financial assets and liabilities given the Bank's specific role of a central bank.

The main methods and assumptions used in estimating the fair values of the financial instruments presented in the table above are provided below as at December 31, 2021 and there were no changes in assumptions compared to December 31, 2020:

The carrying value represents the reasonably estimated fair value for the following financial assets and liabilities, mostly current (up to 1 year from December 31, 2021):

- Cash and current accounts held with banks in the amount of RSD 675,393,606 thousand,
- Deposits held with banks in the amount of RSD 92,980,385 thousand,
- Securities in the amount of RSD 26,025,152 thousand,
- Loans and placements in the amount of RSD 6,156 thousand,

32. RISK MANAGEMENT POLICIES (Continued)**Fair Value Information****Fair Value Hierarchy (Continued)**

- Assets to the IMF amounting to RSD 99,414,481 thousand,
- Other assets in the amount of RSD 492,012 thousand,
- Deposits and other liabilities to banks and other financial organizations, in the amount of RSD 409,142,976 thousand,
- Deposits and other liabilities to the state and other depositors, in the amount of RSD 409,913,691 thousand,
- Liabilities to the IMF, in the amount of RSD 9,103 thousand,
- Other liabilities, in the amount of RSD 1,089,571 thousand

The estimated fair values for the following financial assets and liabilities, mostly non-current (more than 1 year from December 31, 2021):

- Long-term deposits with banks in the amount of RSD 2,222,519 thousand, comprise of call deposits and specific purpose housing deposits,
- Securities (Government and Corporate) in the amount of RSD 84,887,299 thousand are dinar securities acquired within monetary operations whose fair value is estimated on the basis of official market prices for the same or similar financial instruments,
- Loans and placements in the amount of RSD 903,888 thousand, partly (RSD 373,423 thousand) consist of loans and placements whose amounts are regularly revalued using the rate of growth of the consumer price index in the Republic of Serbia and up to the growth rate of average net salary in the economy of the Republic of Serbia, as well as harmonization with the movement of the average contracted price of the construction of a square meter or the change in the exchange rate of the dinar against the euro, and in part (RSD 530,465 thousand) the loan amount fully secured by the deposit,
- IMF membership quota (excluding reserve tranche) in the amount of RSD 88,439,729 thousand, funds that do not have a maturity,
- Other assets in the amount of RSD 589,252 thousand,
- Deposits and other liabilities to banks and other financial organizations, in the amount of RSD 388,943,414 thousand, which are liabilities without maturity,
- Deposits and other liabilities to the Government and other depositors in the amount of RSD 109,898,576 thousand of liabilities without maturity
- Liabilities to the IMF, in the amount of RSD 187,970,298 thousand, liabilities that do not have maturity
- Dinars in circulation in the amount of RSD 295,311,307 thousand, liabilities that do not have maturity
- Other liabilities, in the amount of RSD 1,652,752 thousand

In the opinion of the Bank's management fair value does not deviate significantly from the carrying value stated in the Bank's financial statements, considering the fact it refers to financial assets and liabilities arising from the Bank's performance as the National Bank and that their amounts and maturity dates primarily depend on objectives and measures of monetary policy. As at December 31, 2021, 48.17% of the amount of funds that are predominantly long-term in nature relates to funds obtained through monetary operations. The fair value of these assets is estimated based on official market prices for the same or similar financial instruments and does not deviate significantly from the carrying amount.

32. RISK MANAGEMENT POLICIES (Continued)**Fair Value Information****Fair Value Hierarchy (Continued)**

The largest part of the remaining assets, 51.83%, is without a defined maturity (2020: 43.50%), as well as 99.99% of the amount of liabilities that are mostly long-term in nature (2020: 99.98%). The fair value hierarchy of financial assets and liabilities of a predominantly long-term nature that is not carried at fair value is level 2 and 3 in the fair value hierarchy.

In 2021 and 2020 there were no transfers of financial assets and liabilities that are not measured at fair value among the fair value hierarchy levels.

Interest Rate Risk

Interest rate risk is the risk of a decrease in the net result or net worth of the Bank's assets due to changes in interest rates. Interest rate risk exposure depends on the ratio of the Bank's interest rate of sensitive assets and liabilities.

The Bank, as a National Bank of the Republic of Serbia, which performs the functions determined by Law and other laws:

- determines the method of calculating, collecting and paying interest on the Bank's placements and other receivables, as well as on the funds on which the Bank pays interest in order to achieve the objectives of adopted monetary policy (benchmark interest rate, interest rates for reserve requirements, liquidity loans, surplus liquid assets, etc.);
- by holding deposits placed by the state and its institutions, by maintaining funds on current accounts and by time deposits placed with foreign banks as well as by investing into coupon securities, i.e. bonds of governments and central banks issued by most developed states, high quality financial institutions supported by those states and international financial institutions with adequate rating, and discounted securities pertaining to treasury bills issued by most developed states.

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32. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk (Continued)

The exposure to interest rate risk as at December 31, 2021 is presented in the following table:

<u>In thousands of RSD</u>	<u>Interest- bearing items</u>	<u>Non-interest bearing items</u>	<u>Total</u>
Financial assets			
Cash and current accounts held with banks	405,645,909	269,747,697	675,393,606
Deposits	95,150,521	52,383	95,202,904
Receivables for derivatives	-	2,462	2,462
Securities	980,667,570	-	980,667,570
Loans and placements	426,499	483,545	910,044
IMF membership quota and SDR holdings	99,414,481	88,439,729	187,854,210
Other assets	-	1,081,264	1,081,264
Total	1,581,304,980	359,807,080	1,941,112,060
Financial liabilities			
Liabilities under derivatives	-	602	602
Deposits and other liabilities to banks and other financial organisations	390,910,155	407,176,235	798,086,390
Deposits and other liabilities to the Government and other depositors	38,048,238	481,764,029	519,812,267
Liabilities to the IMF	99,528,589	88,450,812	187,979,401
Dinars in circulation	-	295,311,307	295,311,307
Other liabilities	-	2,742,323	2,742,323
Total	528,486,982	1,275,445,308	1,803,932,290
Net exposure as at			
December 31, 2021	1,052,817,998	(915,638,228)	137,179,770
December 31, 2020	848,979,905	(739,890,601)	109,089,304

32. RISK MANAGEMENT POLICIES (Continued)**Interest Rate Risk (Continued)**

Two basic methods the Bank uses to quantify market risks in respect of financial assets carried at fair value through profit and loss include Value at risk ("VaR") and Stress test. The first is used to anticipate maximum possible loss under normal market conditions, while the second is used to forecast losses under extreme market conditions.

VaR

VaR is the method that predicts with high probability (95% or 99%) total loss which, in the given time interval, will not be exceeded.

When VaR (95%) is calculated on a monthly basis, for the total portfolio converted into EUR, which includes coupon and discount securities and time deposits included in the investment portfolio in foreign currency, as at December 31, 2021, only in 5% of cases we can expect a loss of more than 0.96% or RSD 12,212 million (EUR 103.86 million).

Total portfolio recalculated in EUR as at December 31, 2020 indicates that under normal market conditions in only 5% of the cases can the Bank expect a loss greater than 1.07% or RSD 12,362 million (EUR 105.14 million).

Stress Test

In case of extreme market risks, VaR is not the most suitable tool to be used in the assessment of potential loss, instead, the stress test is used, which provides a model that approximates the effects contingent on the movements of interest rates and other worst case scenarios on the portfolio value based on duration and convexity of the portfolio.

For the Bank, potential drastic increase in interest rates (drop in prices) is of the highest significance, which is why the Bank needs to calculate what would happen with the portfolio if interest rates increased by 100 base points, i.e. by 1% under the assumption that other variables remained unchanged. The total effect of the increase in interest rates by 100 basis points on the EUR portfolio as of December 31, 2021 would result in a loss of RSD 6,737 million (EUR 57.3 million), on the USD portfolio, a loss of RSD 1,704 million (USD 16.4 million), on the GBP portfolio, a loss of RSD 70 million (GBP 0.5 million), on the CAD portfolio, a loss of RSD 33 million (CAD 0.04 million).

The total effect of the increase in interest rates by 100 basis points on the EUR, USD, GBP and CAD portfolio as of December 31, 2020 would amount to RSD 11,146 million.

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32. RISK MANAGEMENT POLICIES (Continued)

Interest Rate Risk (Continued)

The change of 100 base points in the presented interest rates, exclusive of the effect of changes in interest rates on financial assets (securities) at fair value through other comprehensive income, as of the statement of financial position date, would increase /(decrease) equity and net profit of the Bank in the amounts presented in the following table. This analysis presumes that all other variables, particularly exchange rates, remained unchanged. The analysis was prepared for 2020 on the same way.

<u>In thousands of dinars</u>	December 31, 2021			
	Equity		Net profit	
	100 bp Increase	100 bp Decrease	100 bp Increase	100 bp decrease
Financial assets				
Cash and current accounts held with banks	4,056,459	(4,056,459)	4,056,459	(4,056,459)
Deposits	951,505	(951,505)	951,505	(951,505)
Securities	1,109,125	(1,109,125)	1,109,125	(1,109,125)
Loans and placements	4,265	(4,265)	4,265	(4,265)
IMF membership quota and SDR holdings	994,145	(994,145)	994,145	(994,145)
Total	7,115,499	(7,115,499)	7,115,499	(7,115,499)
Financial liabilities				
Deposits and other liabilities to banks and other financial organizations	(3,909,102)	3,909,102	(3,909,102)	3,909,102
Deposits and other liabilities to the Government and other depositors	(380,482)	380,482	(380,482)	380,482
Liabilities to the IMF	(995,286)	995,286	(995,286)	995,286
Total	(5,284,870)	5,284,870	(5,284,870)	5,284,870
Net effect	1,830,629	(1,830,629)	1,830,629	(1,830,629)

<u>In thousands of RSD</u>	December 31, 2020			
	Equity		Net profit	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial assets				
Cash and current accounts held with banks	1,483,609	(1,483,609)	1,483,609	(1,483,609)
Deposits	1,992,675	(1,992,675)	1,992,675	(1,992,675)
Securities	1,197,259	(1,197,259)	1,197,259	(1,197,259)
Loans and placements	158,803	(158,803)	158,803	(158,803)
IMF membership quota and SDR holdings	77,004	(77,004)	77,004	(77,004)
Total	4,909,350	(4,909,350)	4,909,350	(4,909,350)
Financial liabilities				
Deposits and other liabilities to banks And other financial organizations	(4,087,128)	4,087,128	(4,087,128)	4,087,128
Deposits and other liabilities to the Government and other depositors	(258,834)	258,834	(258,834)	258,834
Liabilities to the IMF	(78,074)	78,074	(78,074)	78,074
	(4,424,036)	4,424,036	(4,424,036)	4,424,036
Net effect	485,314	(485,314)	485,314	(485,314)

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32. RISK MANAGEMENT POLICIES (Continued)**Currency Risk**

The Bank is exposed to currency risk through transactions performed in foreign currencies. The risk exposure leads to the increase in foreign exchange gains and losses recorded within the income statement. The exposure to foreign currency risk occurs based on monetary assets and liabilities that are not denominated in the Bank's functional currency. The Bank manages foreign currency risk through the policy of determining the currency structure of assets in accordance with the expected future foreign currency liabilities.

The 1% depreciation of RSD value against the EUR, USD, CHF and SDR as at December 31, 2021 would increase equity and increase profit /decrease loss of the Bank in the amount of RSD 9,488,681 thousand (2020: RSD 8,598,718 thousand). This analysis assumes that all other variables, in particular interest rates, remained unchanged.

RSD appreciation of 1% against the mentioned currencies would have the exact opposite effect, under the assumption that all other variables remained unchanged.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

32. RISK MANAGEMENT POLICIES (Continued)

Currency Risk (Continued)

The analysis of financial assets and liabilities exposure to currency risk per currency as at December 31, 2021 was as follows:

In thousands of RSD	EUR	USD	SDR	GBP	CAD	Other currencies*	Total foreign currency balance	RSD	Total
Financial assets									
Cash and current accounts held with banks	634,795,161	8,065,711	-	248,034	888,690	11,482,139	655,479,735	19,913,871	675,393,606
Deposits	16,482,369	74,069,940	-	2,185,514	2,449,847	469	95,188,139	14,765	95,202,904
Receivables for derivatives	-	-	-	-	-	-	-	2,462	2,462
Securities	483,430,309	324,663,518	12,133,996	25,962,412	23,564,885	-	869,755,120	110,912,450	980,667,570
Loans and placements	-	-	-	-	-	-	-	910,044	910,044
IMF membership quota and SDR holdings	-	-	187,854,210	-	-	-	187,854,210	-	187,854,210
Other assets	28,509	560,298	-	101	-	97	589,005	492,259	1,081,264
Total financial assets	1,134,736,348	407,359,467	199,988,206	28,396,061	26,903,422	11,482,705	1,808,866,209	132,245,851	1,941,112,060
Financial liabilities									
Liabilities under derivatives	-	-	-	-	-	-	-	602	602
Deposits and other liabilities to banks, other financial organisations	322,316,172	878,667	-	6,176	-	110	323,201,125	474,885,265	798,086,390
Deposits and other liabilities to Government and other depositors	288,027,462	3,295,432	2,369	113,957	20,072	406,608	291,865,900	227,946,367	519,812,267
Liabilities to the IMF	-	-	187,979,401	-	-	-	187,979,401	-	187,979,401
Dinars in circulation	-	-	-	-	-	-	-	295,311,307	295,311,307
Other liabilities	221,933	206,160	-	31,263	24,566	166,542	650,464	2,091,859	2,742,323
Total financial liabilities	610,565,567	4,380,259	187,981,770	151,396	44,638	573,260	803,696,890	1,000,235,400	1,803,932,290
Net exposure as at December 31, 2021	524,170,781	402,979,208	12,006,436	28,244,665	26,858,784	10,909,445	1,005,169,319	(867,989,549)	137,179,770
Net exposure as at December 31, 2020	480,633,264	360,548,098	11,387,857	25,149,698	23,836,905	7,536,738	909,092,560	(800,003,256)	109,089,304

* Other currencies are primarily related to CHF

The currency mismatch of assets and liabilities comes from specific nature of the Bank as a central bank, its roles as the main monetary institution and regulator of the banking system, as well as its function to autonomously and independently determine and implement monetary and foreign exchange policies and, in the framework of this, to manage foreign exchange reserves in such a way that contributes to the unimpeded fulfilment of the obligations of the Republic of Serbia abroad.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

33. ANALYSIS OF THE MATURITY OF ASSETS AND LIABILITIES

The following tables provide classification of assets and liabilities in accordance with the expected period of their realization (current/non-current items) as at December 31, 2021 and 2020:

December 31, 2021

<u>In thousands of RSD</u>	<u>Current items (within 12 months)</u>	<u>Non-current items (over 12 months)</u>	<u>Without maturity</u>	<u>Total</u>
ASSETS				
Cash and current accounts held with banks	675,393,606	-	-	675,393,606
Gold and other precious metals	228,166,766	-	-	228,166,766
Deposits	92,980,385	14,756	2,207,763	95,202,904
Receivables for derivatives	-	-	2,462	2,462
Securities	323,662,628	644,870,234	12,134,708	980,667,570
Loans and placements	6,156	373,423	530,465	910,044
IMF membership quota and SDR holdings	99,414,481	-	88,439,729	187,854,210
Intangible assets	-	703,159	-	703,159
Property, plant and equipment	-	19,603,828	-	19,603,828
Investment property	-	407,692	-	407,692
Other assets	5,408,274	15	589,238	5,997,527
Total assets	1,425,032,296	665,973,107	103,904,365	2,194,909,768
LIABILITIES				
Liabilities under derivatives	-	-	602	602
Deposits and other liabilities to banks				
And other financi	409,142,976	-	388,943,414	798,086,390
Депозити и остале обавезе према држави и другим депонентима	409,913,691	-	109,898,576	519,812,267
Обавезе према ММФ-у	9,103	-	187,970,298	187,979,401
Резервисања	841,428	1,092,768	-	1,934,196
Текуће пореске обавезе	478,486	-	-	478,486
Готов новац у оптицају	-	-	295,311,307	295,311,307
Остале обавезе	1,378,791	63,077	1,589,674	3,031,542
Укупно обавезе	821,764,475	1,155,845	983,713,871	1,806,634,191
NET ASSETS	603,267,821	664,817,262	(879,809,506)	388,275,577

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

33. ANALYSIS OF THE MATURITY OF ASSETS AND LIABILITIES (Continued)

December 31, 2020

<u>In thousands of RSD</u>	<u>Current items (within 12 months)</u>	<u>Non-current items (over 12 months)</u>	<u>Without maturity</u>	<u>Total</u>
ASSETS				
Cash and current accounts held with banks	394,424,179	-	-	394,424,179
Gold and other precious metals	208,078,233	-	-	208,078,233
Deposits	197,276,313	16,863	2,019,226	199,312,402
Receivables for derivatives	-	-	6,959	6,959
Securities	339,699,867	568,974,344	11,500,249	920,174,460
Loans and placements	15,440,285	404,807	530,465	16,375,557
IMF membership quota and SDR holdings	7,700,392	-	83,774,658	91,475,050
Intangible assets	-	288,428	-	288,428
Property, plant and equipment	-	19,157,663	-	19,157,663
Investment property	-	407,692	-	407,692
Other assets	5,700,760	-	615,081	6,315,841
Total assets	1,168,320,029	589,249,797	98,446,638	1,856,016,464
LIABILITIES				
Liabilities under derivatives	-	-	69,442	69,442
Deposits and other liabilities to banks and other financial organisations	478,814,396	-	269,958,706	748,773,102
Deposits and other financial liabilities to Government and other depositors	316,052,927	-	88,548,391	404,601,318
Liabilities to the IMF	1,353	-	91,583,886	91,585,239
Provisions	693,889	822,772	-	1,516,661
Current tax liabilities	379,091	-	-	379,091
Dinars in circulation	-	-	266,698,917	266,698,917
Other liabilities	2,020,498	112,750	215,547	2,348,795
Total assets	797,962,154	935,522	717,074,889	1,515,972,565
NET ASSETS	370,357,875	588,314,275	(618,628,251)	340,043,899

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

34. LITIGATIONS

As at December 31, 2021, the Bank leads disputes in total estimated amount of RSD 14,291,428 thousand (2020: RSD 12,552,28 thousand). Of the total estimated amount of disputes, RSD 115,000 thousand (2020: RSD 113,870 thousand) relates to disputes for which a negative outcome has been estimated for the Bank. That amount includes court costs and the estimated amount of any default interest.

As disclosed in Note 27, as at December 31, 2021, the Bank formed provisions for potential losses that may arise from the litigation in the amount of RSD 115,000 thousand (2020: RSD 113,870 thousand). Provision is based on the assessment of legal representatives of the Bank regarding the status of disputes in progress, in the amount that corresponds to the best estimate in terms of expenditure incurred in case of a negative outcome. The Bank's management believes that it is not possible to anticipate the outcome of court cases that are ongoing with a high degree of precision, but estimates that there will be no materially significant losses due to litigation in progress, above the amount for which the provision was made.

35. RELATED PARTY TRANSACTIONS

Transactions with the State and Government Institutions

Pursuant to the Law on the National Bank of Serbia, the Bank is the central bank of the RS and operates in line with the above mentioned and other laws. The Republic of Serbia is the sole owner of the entire Bank's equity,

In carrying out their tasks, the National Bank of Serbia, the bodies of the National Bank of Serbia and the members of those bodies shall neither seek nor take instructions from government bodies and institutions, or other persons, Government bodies and institutions, and other persons may not threaten the autonomy and independence of the National Bank of Serbia nor seek to influence the National Bank of Serbia, the bodies of the National Bank of Serbia, or the members of these bodies in carrying out their tasks. Without prejudice to achieving its objectives, the National Bank of Serbia may act for and on behalf of the Republic of Serbia in international financial organizations and institutions and other forms of international cooperation with the consent of the Government.

In addition to the aforesaid, the Bank performs the following operations on behalf of and for the account of the Republic of Serbia:

- Maintains the system of consolidated Treasury account for assets denominated in dinars and foreign currencies, as well as other accounts prescribed by the law or stipulated by the relevant agreement executed;
- Performs fiscal agent operations on behalf of and for the account of the Republic of Serbia in respect of foreign borrowings of the Republic of Serbia, i.e. operations concerning the withdrawal of borrowed funds and repayment of foreign obligations/liabilities;
- Issues long-term securities related to the Republic of Serbia's membership in the International Monetary Fund (IMF);
- Settles the liabilities of the Republic of Serbia arising from its membership in the IMF;
- Performs other operations for the Republic of Serbia, Government institutions and bodies pursuant to the law or relevant agreement executed.

The Bank calculates and pays interest accrued on the deposits placed by the Government and state institutions in accordance with the relevant agreement executed with the depositor. For the operations and services rendered to the Government and state institutions the Bank charges fees according to the unique tariff list or based on the relevant agreement executed.

35. RELATED PARTY TRANSACTIONS**Transactions with the State and Government Institutions (Continued)**

In accordance with the Law, the Bank may not approve loans, borrowings, overdrafts and other credit facilities to the Republic of Serbia, autonomous province or local government unit, state owned companies and other legal entities founded by the Republic of Serbia, autonomous province or local government unit (i.e. entities with the controlling participation of RS, autonomous province or local government unit), nor may issue guarantees for settling the obligations of these entities or provide their settlement in any other way.

The Bank cannot directly purchase securities issued by the aforementioned entities.

Based on those provisions of the Law, Republic of Serbia, its ministries, agency and state-owned companies are not regarded as related parties of the Bank.

Loss coverage/profit allocation

Pursuant to the Law, after attaining the minimum prescribed amount of the core capital, (Article 77, paragraph 3) and the prescribed amount of the special reserves (Article 77, paragraph 4), profit not resulting from foreign exchange gains and revaluation reserves, the Bank allocates 70% to the Republic of Serbia Budget.

The realized loss of the Bank (paragraph 1 Article 78) is covered by special reserves and basic capital above the minimum basic capital level, and if the mentioned funds are insufficient - from the budget of the Republic of Serbia or from securities for this purpose, under market conditions, issued by the Republic of Serbia and transferred to the Bank (note 31).

Transactions on Behalf of and for the Account of the Government

Transactions on behalf of and for the account of the Government of the Republic of Serbia refer to the payment of old foreign currency savings, loan for economic development, records of public debt of RS and other operations.

These transactions are stated within the Bank's off-balance sheet items, given the fact that the Bank acts as an agent in such transactions or merely maintains records of the public debt.

Transactions with the Key Management Personnel

According to the Bank, key management refers to: the Chairman and members of the Council, Governor, Vice Governors, Secretary General, directors and deputy directors of organizational units, and heads of departments.

The Bank's management members receive compensation for their services to the Bank and do not hold equity investments in the Bank.

In addition to net salaries of the management, the Bank also pays contributions on behalf of the management in accordance with the legal provisions of the Republic of Serbia. The net salaries of the management are also subject to personal income tax charged annually. The Bank neither makes payments to its management subsequent to the termination of their employment, nor compensates their work in shares or equity interests.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

35. RELATED PARTY TRANSACTIONS (Continued)

Transactions with the State and Government Institutions (Continued)

The summary of remuneration paid to key management of the Bank is provided in the following table:

<u>In thousands of RSD</u>	Gross remunerations disbursed in 2021	Net remunerations disbursed in 2021	Gross remunerations disbursed in 2020	Net remunerations disbursed in 2020
Position				
Governor	10,329	8,185	10,034	8,011
Vice Governors	24,320	18,721	23,526	18,278
Secretary General	4,774	3,361	4,639	3,290
Directors General, Directors of organizational units within the headquarters, Directors of branch offices and Managing Director of ZIN	124,418	88,550	114,435	82,141
Deputies and assistants to Directors General and Directors General of organizational units, Directors of branch offices and Managing Director of ZIN	117,956	82,883	110,470	77,819
Department heads	224,616	157,741	212,764	150,147
Chairman and members of the Bank Council of the Governor	17,700	11,263	17,189	10,913
Total for the period	524,113	370,704	493,057	350,599

36. RECONCILIATION OF RECEIVABLES AND PAYABLES

Pursuant to Article 22 of the Law on Accounting, the Bank reconciled balances of receivables and payables with creditors and debtors. The balances of RSD-denominated receivables were reconciled as at October 31, 2021, while the balances of receivables denominated in foreign currencies were reconciled as at December 31, 2021.

Out of the total amount of receivables of RSD 1,584,248,331 thousand, for which the Bank delivered outstanding item statement forms for balance confirmation/reconciliation, receivables in the amount of RSD 1,436,839,208 thousand or 99.76% of the total receivables were reconciled, while the amount of RSD 11,130,816 thousand remained unreconciled, but the outstanding item statement (OIS) forms include the note that, in the event the form with the response is not returned within 10 days from the receipt, the Bank shall deem the balance stated to be reconciled. The Bank does not reconcile receivables from employees, as well as from legal entities in bankruptcy and liquidation proceedings.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

37. RECONCILIATION OF RECEIVABLES AND PAYABLES (Continued)

Up to the issue date of these financial statements, there have been no materially significant events subsequent to the balance sheet date, which would require correction of the accompanying financial statements (adjusting events).

Subsequent to balance sheet date, in accordance with Law on Regulating the Republic of Serbia Obligations to the IMF based on general allocation of the SDR funds use, approved by the Decision of the IMF Board of Governors dated 2 August 2021. ("Official Gazette of RS" No. 114/2021), part of Republic of Serbia allocated funds conversion was carried out at the 31st of January 2022, in the amount of SDR 564,800,000 and recorded in special Ministry of Finance of the Republic of Serbia account. This event indicates materially significant circumstances that occurred after the reporting period, but which do not require correction of recognized amounts in these financial statements (non-adjusting event).

As before, the Bank will monitor all events that may in any way affect preserved stability in Republic of Serbia, as it has proven in the previous period under the conditions of the COVID pandemic–19.

Ukrainian - Russian crisis that began after the balance sheet date - significantly affects developments in the global financial markets. The potential effects (positive and negative) on the Bank's financial results are continuously monitored and analyzed. In addition to comprehensive analytical tools, high levels of reserves, excellent international co-operation, the Bank also has a large number of instruments which can be utilized in the short term.

38. EXCHANGE RATES

The official exchange rates for major currencies used in the translation of statement of financial position components denominated in foreign currencies into dinars as at December 31, 2021 and 2020 were as follows:

<u>In Dinars</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
USD	103,9262	95,6637
EUR	117,5821	117,5802
GBP	140,2626	130,3984
CAD	81,6316	75,0831
CHF	113,6388	108,4388
SDR	145,4541	137,7816

Jorgovanka Tabakovic, PhD
Governor

ANNUAL REPORT OF NATIONAL BANK OF SERBIA
2021
IN ACCORDANCE WITH THE ACCOUNTING LAW

Introduction

In accordance with the Accounting law¹, National bank of Serbia has produced the Annual Business Report for 2021. The report provides an objective and comprehensive analysis of the development and results of National bank of Serbia's operations and its position, in accordance with the scope and complexity of the business. The annual business report for 2021 contains financial statements of the National bank of Serbia for the year ended December 31, 2021 which include income and expenses, assets of the Republic of Serbia used by the National bank of Serbia to achieve the objectives and performance of its functions, as well as liabilities and equity of the National bank of Serbia.

In addition, the Annual Business Report for 2021 contains a view of the institutional framework and organizational structure of the National bank of Serbia, results and activities of the National bank of Serbia, review of financial instruments important for assessing the financial position and success of operations, objectives and policies related to financial risk management, data on credit risk exposure, liquidity risk, interest and foreign exchange risk. The report also contains information on investments for environmental protection, significant subsequent events, research and development activities, and planned future development.

¹ 'Official Gazette of RS', no 73/2019

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

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Description of Business Activities and Organizational Structure of the National bank of Serbia with Information on Personnel Matters

National bank of Serbia (hereinafter: the Bank) has its roots in the establishment and beginning of the work of the Privileged National Bank of the Kingdom of Serbia in 1884, which in 1920 became National Bank of the Kingdom of Serbs, Croats and Slovenians. In accordance with the change of name of the state, the Bank has been operating under the name of the National Bank of the Kingdom of Yugoslavia since 1929. Since 1946, the Bank has performed its functions under the name of the National Bank of Yugoslavia, as a central monetary institution, first the Federal People's Republic of Yugoslavia, later the Socialist Federal Republic of Yugoslavia and after its dissolution, the Federal Republic of Yugoslavia. The law for implementing the Constitutional Charter of the State Union of Serbia-Montenegro, which came into effect on February 4, 2003, continues to work as an organ of the State of Serbia under its current name. The law on the National bank of Serbia ("Official Gazette of RS", No. 72/2003, 55/2004, 85/2005 – second law, 44/2010, 76/2012, 106/2012, 14/2015, 40/2015 – Decision US and 44/2018, hereinafter: the Law) and the Constitution of the Republic of Serbia ("Official Gazette of RS", No. 98/2006 and 115/2021) regulate the position, organization, authority and functions of the Bank as the central bank of the Republic of Serbia, as well as the Bank's relationship with the authorities of the Republic of Serbia and international organizations and institutions. The Bank is defined as autonomous and independent in performing the functions established by the Law and other laws and is subject to the supervision of the National Assembly and is responsible for its work. The Bank's main goal is to achieve and maintain price stability. In addition to the basic goal, the Bank aims to preserve and strengthen the stability of the financial system, to support the implementation of economic policies of the Government of the Republic of Serbia, in accordance with the principles of the market economy. The Bank cannot rely on article 34 paragraph 4 of line 7 of the Accounting Law relating to information on the purchase of its own shares or shares for the abovementioned reasons.

The National bank of Serbia performs the following functions:

- establishes and implements monetary and foreign exchange policies;
- manages foreign currency reserves;
- determines and implements, within its jurisdiction, activities and measures to preserve and strengthen the stability of the financial system;
- issues banknotes and coins and manage cash flows;
- regulates, controls and improves the smooth functioning of payment operations in the country and abroad, in accordance with the Law;
- issues and revokes operating licenses to banks, supervises banks and legal compliance of banks' operations and perform other activities, in accordance with the law governing banks' operations;
- issues and revokes licenses to perform insurance activities, exercising control of this activity, i.e. supervising its performance, issuing and revoking the authority to perform certain activities in the insurance industry and performing other activities, in accordance with the law governing insurance;

- issues and revokes licenses to perform financial leasing activities, supervising the performance of these activities and performing other activities, in accordance with the law governing financial leasing;
- issues and revokes licenses for voluntary pension funds managing companies, supervise their activity and perform other activities, in accordance with the law governing voluntary pension funds;
- issues and revokes payment institutions' licenses to provide payment services, and grants electronic money licenses to institutions electronic money, supervises payment services and electronic money issuance, and performs other tasks, in accordance with the law governing payment services;
- issues and revokes licenses to provide services associated with virtual currencies, supervises the performance of these services and performs other activities, in accordance with the law governing digital property;
- performs the activities of protecting the rights and interests of service users provided by banks, insurance companies, financial leasing providers, voluntary pension fund management companies, payment service providers and electronic money issuers, in accordance with the law;
- determines the fulfilment of the conditions for launching restructuring procedures of banks, i.e. members of the banking group, and implements these procedures, decides on the instruments and measures to be taken in restructuring and performs other activities related to bank restructuring, in accordance with the law governing banks;
- issues and revokes the authority to perform exchange operations, inspects exchange and foreign exchange operations and perform other activities, in accordance with the law governing foreign exchange operations;
- performs law regulated or contract regulated established jobs for the Republic of Serbia without compromising its autonomy and independence;
- perform other activities from its jurisdiction, in accordance with the Law;

The Bank's bodies are the Executive Board of the National bank of Serbia (Executive Board), Governor of the National bank of Serbia (Governor) and The Council of Governors of the National bank of Serbia (The Council).

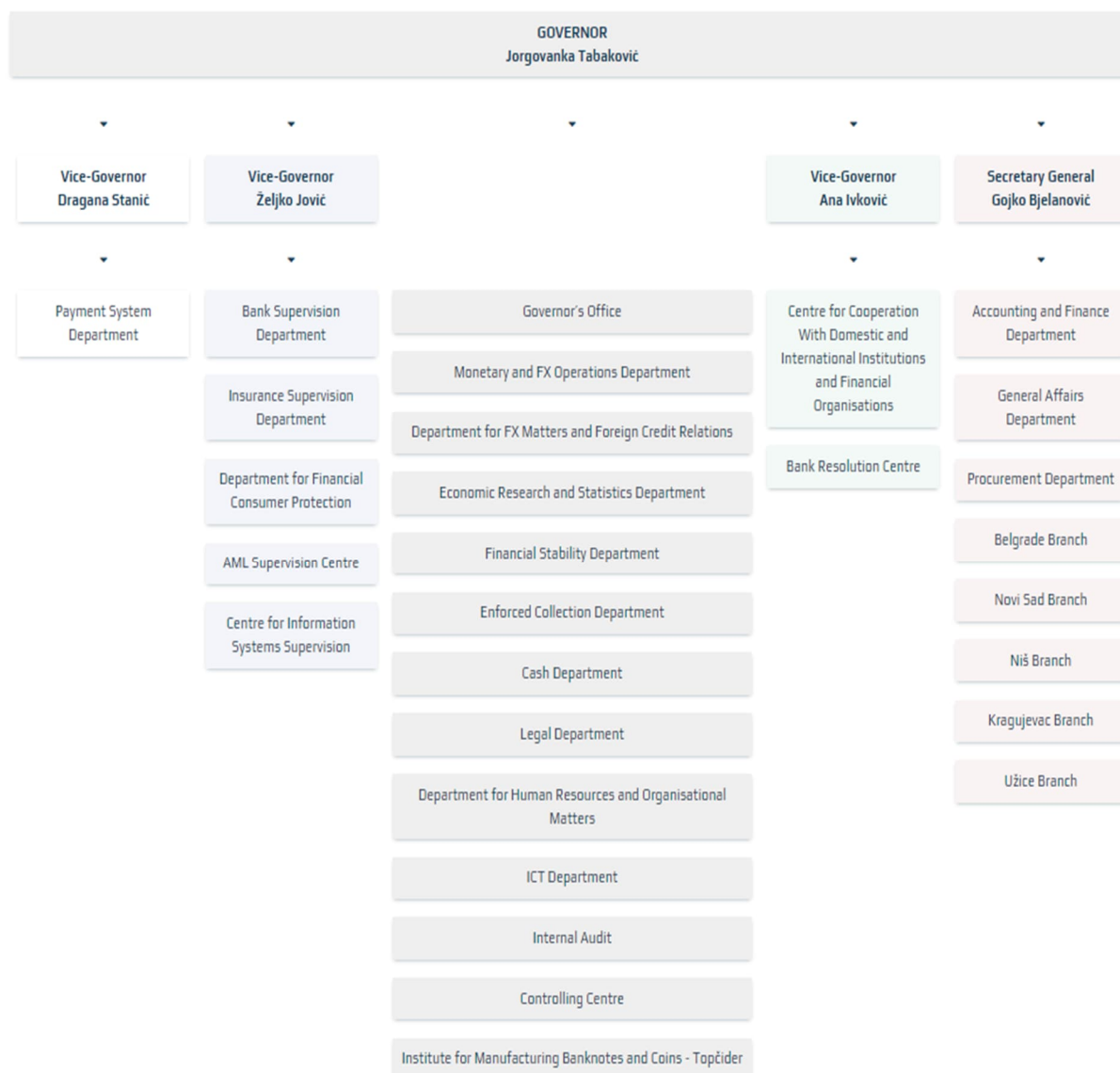
The Executive Board, comprised of the Bank's governors and vice governors, sets monetary and foreign exchange policies, as well as activities to preserve and strengthen the stability of the financial system.

The Governor advocates and represents the Bank, manages the Bank's operations and organizes its work, implements the decisions of the Executive Board and the Council, enacts regulations, general and individual acts under the jurisdiction of the Bank that are not placed in the jurisdiction of the Executive Board and the Council, proposes regulations, general and individual acts, if the Law is not otherwise regulated, regulates the internal organization of the Bank and systematizes jobs, employee working relations, appoints and dismisses employees who manage organizational units in the Bank, as well as other tasks determined by the Law and other laws in a way that does not contradict the basic objectives. The Governor is elected by the National Assembly at the suggestion of the President of the Republic of Serbia, for six years, with the right to re-elect. The Bank has two to four vice governors, elected at the governor's suggestion by the National Assembly, for six years, with the right to re-elect.

The Council, among other things, passes the Statute at the suggestion of the Executive Board, enacts the Bank's financial plan, adopts the Bank's annual financial statements, selects an external auditor, reviews the external auditor's report and monitors the implementation of the auditor's recommendations to management. The Council consists of five members, including the president, elected by the National Assembly at the suggestion of the National Assembly committee in charge of finance affairs. Council members are elected for five years, with the right to re-elect. Members of the Council are not employees of the Bank. The Bank is a legal entity based in Belgrade, Kralja Petra 12. The activities of the Bank determined by the Law and other regulations are performed in the basic organizational units of the Bank, Institute for Manufacturing Banknotes and Coins – Topcider (hereinafter: ZIN) and Bank branches in Belgrade, Novi Sad, Nis, Kragujevac and Uzice.

As of December 31, 2021, the Bank has 2,332 employees (2020: 2,372 employees).

The organization structure of the Bank:



In accordance with the Law, the Bank is the central bank of the Republic of Serbia and performs the functions established by this and other law. Republic of Serbia owns the entire capital of the Bank. National bank of Serbia, bank bodies and members of these bodies do not receive or seek instructions from state bodies and organisations, or from other persons. State bodies and organisations as well as other persons cannot jeopardize autonomy and independence of the Bank, nor can they influence the Bank, Bank's bodies and members of these bodies in performing their functions. Without jeopardizing the achievement of its objectives, the Bank, with the Government's consent, may represent the Republic of Serbia in international financial organizations and institutions and other forms of international co-operation.

In addition to the above mentioned, the Bank performs the following activities for the account of the Republic of Serbia:

- manages the system of the consolidated Treasury account for dinar and foreign currency assets, as well as other accounts determined by law and/or concluded contract;
- performs the activities of the fiscal agent on behalf of and for the account of the Republic of Serbia in connection with the borrowing of the Republic of Serbia abroad, i.e. activities related to withdrawal of funds and repayment of obligations to foreign countries;
- issues long-term securities relating to membership of the Republic of Serbia in the International Monetary Fund;
- settles liabilities of the Republic of Serbia on the basis of membership in the International Monetary Fund;
- other jobs for the Republic of Serbia, state bodies and institutions, in accordance with the law or the concluded contract.

The National bank of Serbia pays interest on the assets of the consolidated Treasury account system and other accounts determined by law in accordance with the contract concluded with the depositor. For the jobs and services provided to the state, the Bank charges a fee in accordance with the single tariff at which the Bank charges a fee for the execution of its services or on the basis of the concluded contract.

Credible View of Development, Financial Position and Results of Operations of the National bank of Serbia, with Financial and Non-Financial Indicators

National bank of Serbia has reported profit of RSD 55.5 billion in the Profit and Loss Statement.

By its function, the National bank of Serbia is a non-profit institution with aim to ensure that objectives of ensuring price and financial stability, as set by the Law are achieved in a sustainable way, with lower costs for all economic entities. Therefore, the success of the National bank of Serbia, like all other central banks in the world, is not measured by the financial result that has been achieved in one year, but how successful it is in achieving its legally defined goals and ensuring favourable business and investment conditions.

In the Report on the financial position of the National bank of Serbia as of December 31, 2021 (Balance Sheet) stated assets – property of the Republic of Serbia, which, in order to achieve the objectives and exercise its functions are used by the National bank of Serbia, and total liabilities and equity of the National bank of Serbia, amount to RSD 2,194.9 billion.

In the structure of assets, the largest share of total assets, 88.1%, refers to foreign currency reserves managed by the National bank of Serbia. Foreign currency reserves, depending on the shape in which they are located, are displayed in the following balance sheet positions: cash and current accounts with banks (RSD 655.5 billion), deposits with banks (RSD 95.2 billion), gold (RSD 227.1 billion), securities (RSD 857.6 billion) and funds in SDR (RSD 99.4 billion), while the remaining amounts presented in positions of cash and current accounts with banks (RSD 19.9 billion), gold and other precious metals (RSD 1.1 billion) and securities (RSD 123.1 billion) relates to dinar assets, foreign currency equity instruments, as well as the value of other precious metals. In addition to the assets that constitute foreign currency reserves, the assets of the balance sheet contain a membership quota of the Republic of Serbia in the IMF expressed as a placement denominated in SDR, as well as the value of property, plant, equipment, investment properties, intangible assets and other assets that the National bank of Serbia uses in its operations.

In 2021, the total assets of the National bank of Serbia increased by 18.26%, i.e. RSD 338.9 billion dinars, compared to 2020. National bank of Serbia has liabilities in the amount of RSD 1,806.6 billion and equity in the amount of RSD 388.3 billion.

The most significant income and expenses that the Bank achieved in 2021, in accordance with the the Law, are interest income and expenses. Interest income was RSD 12.4 billion and expenses were RSD 4.3 billion. Net interest income in 2021 amounted to RSD 8.1 billion, which is RSD 1.6 billion less than in 2020.

The Bank also reported fee and commission income in total of RSD 5.7 billion, which mostly relate to fees and commissions as determined by the Single Tariff, whereby the Bank charges for the services performed. The total amount of other operating income of the Bank is RSD 6.8 billion, from which RSD 6.3 billion relates to income from the operations of the Institute for Manufacturing Banknotes and Coins – Topcider.

BALANCE SHEET
As of December 31, 2021

<u>In thousands of RSD</u>	<u>Note</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
ASSETS			
Cash and current accounts held with banks	16, 3.4	675,393,606	394,424,179
Gold and other precious metal	17, 3.5	228,166,766	208,078,233
Deposits	18, 3.3	95,202,904	199,312,402
Receivables under derivatives	3.3	2,462	6,959
Securities	19, 3.3	980,667,570	920,174,460
Loans and placements	20, 3.3	910,044	16,375,557
IMF membership quota and SDR holdings	21, 3.3	187,854,210	91,475,050
Intangible assets	22, 3.7	703,159	288,428
Property, plant and equipment	22, 3.7	19,603,828	19,157,663
Investment property	22, 3.7	407,692	407,692
Other assets	23	5,997,527	6,315,841
TOTAL ASSETS		<u>2,194,909,768</u>	<u>1,856,016,464</u>
LIABILITIES			
Liabilities			
Liabilities under derivatives	3.3	602	69,442
Deposits and other liabilities to Government and financial organisations	24	798,086,390	748,773,102
Deposits and other liabilities to Government and other depositors	25	519,812,267	404,601,318
Liabilities to the IMF	26, 3.3	187,979,401	91,585,239
Provisions	27, 3.11	1,934,196	1,516,661
Current tax liabilities	28, 3.9	478,486	379,091
Dinars in circulation	29	295,311,307	266,698,917
Other liabilities	30	3,031,542	2,348,795
Total Liabilities		<u>1,806,634,191</u>	<u>1,515,972,565</u>
Equity			
State-owned capital		187,698,256	187,698,256
Reserves		145,039,502	160,572,376
Retained earnings		55,537,819	(8,226,733)
Total Equity	31	<u>388,275,577</u>	<u>340,043,899</u>
TOTAL LIABILITIES AND EQUITY		<u>2,194,909,768</u>	<u>1,856,016,464</u>

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INCOME STATEMENT

For the period from January 1, 2021 to December 31, 2021

<u>In thousands of RSD</u>	<u>Note</u>	<u>2021</u>	<u>2020</u>
Interest income		12,427,367	13,989,388
Interest expenses		(4,290,878)	(4,272,933)
Net interest income	4, 3.1	8,136,489	9,716,455
Fee and commission income		5,745,761	4,998,408
Fee and commission expenses		(316,789)	(536,144)
Net fee and commission income	5, 3.1	5,428,972	4,462,264
Net (loss)/gains from financial instruments measured at fair value through profit and loss	6	94,150	(49,747)
Net losses from derecognition of financial instruments measured at fair value through other comprehensive income	7	(2,898,097)	(2,802,286)
Net exchange rate (loss)/gains and from contractual currency clause	8, 3.2	47,248,692	(16,548,851)
Net (expense) of impairment/income from decrease in impairment of financial assets	9, 3.3, 32	318,817	(46,774)
Other operating income	10	6,778,894	5,595,301
Salaries, salary compensations and other personal expenses	11, 3.10	(5,422,342)	(5,208,114)
Depreciation costs	12, 3.7	(1,541,274)	(1,256,823)
Other income	13	1,872,261	1,735,234
Other expenses	14	(4,000,322)	(3,444,301)
PROFIT/(LOSS) BEFORE TAX		56,016,240	(7,847,642)
Income tax	28, 3.9	(478,486)	(379,091)
PROFIT/(LOSS) AFTER TAX	31	55,537,754	(8,226,733)

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STATEMENT OF OTHER COMPREHENSIVE INCOME
In the period from January 1, 2021 to December 31, 2021

<u>In thousands of RSD</u>	<u>2021</u>	<u>2020</u>
Profit/(Loss) for the period	55,537,754	(8,226,733)
Components of other comprehensive income which cannot be reclassified to profit or loss:		
Increase in revaluation reserves based on intangible assets and fixed assets	73,399	-
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	634,460	402,181
Actuarial gains/(losses)	(236,546)	179,412
Components of other comprehensive income that may be reclassified to profit or loss:		
Positive/(Negative) effects of change in value of debt instrument measured at fair value through other comprehensive income	(7,777,454)	3,745,188
Other comprehensive income for the period	(7,306,141)	4,326,781
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>48,231,613</u>	<u>(3,899,952)</u>

The Bank's financial statements are compiled in accordance with International Financial Reporting Standards (IFRS), in accordance with the principle of historical cost, except for the following balance sheet positions:

- gold and other precious metals that are measured at fair value;
- financial assets at fair value through profit and loss;
- financial assets at fair value through other comprehensive income;
- land and real estate which are measured at revalued value;
- investment properties measured at fair value;
- artistic and museum values and numismatic collections that are measured at fair value;
- provisions for severance pay and jubilee awards measured at the present value of future liabilities for redundancy and jubilee awards;
- provisions for litigation measured at value of assessed potential outcome of the claim;
- currency swaps that are measured at fair value.

Compiling a report in accordance with IFRS requires the use of certain accounting estimates. The Bank's management is required to use certain estimates in the application of the Bank's accounting policies. The Bank's financial statements are expressed in thousands of dinars. Dinar represents the Bank's functioning currency and official reporting currency in the Republic of Serbia.

Business transactions in foreign currencies, whose exchange rates are published on the Bank's official exchange rate list, are calculated in dinars by applying the official middle exchange rate valid on the day of the transaction, while for currencies, whose exchange rates are not published on the Bank's official exchange rate list, the calculation is made by applying the appropriate exchange rate of the Bank valid on the day of the transaction.

Monetary assets and foreign currency liabilities on the day of the balance sheet were translated to dinars at the official middle exchange rate of the dinar that was valid on that date (if the exchange rate for foreign currency is published at the Official Exchange Rate List of the Bank), i.e. at the appropriate exchange rate of the Bank (for foreign currencies whose exchange rate is not published in this list).

Exchange rate gains or losses resulting from the calculation of foreign currency transactions and when calculating the monetary positions of the balance sheet expressed in foreign currency are recorded as debit or credit postings in income statement, i.e. as income/expenses from exchange rate differences and the effects of the agreed currency clause. The structure of monetary assets and liabilities is shown in the foreign exchange risk analysis.

Information About Investments for Environment Protection

Climate change can lead to new types of risks to the financial system (physical risks, such as natural disasters caused by weather, which can negatively affect the finances of the population and economy, and transitional risks, which may refer to tightening regulatory policies on technological processes) and therefore the Bank continuously monitors and assesses these risks to the stability of the financial system. Climate change risk analysis is an extremely challenging area given that these are dynamic, still under-explored links and impacts.

During 2021, the Bank actively implemented measures related to environmental preservation, reducing paper consumption, reducing waste and improvising energy efficiency in its business. The cost of destroying the technogenic waste by the Institute for Manufacturing Banknotes and Coins – Topcider in 2021 was RSD 1.9 million.

Significant Events after the Balance Sheet day

Up to the date of issuance of financial statements, no materially significant events occurred after the balance sheet date that would require adjustment of financial statements (adjusting events).

After the balance sheet date, in accordance with the Law on Regulating the Obligations of the Republic of Serbia to the IMF on the basis for the usage of funds of the general allocation of the SDR, and the approval of the IMF Board of Governors on August 2, 2021 ("Official Gazette of RS" No. 114/2021), the conversion of part of the allocated funds of the Republic of Serbia in the amount of 564,800,000 SDR was recorded in a special account of the Ministry of Finance of the Republic of Serbia on January 31, 2022. This event indicates materially significant circumstances that occurred after the reporting period, but which do not require correction of recognized amounts in these financial statements (non-adjusting event).

As so far, the Bank will monitor all events that may in any way affect preserved stability in the Republic of Serbia, as it has proven in the previous period under the conditions of the COVID-19 pandemic. Similarly, the Bank is monitoring The Ukrainian - Russian crisis that began after the balance sheet date that has significantly affected developments in the global financial markets. The potential effects (positive and negative) on the Bank's financial results are continuously monitored and analysed. The Bank, in addition to comprehensive analytical tools, high level of reserves, excellent international cooperation, has a large number of instruments that allows for quick and adequate responses.

Planned Future Development with Research and Development Activities

The priority of monetary policy in the upcoming period will be to maintain price and financial stability, supporting the rapid growth of the economy and continued employment growth. By implementing target inflation strategy and responsibly applying consistent monetary policy, National bank of Serbia plans its activities in accordance with legally defined objectives, for which it is committed to in the upcoming period. The key principles of further implementation of monetary policy were determined by the Monetary Policy Program in 2022. As before, full coordination of monetary and fiscal policy measures will continue to preserve price and financial stability achieved and ensure a sustainable economic recovery from the pandemic crisis. National bank of Serbia will continue to closely monitor developments and the impact of key factors in the domestic and international environment on inflation, financial stability and the speed of economic recovery, and adjust its measures accordingly in the interest of our economy and citizens.

In order to maintain adequate levels of foreign exchange reserves and high level of their security and liquidity, the Bank will remain consistent with its commitment to maintaining a very low level of risk to its investment portfolio. Adequate level of foreign currency reserves, by volume and structure, is an important guarantee of security in times of crisis and proof that with its measures and activities. The Bank contributed to increased resilience of the domestic economy from potentially negative impacts from the international environment.

The Bank will continue to carry out activities aimed at greater use of dinars in the financial system.

In conditions of extreme uncertainty and challenges from the international environment, monetary policy measures enacted by the Bank have contributed to preserving price stability, relative stability of the dinar's exchange rate against the euro, and the stability of the financial system, a major prerequisite for establishing even greater confidence in the dinar in the upcoming period. To that end, the Bank will continue to review and bring in new regulatory and prudential measures aimed at increasing dinarisation as needed.

As supervisor of the financial sector, the Bank will continue to continuously and timely monitor the way financial institutions operate, conducting indirect and immediate control and, if necessary, enacting regulations aimed at preserving the quality of assets and financial stability. In the area of bank supervision, (re)insurance companies' supervision, financial leasing and voluntary pension fund management companies' supervision, the Bank will undertake activities towards further improvement of the supervision process and existing regulations, as well as its compliance with EU legislative. When it comes to bank supervision the following activities are planned during 2022: implementing the supervisory activities plan for 2022; continuous monitoring and analysis of the operations of banks and financial leasing companies and proposing adequate regulation; continuous indirect oversight of the operations of banks and financial leasing companies; direct oversight of the operations of banks and financial leasing companies according to the adopted plan; improving communication with the public,

banks and financial leasing companies, with the aim of achieving a higher level of understanding of the function of supervision, etc. Special attention will be paid to monitoring the effects of measures adopted to preserve the stability of the financial system in the conditions of the corona virus pandemic, in the interest of citizens and the economy. Bearing in mind the significant role of the insurance sector in providing protection to insurers against the consequences caused by the corona virus, as well as other geopolitical events and the importance of ensuring continuity of providing insurance services in the conditions of this crisis, the activities of the National bank of Serbia in 2022 will be aimed at maintaining the stability of the insurance sector (implementing the direct control plan, continuous indirect supervision of relevant entities and changing regulations) and improving the supervision function, all to ensure the protection of insurers, insurance users and third parties. In addition to regular indirect supervision of management companies and voluntary pension funds and licensing activities, procedures of direct controls will be implemented, in accordance with the direct control plan for 2022. The National bank of Serbia will pay special attention to preserving the stability of the voluntary pension fund sector and protecting the interests of fund members.

During 2022, National bank of Serbia has planned to continuously monitor the ways in which financial institutions assess the risk of the information system and manage these risks, indirect and direct controls, according to the needs and in accordance with the control plan. During 2022, National bank of Serbia will continue to monitor the implementation of regulations governing foreign exchange operations, i.e. will continue to control foreign exchange and exchange operations to check and determine the legality and properness of performing foreign exchange and exchange operations pursuant to the regulations governing foreign exchange operations, in order to protect the financial and economic system from unlawful actions, within its preventive and controlling functions.

In addition, National bank of Serbia will continue to implement the procedure of execution of legal and executive court decisions, which have been decided on temporarily confiscated funds, effective foreign money, checks and securities (orders for the execution of protective measures for the seizure or return of the specified funds, and temporarily confiscated in accordance with the Law on Foreign Exchange Operations).

Within the function of protecting financial services users, the collective protection mechanism will be improved. In accordance with current development trends of the function of protection of financial services users present in the Europe and wider international agenda – the determination of National bank of Serbia remains that, in addition to regular activities aimed at protecting the individual rights and interests of financial services users (which undertakes procedures on complaints and customer appeals), to the greatest extent it uses the collective protection mechanisms of these users (in the procedures of determining unfair business practices and unfair contractual provisions and procedures of indirect and direct control). These collective protection mechanisms are proven to be more effective, as they enable established irregularities in the treatment of financial services providers simultaneously towards all users whose rights and interests have been harmed. Therefore, the resources of National bank of Serbia will be heavily engaged in the implementation of indirect (as a rule targeted) and direct (as a rule of comprehensive) bank controls in the upcoming period. In addition, National bank of Serbia plans to continuously raise standards in the area of market behavior of banks and in individual segments of particular importance from the aspect of protection of financial services users (such as information in the pre-contractual phase, early repayment right, etc.). Hence, establishing best practices in the market and improves good business practices with instructions on the treatment they are obliged to apply to all banks.

National bank of Serbia will continue with activities aimed at modernising and increasing the efficiency of payment systems. From February 2021, National bank of Serbia, together with representatives of the Government, ministries, competent agencies, World Bank, science and technology parks, ICT clusters and IT hubs, NALED and the Initiative "Digital Serbia" etc., participates in the work of the Working Group for the development of the Proposal for The Development of start-up ecosystems of the Republic of Serbia from 2021 to 2025. The task of this working group, among other things, is to define priority policies for the accelerated development of start-up ecosystems with an emphasis on public and private investment, enabling access to entrepreneurial capital, and improving local and regional connectivity of the domestic start-up ecosystem. In 2022, the following activities are planned for the maintenance and improvement of safe and stable operation of payment systems within the monitoring function: regulatory activities regarding the improvement of regulations and internal acts governing the stable and secure operation of the payment system; activities to assess the compliance of an important payment system with the law governing payment services and regulations enacted under this law to maintain its safe and stable work and adequate risk management in this system; continuous indirect oversight of the operation of payment systems by collecting and analyzing reports and other documentation and data provided by the operator to National bank of Serbia in accordance with the law governing payment services and regulations enacted under this Law.

In the area of money laundering prevention, National bank of Serbia will act actively – as a regulator and supervisor. In the area of money laundering prevention, National bank of Serbia will undertake activities towards further improvement of supervisory activities to timely monitor exposure to the risk of money laundering and the financing of terrorism, implementation of the plan for direct control scrutiny of the risk management of money laundering and terrorism financing for 2022, as well as continuous monitoring of international standards in this area. The activities of National bank of Serbia will also be aimed at further strengthening co-operation with relevant state authorities (especially the Administration for the Money Laundering Prevention) and the bonds it oversees in the area of money laundering prevention and terrorism financing. Special attention will be focused on further implementation of activities defined by the Action Plan for implementing the National Strategy for Combating Money Laundering and Financing of Terrorism for the period 2020-2024.

National bank of Serbia will continue to adjust legislation from its jurisdiction for the efficient functioning of the entire system. National bank of Serbia will prepare temporary measures to preserve the stability of the financial system, as well as other measures, depending on the pandemic's flow and further assessment of its consequences. Work will be continued on the creation of legal and other assumptions to facilitate the use of the bill in electronic form (e-bills) in legal and business transactions in the Republic of Serbia, to improve conditions and create new opportunities for economic development. Appropriate measures are also envisioned to improve the drafting of laws and other regulations under the jurisdiction of National bank of Serbia and to monitor EU regulations, as well as to develop operations to represent National bank of Serbia before the courts and compliance of business. Continuous implementation of business behaviour standards at National bank of Serbia and their eventual normative improvement are being considered. Internationally, successful co-operation with the IMF and other international financial institutions is expected to continue, the continuation of National bank of Serbia's activities in the process of European integration, bilateral financial co-operation, as well as the realization of the Revolving Credit Fund of the Republic of Serbia and the donation of the Kingdom of Denmark – The Local Economic Development Program in the Balkans (LEDIB Program).

National bank of Serbia will continue to improve its analytical framework as an auxiliary tool in deciding monetary and macroprudential policies. And in the current year, National bank of Serbia will continue to develop the analytical framework and work to further improve existing and introduce new models for inflation and GDP projection and analysis of the monetary policy transmission mechanism. One direction of developing the underlying model for the medium-term projection will go through the inclusion of fiscal impulse in the model as a factor on the demand side, given the significant effects of fiscal aid packages in pandemic conditions on the movement of inflation and GDP. In addition, it will continue to improve the General Economic Balance (DSGE - Dynamic stochastic general equilibrium) model, which is used in assessing the credit channel of monetary policy transmission in conditions where a substantial portion of that channel is related to euro loans and Euro-indexed loans. In order to preserve a high level of public confidence in the central bank's activities, the priority remains responsible and timely communication. Effective communication with the public in particular gains importance during periods of challenges from the world or the environment. Therefore, National bank of Serbia seeks clear and active communication not only with the professional but with the general public.

In the field of statistics, National bank of Serbia will continue to improve its activities, given its importance for successful management of monetary, macroprudential and microprudential policies.

Further technological development of production processes is planned in part of the activities of the Institute for Manufacturing Banknotes and Coins, while optimizing the cost of doing business. It will continue to ensure an adequate level and cash structure in circulation. National bank of Serbia has undertaken activities under its jurisdiction to ensure that cash payments are conducted smoothly. To that end, National bank of Serbia supplied its branches in Belgrade, Kragujevac, Nis, Novi Sad and Uzice with sufficient quantity and denomination structure of banknotes and coins and was able to accommodate banks' demand for cash payments at any time.

With the aim of improving and increasing the efficiency of the entire business processes, employees of National bank of Serbia are constantly educating and developing their competences. The most important capital of National bank of Serbia is its employees. In the process of improving existing business processes and strengthening professional capacities in new areas of business, constant education and development of employees of National bank of Serbia are of particular importance. National bank of Serbia strives to use the other business resources it has at its disposal in the most efficient way possible.

Financial Instruments

The National bank of Serbia classifies financial instruments in the following categories:

- Financial instruments at amortised cost,
- Financial instruments at fair value through other comprehensive income and
- Financial instruments at fair value through profit and loss.

The classification depends on the business model in which the funds are held and the characteristics of the cash flows arising from those funds. Financial liabilities are classified as financial liabilities at amortised cost and financial liabilities at fair value through profit and loss. Business model in which funds are held is how the Bank manages these funds in order to achieve cash flows on the basis of financial assets. The aim of the business model may be to collect contractual and other cash flows, to collect contractual cash flows and other cash flows and cash flows based on the sale of that asset or other, and the type of business model in which certain funds are held is determined on the basis of:

- policies and objectives related to certain financial instrument (implementation of monetary and foreign exchange policies and other measures and activities within the jurisdiction of National bank of Serbia, liquidity management, achieving robust compliance of financial assets and liabilities, achieving interest income, achieving income from changes in fair value of financial instruments, etc.),
- frequency, volume and timing of the sale of financial instruments in the previous period, the reason for these sales and expectations regarding future sales activities,
- manner of assessing the success of management and reporting methods related to financial instruments,
- types of risks that affect certain financial assets and ways of managing these risks.

Financial instruments are classified into category of financial instruments measured at amortised cost if business model whose main goal is to collect contractual and other determined cash flows is applied, and if the cash flows that arise consist solely of the collection of principal and interest on the unpaid principal amount on the specified date. Financial instruments are classified in the category of financial instruments measured at fair value through other comprehensive income if business model whose main goals are to collect contractual cash flows and sell, and if the cash flows that arise consist solely of the collection of principal and interest on the unpaid principal amount on the specified date is applied. All other financial instruments are measured at fair value through profit and loss.

Management determines the classification of assets and liabilities on initial recognition, and any subsequent reclassifications are performed if the Bank changes the business model for managing financial instruments.

Financial instruments at fair value through other comprehensive income consist of securities designated through other comprehensive income if they reflect the business model of managing financial instruments held for collection and sale, if cash flows result only from the collection of principal and interest on the unpaid principal amount to the specified date. Financial instruments at fair value through OCI relate to foreign government bonds, foreign securities of the public sector, foreign securities with quality collaterals, as well as foreign state discount securities which are expressed at fair value on the day of the balance sheet according to the financial market quotation. In addition to these securities, for equity participation of international financial institutions as of December 31, 2021 National bank of Serbia has opted for accounting treatment as assets measured at fair value through OCI. This selection was conducted on the basis of an individual instrument at the time of initial recognition and cannot be undone.

Also, on the date of initial recognition, National bank of Serbia can irrevocably classify the asset at fair value asset through profit and loss, although it meets measurement requirements for amortised cost or at fair value through OCI, only when it aims to eliminate or significantly reduce the accounting discrepancy that would otherwise arise. The effects of changes in fair value of securities are expressed within the equity as the position of fair value reserves. During the holding of securities, National bank of Serbia accrues interest by using effective interest rate method and records coupon interest within the position of interest income.

For equity instruments that are recorded at fair value through OCI, changes in fair value after initial recognition are recorded in the equity within fair value reserves and can never be recognized through income statement, even at the time of sale. Accumulated gains or losses recognized in the Other comprehensive result are transferred to retained earnings at derecognition. Equity instruments are not subject to impairment. The effects of exchange rate changes are included within the equity as the position of reserves based on fair value. Dividends arising from equity instruments are recorded within the position other operating income in the income statement.

Loans and receivables are non-derivative financial instruments with fixed or determined repayments that are not listed on the active market. Loans and receivables are measured at amortised cost less impairment. Loans are specifically presented within the position of Loans and placements, while receivables are expressed within Other assets. Financial instruments measured at amortised cost are investments in debt securities where the Bank has a firm intention and the ability to hold these securities until their maturity. These securities are valued at amortised cost less impairment. Deposits include assets in accounts with foreign banks with an investment grade rating and are measured at amortised cost. Financial liabilities per repo transaction are measured at amortised cost. Difference between cost and buyout value is recognized in the income statement during the loan period based on the effective interest rate method.

National bank of Serbia organizes swap sales auctions, i.e. foreign currency purchases, which are a regular instrument for securing foreign currency and dinar liquidity of the banking sector. The aim of this is to encourage the development of interbank swap trade in foreign currency and the development of the exchange rate protection instrument market. Swaps are measured at balance sheet on the day at fair value through profit and loss. Positive fair value of swaps is expressed as an asset within Receivables under derivatives, negative fair value as liabilities within Liabilities under derivatives, and the effects of the change in fair value are expressed in the income statement within the position of Net gains on financial instruments measured at fair value through profit and loss.

Assets and liabilities to the International Monetary Fund expressed at initial cost in special drawing rights are estimated at the special drawing rights rate published by the International Monetary Fund using the official middle exchange rate of the USD that is valid on the appropriate date. Transactions in Special Drawing Rights are converted into Dinars using the official middle exchange rate of the National Bank of Serbia at the time of the transaction.

Regular purchases and sales of placements are recognized at the date of the transaction - the date on which the Bank pays for the purchase or receives funds from the sale of assets or at settlement date. All financial assets are initially recognized at fair value plus transaction costs, while financial assets at fair value through profit or loss are initially recognized at fair value without the stated costs.

Fair value of financial assets quoted on the stock exchange is determined on the basis of current market quotations. In the case of instruments for which there is no active market (not quoted on the stock exchange), the Bank determines their fair value based on an estimate using information on recent transactions on the market, using the discounted cash flow method or using the "option pricing" model.

Reclassification of financial instruments is carried out in the case of a change in the business model within which they are held. The effects of the reclassification of financial assets from the category measured at amortised cost and at fair value through other comprehensive income into the category of financial assets carried at fair value through profit and loss are reported as net gain/(loss) under reclassification of financial assets in the income statement, while other reclassifications, including their effects, are recorded within the positions of balance sheet.

Modification of financial instruments is a change in the established (contracted, prescribed or otherwise in accordance with the regulations established) cash flows of a financial instrument arising from renegotiation or otherwise. If, when modifying the financial instrument, it is estimated that the cash flows have not changed significantly, recognition of such financial instrument continues at modified amount, and the difference between the book value and the modified amount is recorded in the income statement. Otherwise, the financial instrument is derecognized and a new financial instrument is recognized. In assessing whether cash flows are substantially modified, the Bank uses the following criteria:

- discounted (present) value of cash flow on changed terms (modified value) changed by 10% or more in relation to discounted (present) value of remaining cash flow on terms of original financial instrument, or
- significantly changed conditions of the original financial instrument in accordance with the particular circumstances of the individual case, regardless of the extent to which the cash flow was changed (change of debtors, change of currency, introduction of the possibilities of conversion of claims into equity securities, change of fixed interest rate into variable and reversed and changes in classification of financial instruments).

Impairment of financial assets (allowance for expected credit losses) is carried out at each balance sheet date, for the amount expected credit losses of financial assets carried at amortised cost and financial assets carried at fair value through other comprehensive income. The expected credit loss is the amount of the present value of the estimated losses weighted by the risk of default.

The carrying amount of financial assets is decreased indirectly through the allowance account and is recorded within net income from decrease in impairment /(expenses) on impairment of financial assets. If, during next year, there is a decrease in the amount of recognized impairment loss, the previously recognized impairment loss is reduced by adjusting the allowance account and the amount of the adjustment is recognized in the income statement.

Financial assets are written off directly in whole or in part, when there is no reasonable expectation of recovering a financial asset, either in whole or in part, as in the case where it is established that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out on an individual basis. Financial assets that have been written off, and which are still the subject to collection are recorded as off-balance sheet items. Financial assets are derecognized when the Bank loses control over the contractual rights over these instruments, which occurs when the rights to use the instruments are realized, expired, abandoned or transferred. The financial liability ceases to be recognized when the liability ceases to exist.

Financial asset and financial liabilities are offset and the net balance is presented in the balance sheet only if there is a legal right to carry out offset and if there is an intention of the Bank to make the collection of funds and payment of liabilities in the net amount or to simultaneously collect funds and settle liabilities. Revenues and expenses are presented in the book on the net basis if the result (effect) of the offset reflects the substance of the transaction they originated from. Cash and cash equivalents include cash and balances on current accounts. Cash and current accounts held with banks are measured at amortised cost.

Gold and other precious metals are measured at fair value at the balance sheet date. Precious metals, which are part of the foreign exchange reserves, were estimated at the price of gold and silver in the day-to-day fixing at the London Bullion Market Association, using the official US dollar average dinar exchange rate valid on the last day of the month, or on the basis of the price Platinum & Palladium Market Association, London fixing, using the official mid-dinar exchange rate for the US dollar that was valid on the last day of the month. The effects of changes in the fair value of gold and other precious metals that are part of the foreign exchange reserves are presented in the profit and loss account, as gain/loss on the basis of exchange differences and the effects of the contractual currency clause.

Bank's inventories comprise materials, work in progress and finished products of ZIN mostly, as well as precious metals used for making commemorative coins, and ZIN products intended for the market. These inventories are stated at the lower of cost and net realizable value.

Plant, equipment and intangible assets are stated at cost less any allowance for impairment. The Bank applied the allowed alternative method of measuring real estate that it uses, a part of other fixed assets (works of art and museum values) and parts of equipment (period furniture) at the revalued value.

Valuation of used real estate and investment real estate was performed by hiring an external independent appraiser using market (comparable prices of real estate subject to purchase / sale in the local market, with adjustments related to the physical condition of a particular property), yield (determining the present value of future cash flows during the economic life of funds by applying a capitalization rate that reflects the risk of achieving projected cash flows and time value of money) and cost approach (costs of building a new building, which deduct three possible forms of obsolescence: physical, functional and economic).

The increase in the revalued value of land that is reported in the Bank's accounting records, i.e. the recording of the difference between the estimated value and the current book value is expressed through an increase in revaluation reserves. The decrease in value on the basis of revaluation is recorded by a proportional decrease in the purchase value and accumulated depreciation of fixed assets, and the increase in value on the basis of revaluation - by a proportional increase in the purchase value and accumulated depreciation of fixed assets.

The amounts of accrued revaluations are recorded in favour of the other comprehensive income, for the positive effects of the valuations, and are accumulated on the accounts of revaluation reserves within the equity. Negative effects of the valuations are recognized as the expense of the profit and loss account, unless the revaluation reserve has been formed for the specific asset in the previous periods, in which case the negative effects are recognized in other comprehensive income, to the level of previously formed revaluation reserves. Positive effects of the valuation are recognized in favour of the profit and loss account only up to the amount of previously recognized negative valuation effects the event that individual items in previous periods had a negative effect of the appraisal recognized at the expense in the profit and loss account.

Investment property is valued at fair value. The effects of the change in fair value are disclosed at the expense or in favour of the profit and loss account within other income or other expenses

Calculation of depreciation of property, plant and equipment and intangible assets begins when these assets are put into use. Depreciation is calculated evenly on the cost of fixed assets by applying the following annual rates, which have not changed during 2021, with the aim of writing off the funds completely during their useful lifespan. During 2021, accounting data has been harmonized with the remaining useful life of real estate. In this regard, the total accumulated depreciation of property amounts to is RSD 52,097 thousand.

Repairs and maintenance cost of property, plant and equipment generated to preserve the asset's useful life is recognized as an expense at the time of formation. Capitalization of investment costs is permitted only if it increases or extends the use value of the assets.

Gains arising from the sale of property, plant and equipment are credited to Other operating income. Losses incurred on disposal of property, plant and equipment are recorded at the expense in Other expenses. Revaluation reserve on disposal and write-offs of assets is transferred to retained earnings.

The Law on Public Property prescribes that the Government of the Republic of Serbia decides on the disposal of fixed assets used by the Bank and the establishment of a mortgage on such assets.

National bank of Serbia is a taxpayer of corporate income tax in accordance with the provisions of the Corporate Income Tax Law of the Republic of Serbia and the Rulebook on the contents of the tax return for non-profit organizations - taxpayers of corporate income tax. Deferred income taxes are calculated according to the balance sheet on all temporary differences on the balance sheet day between the present value of assets and liabilities, financial statements, and their tax values. The Bank does not calculate or present deferred taxes due to the lack of temporary differences.

In accordance with regulations effective in the Republic of Serbia, the Bank is under obligation to pay contributions to various state social security funds. These obligations involve the payment of contributions on behalf of the employees by the employer in the amounts calculated by applying the specific legally prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees and to transfer the withheld portions on their behalf directly to the appropriate Government funds. The contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

For short-term employee benefits, the Bank recognizes within expenses the undiscounted amount of short-term employee benefits expected to be paid in exchange for the services rendered.

For long-term benefits, the Bank recognizes a discounted amount of fees that are expected to be paid in exchange for the services provided by employees. The Bank implements a defined remuneration plan for employees in accordance with internal acts, according to which the employee is entitled to severance pay in the amount of three times the earnings he earned for the month preceding the month in which his employment is terminated or in the amount of three times the average monthly salary per employee paid in for the month preceding the month in which his employment is terminated, depending on which of these two amounts is more favourable.

The last assessment of the current value of liabilities under the defined benefit plan was carried out as of December 31, 2021. The Bank uses the best possible variable estimates when determining the total cost of booking for termination fees. The basic assumptions of the assessment are explained in the Note 27.

In the financial statements of the Bank as at December 31, 2021, provision was made on the basis of the estimated present value of retirement funds for retirement after fulfilled conditions, as well as the provision based on the estimated present value of jubilee awards. The Bank applied the actuarial method of lending to the projected unit for determining the present value of its liabilities and all actuarial assumptions, primarily demographic (mortality and disability), in accordance with IAS 19 - "Employee Benefits".

Actuarial gains and losses and costs of previously performed services are recognized in the income statement when they occur, while actuarial gains and losses on retirement benefits are recognized in the statement of other comprehensive income. Payments for unused annual holidays from the current year represent short-term liabilities of the Bank. In the financial statements of the Bank as at December 31, 2021, provision was made for funds for the payment of compensation for the days of unused annual leave for 2021, which employees did not use during 2021. The Bank's obligation shall cease if the employee does not use the holiday until June 30 of the following year. The bank is obliged to pay compensation for unused annual leave only in case of unused vacation in case of termination of employment.

The presentation of the financial statements requires the Bank's management to use best estimates and reasonable assumptions that affect assets and liabilities amounts, disclosures of contingent liabilities and receivables as of the date of preparation of the financial statements, and the income and expenses arising during the reporting period. These estimates and assumptions are based on information available as at the date of preparation of the financial statements. Actual amounts may vary from these estimates.

Estimates and assumptions are subject to constant review. Changes to accounting estimates are recognized in the period when they are made if their impact is limited to that period or in future periods, in case when the change impacts future periods as well. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Expected credit losses of financial assets are estimated for an individual financial asset or for a group of financial assets with the same characteristics, taking into account all relevant and available quantitative and qualitative information, related to past, present and future events.

Impairment of financial assets implies defining criteria that determine whether the significant increase in credit risk of a financial asset has occurred as compared to the initial recognition of that financial asset by defining, selecting and accepting an appropriate internal methodology by the management. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.

Bank's policy is to disclose fair value information on those financial assets and financial liabilities for which published market information is readily available or such value may be calculated by applying certain alternative valuation techniques, and whose fair value is materially different from their recorded amounts. As per the Banks' management, amounts presented in the financial statements reflect fair value which is most reliable and useful for financial reporting purposes, in accordance with International Financial Reporting Standards. Fair value of financial instruments for which an active market does not exist is determined by applying adequate methods of estimating future cash flows of assets that are discounted by applying an adequate discount rate to their fair value. The Bank applies its professional judgment in the selection of adequate methods and assumptions.

National bank has independently calculated provisions for employee retirement benefits and jubilee awards by using its professional judgment to determine the discount rate, income growth rate and employee turnover rate based on the available information.

The calculation of depreciation and amortization, as well as depreciation and amortization rates are based on the estimated economic useful life of property, plant, equipment and intangible assets. Once a year the Bank assesses economic useful life based on current assumptions. The Bank estimates the probability of occurrence of an unfavourable event that is the result of a past event, and if it is estimated that the event will occur with probability greater than 50%, the Bank makes provisions in the total amount of the liability. The Bank is cautious in its estimates, but due to high level of uncertainty, in some cases, the estimate might not be consistent with eventual future outcome of the litigation.

Objectives and policies for financial risk management, with the mitigation policy of each significant type of planned transaction

The presentation of the financial statements requires the Bank's management to use best estimates and reasonable assumptions that affect assets and liabilities amounts, disclosures of contingent liabilities and receivables as of the date of preparation of the financial statements, and the income and expenses arising during the reporting period. These estimates and assumptions are based on information available as at the date of preparation of the financial statements. Actual amounts may vary from these estimates.

Estimates and assumptions are subject to constant review. Changes to accounting estimates are recognized in the period when they are made if their impact is limited to that period or in future periods, in case when the change impacts future periods as well. The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Expected credit losses of financial assets are estimated for an individual financial asset or for a group of financial assets with the same characteristics, taking into account all relevant and available quantitative and qualitative information, related to past, present and future events.

Monetary Policy Instruments for Assessing Financial Position and Success of Operations

National bank of Serbia achieves inflation goals by choosing monetary policy instruments based on an analysis of the current economic situation, review of future developments and medium-term inflation projections. National bank of Serbia uses monetary policy instruments to ensure that inflation is met and that deviations achieved from the inflation target are temporary. Inflation cannot be expected to equal the target at any time. In serious shocks, it is not always possible, nor desirable, to return inflation to the target rate in a short period of time, given the delays in the transmission mechanism and the impact this could have on general macroeconomic and financial stability. Therefore, like other central banks, the National bank of Serbia will allow a temporary deviation of inflation from the set target in case inflation returns to the target in the short-term period requires monetary policy changes that could cause additional macroeconomic instability. This is especially true in cases of sudden changes in the price of primary products or deviations in planned price increases of products that are directly or indirectly influenced by government decisions.

Key policy rate is a basic instrument of monetary policy in inflation targeting mode. Other monetary instruments, including interventions in the foreign exchange market, have only an auxiliary role. This interest rate is applied by the National bank of Serbia in the implementation of major operations on the open market (currently in the implementation of reverse repo transactions, i.e. repo transactions of the sale of securities, with a one-week maturity). It is an operational goal for short-term interest rates in the money market. Its role as an operational goal is supported by a corridor of interest rates on deposit and credit incentives and other open market operations.

Other monetary policy instruments of the National bank of Serbia have an auxiliary role – contributing to the smooth transmission of the impact of the key policy rate on the market, as well as the development of financial markets. These instruments are: open market operations, required reserves, lending and deposit facilities (standing facilities) and foreign exchange market interventions.

As in the case of more developed market economies, especially those in inflation targeting mode, the National bank of Serbia uses interest rates on the interbank money market as an operational goal, and as an interim projection of inflation.

National bank of Serbia conducts operations on the open market by purchasing and selling securities – to regulate liquidity of the banking sector, to influence the movement of short-term interest rates and to signal stance on monetary policy.

Depending on the objectives, dynamics and manner of implementation, the open-market operations conducted by the National bank of Serbia are sorted into: main operations, longer-term operations, fine-tuning operations.

Main operations play the most important role in terms of achieving the objectives of open market operations. They are reverse repo transactions – repo sale of securities, with the maturity of one-week. The NBS implements the main operations with a regular frequency, at standard auctions held according to a pre-determined calendar. These operations are conducted at the NBS key policy rate.

Longer-term operations aim to provide liquidity to the banking sector and/or absorb excess liquidity in the longer run. They are implemented at standard auctions.

Fine-tuning operations are implemented on as needed basis, to prevent or ease swings in banking sector liquidity, and particularly their effect on short-term interest rates. As a rule, they are conducted at quick auctions, i.e. on the day a decision is made to hold an auction.

Main characteristics of open market operations:

Auction trading in securities between the NBS and banks is performed via the web platform NBS Monetary Operations.

Eligible for auction trading are dinar securities not indexed to a foreign currency, issued by the NBS, the Republic of Serbia, an international financial organisation and development bank or a financial institution founded by a foreign government, with the credit rating of “AAA” by Standard & Poor’s or Fitch-IBCA , or “Aaa” by Moody’s and a domestic company with a solvency rating of minimum “(D) Eligible solvency” as assigned by the Serbian Registers Agency or with other solvency/creditworthiness rating equivalent to “(D) Eligible solvency”.

Auctions may be fixed rate auctions (where securities are purchased/sold at a fixed interest rate predefined and announced by the NBS) and variable rate auctions (where securities are purchased/sold at an interest rate set based on supply and demand in trade transactions).

All banks meeting the prescribed requirements may take part in the purchase/sale transactions with the NBS.

Clearing and settlement of liabilities and claims in securities and cash on the grounds of concluded purchase/sale transactions are performed by the Central Securities Depository and Clearing House by the delivery versus payment model.

Required reserves are the amount of funds that banks are required to keep on deposit in accounts designated for such purpose by the central bank. Required reserves constitute a monetary policy instrument which a central bank uses to varying degrees depending on the conditions of the financial system.

The degree of monetary policy tightening using this instrument is determined by the required reserve ratio, which may be uniform or differentiated, and by the reserving base to which the ratio is applied. To this effect, reserve requirement may be applied to either total or fraction of deposits, or reservable liabilities may include other categories, such as liabilities in respect of loans and proceeds derived from securities issued.

By changing the reserve ratio, the central bank induces a reduction or expansion of commercial banks’ lending potential, and withdrawal and/or creation of liquidity. In market economies, required reserve ratio is used as an instrument for regulating bank credit potential rather than bank liquidity.

National Bank of Serbia uses reserve requirements only as a supportive instrument when the effects of all other market-based measures for monetary regulation are exhausted. Decisions on the level of reserve ratios and the reserving base are taken by National Bank of Serbia’s Executive Board.

As provided by the Law on the National Bank of Serbia, the Executive Board sets the level of the key policy rate and main interest rates applied by the NBS in money market operations.

Key policy rate has the role of signalling the monetary policy stance, as well as the role of benchmark interest rate because the level of money market interest rates i.e. interest rate corridor, is set with reference to this rate. Key policy rate is the highest and/or lowest interest rate applied by the National Bank of Serbia in the conduct of repo transactions of sale and/or purchase of securities. The level of the key policy rate is set by the Decision on the Key Policy Rate of the National Bank of Serbia.

Interest rate corridor, i.e. the highest and lowest interest rate used by the NBS in the conduct of money market operations, is established based on the level of key policy rate. The highest interest rate is the rate on lending facility (O/N daily liquidity loan), while the lowest interest rate used by NBS in the above transactions is the rate on deposit facility (overnight deposits with NBS).

With the Decision on interest rates that the National bank of Serbia applies in the process of implementing monetary policy (EB NBS No. 56 of August 8, 2019, EB NBS No. 65 of November 7, 2019, EB NBS No. 53 of 11 March 2020, EB NBS No. 76 of April 2020, EB NBS No. 88 of 11 June 2020, EB NBS No. 101 of July 20, 2020, EB NBS No. 115 of December 10, 2020, and EB NBS No. 1 from January 14, 2021) the level of interest rates on lending and deposit facilities was determined, as well as the level of other active and passive interest rates of the National bank of Serbia.

The National Bank of Serbia charges interest to commercial banks on the amount of overnight loan for maintaining daily liquidity, extended against a collateral of securities (liquidity loan) – by applying the interest rate equal to the key policy rate increased by 0.90 percentage points; the amount of credits and other lending that have not been repaid within the agreed or prescribed period, and/or that are used contrary to regulations – by applying interest rates determined by the law regulating default interest; the amount of difference between the calculated amount and actual average daily balance of allocated dinar required reserves in the maintenance period lasting from the 18th of the month to the 17th of the following month (hereinafter: maintenance period), and on the amount of difference between the prescribed and calculated dinar required reserves in the maintenance period - by applying interest rate equal to the key policy rate plus 5 percentage points; the amount of difference between the calculated and actual average daily balance of allocated foreign currency required reserves in the maintenance period and on the amount of difference between the prescribed and calculated amount of foreign currency required reserves in the maintenance period – by applying interest rate equal to the three-month EURIBOR applicable on the date of interest calculation, increased by 5 percentage points; the amount of positive difference between the actual average daily balance of allocated foreign currency required reserves and the calculated foreign currency required reserves in the maintenance period (higher-than-calculated allocations of foreign currency required reserves) – by applying interest rate equal to the three-month EURIBOR applicable on the date of interest calculation, increased by 5 percentage points.

National Bank of Serbia pays interest to banks on the amount of actual average daily balance of allocated dinar required reserves in the maintenance period which does not exceed the amount of calculated dinar required reserves – by applying the interest rate of 0.10% p.a. Exceptionally, in order to mitigate the economic consequences of the COVID-19 pandemic, National bank of Serbia pays on part of these funds, if the prescribed conditions are met - interest at an interest rate of 0.60% per annum (0.10% + 0, 50 percentage points), on the amount of surplus liquid assets that the bank deposited with the National Bank of Serbia (deposit facilities) - at the interest rate in the amount of key policy rate reduced by 0.90 percentage points.

Exposure and Risk Management

The underlying financial risks the Bank is exposed in its day-to-day operations are:

- credit risk,
- liquidity risk,
- interest rate risk and
- currency risk.

Since the Bank aims to maintain price stability and preserve financial stability in the Republic of Serbia, its framework for managing financial risks differs from other commercial financial institutions. Most of the Bank's financial risks arise on the basis of foreign currency reserves management and on the basis of operations on financial market.

Management of foreign currency reserves is conducted on the basis of the Strategic Guidelines for Management of Foreign Currency Reserves of the Bank determined by the Executive Board. The strategic guidelines define the criteria for placement of foreign currency reserves and foreign currency reserve targets, as well as the global framework for placements and more. Tactical guidelines for foreign exchange reserve management are drafted on the basis of strategic guidelines and adopted by the Bank's Executive Board at the suggestion of the Bank's Investment Committee.

Tactical guidelines are implemented in the Foreign Exchange Reserve Department within the Sector for Monetary and Foreign Exchange Operations. The Department for Risk Management and Risk Control within the Department of Foreign Exchange Reserves is responsible for creating and maintaining the framework for managing financial risks of foreign currency reserves, monitoring and analyzing these risks on a daily basis and reporting monthly to the Executive Board.

As with most other central banks, the very nature of the Bank's operations and its functions expose it to a range of operational and reputational risks.

Credit Quality of Financial Instruments

The Bank's basic exposure to credit risk arises primarily on the basis of foreign currency reserve management. When placing foreign currency reserves, the Bank is governed by liquidity and security principles. The Bank strives to achieve as much yield as possible by investing in foreign currency reserves, but without questioning liquidity and security. Analysis and measurement of credit risk of the Bank's portfolio is performed in accordance with generally accepted methods, including requirements for a minimum credit rating.

Securities in which it is invested must have a minimum combined credit rating of A-for-State, A + for public sector bonds and AA for securities covered by collaterals, according to ratings agencies Standard&Poor's, Moody's Investor Service (Moody's) and Fitch Ratings. Banks where the Bank places deposits, if they are not covered by collateral, must have a minimum combined AA credit rating, according to ratings agencies Standard&Poor's, Moody's and Fitch Ratings. For each bank, an individual credit limit is set, based on the bank's credit rating, experience working with these banks, as well as on the basis of analysis of bank business data. Individual credit limits are set in the List of Securities issuers and banks where it is permitted to place the bank's foreign currency reserves, which are adopted by the Executive Board. Placements at central banks and international financial institutions are not limited. An exception to previous positions consists of funds in the Bank's regular current accounts with banks that do not have the specified rating and are used for the purposes of conducting payment swaps with foreign countries.

The Bank's placements in dinar securities relate to state and corporate securities obtained by permanent purchases from banks on the secondary market as part of monetary policy measures taken in response to the COVID 19 pandemic in 2020. According to external rating agency S&P the Republic of Serbia has a credit rating at BB + level with a positive outlook, according to Fitch Ratings it has a credit rating at BB + level with a stable outlook, while Moody's Investors Service has a Ba2 credit rating with a stable outlook. The condition for accepting corporate bonds in monetary operations is that the company, their issuer, has a rating of the Agency for Business Registers at least at the level of "(D) acceptable" rating.

When defining the criteria for assessing the increase in credit risk considered significant, for all financial instruments for which the expected credit loss measurement is performed, criteria are applied in accordance with the criteria in use when regularly managing credit risks for related financial assets, including the consideration of qualitative indicators, and in particular:

- changes of established (contracted, prescribed or otherwise in accordance with the regulations established) of the financial assets, which would then differ significantly from the conditions on the market,
- changes of the debtor's internal/external credit rating,
- significant changes in the industry (in financial and/or economic conditions),
- changes in the debtor's business result,
- significant increase in the credit risk of other financial assets of the same debtor,
- changes in the value of third party assets or guarantees,
- information about the expiration date,
- other appropriate indicators.

Regardless of the criteria used in regular management of credit risks for related financial assets – if proven otherwise, it is considered that there has been a significant increase in credit risk in all financial assets that came on the last day of the reporting period and were not collected within 30 days of maturity. The value of the financial asset is impaired (credit - impaired assets) when one or more events occur with a detrimental impact on the estimated future cash flow of that asset, and then the asset is classified as Stage 3.

Evidence of the impairment of the value of all financial assets subject to the assessment of expected credit losses include, in particular, available information on the following events:

- significant financial difficulties of the debtor,
- breach of contract or other established conditions, such as default or past due event,
- debt restructuring for economic or legal reasons related to the financial difficulties of the debtor,
- the obvious possibility that bankruptcy proceedings or other forms of financial reorganization will be initiated against the debtor,
- the cessation of the existence of an active market for a financial asset due to the financial difficulties of the borrower,
- purchase or issue of a high-discount financial asset that reflects the incurred credit losses.

Regardless of the criteria used in the regular credit risk management for the related financial assets - if it is not proven otherwise, it is considered that the financial asset has become a defaulting status (impairment level 3) if it is due on the last day of the reporting period, and contractual payments are more than 90 days past due. Expected credit losses of financial assets are estimated on an individual or collective basis for financial assets with the same characteristics, taking into account all relevant and available quantitative and qualitative information, related to past, present and future events

The ways in which it is determined whether the financial assets have a low credit risk and the procedures on the basis of which it is estimated whether the credit risk is significantly increased on the reporting date in relation to the date of initial recognition, as well as the procedures for assessing the amount of the impairment, the method and the techniques used to estimate the impairment, the models used to measure expected credit losses are set out in the methodologies for assessing the impairment on the basis of expected credit losses within the relevant organizational units of the Bank, for:

- cash and current accounts held with banks,
- foreign exchange reserves,
- financial assets obtained in the framework of activities related to the implementation of monetary policy and instruments envisaged by the Law and other laws, IMF membership quota and special drawing rights holdings, other assets and receivables.

The nature of Cash and current accounts held with banks is such that these assets are currently available, and the expected credit loss for the 12 months and for the entire lifetime of these financial assets is the same. As long as this financial asset is currently available, it is considered that the credit risk is negligible and that the expected credit loss is zero. Also, bearing in mind that assets on current accounts held with banks, whose credit ratings are of the investment rank, these assets have low credit risk and it is considered that there has been no significant increase in credit risk until their credit rating remains at that level. The inability to dispose of these financial assets for more than one or two working days in case of technical difficulties, is a basic indicator that their value is credit-impaired. As additional relevant information for determining the credit risk status, knowing the default in the performance of the obligations of other account holders, i.e. delays in fulfilling the obligations towards the creditors, as well as the information published by the rating agency, such as the assignment of status D and other information on possibility of bankruptcy proceedings.

Credit risk of foreign exchange reserves (deposits and securities in foreign currency) is quantified through the default model, based on the probability of loss of the counterparty. The parameters for measuring credit risk are as follows:

- the amount exposed to the risk (the maximum amount that may become a loss in the case of a failure to settle the contractual obligation), equal to the carrying amount of the placements,
- probability of default (the probability of a counterparty default), which, depending on the composite credit rating of the bank/issuer, is calculated as an average *default* rate for one year according to rating agencies *Standard & Poor's* and *Moody's*,
- loss for a given probability, obtained as a 1 - recovery rate (the level by which the loss can be recovered due to the inability of the counterparty to fulfil its obligation) and
- the expected credit loss, which represents the average potential loss of the carrying amount of assets that is the result of an event in the market, and is related to credit risk.

Placements of foreign exchange reserves with banks or issuers whose credit rating of the investment grade has low credit risk. The reduction of the credit rating for one level lower than the investment grade is considered a significant increase in the credit risk, in which case parameter used is value of probability of loss for the remaining lifetime of the financial asset, that is calculated as the average default rate according to Standard & Poor's and Moody's for the appropriate period. Any default in the fulfilment of obligations by the counterparty more than one or two working days in the event of technical difficulties, is the basic indicator that the value of the foreign exchange reserves placement is credit-impaired. As additional relevant information for determining status of impairment of these assets, may be used cognition about the delay of the bank with which deposits are placed or securities issuers, in fulfilment of obligations towards other creditors, as well as information published by the rating agency, such as the granting of a status D and other information on the possibility of bankruptcy proceedings.

The credit quality of foreign exchange reserves is continuously monitored and, if necessary, it is reacted in order to reduce credit risk to a minimum. Given the high credit quality of instruments in the Bank's foreign exchange reserves and the fact that the methodology for assessing impairment based on expected credit losses provides for an increase in calculated expected credit losses in the event of a decrease in credit quality of instruments / counterparties, in 2021 and 2020, marked by a virus pandemic COVID-19, there was no need to change the methodology for assessing impairment based on expected credit losses.

Financial assets acquired in the framework of activities related to the implementation of the monetary policy and instruments envisaged by the Law and other laws are low credit risk assets in cases of settling the debtor's obligations at regarding maturity, when issues are not expected on the basis of the borrower's creditworthiness and when they are covered by appropriate means of security.

During 2021, no reprogramming, reclassification or modification of financial assets has been completed. Also, in 2021, there are no financial instruments which are credit-impaired, where the agreed conditions have been significantly changes so that it would lead to derecognition of the original instrument and recognition of the new one.

The liquidity gap arises from the specificity of the Bank as a central bank, its role as the main monetary institution and regulator of the banking system and to its functions autonomously and independently and determine and implement monetary and foreign exchange policies. Dinar liquidity flows in the banking sector depend on the implementation of the monetary policy of the Bank and the activities of the state. The maturity of most of the Bank's liabilities depends on the nature of monetary policy instruments. Changes related to reserve requirements, repo-transactions and deposit of surplus liquid assets in dinars, as well as government deposits in dinars, do not automatically decrease or increase liquidliability of the Bank, but relate to the most common change in the structure of liabilities of the Bank, given the consequent spilling over of funds between banks, between banks and the state, and the change of certain types of claims on the Bank, and consequently the obligations of the Bank (decrease in placements through repo operations leading to an increase in balances on current accounts of banks and / or deposit account surplus, but the overall balance of the Bank's liability can stay at the same level) . On the other hand, the foreign currency obligations of the Bank, including potential liabilities arising from foreign exchange interventions on the foreign exchange market, are provided by highly liquid foreign assets managed by the Bank in accordance with the Strategic Guidelines for the management of Foreign Exchange Reserves.

Interest rate risk is the risk of a decrease in the net result or net worth of the Bank's assets due to changes in interest rates. Interest rate risk exposure depends on the ratio of the Bank's interest rate of sensitive assets and liabilities. The Bank, as a National Bank of the Republic of Serbia, which performs the functions determined by Law and other laws: determines the method of calculating, collecting and paying interest on the Bank's placements and other receivables, as well as on the funds on which the Bank pays interest in order to achieve the objectives of adopted monetary policy (benchmark interest rate, interest rates for reserve requirements, liquidity loans, surplus liquid assets, etc.); by holding deposits placed by the state and its institutions, by maintaining funds on current accounts and by time deposits placed with foreign banks as well as by investing into coupon securities, i.e. bonds of governments and central banks issued by most developed states, high-quality financial institutions supported by those states and international financial institutions with adequate rating, and discounted securities pertaining to treasury bills issued by most developed states.

Two basic methods the Bank uses to quantify market risks in respect of financial assets carried at fair value through profit and loss include Value at risk ("VaR") and Stress test. The first is used to anticipate maximum possible loss under normal market conditions, while the second is used to forecast losses under extreme market conditions.

VaR is the method that predicts with high probability (95% or 99%) total loss which, in the given time interval, will not be exceeded. When VaR (95%) is calculated on a monthly basis, for the total portfolio converted into EUR, which includes coupon and discount securities and time deposits included in the investment portfolio in foreign currency, as at December 31, 2021, only in 5% of cases we can expect a loss of more than 0.96% or RSD 12,212 million (EUR 103.86 million). Total portfolio recalculated in EUR as at December 31, 2020 indicates that under normal market conditions in only 5% of the cases can the Bank expect a loss greater than 1.07% or RSD 12,362 million (EUR 105.14 million).

In case of extreme market risks, VaR is not the most suitable tool to be used in the assessment of potential loss, instead, the stress test is used, which provides a model that approximates the effects contingent on the movements of interest rates and other worst case scenarios on the portfolio value based on duration and convexity of the portfolio. For the Bank, potential drastic increase in interest rates (drop in prices) is of the highest significance, which is why the Bank needs to calculate what would happen with the portfolio if interest rates increased by 100 base points, i.e. by 1% under the assumption that other variables remained unchanged. The total effect of the increase in interest rates by 100 basis points on the EUR portfolio as of December 31, 2021 would result in a loss of RSD 6,737 million (EUR 57.3 million), on the USD portfolio, a loss of RSD 1,704 million (USD 16.4 million), on the GBP portfolio, a loss of RSD 70 million (GBP 0.5 million), on the CAD portfolio, a loss of RSD 33 million (CAD 0.04 million). The total effect of the increase in interest rates by 100 basis points on the EUR, USD, GBP and CAD portfolio as of December 31, 2020 would amount to RSD 11,146 million.

The Bank is exposed to currency risk through transactions performed in foreign currencies. The risk exposure leads to the increase in foreign exchange gains and losses recorded within the income statement. The exposure to foreign currency risk occurs based on monetary assets and liabilities that are not denominated in the Bank's functional currency. The Bank manages foreign currency risk through the policy of determining the currency structure of assets in accordance with the expected future foreign currency liabilities. The 1% depreciation of RSD value against the EUR, USD, CHF and SDR as at December 31, 2021 would increase equity and increase profit /decrease loss of the Bank in the amount of RSD 9,488,681 thousand (2020: RSD 8,598,718 thousand). This analysis assumes that all other variables, in particular interest rates, remained unchanged.

RSD appreciation of 1% against the mentioned currencies would have the exact opposite effect, under the assumption that all other variables remained unchanged.

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