EXPOBANK A.D. BEOGRAD

FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBAR 2019
AND INDEPENDENT AUDITOR’S REPORT

CONTENT:

Independent Auditor's Report

To the Shareholders and management of Expobank a.d. Beograd

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Expobank a.d. Beograd (the "Bank") as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Bank's financial statements comprise:

- the income statement for the year ended 31 December 2019;
- the statement of other comprehensive income for the year ended 31 December 2019;
- the balance sheet as at 31 December 2019;
- the statement of changes in equity for the year ended 31 December 2019;
- the statement of cash flows for the year ended 31 December 2019; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the Law on Auditing and auditing regulation effective in the Republic of Serbia. Our responsibilities under this regulation are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Law on auditing in the Republic of Serbia that are relevant to our audit of the financial statements in the Republic of Serbia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Law on auditing in the Republic of Serbia.

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Other information

Management is responsible for the other information. The other information comprises the Annual Report (but does not include the financial statements and our auditor’s report thereon).

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 the Law on Auditing and auditing regulation effective in the 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 the Law on Auditing and auditing regulation effective in the Republic of Serbia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Refer to the original signed Serbian version

Saša Todorović
Licensed Auditor

Refer to the original signed Serbian version

PricewaterhouseCoopers d.o.o., Beograd

Belgrade, 24 March 2020

INCOME STATEMENT
(Thousand of RSD)

	Note	2019	2018
Interest income	6	665.531	693.096
Interest expenses	6	(166.385)	(172.374)
Net interest income		**499.146**	**520.722**
Fee and commission income	7	148.595	142.487
Fee and commission expenses	7	(20.826)	(23.205)
Net fee and commission income		**127.769**	**119.282**
Net gains from derecognition of financial instruments measured at fair value	8	32.211	46.074
Net (loss) / gain from risk protection	9	(4.179)	3.412
Net foreign exchange gains and currency clause effects	10	16.879	28.685
Net (loss) / gain from impairment of financial assets not measured at fair value through income statement	11	(58.055)	146.367
Net loss from derecognition of the financial instruments measured at amortized cost	12	(99.326)	-
Other operating income	13	12.718	11.562
Total net operating income		**527.163**	**876.104**
Salaries, contributions and other personal expenses	14	(333.463)	(334.307)
Depreciation costs	15	(65.641)	(61.058)
Other income	16	5.402	6.966
Other expenses	17	(403.329)	(350.414)
(Loss) / profit before taxes		**(269.868)**	**137.291**
Income tax credit	18	3.552	2.270
Profit after tax		**(266.316)**	**139.561**

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

These financial statements were approved by the Executive Board of Expobank A.D., Beograd on 23 March 2020

Signed on behalf of Expobank A.D., Beograd by:

Dragana Radaković
Financial Control Manager

"Expobank" akcionarsko društvo Beograd
Expobank
1

Borislav Strugarević
Chairman of the Executive Board

All amounts are expressed in thousands of RSD except if indicated otherwise

STATEMENT OF OTHER COMPREHENSIVE INCOME
(Thousand of RSD)

	2019	2018
(LOSS) / PROFIT FOR THE YEAR	**(266.316)**	**139.561**
Components of other comprehensive income which cannot be reclassified to profit or loss:		
Decrease of revaluation reserves due to sale of fixed assets	(4.349)	-
Actuarial gains/(losses)	307	(141)
Components of other comprehensive income which can be reclassified to profit or loss:		
Positive effects of change in values of debt securities measured at fair value through other comprehensive income	208.193	35.642
Total other comprehensive income	**204.151**	**35.501**
TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR	**(62.165)**	**175.063**

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Dragana Radaković Financial Control Manager	Akcionarsko društvo "Expobank" Beograd Expobank 1	Borislav Strugarević Chairman of the Executive Board

BALANCE SHEET
(Thousand of RSD)

	Note	31 December 2019	31 December 2018
ASSETS			
Cash and balances with the central bank	19	2.019.237	1.590.911
Derivatives		-	6.000
Securities	20	2.688.846	1.632.306
Loans and receivables from banks and other financial institutions	21	253.612	455.870
Loans and receivables from customers	22	9.650.011	10.888.409
Intangible assets	23	40.360	55.225
Property, plant and equipment	24	414.963	288.735
Investment properties	25	254.443	219.785
Current tax assets		1.325	1.274
Other assets	26	573.016	370.633
TOTAL ASSETS		**15.895.813**	**15.509.148**
LIABILITIES AND EQUITY			
Deposits and other financial liabilities to banks, other financial institutions and central bank	27	1.945.497	3.002.981
Deposits and other financial liabilities due to customers	28	9.909.127	8.471.097
Provisions	29	56.040	28.229
Deferred tax liabilities	30	6.895	10.447
Other liabilities	31	189.338	114.020
TOTAL LIABILITIES		**12.106.897**	**11.626.774**
EQUITY			
Share capital	32	8.549.095	8.549.095
Accumulated Loss	32	(5.376.995)	(5.115.028)
Reserves	32	616.816	448.307
TOTAL EQUITY		**3.788.916**	**3.882.374**
TOTAL LIABILITIES AND EQUITY		**15.895.813**	**15.509.148**

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Borislav Strugarević
Chairman of the Executive Board

STATEMENT OF CHANGES IN EQUITY
(Thousand of RSD)

	Share capital	Share premium	Reserves from profit and other reserves	Revaluation reserves	Accumulated loss	Total
Opening balance at 1 January 2018	**5.671.608**	**2.877.487**	**151.673**	**319.230**	**(5.226.959)**	**3.793.039**
Effect of first implementation of IFRS 9	-	-	-	-	(27.630)	(27.630)
Adjusted balance as at 1 January 2018	**5.671.608**	**2.877.487**	**151.673**	**319.230**	**(5.254.589)**	**3.765.409**
Current year profit	-	-	-	-	139.561	139.561
Other comprehensive income						
Effect of change in fair value on financial assets	-	-	-	35.642	-	35.642
Actuarial losses	-	-	-	(141)	-	(141)
Total other comprehensive income of the period	-	-	-	**35.501**	-	**35.501**
Effect of sale of securities and writing off from other comprehensive income	-	-	-	(58.097)	-	(58.097)
Balance as at 31 December 2018	**5.671.608**	**2.877.487**	**151.673**	**296.634**	**(5.115.028)**	**3.882.374**
Opening balance as at 1 January 2019	**5.671.608**	**2.877.487**	**151.673**	**296.634**	**(5.115.028)**	**3.882.374**
Current year loss	-	-	-	-	(266.316)	(266.316)
Other comprehensive income						
Effect of change in fair value on financial assets	-	-	-	208.193	-	208.193
Decrease in revaluation reserves arising from sale of PPE	-	-	-	(4.349)	-	(4.349)
Actuarial gain	-	-	-	307	-	307
Total other comprehensive income of the period	-	-	-	**204.151**	-	**204.151**
Effect of sale of securities and booking off from other comprehensive income	-	-	-	(35.642)	-	(35.642)
Transfer from revaluation reserves to accumulated loss	-	-	-	-	4.349	4.349
Balance as at 31 December 2019	**5.671.608**	**2.877.487**	**151.673**	**465.143**	**(5.376.995)**	**3.788.916**

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CASH FLOW STATEMENT
(Thousand of RSD)

	2019	2018
Cash inflows from operating activities	**853.607**	**1.003.220**
Inflows from interests	615.571	694.614
Inflows from fees and commissions	146.840	142.668
Inflows from other operating activities	91.196	165.938
Cash outflows from operating activities	**(779.887)**	**(848.495)**
Outflows from interests	(144.033)	(171.075)
Outflows from fees and commissions	(20.752)	(23.442)
Outflows from gross salaries, wages and other personal expenses	(336.329)	(350.749)
Outflows from taxes, contributions and other duties charged	(72.135)	(82.781)
Outflows from other operating expenses	(206.638)	(220.448)
Net cash inflow from operating activities before increase or decrease of financial assets and liabilities	**73.720**	**154.725**
Decrease of financial assets and increase of financial liabilities	**1.712.153**	**2.413.902**
Decrease of loans and other receivables from banks and other financial institutions	1.228.896	-
Decrease in claims based on securities, derivatives and other financial assets not intended for investment	-	905.869
Increase in deposits and other financial liabilities towards banks and other financial institutions, central bank and customers	483.257	1.508.033
Increase of financial assets and decrease of financial liabilities	**(882.155)**	**(1.443.924)**
Increase in loans and receivables from banks and other financial institutions, the central bank and customers	-	(1.443.691)
Increase of assets initially recognized at fair value through IS, assets intended for trading and other securities not intended for financing	(882.155)	-
Decrease in other financial liabilities	-	(233)
Net cash inflow from operating activities before income tax	**903.718**	**1.124.703**
Paid income tax	-	-
Net cash inflow from operating activities	**903.718**	**1.124.703**

All amounts are expressed in thousands of RSD except if indicated otherwise

CASH FLOW STATEMENT
(Thousand of RSD)

	2019	2018
INVESTMENT ACTIVITIES		
Outflows from the purchase of intangible assets, property, plant and equipment	(167.664)	(43.841)
Other outflows from investment activities	(292.802)	-
Net cash outflow from investment activities	**(460.466)**	**(43.841)**
FINANCING ACTIVITIES		
Outflows from borrowings	(127.893)	(1.102.399)
Net cash outflow from financing activities	**(127.893)**	**(1.102.399)**
NET CASH INCREASE/(DECREASE)	**315.359**	**(21.537)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	971.278	963.349
FOREIGN EXCHANGE GAINS, NET	54.552	29.466
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	**1.341.189**	**971.278**

Notes on the following pages
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Borislav Strugarević
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1. GENERAL BANK INFORMATION

Expobank A.D. Belgrade was founded on 28 December 1990. The Bank was registered according to the Law on Banks for performing payment transactions in the country and abroad and credit and deposit transactions in the country.

The Bank's headquarter is located in Belgrade, at 22 Dalmatinska Street, where the Main Office of the Bank is also located. The business network of branch offices, business units and cash desks as at 31 December 2019 is comprised of 6 organization units (31 December 2018: 7 organization units).

As at 31 December 2019, the Bank had 132 employees (31 December 2018: 157 employees), while the average number of employees in 2019 was 146 (in 2018: 167).

The Bank's company ID no. is 07534183, and the tax identification number 100003148

With the Decision of the Business Registers Agency BD 82147/2014 dated 2 October 2014, Borislav Strugarević was appointed as the Chairman of the Executive Board.

With the Decision of the Business Registers Agency BD 25736/2017 dated 28 March 2017, Ernst Bekker was appointed as member of the Executive Board of the Bank.

With the Decision of the Business Registers Agency BD 79757/2019 dated 23 August 2019, Aleksandr Kashtalap was appointed as member of the Executive Board of the Bank.

As at 31 December 2019 the members of the Executive Board are: Borislav Strugarević, Ernst Bekker and Aleksandr Kashtalap.

2. BASIS FOR PREPARATION OF FINANCIAL STATEMENT

2.1. Basis for preparation and presentation of financial statements

The Bank prepares financial statements in accordance with International Financial Reporting Standards (IFRS) and the legislature of the National Bank of Serbia. The financial statements are presented in the form determined by the Decision on forms and contents of positions in financial statements for the banks' forms („Official Gazette of RS" no 71/2014, 135/2014, 103/2018).

These financial statements were prepared at historical cost principle, except as otherwise disclosed in the following summary of accounting policies.

2.2. New and amended standards and interpretations

Amendments and additions to the IFRS which come into force and are applicable in the current year

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Bank as of 1 January 2019:

- *IFRS 16 :Leases*

The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. For information on the effects of implementation of this standard see Note 2.4.

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

2.2. New and amended standards and interpretations (continued)

- *IFRS 9: Financial instruments (Amendment)*

Amendments to the standards are applicable for the period beginning on or after 1 January 2019, with the possibility of early application. The amendment confirmed the following: 1) Reasonable consideration for early prepayment may be a positive or negative cash flow when considering whether a financial asset meets the SPPI criterion; 2) When a financial liability is measured using the depreciated cost method and when a modification does not result in a discontinuance of recognition, then the gain or loss should immediately be recognized in the income statement of the current period. Gain or loss is calculated as the difference between original cash flows and modified cash flows discounted at present value using the original effective interest rate. Profit or loss can not be divided into the remaining period of the financial instrument, which represents a change in relation to the practice permitted by the IAS 39 standard. This change did not have any material impact on the Bank's financial statements.

- *IFRIC Interpretation 23: Uncertainty over Income Tax Treatments*

The interpretation is applicable for a period beginning on or after 1 January 2019. IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. This change did not have any material impact on the Bank's financial statements.

- *IAS 19: Employee benefits (Amendments)*

Amendments to the standards are applicable for the period from or after 1 January 2019. Amendments require the entity to: use updated assumptions for determining current service costs and net interest for the reminder of the period after a plan amendment, curtailment or settlement; recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling. This change did not have any material impact on the Bank's financial statements.

The following new standards are not considered to have significant impact on the Bank’s financial statements:

- Long-term investments in associated legal entities and joint ventures - amendments to IAS 28 (published on 12 October 2017 and effective for periods beginning on or after 1 January 2019),
- Annual Cycle Improvements IFRS 2015 - 2017 - Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (disclosed on 12 December 2017 and effective for periods beginning on or after 1 January 2019).

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

2.3. Standards issues but not yet effective and not early adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 or later:

- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after January 1, 2021),
- Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020,
- Definition of a business – Amendments to IFRS 3 (effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020),
- Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020),
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (effective for annual periods beginning on or after a date to be determined by the IASB),

The Bank's management has elected not to adopt these new standards, amendments to existing standards and new interpretations before they enter into force. The management anticipates that the adoption of these standards, amendments to existing standards and new interpretations will have no material impact on the financial statements of the Bank in the period of initial application.

2.4. IFRS Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of “low-value” assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 month or less). At the commencement date of a lease, a lessees recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees are required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees are also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessees generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from accounting under IAS 17. Lessors continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17.

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

2.4. IFRS Leases (continued)

Transition to IFRS 16

The Bank made transition to IFRS 16 in accordance with the modified retrospective approach. The prior year figures were not adjusted.

As a result of the adoption of IFRS 16 as of 1 January 2019, contracts previously recognized as operating leases are now classified as leases defined by a new standard and the following leasing categories have been identified: real estate, disaster recovery space and one vehicle. The values of these assets are shown in Note 24.

In the first application of IFRS 16, the right to use a leasing asset is generally measured in the amount of the lease liability using an incremental borrowing rate ranging from 2,65% to 2,99%, depending on the lease period, while the vehicle used rate from 5%. The first application resulted in the recording of liabilities based on leasing in the amount of RSD 99,972 thousand and, accordingly, the right to use asset in the amount of RSD 99,972 thousand in the balance sheet as of 1 January 2019.

The following table presents reconciliation of the operating lease commitments reported as of 31 December 2018 and lease liability recognised at 1 January 2019:

In thousands of RSD	1 January 2019
Total future minimum lease payments for non-cancellable operating leases as at 31 December 2018	129.823
Effect of discounting to present value	(8.183)
Less VAT not recognised as liability	(21.636)
Lease liability recognised as at 1 January 2019	**99.972**

2.5. Comparative information

Comparative information in these financial statements represents information from the Bank's financial statements for the year 2018.

2.6. Use of estimates

Preparation of financial statements in accordance with IFRS requires the management to use the best possible estimates and reasonable assumptions, which have an effect on the implementation of accounting policies and on the presented amounts of assets and liabilities, as well as income and expense. The actual value of assets and liabilities may deviate from the value assessed in such a manner. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 5.

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

2.7. Statement of compliance

The Bank's financial statements are compiled in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

In preparing these financial statements the Bank applied the accounting policies disclosed in Note 3.

2.8. Going concern

The Bank's financial statements have been prepared on a going concern basis, which means that the Bank will continue to operate in the foreseeable future. The Bank generated a loss in 2019, however well capitalised and with continious support from the related parties through borrowings. Refer to Note 33 for compliance with regulatory covenants and Note 27 for details about borrowings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Foreign currency translations

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

Transactions in foreign currency are translated into dinars according at official exchange rate on the date of transaction. Net positive or negative exchange rate differences arising upon the translation of transactions in foreign currency and during translation of the balance sheet positions in foreign currency are credited or charged to the income statement as foreign exchange gains or losses.

3.2. Interest income and expenses

Interest income and expenses for all financial instruments bearing interest are recognized in the income statement as part of "interest income" and "interest expenses" by using the effective interest rate method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for (i) financial assets that have become credit impaired (Stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortised cost, net of the expected credit loss, and (ii) financial assets that are purchased or originated credit impaired, for which the original credit-adjusted effective interest rate is applied to the amortised cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. Fees and commission income and expense

Fee and commission income is recognised over time on a straight line basis as the services are rendered, when the customer simultaneously receives and consumes the benefits provided by the Bank's performance. Such income includes recurring fees for account maintenance, account servicing fees, premium service package fees, etc.

Other fee and commission income is recognised at a point in time when the Bank satisfies its performance obligation, usually upon execution of the underlying transaction. The amount of fee or commission received or receivable represents the transaction price for the services identified as distinct performance obligations. Such income includes fees for processing payment transactions, fees for cash settlements, collection or cash disbursements.

3.4. Income from dividends

Dividends are recognized in the income statement when the right to receive the dividend is established.

3.5. Financial Instruments - Classification and Measurement of Financial Assets and Liabilities

<u>Financial instruments</u>

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

Financial assets

A financial asset is any asset that is:

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

Financial liabilities

A financial liability is any liability that is:

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

Principles of valuation of financial instruments

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5. Financial Instruments - Classification and Measurement of Financial Assets and Liabilities (continued)

Financial assets

At initial recognition, the Bank assesses the financial asset at fair value increased or decreased for transaction costs that can be directly attributed to the acquisition or issue of a financial asset.

An assessment of how a financial asset will be classified is done on the basis of the Bank's business model and fulfilment of the performance test of the contracted cash flow.

At initial recognition, the Bank may irrevocably determine that financial assets that normally meet the criteria for valuation at amortized cost (AC) or at fair value through other comprehensive income (FVOCI) are recognized at fair value through profit and loss account (FVTPL), if they thereby eliminate or significantly reduces the accounting inconsistencies that would otherwise have occurred.

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

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

Classification and measurement

Financial assets can be classified into the following categories:

- ✓ financial assets measured at amortized cost (AC)
- ✓ financial assets measured at fair value through profit and loss account (FVTPL)
- ✓ financial assets measured at fair value through other comprehensive income through the income statement - "recycling" (FVOCI)
- ✓ financial assets valued at fair value through other comprehensive income without recycling to profit and loss account (FVOCI)

(a) Amortized cost (AC)

Financial assets are held in order to collect contractual cash flows, and generated cash flows must consist exclusively of principal payment (the nominal value of the date of financial assets to be charged after maturity) and interest (fee in money for borrowed funds), which represents the amount by to which the financial asset is measured at initial recognition with the increase or decrease in cumulated depreciation using the effective interest rate method for all differences between the initial amount and the maturity amount, minus all payments and adjustments based on the estimated expected credit losses.

Rare sales, even high value or frequent sales, are small, sales made immediately before the maturity of the financial assets (less than 3 months before maturity) and when the revenue from such sales is roughly the amount that would be collected on the basis of the remaining contractual cash flows, sales due to increased credit risk of financial assets, sales that can be attributed to an isolated event that is out of control of the Bank and which is one-off, are not contrary to this model.

The results of the analysis of business models and the estimation of contracted cash flows showed that the Bank continues to assess loans, placements to clients and banks at amortized cost.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5. Financial Instruments - Classification and Measurement of Financial Assets and Liabilities (continued)

Financial assets (continued)

(b) Fair value through other comprehensive income (FVOCI)

Financial assets are held for the purpose of collecting contractual cash flows and for the sale of such financial assets, as well as on the contractual terms that cash flows arise on certain dates, which are only the payment of principal and interest on the outstanding amount of the principal. This model implies higher frequency or value of sales, mainly due to changes in market conditions, and / or for liquidity maintenance.

The results of the analysis of business models and estimates of contractual cash flows showed that the Bank assesses debt securities at fair value through other comprehensive income.

If debt securities do not meet test of the characteristics of contractual cash flows, they are measured at fair value through profit and loss.

(c) Fair value through profit and loss account (FVTPL)

A business model that results in fair value measurements through profit and loss implies that the Bank manages financial assets in order to realize cash flows through the sale of assets. The Bank makes a decision based on the fair value of assets and manages it in order to achieve these fair values. In this case, the Bank's objective usually leads to active buying and selling. If debt securities or equity securities, including equity holdings, are acquired with the intention to be sold immediately or in the short term, are classified as held for trading at fair value through profit or loss.

Taking into account the nature of the Bank's liabilities, the accounting of financial liabilities is the same as in accordance with the requirements of IAS 39. The Bank does not have a designated financial obligation as FVTPL and does not intend to do so.

Impairment of financial assets

IFRS 9 fundamentally changed the loan loss impairment methodology. The standard replaced IAS 39’s incurred loss approach with a forward-looking expected credit loss (ECL) approach through the inclusion of the impact of the expected movement of macroeconomic variables on the future movement of the probability of loss based on statistically proven interdependencies. The Bank is required to record an allowance for expected losses for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the expected credit losses associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, in which case, the allowance is based on the probability of default over the life of the asset.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5. "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities (continued)

Financial assets (continued)

Stage 1

In the Stage 1, the Bank classifies financial instruments in which the credit risk has not significantly increased from the initial recognition.

Expected credit loss that is recognized for financial instruments in Stage 1 is calculated as a one year portion of calculated credit losses

Calculated in this manner, the expected twelve month credit losses are part of the expected credit losses during the financial instrument duration and represent the lacks of cash along the duration which will emerge in case of non-execution within 12 months after the reporting date (or a shorter period, if the expected duration of the financial instrument is shorter that 12 months), pondered by the probability of such non-execution.

Stage 2- significant increase in credit risk

Bank classifies in Stage 2 all financial instruments when it identifies that there is one or more of these indicators that may indicate that there has been a significant increase in credit risk:

- days past due of 31 to 90 days
- restructuring of non-problematic receivables
- block of accounts by NBS for 30 days or longer
- Rating deterioration by 2 class ratings

Significant increase in credit risk for the segment of exposure to the states and financial institutions was determined as a fall of 2 rating categories, compared to the rating scale of renowned external rating agencies (Moody's, Fitch, S & P).

On the reporting date, the Bank estimates the allowance per financial instrument equal to the amount of expected credit losses throughout the life of the financial instrument, if the credit risk for that financial instrument has increased significantly from the initial recognition.

Stage 3 - Status of default

In stage 3 of credit risk are classified financial instrument which are problematic or which have objective evidence of impairment. The Bank has identified the list of indicators it monitors to identify the status of problematic clients:

- blocked accounts for more than 60 days in continuity
- Reduction of the payment capacity that can be reflected in:
  - Decrease in operating income of 50%
  - Decrease in equity over 50%
- for retail receivables that has been sued according to Bank’s records
- for legal entities and entrepreneurs client in status of sued, bankrupt, UPPR
- the client did not submit the last financial report in the register of business entities
- for corporates, entrepreneurs and individuals which are placed in sector of collection of receivables (WOD);
- other information that points to problems in business or may affect the inability to service its debt, such as:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5. "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities (continued)

Financial assets (continued)

- frequent reminding the client on settling obligations, difficult negotiations, indicating that the client has or will have problems in business
- other information identified by credit officer during the monitoring in connection with negative changes in client's business, in relation to the circumstances that existed when approving loans

For these financial instruments, the loan loss provision is calculated as the difference between the gross carrying amount of the asset and the present value of the estimated future cash flows discounted at the original effective interest rate of the financial asset.

Future cash flow is determined based on an insight into a borrower's credit rating and credit risk exposure.

The reversal of an allowance for ECL is recognized as income in the period in which the reversal is made.

The final write-off of uncollectible receivables is made on the basis of a court decision, a settlement of interested parties, or on the basis of decisions of a competent body in the Bank.

The Bank makes an accounting write-off (transfer of balance sheet assets to off-balance sheet records) of problematic receivables, for which the calculated amount of impairment is 100% of their gross value.

The manner and steps of carrying out accounting write-offs are defined by the acts of the Debt Collection Division.

3.6. Provisions

Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The Bank does not perform discounting of the future cash flows expected to arise in the near term.

3.7. Sale and repurchase agreements

Sale-repurchase agreements ('Repos'), are securities sold subject to repurchase agreements (reverse repo) and as such are recorded as loans and advances to other banks. The difference between the sale and the repurchase price is treated as interest and accrued over the life of the agreement using the effective interest method.

3.8. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash and non-restricted balances with Central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short term government securities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9. Intangible assets

Acquired licences are shown at historical cost. Licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of licenses over their estimated useful lives.

3.10. Property, plant and equipment

Initial measurement of fixed assets is at cost or purchase price. The purchase price is the value according to the supplier's invoice, increased by acquisition related expenses and the costs directly attributable to bringing the asset into the state of functional readiness.

For subsequent measurement of buildings, after initial recognition, the Bank is using the revaluation model in accordance with IAS 16 "Property, plant and equipment".

The Bank's equipment is measured at cost less accumulated depreciation and impairment losses, if any.

The buildings are subject to regular revaluation. The frequency of revaluation depends on the fair value movements of the assets subject to revaluation. The increase in the carrying values of buildings based on revaluation is credited to the revaluation reserve. Decrease that offsets previous increases of the same assets is charged against revaluation reserves directly, while all other decreases are charged to the income statement.

The revaluation reserve is transferred directly to retained earnings when the surplus is realized either on the retirement or disposal of the asset or when the asset is not used by the Bank. In the latter case, the amount of the surplus realised is the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost (optional).

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

Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- Buildings 1,30%
- Computer equipment 20,0%
- Vehicles 20,0%
- furniture and equipment 12,5%-20,0%
- leasehold improvements 20,0%

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within Other income/expenses, in the income statement.

The assets' residual value is the estimated amount that the Bank could obtain through disposal of asset, less any cost of sale, if the asset is old and in a condition expected at the end of its useful life. The assets' residual value is equal to zero if the Bank expects to use the asset until the end of its useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11. Impairment of non-financial assets

Assets with indefinite useful life are not subject to depreciation but are tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.12. Investment properties

Investment property is a property held to earn rentals or for capital appreciation or both.

Investment property is held for long-term rental yields and is not occupied by the Bank.

Land held under operating lease is classified and accounted for as investment property when the rest of the definition of investment property is met.

Investment properties are recognized as asset if and only if: it is probable that the Bank will realise future economic benefit from the properties and if the costs may be measured reliably. The investment property is initially measured at purchase price/cost. The costs of transaction are included in the initial measurement. The cost of the purchased investment property includes its purchase price and all costs directly attributable to the acquisition. After initial recognition, investment property is measured at fair value. The fair value of investment property reflects market conditions at the end of the reporting period. Gains or loss arising from the change of fair value of the investment property is recognized in the income statement of the period when realised.

Subsequent expenditure is capitalized only when it is probable that future economic benefits related to it will belong to the Bank and its cost may be measured reliably. All other current maintenance expenses and repair costs are expensed as incurred. If an investment property is used or occupied by its owner, it is reclassified to property and its carrying value on the date of reclassification becomes its deemed cost which will be further depreciated.

3.13. Inventories

Upon acquisition, inventories are measured at the lower of the historical cost and net realizable value. The historical cost implies that inventories are recognised at the cost of acquisition, while the net realizable value is the value at which inventories can be realized in a market sale transaction. Inventories include assets acquired in lieu of debt collection. If there is an indication that an asset is impaired, the recoverable amount of the asset is estimated to determine the amount of the impairment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14. Leasing

Leases - accounting policy from 1 January 1 2019

Bank as lessee

The Bank classifies leases (leases of property and equipment) in accordance with IFRS16, which implies that on the first day of the lease, assets with the right to use and lease liabilities are recognized in the balance sheets at the present discounted value of those leasing liabilities. The leasing period means the entire period of the lease term, as well as the period of a possible lease extension stipulated by the contract. The choice of the discount rate is contingent on the interest rate implied in the lease (based on the lease payment, non-guaranteed residual value, fair value of the fixed asset and the initial direct costs of the lender). The discount rate can also be determined as an incremental lending rate, ie. as the interest rate that the lessee would have to pay for a similar lease or, if it cannot be determined, at what price the lessee can obtain funds in the market to buy the same or similar assets (assets of similar value) under the same conditions (similar term) . The Bank recalculates the discount or incremental rate when changing the terms of the contract (duration of the lease, changes in the option to repurchase the subject property, changes in future payments due to changes in the rate in the leasing contract). Changes in valuations (for example, changes in the economic life or residual value of the leased asset) or changes in circumstances (for example, the default of the lessee) do not trigger a new classification of leases, i.e. recalculation of discount rate or incremental rate.

The Bank will each month record the interest expense on the lease kiability and the depreciation expense on the discounted right of use the asset. Each month, upon the maturity of the lease payment invoices, the amount of leasing liabilities will be reduced.

The Bank will reassess the lease liability on the occurrence of certain events (eg change in leasing period, change in lease price, significant change in incremental rate…). In that case, the Bank recognizes the amount of the revaluation of the lease liability as an adjustment to the right of use the asset.

If the lease amount is low (monthly lease amount up to EUR 100) and / or if the lease is concluded for a period of 12 months or less, the Bank will not treat these leases in accordance with this standard.

The Bank as the lessor

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment, or series of payments, the right to use an asset for an agreed period of time.

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset.

Lease income is recognised over the term of the lease on a straight-line basis.

Accounting policies in use until December 31, 2018

The lease is classified at the commencement date as financial or operating. A lease that conveys to the Bank all the risks and rewards of ownership is classified as a finance lease. An operating lease is a lease that is not financial. Operating lease payments are recognized as an operating expense in the income statement on a straight-line basis over the life of the lease.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15. Borrowings

Borrowings are recognised initially at the fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Income statement over the period of the borrowings using the effective interest rate.

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

3.16. Employee benefits

(a) Employee benefits

Short-term employee benefits include wages and salaries and taxes and contributions for social insurance. They are recognized as an expense in the period when they are incurred.

The Bank and its employees are obliged to pay taxes and social security contributions in accordance with applicable regulations. The Bank is not obliged to pay reimbursements to employees after retirement, which is the responsibility of the National Fund. The taxes and contributions on defined benefit obligations are expensed as incurred.

(b) Retirement benefits

Under the current regulations, the Bank is obliged to pay retirement benefits or termination benefits to employees in the event of loss of working ability amounting to three average salaries in the business sector in the Republic of Serbia, according to the latest information published by a competent statistical body. These payments are recognized in the balance sheet as liabilities (discounted) in accordance with the certified actuary’s valuation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income statement over the employees’ expected average remaining working lives.

The actuarial assumptions used when calculating retirement benefits were as follows:

- employee data, total length of service as at 31 December 2019, year of birth and sex, number of years to old or full pensions;
- demographic assumptions of the Republic of Serbia – mortality (20%) and fluctuation and invalidity rate,
- discount rate 4,5%,
- assumed annual salary geometric growth of 4% during the entire period for which assets are reserved.

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without the possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17. Current and deferred taxes

a) Current income tax

The current income tax charge is calculated and paid in accordance with the tax regulations applicable in the Republic of Serbia, based on the profit presented in the regulatory tax balance sheet. The Bank itself calculates its income tax, annual tax liability and tax prepayment for an upcoming year.

The 15 % income tax is paid based on the Bank's profit disclosed in the tax balance sheet, less certain investments during the year, as presented in the annual tax balance sheet - PDP form. In order to arrive at taxable profits, various adjustments to accounting profit are made. The Tax Balance Sheet is filed with tax authorities within 180 days after the end of the tax period for which the tax liability has been established

b) Deffered taxes

Deferred taxes are calculated on all taxable temporary differences between tax base of assets and liabilities and their carrying amounts in the Bank's financial statements. Deferred tax liabilities are recognized for all taxable temporary differences arising between the tax base of assets and liabilities as at the balance sheet date and the amounts presented for reporting purposes, which will result in future period taxable amounts.

Deferred tax assets are calculated for all deductible temporary differences, unused tax credits and unused tax losses to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, unused tax credits and unused tax losses can be utilised.

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

3.18. Share capital

Ordinary shares are classified as equity.

(a) Cost of the issue of shares

Incremental costs directly attributable to the issue of new shares or the acquisition of an entity are shown in equity as a deduction, net of tax, from the proceeds. Any amount in excess of the fair value of the cash received above the par value of the issued shares is recognized through equity as the share premium.

(b) Dividends on shares

Dividends from shares are recognized as liabilities in the period in which a decision on dividend distribution was made. Dividends for the year following the balance sheet date are disclosed in the note on the events after the balance sheet date.

3.19. Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with contractual terms and conditions. The Bank issues such financial guarantees to banks, financial institutions and other organisations on behalf of customers as collateral for loans, overdrafts and other banking services.

Financial guarantees are initially recognised at fair value at the date when they have been issued. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of a) the amount initially recognised less cumulative amortization, and b) the best estimate of the expenditure required to settle any financial obligation as of the balance sheet date, based on the ECL model.

4. FINANCIAL RISK MANAGEMENT

4.1 Introduction

The Bank's business is exposed to different financial risks and it requires identification, assessment, monitoring, mitigation and control of risk management, as well as placing an adequate system for risk management reporting. The Bank achieves risk management via a special organization unit for risk management. With its acts, the Bank prescribes procedures for identification, measurement, risk assessment, as well as risk management in accordance with regulations, standards and rules of profession.

With its risk management policy, the Bank defines a unique risk management system for risks to which the Bank is exposed in its business.

According to the nature of its activity, the Bank is exposed to various types of risk, such as:
1. liquidity risk;
2. credit risk;
3. market risk;
4. risks of the Bank's exposure towards an entity or a group of related parties;
5. risks of the Bank's investments into other legal entities and fixed assets;
6. risks referring to the country of origin of the entity towards which the Bank is exposed;
7. operating risk (including legal risk).

4.2 Liquidity risk

Liquidity risk is defined as the risk of the possibility of adverse effects on the Bank's financial result and equity due to the Bank's inability to meet its due obligations. Liquidity risk arises due to significant withdrawal of existing sources of financing, inability to acquire new sources of funds (liquidity risk of sources of funds), and due to the difficult transformation of assets into liquid assets due to market distortions (market liquidity risk).

In order to adequately manage and control liquidity risk, the Bank has implemented internal procedures defining a comprehensive system for managing this risk, including the responsibilities and responsibilities of participants in the process, as well as controls and methodologies that achieve the effectiveness of the system for managing this risk.

The Bank's liquidity risk management system includes:
- defining the principles of liquidity risk management,
- an organizational structure that supports adequate liquidity risk management,
- procedures for identifying, measuring, mitigating and monitoring liquidity risk,
- an information system that supports liquidity risk management,
- timely and adequate activities in situations of increased liquidity risk,
- adoption of the Contingency Plan and the Bank's Recovery Plan;
- an internal control system for managing liquidity risk

In its operations, the Bank adheres to the following basic principles for managing liquidity risk:
- The Bank actively monitors liquidity risk exposures in significant currencies exceeding 5% of the Bank's liabilities (RSD, EUR, USD and CHF)
- Ensuring continued stability and diversification of funding sources, by source type and tenors, in which sense the limits on the concentration of sources of funds and maximum participation in the deposit base per client are set.
- Formation of a level of highly liquid assets and an adequate level of liquidity reserves consisting of cash, funds in accounts with foreign banks, obligatory reserves with the National Bank of Serbia in the currencies of EUR and RSD and highly liquid securities issued by the Ministry of Finance of the Republic of Serbia.
- The Bank has established internal procedures for dealing with increased liquidity risk as well as early warning systems for potential impairment of the Bank's liquidity profile. The Bank's business plan in the event of unforeseen events and the Bank's recovery plan are subject to regular annual testing and auditing.

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Liquidity risk (continued)

- Liquidity risk assessment is a mandatory part of the procedure for approving a new product
- Regularly conduct stress tests based on scenarios specific to the Bank or the general market in which the Bank operates, in order to identify sources of potential liquidity crisis as well as the conditions and ways under which the Bank would, in such situations, maintain the required liquidity level with full fulfillment regulatory and internally defined limits.

Bodies and organizational units of the Bank directly involved in the liquidity risk management process are:

- The Bank's Board of Directors adopts a risk management strategy and policy that is an integral part of liquidity risk management and the Bank's Recovery Plan
- The Bank's Executive Board adopts the Bank's risk management procedures and ensures their full implementation
- The Assets and Liabilities Management Committee (ALCO) monitors the Bank's liquidity risk exposures and early warning indicators and proposes measures to improve the Bank's liquidity profile
- The Asset Management Division is responsible for the day-to-day liquidity management and maintenance of defined internal and regulatory limits at the approved level.
- Risk Management Sector implements procedures for measuring, analyzing and monitoring liquidity risk and develops methodologies for internal liquidity risk assessment and stress testing
- Internal audit conducts an independent assessment of the adequacy of the liquidity risk management procedures adopted at least once a year

The Bank's liquidity risk management involves managing all positions of the Bank's assets, liabilities and off-balance sheet items that may affect its liquidity position. Internal identification, measurement and monitoring of liquidity risk relies on a GAP analysis of the future cash flows of these positions allocated at time intervals by remaining maturity. For balance sheet items for which it is not possible to determine in advance the exact date of inflow or outflow of assets, the Bank makes assumptions based on an analysis of the historical movement of these positions or on the basis of expert judgment.

The Bank defines the individual and cumulative liquidity GAP limits that it observes at both the aggregate level (consolidated presentation) and by significant currencies. Limits are defined as the limit on the ratio between the cumulative gap of up to one month and the total assets of the Bank, as well as the quarterly gap with respect to the total assets of the Bank.

The following table shows the assets and liabilities grouped into categories by the remaining contractual maturity at the balance sheet date.

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Liquidity risk (continued)

As of 31.Decembar 2018.	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total (000 RSD)
Assets						
Cash and cash funds held with the Central Bank	2.019.237	-	-	-	-	2.019.237
Securities	1.882.192	806.654	-	-	-	2.688.846
Loans and receivables from banks and other financial institutions	250.672	2.940	-	-	-	253.612
Loans and receivables from customers	503.314	415.553	2.603.197	4.665.123	1.462.824	9.650.011
Other Assets	5.012	322	80	3.134	3.571	12.119
TOTAL ASSETS	4.660.427	1.225.469	2.603.277	4.668.257	1.466.395	14.623.825
LIABILITIES						
Deposits and other liabilities to banks, other financial institutions and central Bank	22.467	211.668	1.710.241	1.121	-	1.945.497
Deposits and other liabilities due to customers	4.371.152	670.262	2.971.461	1.804.910	91.342	9.909.127
Other liabilities	185.403	1.404	1.087	1.444	-	189.338
Total liabilities	4.579.022	883.334	4.682.789	1.807.475	91.342	12.043.962
Net Gap (Total Assets-Total Liabilities)	**81.405**	**342.135**	**(2.079.512)**	**2.860.782**	**1.375.053**	**2.579.863**

As of 31.Decembar 2018.	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total (000 RSD)
Assets						
Cash and cash funds held with the Central Bank	1.590.911.	-	-	-	-	1.590.911
Securities	1.142.614	489.692	-	-	-	1.632.306
Loans and receivables from banks and other financial institutions	452.915	2.955	-	-	-	455.870
Loans and receivables from customers	258.368	462.359	2.355.920	5.676.253	2.135.508	10.888.409
Receivables on financial derivatives for risk protection	5.087	913	-	-	-	6.000
Other Assets	3.967	3.568	274	3.495	3.844	15.149
TOTAL ASSETS	**3.453.863**	**959.488**	**2.356.195**	**5.679.747**	**2.139.353**	**14.588.645**
LIABILITIES						
Deposits and other liabilities to banks, other financial institutions and central Bank	663.522	499.159	1.080	1.839.220	-	3.002.981
Deposits and other liabilities due to customers	4.148.812	436.590	2.234.801	1.595.423	55.471	8.471.097
Other liabilities	109.878	1.956	1.022	1.160	4	114.020
Total liabilities	**4.922.212**	**937.705**	**2.236.903**	**3.435.803**	**55.475**	**11.588.098**
Net Gap (Total Assets-Total Liabilities)	**(1.468.350)**	**21.783**	**119.291**	**2.243.945**	**2.083.878**	**3.000.547**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Liquidity risk (continued)

Non-discounted cash flow

Amounts presented in the following table represent non-discounted cash flows of financial liabilities with the balance on 31 December 2019.

As of 31.12.2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances with central bank	2.019.237	-	-	-	-	2.019.237
Securities	2.370.295	1.015.841	-	-	-	3.386.136
Loans and receivables from banks and other financial institutions	250.672	2.940	-	-	-	253.612
Loans and receivables from customers	380.995	466.760	2.778.119	5.159.025	2.053.033	10.837.931
Total liabilities (contracted maturity dates)	**5.021.199**	**1.485.541**	**2.778.119**	**5.159.025**	**2.053.033**	**16.496.916**

As of 31.12.2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits and other liabilities to banks, other financial institutions and Central Bank	25.030	217.095	1.716.160	1.177	-	1.959.462
Deposits and other liabilities due to customers	4.372.224	672.605	3.004.008	1.849.968	91.969	9.990.774
Total liabilities (contracted maturity dates)	**4.397.254**	**889.700**	**4.720.168**	**1.851.145**	**91.969**	**11.950.236**

As of 31.12.2018	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Cash and balances with central bank	1.590.911	-	-	-	-	1.590.911
Securities	1.222.020	523.723	-	-	-	1.745.743
Loans and receivables from banks and other financial institutions	452.963	2.955	-	-	-	455.918
Loans and receivables from customers	280.112	536.633	2.663.356	6.412.582	2.620.349	12.513.033
Total liabilities (contracted maturity dates)	**3.546.006**	**1.063.312**	**2.663.356**	**6.412.582**	**2.620.349**	**16.305.605**

As of 31.12.2018	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Deposits and other liabilities to banks, other financial institutions and Central Bank	666.512	506.988	28.462	1.854.468	-	3.056.430
Deposits and other liabilities due to customers	4.149.972	437.801	2.256.217	1.646.298	56.455	8.546.743
Total liabilities (contracted maturity dates)	**4.816.484**	**944.789**	**2.284.679**	**3.500.766**	**56.455**	**11.603.173**

During 2019, the Bank maintained a satisfactory level of liquidity. Liquidity reserves increased significantly during the year, with securities of the Ministry of Finance of the Republic of Serbia mostly traded freely on the secondary market. On the other hand, the Bank has strengthened its deposit base by reducing short-term borrowings from other banks and increasing corporate and household deposits.

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.2 Liquidity risk (continued)

Liquidity regulatory indicators

In accordance with the Decision on the Management of the Bank's Liquidity Risk, the Bank is obliged to compile and regularly report to the National Bank of Serbia on the Bank's liquidity level through the Bank's liquidity indicator, narrower bank liquidity indicator and liquidity coverage indicator.

Bank liquidity indicator and narrower bank liquidity indicator

The Bank's liquidity indicator represents the ratio of the first and second tier liquidity assets of the bank, on the one hand, and the sum of the bank's liabilities on sight or with no contractual maturity and liabilities of the bank with an agreed maturity in the next month from the day of performing the liquidity ratio calculation, on the other.

A narrower indicator of a bank's liquidity is the ratio of the bank's first-line liquidity claims, on the one hand, and sums the bank's liabilities on sight or with no contractual maturity and the bank's contractual maturity within the next month from the reporting date on the other.

Liquidity indicator	31 December
2019:	2,25
2018:	2,55

Narrower indicator	31 December
2019:	2,16
2018:	2,25

Indicator of coverage by liquid assets

The liquidity coverage indicator is the ratio of a bank's liquidity buffer to the net outflow of its liquid assets that would occur over the next 30 days from the date of calculation of this indicator under assumed stress conditions. This indicator relies heavily on the Basel III regulation of the European Union (Commission Delegated Regulation EU 2015/61) with some minor changes to adapt to local conditions. In that sense, the most significant differences relate to the inclusion of the required reserve amount with the National Bank of Serbia, which exceeds the amount of the calculated reserve and the inclusion of securities of the Ministry of Finance of the Republic of Serbia without the application of corrective factors.

The regulatory requirement is to maintain highly liquid assets at a minimum level of 100% relative to the net outflow of funds. The indicator of coverage of the Bank's liquid assets at 31 December 2019 and 2018 was as follows:

LCR	31 December
2019:	275%
2018:	147%

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk

The Bank is exposed to credit risk and the possibility that the debtor fails to perform its obligations towards the Bank in the agreed amount and on the due date. Credit risk exposure primarily stems from crediting operations.

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

- reviews the debtor's creditworthiness according to credits, guarantees and other products,
- determines limits of credit debt on the basis of risk assessment,
- does business with creditworthy clients and acquires appropriate security instruments..

Customers are under continuous supervision, and risk exposure limits are adjusted if necessary. Risk limits are determined depending on various types of security instruments.

Risk concentration according to economic activities is also constantly monitored, even though the limits have not been set.

Risk exposure towards one debtor, including banks, is under limits and it includes both the balance and the off-balance sheet risk exposure. Total risk exposure per individual client in terms of limits is considered before the occurrence of the transaction.

Credit risk Management at individual placements level

Credit risk management at the level of individual placements include:

- Credit risk management in the process of approval and realization of placements,
- Credit risk management in the process of monitoring and collection of placements

Organisational parts of the Bank responsible for retrieval of credit risk at the level of the individual placement of corporate and retail entities are the business sector with a network of branches and Sectors to manage funds for loans to banks and other financial institutions. Organization parts of the Bank in charge of independent evaluation of credit risk at the level of individual placements are the Sector for estimation of credit applications as well as Sector for management of funds.

Board of Directors and Executive Committee are the organs of the Bank involved in the process of deciding on the allocation of the loans and the emergence of other receivables the Bank, as well as in changes to loan terms and other receivables, and are composed of members who meet the conditions for membership in the compliance with legislation (Law on Banks and Decision of the National Bank of Serbia on the implementation of the provisions of the banking law relating to giving preliminary approval for the establishment of banks and Bank licenses, as well as certain provisions relating to the giving of consent of the National Bank of Serbia), and their powers, responsibilities and scope of closer are regulated by the Statute of the Bank.

Members of the credit committees and other committees regulated by the Banking Act and the above Decision shall be appointed by Board of Directors of the Bank.

Dynamic maintenance of sessions of the credit Committee, the quorum for decision-making, as well as the procedure of work credit Committee defined the rules of operation of the credit Committee.

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Large exposures

The Bank's Executive Board is authorized to make decisions on the approval of the large exposure to one person, a group of related parties and entities associated with the Bank on the basis of a special Decision of the Board of Directors of the Bank.

The Executive Board of the Bank is obliged to notify at least quarterly Board of Directors on the following:

- of all transactions concluded with related parties, including relations with entities that have been associated with related parties the Bank
- the given approvals, i.e. all placements approved one person or a group of related persons, where it increases your exposure to that person or group of related persons

Placements monitoring

Organisational parts of the Bank who are in charge of credit risk at the level of individual placements are required to perform monitoring of individual loans and borrowers. Monitoring of individual placements includes:

- Monitoring of the financial status of debtor,
- Monitoring of regularity in carrying out obligations
- Statutory and organisational changes of the debtor, that is updating documentation,
- Monitoring of collaterals,
- Identifying the need for restructuring, or refinancing clients liabilities, analysis of economic rationale and implementation processes
- Other factors affecting the ability of execution of liabilities of borrower
- Monitoring and collection of placements for all debtors in due to 30 days

Monitoring of problematic placements in default status

Organizational part of Bank in charge of the Bank's credit risk management in the process of monitoring and collection of placements with the status of default are Department for debt collection and the Department of human resources and Legal Affairs.

On a monthly basis Sector for debt collection reports to the Commission for payment of receivables about the status of clients by segments and days past due in order to better monitoring and collection of receivables from customers and establishing a system of early detection potential problematic placements.

Commission for payment of claims as the sole governing body of bad assets:

- Monitoring clients who are in status problematic (over 60 days past due- Watch list),
- Monitoring customers by early recognition system (EWS) identified as a potential problematic (decisions on procedures according to individual clients based on the information obtained from the Department for debt collection, as well as Department for product development and sales support and business sector with network affiliates)

Defining a system of early detection of potential problematic claims (EWS) as well as Watch list is the responsibility of the Department for evaluation of credit applications in collaboration with the Department for debt collection and credit risk Department and is a subject of constant promotions according to current IT support.

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Management of credit risk at portfolio level

Credit risk management at the level of the Bank's portfolio is applied in all organizational units of the Bank whose competences are activities relating to the approval and monitoring of placements, as well as at the level of:

- Risk Management Sector
- Sector of financial control
- Executive Board and Board of Directors

By identifying and monitoring credit risk on portfolio level, Bank by analysis of structure and characteristics of the portfolio in a timely way identifies the factors that can lead to an increase in credit risk.

Identifying credit risk at the level of Bank portfolio is carried out through the identification of the current credit exposure on the basis of current and historical data as well as determine credit risk exposure that can occur in a future period through projections and simulations of the Bank's portfolio.

Internal reporting of credit risk covers the following areas:

- the quality of the portfolio – portfolio quality reports include detailed representations of opinion about the structure of the portfolio and focus on indicators of concentration, as well as key indicators of quality portfolios the Bank, on the basis of which provide suggestions/opinions on potential future effects and steps to be undertaken in order to improve the operations of the Bank
- classification of clients loans – credit risk classification by category and rating are made a minimum quarterly. Division by segment portfolios need to provide valuable insight to get appropriate in terms of risk sources
- impairment allowance by loans – provisions and impairment allowance analysis by loans is considered important as an indicator of quality portfolios and a means to identify sources of worsening credit
- big debtors – analysis of large engagement focuses on substantial concentration towards certain clients, as well as on the synchronization between the regulations
- early warning indicators of threat activity and financial position of the Bank Recovery Plan defined
- level of problematic receivables (PE, NPE and FBE status), movement of NPL portfolios in accordance with the decision on the reporting to the NBS, structure of NPL portfolios and its coverage with ECL
- quarterly portfolio stressing within the ICAAP process and reporting to the Board of Directors on the results of stress tests conducted and their effect on internal capital requirements
- monitoring the quality of assets on days past due and their movements for all segments of the portfolio. retail clients, small and medium-sized businesses and large enterprises
- monitoring the status of foreclosed property from the collection of receivables

Control and monitoring

Organisational parts of the Banks in the function of an independent control and monitoring system of risk management:

- Internal audit,
- Department for compliance control of Bank's operations and the prevention of money laundering.

The Bank's bodies in the function of an independent control and monitoring system of risk management:

- Board of Directors,
- Executive board,
- ALCO board Bank,
- Audit Committee,
- Credit Committee
- Commission for debt collection

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

In addition to regular third-party assessment of the effectiveness and reliability of credit risk management system, the Bank is obliged to at least once a year to test the quality of the applied internal models for credit risk assessment.

Bank Exposure to credit risk

The Bank's exposure to credit risk of financial assets is determined by applying the IFRS9 further described later in this section.

Impairment of financial assets

Assets that are valued at amortized cost

Individual assessment - Level 3

At every reporting date, the Bank identifies financial assets for which the calculation of the impairment shall be performed individually (individual assessment - individually significant exposures).

The criteria for the identification of receivables that have to be assessed at individual level are:
1. Identified status of unfulfilled obligations, i.e. the status of default
2. All financial instruments defined as POCI in accordance with IFRS 9;
3. Exposures toward banks classified as V,G i D;
4. Exposures with statuses FB / NPE;
5. The amount of receivable by the debtor.

In accordance with these criteria, receivables that have to be assessed at individual level are those for debtors:
a) banks classified in categories V, G and D with the total exposure higher than EUR 200,000 on the day of assessment,
b) legal entities and entrepreneurs with the total exposure by debtor higher than 40.000 EUR, on the day of calculation,
c) Individuals with exposure over 30.000 EUR, on the day of calculation.

<u>*Individually significant exposures –*</u>The Bank estimates, on every reporting date, whether objective evidence exists showing that the value of the financial asset is decreased (impaired). The financial asset is impaired and the losses on the basis of impairment are recognized only if objective evidence exists regarding the impairment as a result of one or more events that occurred during the initial valuation of the asset.

The criteria that the Bank uses to determine whether there is objective evidence of an impairment loss include:
1. The borrower's financial position indicating significant operational problems, such as change of debtor classification; the debtor is late with settling obligations towards the state, other creditors or employees or settles its obligations irregularly for tax and contributions for social insurance of employees, in a significant amount, according to the Bank's assessment; significant and continuous reduction of operating income in the previous two years; the debtor's capital has been significantly reduced (more than 50%) due to losses during the previous two reporting periods; there is a materially significant decrease (more than 50%) in operating income;
2. There is evidence of non-settled obligations, of frequent delays in paying interests and/or the principle or failing to meet other contractual obligations; at the latest when the debtor is late for 90 days based on any contract; the loan is non-performing in accordance with the Decision on classification of the balance sheet and off-balance sheet items.

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Impairment of financial assets (continued)

3. The Bank has significantly changed the terms of payment of loans due to financial problems of the debtor compared to those agreed initially, i.e. clients with the NPE/RES status, in accordance with items 35a through 35đ of the Decision on classification of the balance sheet and off-balance sheet items for non-performing receivables of the bank;
4. Initiation of bankruptcy proceedings over the debtor or initiation of another kind of financial reorganization is evident, which may be identified based on the following: the debtor has been blocked for more than 60 days on the date of assessment; the debtor is undergoing liquidation proceedings; a court procedure (order for court procedure) has been initiated against the debtor; pre-bankruptcy proceedings have been initiated against the debtor or bankruptcy proceedings have been initiated against any strategically significant member of the group which the debtor belongs to; reasons for initiating bankruptcy proceedings against the debtor defined by the law regulating bankruptcy have been met; the debtor is undergoing the procedure of preparing the reorganization plan / the creditors have accepted the proposed reorganization plan / the debtor is conducting business according to the adopted reorganization plan; or the debtor is undergoing the procedure of financial restructure by mutual consent in accordance with the relevant regulation.
5. Other objective evidence of impairment which classify receivables from clients into the category of suspicions and disputable receivables

If the Bank determines that there is objective evidence of impairment for an individually significant financial asset, the amount of loss is measured as the difference between the book value of the asset and the present value of estimated future cash flows.

The bank recognizes the existence of multiple possible scenarios of payment collection when evaluating the expected future cash flow.

That being the case, the scenarios taken into consideration are:

- ✓ realization of collateral (afterward separately in-court and out-of-court),
- ✓ restructuring and reprogramming,
- ✓ default,
- ✓ sale of receivables,
- ✓ anything else considered as relevant

Upon determining the probability percentage of certain scenarios, the Bank is guided by the history of realization and collection of problematic receivables, as well as the specifics of the individual financial instrument and in accordance with that assigns appropriate ponders, which when all scenarios are summed up must be 100%

In this manner, the final calculated loan losses fulfil the definition of standard in the way that they represent the probability of the pondered estimation of loan losses.

Depending on the type of property that is established mortgage, its location, as well as the date of last valuation, the Bank is using the haircuts in the process of calculating impairment, as follows:

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Impairment of financial assets (continued)

Residential property

Territory	Haircuts	Year of collection
Belgrade	20%	1-5
Novi Sad	20%	1-5
Other cities with population over 50.000	30%	1-5
Cities with a population below 50.000	40%	1-5
Villages and small towns	45%	1-5

Business property

Territory	Haircuts	Year of collection
Belgrade	30%	1-5
Novi Sad	30%	1-5
Other cities with population over 50.000	40%	1-5
Cities with a population below 50.000	45%	1-5
Villages and small towns	45%	1-5

Industrial property

Type	Haircuts	Year of collection
Factories	35%	1-5
Warehouses	35%	1-5

Land

Type	Haircuts	Year of collection
Land Vojvodina	25%	1-5
Other land	30%	1-5

Other

Type	Haircuts	Year of collection
Equipment	80%	1-5
Vehicles	50%	1-3
Guarantee deposits	0%	-
Government bonds, securities granted by the government	0%	-
Government guarantees	0%	-
First class guaranties	0%	-

In cases where the date of the valuation of collateral is older than 3 years, the above defined haircut is increased by 10%.

The expected cash flows must be discounted to their present value. As the discount factor, the Bank is using the effective interest rate (effective interest rate calculated on the date of concluding the loan agreement) in cases when the agreed interest rate with the client, when during the repayment process, the Bank approved a change in repayment terms, as well as for the reduced receivables, when we have restructured receivables, the bank uses the initial effective interest rate per restructured party. In the case of loans with a variable interest rate, the current effective interest rate on the day of settlement is used.

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Impairment of financial assets (continued)

For the purpose of determining the expected collateral collection period, the Sector for Network Management Operations and the Sector for Collection of Receivables take into consideration the following factors:

- Collateral type (depending on the law under which the collateral was established, i.e. whether it was established according to the Law on Mortgage or the Law on Execution);
- The validity of collateral documentation (quality, i.e. completeness of the documentation in the Bank's possession);
- Type, intention, functionality and size of the property which is the subject of collateral and its location;
- Offer and demand for property which is subject of collateral;
- The current phase of the collateral collection process, i.e. whether collection was initiated via court or extra-judicial settlement proceedings or the collection is expected by acquiring rights from the bankruptcy proceedings;
- The client's cooperation with the Bank.

The minimum, i.e. maximum expected time for collection from collateral ranges from one to five years, and depending on prescribed legal deadlines, court practice and regulations of the Republic of Serbia which are complied with in processes of realization of each individual mortgage.

To that end, the estimated collection time is mostly influenced by the type of procedure through which execution is conducted (Law on Execution and Security, Law on Mortgage, Civil Procedure Code, bankruptcy proceedings, etc.).

The minimum expected period of collection in the procedure of collateral realization is one year, and only if it was activated according to the extra-judicial manner of settlement of the currently valid Law on Mortgage, if the Real Estate Cadastre of the Republic of Serbia is complying with all legally prescribed deadlines for registering records on the right of sale and if the debtor is cooperating with the Bank.

In cases when payment is expected by realization of collateral by implementing any other court proceedings (Law on Execution and Security, Civil Procedure Code, bankruptcy proceedings, etc.), which cannot be influenced by the Bank, and which primarily depends on the actions of the court and court administrators, the expected collection period ranges from one to five years, and depends on the specificity of each individual security instrument. The maximum expected collection period of five years is implemented in cases when existence of an objective risk of impairment has just been identified and the Bank still has not started negotiations with the client and/or initiated a lawsuit against the client.

Collective impairment assessment - stage 1,2,3

The Bank will assess the following receivables on collective basis:

- receivables for which individual assessment has shown that there is no objective evidence of impairment;
- receivables belonging to the group of small receivables and which are not assessed individually.

For the purpose of collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Impairment of financial assets (continued)

Stage 1- expected credit losses

The calculation of impairment allowance as a part of Stage 1 is put into place if at the date of reporting the credit risk of the financial instrument is not significantly increased as compared to the initial recognition; the bank estimates provisions for loss for that financial instrument amounting to the maximum expected twelve month credit losses.

Expected credit loss that is recognized for financial instruments in stage 1 is calculated as a one year portion of calculated credit losses in the following manner:

$ECL = EAD * MPD * LGD * DF$

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

Calculated in this manner, the expected twelve month credit losses are part of the expected credit losses during the financial instrument duration and represent the cash shortage along the duration which will emerge in case of non-execution within 12 months after the reporting date (or a shorter period, if the expected duration of the financial instrument is shorter that 12 months), weighted by the probability of such non-execution.

Stage 2- expected credit losses

On the reporting date, the Bank estimates the impairment allowance per financial instrument equal to the amount of expected credit losses along the duration, if the credit risk for that financial instrument has increased significantly from the initial recognition.

The general approach of the Bank for calculating expected credit losses for the entire duration of the financial instrument is displayed through the following formula:

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

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

In this manner the calculated expected credit losses for the entire duration of the financial instrument represent the losses that the Bank recognizes for impairment calculation needs in Stage 2.

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Impairment of financial assets (continued)

Stage 3- expected credit losses

The calculation of impairment in Stage 3 is done if the identification criteria are recognized which must estimate on an individual basis but are under the defined limit of materiality.

For debtors on a group estimate on stage 3, the calculation of expected credit losses is calculated as the difference between the gross accounting value of the investment and the value calculated by discounting all available collaterals by the initial effective interest rate, as well as taking into account collections from assets securing the remaining amount (1- LGD unsecured)

The value of collateral which is being discounted is 90% of the allocated values during the application of the haircut. The discount period is taken as the average collection from collateral of 36 months.

Maximum credit risk exposure

The total exposure to credit risk as at 31 December 2019 and 31 December 2018 is shown in the next review, without taking into account any collateral or other credit protection. The stated values are expressed in gross and net book value.

	31.12.2019		31.12.2018	
	Gross	**Net**	**Gross**	**Net**
I. Assets	**15.476.090**	**15.184.722**	**15.258.241**	**14.944.128**
Cash and cash funds held with the Central Bank	2.019.237	2.019.237	1.590.911	1.590.911
Securities	2.688.846	2.688.846	1.632.306	1.632.306
Loans and receivables from banks and other financial institutions	254.942	253.612	456.332	455.870
Loans and receivables from customers	9.934.928	9.650.011	11.140.666	10.888.409
Receivables on financial derivatives for risk protection	-	-	6.014	6.000
Other assets	578.137	573.016	432.012	370.633

Guarantees and letters of credit represent irrevocable commitments of the Bank to make payments in case the client is unable to settle its liability towards a third party and they bear the same risk as loans.

	31.12.2019		31.12.2018	
	Gross	**Net**	**Gross**	**Net**
II. Off balance sheet items	**2.447.265**	**2.439.709**	**1.569.949**	**1.567.477**
Payable guarantees	460.682	460.207	189.366	189.323
Performance guarantees	704.350	701.389	480.173	478.745
Irrevocable liabilities	1.273.087	1.268.968	900.410	899.409
Other	9.146	9.146	-	-

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Impairment of financial assets (continued)

Loans and receivables from customers by risk level during 2019

	Stage 1	Stage 2	Stage 3	Total
01.01.2019.	**10.363.134**	**163.343**	**614.188**	**11.140.665**
New receivables	3.136.463	152.705	100.363	3.389.531
Decrease/collection of receivables	(3.976.822)	(144.860)	(473.586)	(4.595.268)
Transfer to Stage 1	69.165	(57.059)	(12.106)	-
Transfer to Stage 2	(652.758)	652.881	(124)	-
Transfer to Stage 3	(374.805)	(11.310)	386.115	-
31.12.2019	**8.564.376**	**755.701**	**614.851**	**9.934.928**

Changes in impairment allowance of loans and receivables to customers by level of risk during 2019

	Stage 1	Stage 2	Stage 3	Total
01.01.2019.	**17.309**	**7.790**	**227.158**	**252.257**
New receivables	32.526	27.292	119.786	179.605
Decrease/collection of receivables	(11.486)	(1.174)	(134.290)	(146.950)
Transfer to Stage 1	3.818	(1.853)	(1.965)	-
Transfer to Stage 2	(918)	993	(74)	-
Transfer to Stage 3	(464)	(1.326)	1.791	-
31.12.2019	**40.784**	**31.721**	**212.406**	**284.911**

Loans and receivables from customers by risk level during 2018

	Stage 1	Stage 2	Stage 3	Total
01.01.2018.	**8.473.574**	**903.894**	**424.202**	**9.801.670**
New receivables	4.564.708	51.629	258.746	4.875.082
Decrease/collection of receivables	2.543.815	159.065	68.268	2.771.148
Transfer to Stage 1	-	359.388	189	359.576
Transfer to Stage 2	56.036	-	303	56.338
Transfer to Stage 3	75.297	273.727	-	349.024
31.12.2018	**10.363.134**	**163.343**	**614.188**	**11.140.665**

Changes in impairment allowance of loans and receivables to customers by level of risk during 2018

	Stage 1	Stage 2	Stage 3	Total
01.01.2018.	**62.816**	**43.938**	**186.654**	**293.408**
New receivables	8.662	4.182	81.929	94.773
Decrease/collection of receivables	51.907	18.981	40.927	111.815
Transfer to Stage 1	-	9.293	190	9.483
Transfer to Stage 2	834	-	308	1.141
Transfer to Stage 3	1.429	12.056	-	13.485
31.12.2018	**17.309**	**7.790**	**227.158**	**252.257**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Loans and receivables to customers, banks and other financial institutions

31.12.2019.	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total impairment	Net
Housing loans	1.658.151	106.344	69.387	1.833.882	951	2.045	23.520	26.516	1.807.367
Cash and consumer loans	417.945	37.000	91.065	546.010	11.457	11.675	65.979	89.111	456.900
Credit cards	10.118	81	98	10.296	177	26	75	278	10.019
Current account overdrafts	8.232	11	41	8.284	417	6	22	444	7.840
Other loans	-	-	-	-	-	-	-	-	-
Retail	**2.094.445**	**143.437**	**160.591**	**2.398.473**	**13.002**	**13.751**	**89.595**	**116.348**	**2.282.125**
Entrepreneurs	**278.495**	**-**	**47.908**	**326.403**	**2.511**	**-**	**9.612**	**12.123**	**314.280**
Total retail	**2.372.940**	**143.437**	**208.500**	**2.724.876**	**15.513**	**13.751**	**99.207**	**128.471**	**2.596.405**
Large corporate clients	564.894	-	-	564.894	5.208	-	-	5.208	559.686
Middle corporate clients	2.427.301	284.972	43.079	2.755.352	11.523	13.989	8.137	33.649	2.721.702
Small corporate clients	2.401.695	207.361	295.488	2.904.543	6.973	3.168	102.201	112.341	2.792.202
Micro business	695.323	119.932	67.784	883.039	1.569	813	2.867	5.248	877.791
Other	102.225	-	-	102.225	-	-	-	-	102.225
Total corporate	**6.191.437**	**612.264**	**406.351**	**7.210.052**	**25.272**	**17.970**	**113.204**	**156.446**	**7.053.606**
Total	**8.564.377**	**755.701**	**614.851**	**9.934.928**	**40.784**	**31.721**	**212.412**	**284.917**	**9.650.011**
Banks	**254.942**	**-**	**-**	**254.942**	**1.330**	**-**	**-**	**1.330**	**253.612**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (Continued)

Loans and receivables due to customers, banks and other financial institutions (continued)

31.12.2018.	S1	S2	S3	Total	Impairment allowance S1	Impairment allowance S2	Impairment allowance S3	Total impairment	Net
Housing loans	2.038.945	86.662	120.718	2.246.325	430	1.073	36.334	37.837	2.208.487
Cash and consumer loans	608.715	43.282	104.849	756.847	5.946	6.343	53.947	66.235	690.612
Credit cards	17.225	814	1.415	19.454	154	60	1.350	1.564	17.890
Current account overdrafts	12.772	206	3.609	16.587	404	66	3.586	4.056	12.531
Other loans	-	-	-	-	-	-	-	-	-
Retail	**2.677.657**	**130.964**	**230.591**	**3.039.213**	**6.934**	**7.541**	**95.217**	**109.692**	**2.929.520**
Entrepreneurs	**408.370**	**1.760**	**47.198**	**457.328**	**1.345**	**231**	**9.619**	**11.195**	**446.133**
Total retail	**3.086.027**	**132.725**	**277.789**	**3.496.541**	**8.279**	**7.772**	**104.836**	**120.887**	**3.375.654**
Large corporate clients	511.468	-	-	511.468	1.559	-	-	1.559	509.909
Middle corporate clients	2.371.139	-	24.797	2.395.936	3.591	-	5.582	9.173	2.386.763
Small corporate clients	3.658.396	-	202.691	3.861.087	3.325	-	111.997	115.322	3.745.765
Micro business	685.617	30.618	108.912	825.148	556	17	4.743	5.316	819.831
Other	50.487	-	-	50.487	-	-	-	-	50.487
Total corporate	**7.277.107**	**30.618**	**336.400**	**7.644.125**	**9.030**	**17**	**122.323**	**131.370**	**7.512.755**
Total	**10.363.134**	**163.343**	**614.188**	**11.140.666**	**17.309**	**7.790**	**227.159**	**252.257**	**10.888.409**
Banks	**456.332**	**-**	**-**	**456.332**	**462**	**-**	**-**	**462**	**455.870**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (Continued)

Loans and receivables to customers, banks and other financial institutions (continued)

The following shows the structure of receivables from clients that are classified in Stage 1.

31.12.2019.	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Total
Housing loans	1.556.441	101.710	-	-	**1.658.151**
Cash and consumer loans	373.447	44.498	-	-	**417.945**
Credit cards	3	10.114	-	-	**10.118**
Current account overdrafts	8.216	16	-	-	**8.232**
Other loans	-	-	-	-	**-**
Retail	**1.938.107**	**156.338**	**-**	**-**	**2.094.445**
Entrepreneurs	**259.979**	**18.516**	**-**	**-**	**278.495**
Total retail	**2.198.086**	**174.854**	**-**	**-**	**2.372.940**
Large corporate clients	506.157	58.737	-	-	**564.894**
Middle corporate clients	2.246.153	181.147	-	-	**2.427.301**
Small corporate clients	2.174.172	227.523	-	-	**2.401.695**
Micro business	649.312	46.011	-	-	**695.323**
Other	102.225	-	-	-	**102.225**
Total corporate	**5.678.018**	**513.418**	**-**	**-**	**6.191.437**
Total	**7.876.104**	**688.272**	**-**	**-**	**8.564.377**
Out of which: restructured	**-**	**-**	**-**	**-**	**-**
Receivables from banks	**254.942**	**-**	**-**	**-**	**254.942**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (Continued)

Loans and receivables to customers, banks and other financial institutions (continued)

31.12.2018.	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Total
Housing loans	1.961.499	77.445	-	-	**2.038.945**
Cash and consumer loans	546.330	62.385	-	-	**608.715**
Credit cards	166	17.059	-	-	**17.225**
Current account overdrafts	12.723	50	-	-	**12.772**
Other loans	-	-	-	-	**-**
Retail	**2.520.718**	**156.939**	**-**	**-**	**2.677.657**
Entrepreneurs	**381.792**	**26.578**	**-**	**-**	**408.370**
Total retail	**2.902.510**	**183.517**	**-**	**-**	**3.086.027**
Large corporate clients	511.468	-	-	-	**511.468**
Middle corporate clients	2.159.018	212.121	-	-	**2.371.139**
Small corporate clients	3.038.883	619.513	-	-	**3.658.396**
Micro business	609.088	76.529	-	-	**685.617**
Other	50.487	-	-	-	**50.487**
Total corporate	**6.368.944**	**908.164**	**-**	**-**	**7.277.107**
Total	**9.271.453**	**1.091.681**	**-**	**-**	**10.363.134**
Out of which: restructured	**-**	**-**	**-**	**-**	**-**
Receivables from banks	**456.332**	**-**	**-**	**-**	**456.332**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (Continued)

Loans and receivables to customers, banks and other financial institutions (continued)

The following shows the structure of receivables from Stage 2 clients.

31.12.2019.	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days past due	Total
Housing loans	10.643	-	63.620	32.081	-	**106.344**
Cash and consumer loans	466	-	23.914	12.621	-	**37.000**
Credit cards	-	-	81	-	-	**81**
Current account overdrafts	-	-	6	5	-	**11**
Other loans	-	-	-	-	-	**-**
Retail	**11.109**	**-**	**87.621**	**44.707**	**-**	**143.437**
Entrepreneurs	**-**	**-**	**-**	**-**	**-**	**-**
Total retail	**11.109**	**-**	**87.621**	**44.707**	**-**	**143.437**
Large corporate clients	-	-	-	-	-	**-**
Middle corporate clients	284.972	-	-	-	-	**284.972**
Small corporate clients	171.863	35.488	9	-	-	**207.361**
Micro business	97.106	4.534	-	18.291	-	**119.932**
Other	-	-	-	-	-	**-**
Total corporate	**553.941**	**40.023**	**9**	**18.291**	**-**	**612.264**
Total	**565.049**	**40.023**	**87.630**	**62.998**	**-**	**755.701**
Out of which: restructured	**248.162**	**-**	**-**	**159**	**-**	**248.320**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (Continued)

Loans and receivables to customers, banks and other financial institutions (continued)

31.12.2018.	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days past due	Total
Housing loans	-	-	59.459	27.204	-	**86.662**
Cash and consumer loans	834	-	28.582	13.866	-	**43.282**
Credit cards	-	-	794	20	-	**814**
Current account overdrafts	-	-	164	42	-	**206**
Other loans	-	-	-	-	-	**-**
Retail	**834**	**-**	**88.998**	**41.132**	**-**	**130.964**
Entrepreneurs	**501**	**841**	**-**	**418**	**-**	**1.760**
Total retail	**1.335**	**841**	**88.998**	**41.550**	**-**	**132.725**
Large corporate clients	-	-	-	-	-	**-**
Middle corporate clients	-	-	-	-	-	**-**
Small corporate clients	-	-	-	-	-	**-**
Micro business	206	-	-	30.413	-	**30.618**
Other	-	-	-	-	-	**-**
Total corporate	**206**	**-**	**-**	**30.413**	**-**	**30.618**
Total	**1.540**	**841**	**88.998**	**71.963**	**-**	**163.343**
Out of which: restructured	**1.335**	**-**	**202**	**-**	**-**	**1.537**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (Continued)

Loans and receivables to customers, banks and other financial institutions (continued)

A structure of receivables from Stage 3 clients follows.

31.12.2019.	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days past due	Total
Housing loans	5.952	416	7.742	8.383	46.894	**69.387**
Cash and consumer loans	6.016	2.282	12.350	3.407	67.010	**91.065**
Credit cards	-	-	-	-	98	**98**
Current account overdrafts	-	-	-	-	41	**41**
Other loans	-	-	-	-	-	**-**
Retail	**11.968**	**2.698**	**20.092**	**11.790**	**114.043**	**160.591**
Entrepreneurs	**1.661**	**2.726**	**768**	**9.549**	**33.205**	**47.908**
Total retail	**13.629**	**5.424**	**20.860**	**21.339**	**147.248**	**208.500**
Large corporate clients	-	-	-	-	-	**-**
Middle corporate clients	-	-	-	-	43.079	**43.079**
Small corporate clients	81.158	4.864	15.540	83.580	110.345	**295.488**
Micro business	18.918	12.399	-	2.933	33.535	**67.784**
Other	-	-	-	-	-	**-**
Total corporate	**100.076**	**17.263**	**15.540**	**86.514**	**186.959**	**406.351**
Total	**113.705**	**22.686**	**36.400**	**107.853**	**334.207**	**614.851**
Out of which: restructured	**65.198**	**1.219**	**12.208**	**31.962**	**20.563**	**131.150**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (Continued)

Loans and receivables to customers, banks and other financial institutions (continued)

31.12.2018.	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days past due	Total
Housing loans	9.381	2.633	3.649	6.232	98.823	**120.718**
Cash and consumer loans	11.645	16.040	5.433	7.084	64.647	**104.849**
Credit cards	1	-	-	-	1.414	**1.415**
Current account overdrafts	-	-	-	-	3.609	**3.609**
Other loans	-	-	-	-	-	-
Retail	**21.028**	**18.673**	**9.082**	**13.316**	**168.492**	**230.591**
Entrepreneurs	**1.077**	**1.103**	**6.193**	**5.598**	**33.227**	**47.198**
Total retail	**22.105**	**19.776**	**15.275**	**18.914**	**201.719**	**277.789**
Large corporate clients	-	-	-	-	-	-
Middle corporate clients	8	-	5.574	-	19.214	**24.797**
Small corporate clients	4	1.490	-	-	201.197	**202.691**
Micro business	19.158	11.478	29.766	29.162	19.347	**108.912**
Other	-	-	-	-	-	-
Total corporate	**19.169**	**12.969**	**35.341**	**29.162**	**239.759**	**336.400**
Total	**41.274**	**32.745**	**50.615**	**48.076**	**441.478**	**614.188**
Out of which: restructured	**5.803**	**2.908**	**9.117**	**2.560**	**67.545**	**87.934**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (Continued)

Loans and receivables from banks and other financial institutions (continued)

Below is shown the structure of receivables from clients who are in Stage 3 and who are restructured:

31.12.2019.	Gross exposure	Impairment allowance	S3 receivables	RP S3	Impairment allowance S3	Participation of stage 3 in gross exposure	Collateral for S3
Total retail	**2.724.876**	**128.471**	**208.500**	**15.123**	**99.207**	**7,65%**	**106.287**
Housing loans	1.833.882	26.516	69.387	128	23.520	3,78%	57.248
Cash and consumer Loans	546.010	89.111	91.065	14.516	65.979	16,68%	11.951
Credit cards	10.296	278	98	-	75	0,95%	-
Current account overdrafts	8.284	444	41	-	22	0,50%	-
Other	-	-	-	-	-	0,00%	-
Retail	**2.398.473**	**116.348**	**160.591**	**14.644**	**89.595**	**6,70%**	**69.198**
Entrepreneurs	326.403	12.123	47.908	478	9.612	14,68%	37.088
Business clients	**7.210.052**	**156.446**	**406.351**	**116.028**	**113.204**	**5,64%**	**350.130**
Accommodation and food services	18.897	14	4.864	-	-	25,74%	4.864
Administrative and support services	56.592	827	483	-	291	0,85%	-
Agriculture, forestry and fishing	1.380.605	27.004	26.396	-	10.759	1,91%	26.237
Art, entertainment and recreation	4.214	113	-	-	-	0,00%	-
Construction	1.109.387	17.377	87.585	-	13.680	7,89%	82.449
Financial activities and insurance activities	44.984	654	-	-	-	0,00%	-
Information and communication	3.810	37	-	-	-	0,00%	-
Manufacturing industry	2.514.894	87.404	180.311	57.608	72.959	7,17%	134.484
Professional, scientific, innovation and technical activities	134.939	451	-	-	-	0,00%	-
Real-estate business	692	-	-	-	-	0,00%	-
Trafficking and warehousing	201.741	1.037	2.215	-	382	1,10%	1.581
Wholesale and retail, repairs	1.549.603	20.912	100.155	58.420	14.902	6,46%	96.558
Other	189.695	617	4.341	-	231	2,29%	3.958
Total	**9.934.928**	**284.917**	**614.851**	**131.150**	**212.412**	**6,19%**	**456.417**
Receivables from Banks	**254.942**	**1.330**	**-**	**-**	**-**	**0,00%**	**-**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (Continued)

Loans and receivables to customers, banks and other financial institutions (continued)

31.12.2018.	Gross exposure	Impairment allowance	S3 receivables	RP S3	Impairment allowance S3	Participation of stage 3 in gross exposure	Collateral for S3
Total retail	**3.496.541**	**120.887**	**277.789**	**22.385**	**104.836**	**7,94%**	**156.430**
Housing loans	2.246.325	37.837	120.718	211	36.334	5,37%	105.250
Cash and consumer Loans	756.847	66.235	104.849	21.447	53.947	13,85%	15.050
Credit cards	19.454	1.564	1.415	-	1.350	7,27%	-
Current account overdrafts	16.587	4.056	3.609	-	3.586	21,76%	-
Other	-	-	-	-	-	0,00%	-
Retail	**3.039.213**	**109.692**	**230.591**	**21.658**	**95.217**	**7,59%**	**120.301**
Entrepreneurs	457.328	11.195	47.198	727	9.619	10,32%	36.129
Business clients	**7.644.125**	**131.370**	**336.400**	**65.549**	**122.323**	**4,40%**	**298.879**
Accommodation and food services	26.343	4	6.331	-	-	24,03%	6.331
Administrative and support services	108.026	478	480	-	383	0,44%	-
Agriculture, forestry and fishing	1.268.169	1.354	283	-	128	0,02%	124
Art, entertainment and recreation	5.508	28	-	-	-	0,00%	-
Construction	1.060.006	1.695	32.061	-	42	3,02%	32.008
Financial activities and insurance activities	40.919	191	-	-	-	0,00%	-
Information and communication	9.820	12	-	-	-	0,00%	-
Manufacturing industry	3.040.375	91.893	177.936	5.574	88.329	5,85%	145.384
Professional, scientific, innovation and technical activities	204.494	564	328	-	261	0,16%	-
Real-estate business	122.439	-	-	-	-	0,00%	-
Trafficking and warehousing	240.612	731	2.217	-	507	0,92%	1.583
Wholesale and retail, repairs	1.423.613	33.572	115.726	59.975	31.842	8,13%	113.450
Other	93.801	848	1.038	-	830	1,11%	-
Total	**11.140.666**	**252.257**	**614.188**	**87.934**	**227.159**	**5,51%**	**455.309**
Receivables from Banks	**456.332**	**462**	-	-	-	**0,00%**	-

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (Continued)

Loans and receivables to customers, banks and other financial institutions (continued)

Changes in Stage 3:

Change in S3 receivables	**Gross 31.12.2018.**	**New S3 clients**	**Decrease in S3 clients**	**Gross 31.12.2019.**	**Net 31.12.2019.**
Housing loans	120.718	2.776	54.107	69.387	45.867
Cash and consumer Loans	104.849	8.474	22.258	91.065	25.086
Credit cards	1.415	82	1.399	98	23
Current account overdrafts	3.609	18	3.586	41	20
Other	-	-	-	-	-
Retail	**230.591**	**11.350**	**81.350**	**160.591**	**70.996**
Entrepreneurs	**47.198**	**14.611**	**13.901**	**47.908**	**- 38.296 -**
Total retail	**277.789**	**25.961**	**95.251**	**208.500**	**109.292**
Large enterprises	-	-	-	-	-
Medium enterprises	24.797	33.466	15.184	43.079	34.942
Small enterprises	202.691	267.557	174.760	295.488	193.287
Micro enterprises	108.913	23.946	65.074	67.784	64.918
Other	-	-	-	-	-
Business clients	**336.400**	**324.969**	**255.018**	**406.351**	**293.147**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (Continued)

Loans and receivables to customers, banks and other financial institutions (continued)

Changes in Stage 3:

Change in S3 receivables	Gross 1.1.2018.	New S3 clients	Decrease in S3 clients	Gross 31.12.2018.	Net 31.12.2018.
Housing loans	127.459	7.491	14.233	120.718	84.384
Cash and consumer Loans	89.151	36.108	20.409	104.849	50.903
Credit cards	915	579	79	1.415	65
Current account overdrafts	2.895	1.173	458	3.609	22
Other	-	-	-	-	-
Retail	**220.419**	**45.351**	**35.179**	**230.591**	**135.374**
Entrepreneurs	**43.061**	**13.186**	**9.049**	**47.198**	**37.579**
Total retail	**263.480**	**58.537**	**44.228**	**277.789**	**172.953**
Large enterprises	-	-	-	-	-
Medium enterprises	5.588	19.222	13	24.797	19.214
Small enterprises	115.186	97.754	10.250	202.691	90.694
Micro enterprises	39.949	83.232	14.268	108.913	104.169
Other	-	-	-	-	-
Business clients	**160.723**	**200.208**	**24.532**	**336.400**	**214.077**
Total	**424.202**	**258.746**	**68.759**	**614.189**	**387.030**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Restructured receivables

Loans with changed initially agreed conditions are loans that are rescheduled or restructured due to deterioration in the financial condition of the debtor, or due to problems in settlement obligations in the initial agreed deadlines maturity.
The Bank conducts financial analysis of the debtor, where there is a problem in settling liabilities and if the judgment to the borrower after the modified conditions to be able to pay its obligations the Bank decides that such loans rescheduling.

RESTRUCTURED RECEIVABLES 31.12.2019.	Restructured receivables(RP)-Gross exposure	S 1 RP*	S2 RP *	S3 RP*	Impairment allowance RP	Impairmen allowance S 1 RP*	Impairmen allowance S2 RP*	Impairmen allowance S3 RP*	Participation RP in gross exposure	Collateral RP
Total retail	**15.747**	**-**	**625**	**15.123**	**12.170**	**-**	**192**	**11.979**	**2,9%**	**659**
Housing loans	128	-	-	128	-	-	-	-	0,0%	128
Cash and consumer loans	15.141	-	625	14.516	12.011	-	192	11.820	2,8%	276
Credit cards	-	-	-	-	-	-	-	-	0,0%	-
Overdraft on current accounts	-	-	-	-	-	-	-	-	0,0%	-
Agricultural loans	-	-	-	-	-	-	-	-	0,0%	-
Other	-	-	-	-	-	-	-	-	0,0%	-
Micro business	-	-	-	-	-	-	-	-	0,0%	-
Retail	**15.269**	**-**	**625**	**14.644**	**12.011**	**-**	**192**	**11.820**	**2,8%**	**404**
Entrepreneurs	478	-	-	478	159	-	-	159	0,1%	255
Business clients	**363.724**	**-**	**247.696**	**116.028**	**33.338**	**-**	**12.418**	**20.920**	**24,0%**	**360.996**
Accommodation and food services	-	-	-	-	-	-	-	-	0,0%	-
Administrative and support services	-	-	-	-	-	-	-	-	0,0%	-
Agriculture, forestry and fishing	247.696	-	247.696	-	12.418	-	12.418	-	17,9%	247.696
Art, entertainment and recreation	-	-	-	-	-	-	-	-	0,0%	-
Construction	-	-	-	-	-	-	-	-	0,0%	-
Financial activities and insurance activities	-	-	-	-	-	-	-	-	0,0%	-
Information and communication	-	-	-	-	-	-	-	-	0,0%	-
Manufacturing industry	57.608	-	-	57.608	7.288	-	-	7.288	2,3%	54.880
Professional, scientific, innovation and technical activities	-	-	-	-	-	-	-	-	0,0%	-
Real-estate business	-	-	-	-	-	-	-	-	0,0%	-
Trafficking and warehousing	-	-	-	-	-	-	-	-	0,0%	-
Wholesale and retail, repairs	58.420	-	-	58.420	13.632	-	-	13.632	3,8%	58.420
Other	-	-	-	-	-	-	-	-	0,0%	-
Total	**379.471**	**-**	**248.321**	**131.150**	**45.508**	**-**	**12.610**	**32.899**	**26,9%**	**361.655**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**0,0%**	**-**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Credit risk (continued)

Restructured receivables (continued)

RESTRUCTURED RECEIVABLES 31.12.2018.	Restructured receivables(RP)- Gross exposure	S 1 RP	S2 RP	S3 RP	Impairment allowance RP	Impairment allowance S 1 RP	Impairment allowance S 2RP	Impairment allowance S3 RP	Participation RP in gross exposure	Collateral RP
Total retail	**23.921**	**-**	**1.537**	**22.385**	**13.084**	**-**	**127**	**12.957**	**4,5%**	**1.370**
Housing loans	211	-	-	211	-	-	-	-	0,0%	211
Cash and consumer loans	22.483	-	1.036	21.447	12.644	-	127	12.517	4,1%	658
Credit cards	-	-	-	-	-	-	-	-	0,0%	-
Overdraft on current accounts	-	-	-	-	-	-	-	-	0,0%	-
Agricultural loans	-	-	-	-	-	-	-	-	0,0%	-
Other	-	-	-	-	-	-	-	-	0,0%	-
Micro business	-	-	-	-	-	-	-	-	0,0%	-
Retail	**22.694**	**-**	**1.036**	**21.658**	**12.644**	**-**	**127**	**12.517**	**4,1%**	**869**
Entrepreneurs	1.228	-	501	727	440	-	-	440	0,4%	501
Business clients	**65.549**	**-**	**-**	**65.549**	**35.543**	**-**	**-**	**35.543**	**4,1%**	**59.975**
Accommodation and food services	-	-	-	-	-	-	-	-	0,0%	-
Administrative and support services	-	-	-	-	-	-	-	-	0,0%	-
Agriculture, forestry and fishing	-	-	-	-	-	-	-	-	0,0%	-
Art, entertainment and recreation	-	-	-	-	-	-	-	-	0,0%	-
Construction	-	-	-	-	-	-	-	-	0,0%	-
Financial activities and insurance activities	-	-	-	-	-	-	-	-	0,0%	-
Information and communication	-	-	-	-	-	-	-	-	0,0%	-
Manufacturing industry	5.574	-	-	5.574	5.574	-	-	5.574	0,2%	-
Professional, scientific, innovation and technical activities	-	-	-	-	-	-	-	-	0,0%	-
Real-estate business	-	-	-	-	-	-	-	-	0,0%	-
Trafficking and warehousing	-	-	-	-	-	-	-	-	0,0%	-
Wholesale and retail, repairs	59.975	-	-	59.975	29.968	-	-	29.968	3,9%	59.975
Other	-	-	-	-	-	-	-	-	0,0%	-
Total	**89.470**	**-**	**1.537**	**87.934**	**48.627**	**-**	**127**	**48.499**	8,6%	**61.344**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	0,0%	**-**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Restructured receivables (continued)

In 2019 Bank had very little restructured receivables which are by methodology in stage 2:

- Cash and consumer loans in amount of RSD 625 thousand
- Loans to Medium enterprises in amount of RSD 247.696 thousand

There was no movement of restructured receivables during 2019 within stage 1, while within stage 2 and stage 3 it is shown in the table below:

	Restructured receivables S2 Gross exposure 31.12.2018.	New restructured S2	Decrease in restructured S2	Gross 31.12.2019.	Net 31.12.2019.
Housing loans	-	-	-	-	-
Cash and consumer loans	1.036	-	411	625	433
Credit cards	-	-	-	-	-
Overdraft on current accounts	-	-	-	-	-
Other	-	-	-	-	-
Retail	**1.036**	**-**	**411**	**625**	**433**
Entrepreneurs	**501**		**501**	-	-
Total retail	**1.537**	**-**	**912**	**625**	**433**
Large	-	-	-	-	-
Medium	-	247.696	-	247.696	235.278
Small	-	-	-	-	-
Micro	-	-	-	-	-
Other	-	-	-	-	-
Total business clients	**-**	**247.696**	**-**	**247.696**	**235.278**
Total	**1.537**	**247.696**	**912**	**248.321**	**235.711**
Banks	**-**	**-**	**-**	**-**	**-**
Other receivables from banks	**-**	**-**	**-**	**-**	**-**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.3. Credit risk (continued)

Restructured receivables (continued)

	Restructured receivables S3 Gross exposure 31.12.2018.	New restructured S3	Decrease in restructured S3	Gross 31.12.2019.	Net 31.12.2019.
Housing loans	211	-	83	128	128
Cash and consumer loans	21.447	-	6.931	14.516	2.696
Credit cards	-	-	-	-	-
Overdraft on current accounts	-	-	-	-	-
Other	-	-	-	-	-
Retail	**21.658**	**-**	**7.014**	**14.644**	**2.824**
Entrepreneurs	727	-	249	478	320
Total retail	**22.385**	**-**	**7.263**	**15.123**	**3.144**
Large	-	-	-	-	
Medium	5.574	-	5.574	-	-
Small	59,975	56.053	-	116.028	95.108
Micro	-	-		-	
Other	-	-		-	
Total business clients	**65.549**	**56.053**	**5.574**	**116.028**	**95.108**
Total	**87.934**	**56.053**	**12.836**	**131.150**	**98.252**
Banks	**-**	**-**	**-**	**-**	**-**
Other receivables from banks	**-**	**-**	**-**	**-**	**-**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Credit risk (continued)

Receivables from customers covered with collateral

31.12.2019.	S1 clients					S2 clients					S3 clients				
	Property	Deposit	Guarantee	Other	Total	Property	Deposit	Guarantee	Other	Total	Property	Deposit	Guarantee	Other	Total
Housing Loans	1.590.265	10.300	-	-	1.600.565	105.255	139	-	-	105.394	57.248	-	-	-	57.248
Cash and consumer loans	44.598	3.481	-	-	48.079	3.492	-	-	-	3.492	11.951	-	-	-	11.951
Credit cards	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Overdraft on current accounts	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Agricultural	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Micro business	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Retail	**1.634.863**	**13.781**	**-**	**-**	**1.648.644**	**108.747**	**139**	**-**	**-**	**108.886**	**69.198**	**-**	**-**	**-**	**69.198**
Entrepreneurs	**234.646**	**439**	-	-	235.085	-	-	-	-	-	**37.088**	-	-	-	37.088
Total retail	**1.869.509**	**14.220**	**-**	**-**	**1.883.729**	**108.747**	**139**	**-**	**-**	**108.886**	**106.287**	**-**	**-**	**-**	**106.287**
Large enterprises	179.466	-	-	-	179.466	-	-	-	-	-	-	-	-	-	-
Medium enterprises	1.617.189	63.697	-	-	1.680.886	284.972	-	-	-	284.972	43.079	-	-	-	43.079
Small enterprises	1.796.112	65.405	-	-	1.861.517	183.783	-	-	-	183.783	245.514	-	-	-	245.514
Micro enterprises	606.599	17.712	-	-	624.311	53.168	58.737	-	-	111.905	61.536	-	-	-	61.536
State	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Business clients	**4.199.365**	**146.814**	**-**	**-**	**4.346.180**	**521.923**	**58.737**	**-**	**-**	**580.660**	**350.130**	**-**	**-**	**-**	**350.130**
Total	**6.068.874**	**161.035**	**-**	**-**	**6.229.909**	**630.670**	**58.876**	**-**	**-**	**689.545**	**456.417**	**-**	**-**	**-**	**456.417**
Receivables from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Credit risk (continued)

Receivables from customers covered with collateral

31.12.2018.	S 1 CLIENTS			S 2 CLIENTS			S 3 CLIENTS		
	Property	Deposits	Total	Property	Deposits	Total	Property	Deposits	Total
Housing Loans	1.942.224	12.390	1.954.614	85.049	-	85.049	105.250	-	105.250
Cash and consumer loans	59.308	97	59.405	1.970	-	1.970	15.050	-	15.050
Credit cards	-	-	-	-	-	-	-	-	-
Overdraft on current accounts	-	-	-	-	-	-	-	-	-
Agricultural	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Micro business	-	-	-	-	-	-	-	-	-
Retail	**2.001.532**	**12.486**	**2.014.019**	**87.019**	-	**87.019**	**120.301**	-	**120.301**
Entrepreneurs	**336.521**	**4.495**	341.016	**501**	**-**	**501**	**36.129**	**-**	36.129
Total retail	**2.338.053**	**16.981**	**2.355.034**	**87.520**	-	**87.520**	**156.430**	-	**156.430**
Large enterprises	270.662	-	270.662	-	-	-	-	-	-
Medium enterprises	1.836.686	29.569	1.866.255	-	-	-	19.214	-	19.214
Small enterprises	3.131.092	86.982	3.218.074	-	-	-	176.613	-	176.613
Micro enterprises	497.845	66.993	564.838	30.413	-	30.413	94.773	8.279	103.052
State	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Business clients	**5.736.286**	**183.544**	**5.919.829**	**30.413**	-	**30.413**	**290.600**	**8.279**	**298.879**
Total	**8.074.339**	**200.524**	**8.274.864**	**117.933**	-	**117.933**	**447.030**	**8.279**	**455.309**
Receivables from banks	-	-	-	-	-	-	-	-	-

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Credit risk (continued)

Risk of concentration

31.12.2019.	Receivables from S1 i S2 clients					Receivables from S 3 clients				
	Serbia	Montenegro	EU	Other	Serbia	Serbia	Montenegro	EU	Other	Serbia
Total retail	**2.487.596**	**-**	**5.430**	**-**	**23.351**	**208.500**	**-**	**-**	**-**	**1**
Housing Loans	1.735.714	-	5.430	-	23.351	69.387	-	-	-	-
Cash and consumer loans	454.945	-	-	-	-	91.065	-	-	-	-
Credit cards	10.199	-	-	-	-	98	-	-	-	-
Overdraft on current accounts	8.243	-	-	-	-	41	-	-	-	1
Agricultural	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Micro business	-	-	-	-	-	-	-	-	-	-
Retail	**2.209.101**	**-**	**5.430**	**-**	**23.351**	**160.591**	**-**	**-**	**-**	**1**
Entrepreneurs	278.495	-	-	-	-	47.908	-	-	-	-
Business Clients	**6.803.701**	**-**	**-**	**-**	**-**	**406.351**	**-**	**-**	**-**	**-**
Accommodation and food services	14.032	-	-	-	-	4.864	-	-	-	-
Administrative and support services	56.109	-	-	-	-	483	-	-	-	-
Agriculture, forestry and fishing	1.354.209	-	-	-	-	26.396	-	-	-	-
Art, entertainment and recreation	4.214	-	-	-	-	-	-	-	-	-
Construction	1.021.801	-	-	-	-	87.585	-	-	-	-
Financial activities and insurance activities	44.984	-	-	-	-	-	-	-	-	-
Information and communication	3.810	-	-	-	-	-	-	-	-	-
Manufacturing industry	2.334.583	-	-	-	-	180.311	-	-	-	-
Professional, scientific, innovation and technical activities	134.939	-	-	-	-	-	-	-	-	-
Real-estate business	692	-	-	-	-	-	-	-	-	-
Trafficking and warehousing	199.526	-	-	-	-	2.215	-	-	-	-
Wholesale and retail, repairs	1.449.449	-	-	-	-	100.155	-	-	-	-
Other	185.353	-	-	-	-	4.341	-	-	-	-
Total	**9.291.297**	**-**	**5.430**	**-**	**23.351**	**614.851**	**-**	**-**	**-**	**1**
Receivables from banks	**9.667**	**-**	**-**	**154.397**	**90.878**	-	-	-	-	-

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3. Credit risk (continued)

Risk of concentration

31.12.2018.	Receivables from S1 i S2 clients				Receivables from S 3 clients			
	Serbia	Montenegro	EU	Other	Serbia	Montenegro	EU	Other
Total retail	**3.187.267**	-	**7.006**	**24.478**	**277.788**	-	-	**1**
Housing Loans	2.094.179	-	6.950	24.478	120.718	-	-	-
Cash and consumer loans	651.997	-	-	-	104.849	-	-	-
Credit cards	17.984	-	56	-	1.415	-	-	-
Overdraft on current accounts	12.978	-	-	-	3.608	-	-	1
Agricultural	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-
Micro business	-	-	-	-	-	-	-	-
Retail	**2.777.137**	-	**7.006**	**24.478**	**230.590**	-	-	**1**
Entrepreneurs	410.130	-	-	-	47.198	-	-	-
Business Clients	**7.307.725**	-	-	-	**336.400**	-	-	-
Accommodation and food services	20.012	-	-	-	6.331	-	-	-
Administrative and support services	107.547	-	-	-	480	-	-	-
Agriculture, forestry and fishing	1.267.886	-	-	-	283	-	-	-
Art, entertainment and recreation	5.508	-	-	-	-	-	-	-
Construction	1.027.945	-	-	-	32.061	-	-	-
Financial activities and insurance activities	40.919	-	-	-	-	-	-	-
Information and communication	9.820	-	-	-	-	-	-	-
Manufacturing industry	2.862.439	-	-	-	177.936	-	-	-
Professional, scientific, innovation and technical activities	204.167	-	-	-	328	-	-	-
Real-estate business	122.439	-	-	-	-	-	-	-
Trafficking and warehousing	238.396	-	-	-	2.217	-	-	-
Wholesale and retail, repairs	1.307.887	-	-	-	115.726	-	-	-
Other	92.762	-	-	-	1.038	-	-	-
Total	**10.494.993**	-	**7.006**	**24.478**	**614.188**	-	-	**1**
Receivables from banks	261.809	-	167.237	27.286	-	-	-	-

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market risk

Market risk is the risk that the fair value or expected future cash flows of financial instruments will fluctuate because of changes in market variables such as interest rates and foreign exchange rates. Except for the concentration of foreign exchange risk, the Bank has no significant concentration of market risk for other items.

Risk of interest rate changes

The Bank is exposed to changes in the prevailing level of market interest rates that influence its financial position and cash flows. As a result of such changes, the interest margin may increase, decrease, and cause losses in the event of unexpected changes. Interest rates are based on market interest rates and they are constantly adjusted by the Bank.

Risk management activity is aimed at optimization of net interest income, maintenance of the market interest rate at a consistent level in accordance with the Bank's business strategy. Bank's management manages maturity compliance of assets and liabilities on the basis of macroeconomic and microeconomic projections, projection of requirements for reaching liquidity and projection of interest rate trends.

The Bank manages the interest rate risk in accordance with Chapter - The Interest Rate Risk Management, which defines the system and methodologies for the interest rate risk management, competencies and responsibilities of system participants, as well as controls carried out with the aim of creating the most efficient system possible.

The subject of interest rate risk management is represented by all those items contained in the banking book, which may cause a negative effect on the Bank's result and capital due to an interest rate change.

The Bank may be exposed to different forms of interest risk:

- Risk of time lags between the maturity and repricing, i.e. the repricing risk, risk of change in price. This risk results from the discrepancy in the maturity date (for fixed rates) and the date of price change (for variable rates) for assets, liabilities and off-balance items of the Bank;
- Yield curve risk - risk which arises due to change of forms and slope of the yield curve, when unexpected movements of the curve negatively affect the income or the basic economic value.
- Basis risk - due to different reference interest rates in interest-sensitive items with similar characteristics in terms of maturity, i.e. due to repricing.
- Optionality risk - due to options embedded in interest-sensitive items (loans with the possibility of early withdrawal, different types of securities or records containing options to buy or sell, different types of deposit instruments without maturity that allow depositors to withdraw funds at any moment, often without paying any penalties).

With the aim of managing the interest risk exposure, the Bank uses the GAP methodology for interest rates.

Analysis of interest risk exposures implies analysis of condition and changes of balance sheet assets, liabilities and off-balance items, and position of derivatives. The Bank identifies the interest risk exposure by establishing incompatibility of values in the relevant currencies (RSD, EUR, USD, CHF) and overall (on a consolidated basis) for all currencies with which it operates.

Analysis of items of balance sheet assets and liabilities involves establishment of interest-sensitive items classified according to the period of interest rate reformation, i.e. determining the expected schedule of future cash flows.

Analysis of off-balance items (swaps, forwards) implies determining potential item changes, resulting from interest rate changes on the market.

Interest rate analysis implies continuous monitoring and adjustment of affairs to the conditions of interest rate changes on the market.

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market risk (continued)

Risk of interest rate changes (continued)

As of 31.12.2019	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Interest-insensitive positions	Total
ASSETS							
Cash and cash funds held with central Bank	749.693	-	-	-	-	1.269.544	2.019.237
Securities	-	-	-	333.453	2.355.393	-	2.688.846
Loans and receivables from banks and other financial institutions	4.704	-	-	-	-	248.908	253.612
Loans and receivables from customers	1.991.621	2.854.414	3.881.675	379.795	249.134	293.373	9.650.011
Receivables on financial derivatives for risk protection	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	573.016	573.016
TOTAL ASSETS	**2.746.018**	**2.854.414**	**3.881.675**	**713.248**	**2.604.527**	**2.384.841**	**15.184.722**
LIABILITIES							
Deposits and other liabilities to banks, other financial institutions and central Bank	1.179.714	211.667	530.454	2.236	-	21.425	1.945.497
Deposits and other liabilities to customers	2.029.994	651.404	2.909.659	1.540.150	5.286	2.772.635	9.909.127
Liabilities on financial derivatives for risk protection	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	189.338	189.338
Total liabilities	**3.209.708**	**863.071**	**3.440.113**	**1.542.385**	**5.286**	**2.983.398**	**12.043.962**
GAP (Assets - liabilities):	**(463.690)**	**1.991.343**	**441.561**	**(829.137)**	**2.599.240**	**(598.557)**	**3.140.760**

As of 31.12.2018	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Interest-insensitive positions	Total
ASSETS							
Cash and cash funds held with central Bank	332.480	-	-	-	-	1.258.431	1.590.911
Securities	-	-	200.447	1.377.329	54.530	-	1.632.306
Loans and receivables from banks and other financial institutions	254.728	-	-	-	-	201.142	455.870
Loans and receivables from customers	2.603.953	3.097.447	4.602.228	195.734	128.695	260.351	10.888.409
Receivables on financial derivatives for risk protection	-	-	-	-	-	6.000	6.000
Other assets	-	-	-	-	-	370.625	370.633
TOTAL ASSETS	**3.191.161**	**3.097.447**	**4.802.675**	**1.573.063**	**183.233**	**2.096.549**	**14.944.129**
LIABILITIES							
Deposits and other liabilities to banks, other financial institutions and central Bank	1.836.841	499.023	1.000	654.973	-	11.144	3.002.981
Deposits and other liabilities to customers	1.301.658	922.631	2.285.777	1.604.571	7.082	2.349.378	8.471.097
Liabilities on financial derivatives for risk protection	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	114.020	114.020
Total liabilities	**3.138.499**	**1.421.654**	**2.286.777**	**2.259.544**	**7.082**	**2.474.542**	**11.588.098**
GAP (Assets - liabilities):	**52.662**	**1.675.794**	**2.515.898**	**(686.481)**	**176.151**	**(377.993)**	**3.356.031**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market risk (continued)

Risk of interest rate changes (continued)

Interest rate GAP limits are defined by the Board of Directors Decision and are monitored and analysed on regular basis.

As an integral part of the interest rate risk assessment the Bank conducts stress tests of the effects of changes in interest rates. In determining exposure to interest rate risk in the banking book and interest rate risk limit, the Bank assesses the effects of IR changes on the financial result of the Bank (income statement), but also effects on the economic value of Bank capital, by applying a test - i.e. standard interest rate shock in accordance with the nature and level of risks that Bank is exposed to.

The standard interest rate shock presents positive and negative parallel shift of interest rate changes by 200 basis points (1BP = 0,01%).

In the existing IR GAP structure (observed on consolidated level which includes major currencies i.e. currencies EUR, RSD, CHF and USD) interest rate increase by 200 bp would change the economic value of the Bank capital by 7,04% (2018: 0,86%), i.e. the value of capital would be reduced by RSD 248,294 thousand (2018: there was an increase of RSD 24.601 thousand).

31.12.2019.

'000 RSD	**0-1m**	**1-3m**	**3-6m**	**6-12m**	**1-2y**	**2-3y**	**3-4y**	**4-5y**	**5-7y**	**7-10y**	**10-15y**	**15-20y**	**> 20y**	**TOTAL**
Sensitive assets	2.734.257	2.854.414	3.655.329	226.345	284.679	324.442	20.546	83.581	2.298.893	67.514	-	238.119	-	12.788.120
Sensitive liabilities	-3.221.581	-863.089	-590.509	-2.849.685	-1.316.664	-230.996	-482	-4.509	-195.292	-7.973	-	-	-	-9.280.780
GAP	**-487.324**	**1.991.325**	**3.064.821**	**-2.623.339**	**-1.031.986**	**93.446**	**20.065**	**79.071**	**2.103.602**	**59.541**	**-**	**238.119**	**-**	**3.507.340**
Basel 2 sensitivity coefficient (200 bp interest rate change)	0,08%	0,32%	0,72%	1,43%	2,77%	4,49%	6,14%	7,71%	10,15%	13,26%	17,84%	22,43%	26,03%	
Effects (in '000 RSD)	**-390**	**6.372**	**22.067**	**-37.514**	**-28.586**	**4.196**	**1.232**	**6.096**	**213.516**	**7.895**	**-**	**53.410**	**-**	**248.294**
Regulatory capital														3.528.261
Total effects/Regulatory capital (max 20%)														**7,04%**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market risk (continued)

Risk of interest rate changes (continued)

31.12.2018.

'000 RSD	0-1m	1-3m	3-6m	6-12m	1-2y	2-3y	3-4y	4-5y	5-7y	7-10y	10-15y	15-20y	> 20y	TOTAL
Sensitive assets	3.898.391	3.693.673	4.500.624	304.967	1.487.785	97.601	27.455	24.516	21.611	56.122	-	105.500	-	14.218.244
Sensitive liabilities	-3.729.566	-2.012.648	-427.839	-1.860.809	-1.947.926	-341.248	-843	-843	-7.082	-2.584	-	-	-	-10.331.388
GAP	**168.825**	**1.681.025**	**4.072.785**	**-1.555.842**	**-460.142**	**-243.647**	**26.612**	**23.673**	**14.529**	**53.537**	**-**	**105.500**	**-**	**3.886.857**
Basel 2 sensitivity coefficient (200 bp interest rate change)	0,08%	0,32%	0,72%	1,43%	2,77%	4,49%	6,14%	7,71%	10,15%	13,26%	17,84%	22,43%	26,03%	
Effects (in '000 RSD)	**135**	**5.379**	**29.324**	**-22.249**	**-12.746**	**-10.940**	**1.634**	**1.825**	**1.475**	**7.099**	**-**	**23.664**	**-**	**24.601**
Regulatory capital														2.873.828
Total effects/Regulatory capital (max 20%)														**0,86%**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market risk (continued)

Foreign exchange risk

Foreign currency risk is the risk of adverse effects on the Bank's financial result and capital due to changes in the exchange rate, and the Bank is exposed to it on the basis of positions held in the banking book and trading book.

Foreign currency risk management is based on the prescribed methodology of the National Bank of Serbia. The Bank creates a foreign exchange position in all cases when it conducts transactions denominated in foreign currency or in dinars with indexed foreign currency clause, which includes the following transactions:

- Placing and repayment of loans to foreign currency clients or dinars with indexed foreign currency clause
- Formation of sources of funds from clients in foreign currency or in dinars with indexed foreign currency clause
- Performing foreign exchange (FX) trading on behalf of the Bank and FX trading with clients
- Formation of other receivables and liabilities in foreign currency based on other business activities

Long / short foreign currency position is the sum of all net long / short positions in individual currencies. Higher book value than these positions represents the total net open foreign exchange position. The maximum regulatory allowable indicator of the Bank's foreign exchange risk is 20% of the Bank's capital on a daily basis.

The Bank regularly monitors its exposure to foreign currency risk by complying with limits prescribed by the NBS, as well as internally prescribed limits. The Bank maintains its foreign currency position by granting loans with foreign currency clauses. In addition, the Bank actively manages foreign currency risk through prudent assessment of open foreign currency positions by applying foreign currency swaps and observing risk limitations prescribed by the NBS and contained in internal enactments adopted by the Bank's management.

Table in the text below shows summarized exposure to foreign exchange risk on 31 December 2019. The table also includes assets and liabilities according to their carrying values denominated in relevant currencies.

As of 31.12. 2019.	USD	EUR	CHF	Other currencies	TOTAL	RSD	TOTAL
ASSETS							
Cash and cash funds held with central Bank	26.691	1.146.535	531	5.088	1.178.845	840.392	2.019.237
Securities	57.077	66.622	-	-	123.698	2.565.148	2.688.846
Loans and receivables from banks and other financial institutions	111.101	106.914	35.016	580	253.612	-	253.612
Loans and receivables from customers	983	7.578.248	6.784	-	7.586.014	2.063.995	9.650.010
Other assets	-	1.593	-	-	1.593	10.526	12.119
TOTAL ASSETS	**195.851**	**8.899.912**	**42.331**	**5.668**	**9.143.763**	**5.480.061**	**14.623.823**
Deposits and other liabilities to banks, other financial institutions and central Bank	-	1.921.436	-	-	1.921.436	24.061	1.945.497
Deposits and other liabilities to customers	190.934	6.934.877	40.853	1.534	7.168.197	2.740.930	9.909.127
Other liabilities	728	91.091	1.193	73	93.086	96.252	189.338
Total liabilities	191.662	8.947.404	42.047	1.607	9.182.719	2.861.242	12.043.962
Net foreign currency position	**4.190**	**(47.492)**	**284**	**4.061**	**(38.957)**	**2.618.819**	**2.579.862**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.4. Market risk (continued)

Foreign exchange risk (continued)

As of 31.12. 2018.	USD	EUR	CHF	Other currencies	TOTAL	RSD	TOTAL
ASSETS							
Cash and cash funds held with central Bank	7.227	1.131.169	1.770	5.912	1.146.078	444.833	1.590.911
Securities	55.681	-	-	-	55.681	1.576.626	1.632.306
Loans and receivables from banks and other financial institutions	31.007	168.728	4.442	1.614	205.790	250.080	455.870
Loans and receivables from customers	968	8.236.966	444.185	-	8.682.119	2.206.290	10.888.409
Receivables on financial derivatives for risk protection	-	-	-	-	-	6.000	6.000
Other assets	-	1.569	-	-	1.569	7.416	8.986
TOTAL ASSETS	**94.883**	**9.538.432**	**450.397**	**7.525**	**10.091.237**	**4.491.244**	**14.582.481**
Deposits and other liabilities to banks, other financial institutions and central Bank	-	2.596.793	394.461	-	2.991.253	11.728	3.002.981
Deposits and other liabilities to customers	92.983	5.762.956	54.256	3.670	5.913.865	2.557.232	8.471.097
Other liabilities	711	19.071	1.156	70	21.008	93.012	114.020
Total liabilities	**93.694**	**8.378.820**	**449.873**	**3.739**	**8.926.126**	**2.661.971**	**11.588.097**
Net foreign currency position	**1.189**	**1.159.612**	**524**	**3.786**	**1.165.111**	**1.829.273**	**2.994.384**

The effects of a decrease in foreign exchange rates on the Bank's results are presented below:

	Balance of open foreign currency position		RSD Depreciation effect of 10%	
	dec.2019.	**dec.2018.**	**dec.2019.**	**dec.2018.**
EUR	(47.492)	1.159.612	(4.037)	98.567
CHF	(284)	524	24	45
USD	4.190	1.189	356	101
Other currencies (long position)	4.284	3.791	364	322
Other currencies (short position)	(222)	(5)	19	-

4. FINANCIAL RISK MANAGEMENT (continued)

4.5. Fair value of financial assets and liabilities

Fair value specified in financial statements is the amount for which an asset may be exchanged, or for which a liability may be settled, between informed, willing parties in an independent transaction.

Fair value is calculated by using market information available on the enforcement date, as well as individual method of Bank's assessment.

The fair value of a financial instrument is shown at its nominal value is approximately equal to its book value. This includes cash as well as receivables and liabilities without a defined maturity or fixed interest rate. For other receivables and liabilities, expected future cash flows are discounted to their present value using current interest rates. Bearing in mind that the variable interest rate agreed for most financial assets and liabilities of the Bank, changes in prevailing interest rates lead to changes in the agreed rates.

Quoted market prices are used for securities traded. The fair value of other securities is calculated as the net present value of expected future cash flows.

The fair value of irrevocable credit commitments and contingent liabilities are the same as their book values.

Assessment of financial instruments

The Bank measures the fair value using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted market prices (unadjusted) in active markets for identical instrument.
- Level 2: Valuation techniques based on observable inputs other than quoted prices included in level 1, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments that are valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques that use significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant impact on the valuation of the instrument. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The fair value of financial assets and financial liabilities traded in active markets is based on quoted market prices or prices quoted by dealers. For all other financial instruments the Bank determines fair value by using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparing to similar instruments for which there is an observable market price and other evaluation models. Assumptions and inputs used in valuation techniques include free from risk and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond prices and equity securities, foreign exchange rates, equity and equity-indexed prices and expected price fluctuations and correlations. The objective of valuation techniques to determine the fair value which reflects the price of the financial instrument at the reporting date, which would be defined by the market participants in the free and independent transactions.

The Bank uses widely accepted models of evaluation to determine the fair value of financial instruments. Securities of the Ministry of Finance of the Republic of Serbia denominated in RSD and EUR are revalued at the prevailing price on the secondary market while for the USD denominated securities the Bank uses the achieved price on the Stuttgart Stock Exchange.

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.5. Fair value of financial assets and liabilities

Assessment of financial instruments (continued)

The table below shows the fair value of financial instruments that are recognized at fair value in the financial statements.

31.12.2019.	Level 1	Level 2	Level 3	Total
Financial assets				
- at fair value through other comprehensive income	-	2.688.846	-	2.688.846
Total	**-**	**2.688.846**	**-**	**2.688.846**

31.12.2018.	Level 1	Level 2	Level 3	Total
Financial assets				
- at fair value through other comprehensive income	-	1.632.306	-	1.632.306
Total	**-**	**1.632.306**	**-**	**1.632.306**

During 2019 and 2018 there were no changes in fair value levels or reclassifications between fair value levels.

The following table shows the fair value of financial instruments not measured at fair value and analyse them according to the level in the fair value hierarchy within the fair value measurement placed:

	31.12.2019		31.12.2018	
Financial (monetary) assets	**Book value**	**Fair value**	**Book value**	**Fair value**
Cash and cash funds held with central bank	2.019.237	2.019.237	1.590.911	1.590.911
Loans and receivables from banks and other financial organisations	253.612	253.612	455.870	455.870
Loans and receivables from clients	9.650.011	9.325.511	10.888.409	10.903.271
Other assets	573.016	573.016	370.633	370.633
Total	**12.495.876**	**12.171.376**	**13.305.823**	**13.320.685**
Financial (monetary) liabilities				
Deposits and other liabilities to banks, other financial institutions and central bank	1.945.497	1.935.892	3.002.981	2.938.532
Deposits and other financial liabilities to clients	9.909.127	9.893.519	8.471.097	8.461.148
Other liabilities	189.338	189.338	114.020	114.020
Total	**12.043.962**	**12.018.749**	**11.588.098**	**11.513.700**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.5. Fair value of financial assets and liabilities

Assessment of financial instruments (continued)

31 December 2018	Level 1	Level 2	Level 3	Total
ASSETS				
Cash and cash funds held with central bank	2.019.237	-	-	2.019.237
Loans and receivables from banks and other financial organisations	-	-	253.612	253.612
Loans and receivables from clients	-	-	9.325.511	9.325.511
Other assets	-	-	573.016	573.016
Total	**2.019.237**	**-**	**10.152.129**	**12.171.366**
LIABILITIES				
Deposits and other liabilities to banks, other financial institutions and the central bank	-	-	1.935.892	1.935.892
Deposits and other financial liabilities to clients	-	-	9.893.519	9.893.519
Other liabilities	-	-	189.338	189.338
Total	**-**	**-**	**12.018.749**	**12.018.749**

31 December 2018	Level 1	Level 2	Level 3	Total
ASSETS				
Cash and cash funds held with central bank	1.590.911	-	-	1.590.911
Loans and receivables from banks and other financial organisations	-	-	455.870	455.870
Loans and receivables from clients	-	-	10.903.271	10.903.271
Other assets	-	-	370.633	370.633
Total	**1.590.911**	**-**	**11.729.774**	**13.320.685**
LIABILITIES				
Deposits and other liabilities to banks, other financial institutions and the central bank	-	-	2.938.532	2.938.532
Deposits and other financial liabilities to clients	-	-	8.461.148	8.471.097
Other liabilities	-	-	114.020	114.020
Total	**-**	**-**	**11.513.700**	**11. 513.700**

4. FINANCIAL RISK MANAGEMENT (continued)

4.5. Fair value of financial assets and liabilities (continued)

Assessment of financial instruments (continued)

The following is a description of the methodology and assumptions used to determine fair values of financial instruments that have not been recorded at fair value in the financial statements.

Assets for which fair value approximates to book value

For financial assets and liabilities that are liquid or have short-term maturities (less than one year) it is assumed that the book value approximates fair value. This assumption also applies to deposits on requirements, savings accounts without a specific maturity and financial instruments with variable rate.

Fixed-rate financial instruments

The fair value of financial assets and liabilities with fixed rates recorded at amortized cost are estimated by using market interest rates plus current credit risk. The estimated fair value of deposits with a fixed rate based on the discounted cash flows using prevailing interest rates on the debt on the money market with similar credit risk and maturity.

4.6. The risks of exposure to a single party or a group of related parties

The Bank's exposure to a single party represents the total amount of receivables and off-balance sheet items relating to that party or a group of related parties (loans, investments in debt securities, equity shares, guarantees issued, avals, etc.).

The exposure risk, i.e. exposure concentration, is the Bank's exposure towards:

- One party or a group of related parties (two or more persons or legal entities related by shares);
- Two or more retail or corporate entities related in the manner that deterioration or improvement of the financial position of one party affects the financial position of the other;
- A retailer who is an authorised representative of a corporate entity;
- Two or more retailers or corporate entities related by their membership in legal entities' management bodies, including their respective family members;
- Family members of a natural person who are members of management bodies of two corporate entities at the same time;
- A party related to the Bank (members of the Banking Group the member of which is the Bank, members of the management bodies of the Bank and of the Banking Group and their respective family members, parties with share in the capital of the Bank or the Banking Group and their respective family members, legal entities in which all the above mentioned parties own a control package).

The main goal of the exposure risk management is to eliminate the risk bearing exposure of the Bank's assets to one party, group of related parties or parties related to the Bank. This goal can be achieved by strict compliance with and the application of the Bank's credit policy in relation to acceptance and approval of clients requests in order to identify related parties and monitor the Bank's exposure limits towards them.

The Bank's exposure

- Large Bank's exposure is an exposure to a single party or a group of related parties amounting to no less than 10% of the Bank's capital
- Towards a single party or a group of related parties may not exceed 25% of the capital of the Bank

The total of all the Bank's large exposures may not exceed 400% of the Bank's capital.

The Bank has adopted the limits defined by the NBS in accordance with the Decision on Risk Management and operates accordance with them.

4. FINANCIAL RISK MANAGEMENT (continued)

4.7. The risks of investing into other entities and fixed assets

The Bank’s investment risk is the risk related to the Bank’s investment in a single retail / corporate entity operating outside the financial sector and the risk of the Bank’s investment in fixed assets.
Managing this risk implies measuring, monitoring and controlling:

1. The amount of the Bank’s investment (the Bank acquires the right to shares or share in capital) in any retail/corporate entity operating outside the financial sector that may not exceed 10% of the Bank’s capital
2. The amount of the Bank’s investment in its own fixed assets
3. The total amount of the Bank’s investment (the sum of items 1 and 2) that may not exceed 60% of the Bank’s capital
4. Board of Directors quarterly reporting of movements in indicators of items 1 to 3
5. Board of Directors suggestions relating to corrective measures in order to maintain the investment risk within the prescribed limits

Limits of Bank's investments:

- The Bank’s investments in a single entity operating outside the financial sector may not exceed 10% of the Bank’s capital; the limit relates to the investment based on which the Bank acquires the right to shares or share in capital of the entity operating outside the financial sector.
- The total amount of the Bank’s investments in entities operating outside the financial sector and in fixed assets may not exceed 60% of the Bank’s capital.

The Bank has adopted the limits defined by the NBS in accordance with the Decision on Risk Management and operates accordingly.

4.8. Risks related to the country of origin of the entity towards which the Bank is exposed

The risk related to the country of origin of the retail/corporate entity to which the Bank is exposed (country risk) is the risk of adverse effects on the Bank’s financial results that may occur due to the Bank’s inability to collect its receivables from retail/corporate entity domiciled in a foreign country due to political, economic and social conditions in that country.

The reasons that lead to country risk exposure are as follows:

- Political reasons – significant political changes in a country due to which a debtor is unable to fulfil its obligations to the Bank on a regular basis (change of government, significant political change, political turmoil, wars, catastrophes, etc.)
- Economic reasons – extremely negative economic events in a country due to which foreign debt repayment is seriously questioned or completely hindered

Country risk is reflected through:

- Risk of non-payment – relates to cases in which debtor is unable to fulfil its obligations to the Bank on a regular basis due to political and economic reasons
- Transfer risk – represents the possibility that solvent debtor from a foreign country is unable to pay its debt to the Bank in the specified currency due to certain irregularities in that country
- Guarantee risk – the risk that has occurred as a result of a guarantee issued to an entity in a foreign country for payment to be effected in a third country.

The main goal of the country risk management is to protect the entire Bank’s portfolio from possible risk bearing and uncollectible receivables from debtors from countries at risk.

4. FINANCIAL RISK MANAGEMENT (continued)

4.9. Operational risk (also including the legal risk, and the risk of inadequate management of information and other technologies significant for the Bank's business)

Operational risk is defined as the risk of negative effects on the Bank's financial results and share capital arising from the employee omission, illegal acts, inadequate internal procedures and processes, inadequate management of the Bank's information and other systems and unforeseeable external events.

The bank implemented a system of procedures and methodize in order to identify, estimate, control and manage operative risks to which it is exposed during its operation.

The main method for identifying and estimating operational risks is RCSA- the process of risk self-estimation and the control with which all the processes and activities in the bank are enveloped. Events from operational risk are stated in the loss base, and by

- Business Line
- Cause of event
- Type of event
- Type of loss

The bank uses Key Risk Indicators (further: KRI) as the means of estimation, monitoring and control of operational risk, as well as a preventive mechanism used to prevent losses based on operational risk which is used in the decision making process in order to improve the performance of working processes and the efficiency of controls. Key indicators provide information on changes in exposure toward operational risk and represent the mechanism for proactive reactions to those changes.

The whole framework of operational risk is based on established limits for operational risks which are based on tracking the levels of total operational risk events compared to the minimal capital requirement, as well as the level of the maximum individual event compared to the capital requirement for operational risks.

Information risks

The Bank's information system is established as an integral solution with a tendency to support all business processes that take place in the Bank.

The IS risk management process is established within the framework of comprehensive risk management within the Bank. IT risks are classified as operational risks.

IS risk management is also established through the Bank's internal acts, policies and procedures related to the information system, its management, use, protection and monitoring. Activities related to the engagement of third parties related to IS of the Bank are also covered.

The system supports business decision making and a significant number of internal controls are established within the system at the administrative, physical and logical levels.

Responsibilities have been formally established in terms of managing and monitoring the operation of the system, as well as reporting to the Bank's management on the status, performance, security and possible problems in the functioning of IS.

The Bank has a register of information assets, defined owners, users, as well as the classification of information assets according to their importance for business, ie the degree of sensitivity and criticality, taking into account the possible consequences of breach of confidentiality.

The security of the Bank's information system is organized at several levels. The first level of security is the physical security related to controlling access to the Bank's facilities as well as controlling access to central locations. The second level is logical security at the level of operating systems, computer network and network components, while the third level is the logical control of access to application solutions and databases. Also, data security is ensured by additional activities such as the formation of regular copies of data from the system and the existence of a plan to continue operations due to adverse events and the backup location of the Bank. The Bank performs regular BCP and DR site testing.

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.10. Capital risk management

The Bank's objectives when managing capital are to safeguard the Bank's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividends paid to shareholders, issue new shares or convert portion of liabilities to subordinated debt.

Under the NBS regulations, the Bank is required to:

- Maintain the prescribed minimum monetary share capital of EUR 10 million in RSD counter value at the NBS middle exchange rate;
- Maintain the minimum capital adequacy ratio, against the risk bearing assets, of 8%

The Bank's Financial Control Department performs the control of capital based on the capital adequacy ratio and to the end of 2018 is:

	31.12 2019
Paid in share capital	5.671.608
Share premium	2.877.486
Reserves from profit, other reserves and reserves for genera bank risks	151.672
Losses from previous years	(5.110.679)
Current year loss	(266.316)
Intangible assets	(40.360)
Regulatory adjustments to the value of the elements of the basic share capital (additional value adjustments)	(2.791)
Revaluation reserves and other unrealized gains / losses	256.949
Gross amount of receivables from debtors - natural persons (except farmers and entrepreneurs), with full application of point 13. Under 13) of the Decision on capital adequacy	(5.756)
Total basic share capital	**3.531.814**
Additional share capital	**-**
Basic capital	**3.531.814**
Supplementary capital	**-**
Total capital, 31 December 2019	**3.531.814**
Capital adequacy ratio, as at 31 December	**37%**

All amounts are expressed in thousands of RSD except if indicated otherwise

4. FINANCIAL RISK MANAGEMENT (continued)

4.10. Capital risk management (continued)

At the end of 2018, the capital adequacy ratio was as follows:

	31.12 2017.
Paid amount of instruments of basic share capital	5.671.608
Share premium	2.877.486
Reserves from profit	151.672
Losses from previous years	(5.254.588)
Intangible assets	(55.225)
Regulatory adjustments to the value of the elements of the basic share capital (additional value adjustments)	(1.689)
Revaluation reserves and other unrealized gains / losses	259.362
Required reserve for estimated losses for balance sheet assets and off-balance items of the Bank	(764.289)
Basic Share Capital	**2.884.338**
Additional share capital	**-**
Basic Capital	**2.884.338**
Supplementary Capital	**-**
Total capital, 31 December 2018	**2.884.338**
Capital adequacy ratio, as at 31 December	**32,57%**

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Bank makes estimates and assumptions that will affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Deteriorating operating conditions for borrowers may have an impact on Management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management have properly reflected revised estimates of expected future cash flows in their impairment assessments.

The preparation of financial statements in accordance with IFRS requires management to use the best estimates and reasonable assumptions that affect the application of accounting policies, the presented amounts of assets and liabilities, as well as income and expenses.

Areas that demand the greatest degree of reasoning, which may significantly affect the amounts presented in the Bank's financial statements, are presented below.

(a) Losses due to impairment of the value of loans

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated income statement, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in the Bank, or national or local economic conditions that correlate with negative effects on the Bank’s assets. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio that existed at the time when future cash flows were projected. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Significant Increase in Credit Risk (SICR)

In order to determine whether there has been a significant increase in credit risk, the Bank compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition.

If 10% of loans and advances to customers classified as Stage 1 as at 31 December 2019 are measured by applying the ECL lifetime (for Stage 2), the expected impairment loss would be greater by RSD 31.868 thousand (31 December 2018: higher by RSD 48.955 thousand).

The Bank conducted a sensitivity analysis based on events after the balance sheet date as disclosed in Note 37 and found that the two industries that could first be affected are tourism and transportation. The Bank's exposure to these industries in the total portfolio is 1,05% and 2,27%, respectively. Stressing was carried out under the assumption that this part of the portfolio will go to Level 3, which also means that all exposures under guarantees will be protested, which would result in an overall increase in ECL by RSD 61.251 thousand. The effect on capital adequacy ratio would be decrease by 1.6%.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Business model assessment

The business model drives classification of financial assets. Management applied judgement in determining the level of aggregation and portfolios of financial instruments when performing the business model assessment. When assessing sales transactions, the Bank considers their historical frequency, timing and value, reasons for the sales and expectations about future sales activity. Sales transactions aimed at minimising potential losses due to credit deterioration are considered consistent with the “hold to collect” business model. Other sales before maturity, not related to credit risk management activities, are also consistent with the “hold to collect” business model, provided that they are infrequent or insignificant in value, both individually and in aggregate. The Bank assesses significance of sales transactions by comparing the value of the sales to the value of the portfolio subject to the business model assessment over the average life of the portfolio. In addition, sales of financial asset expected only in stress case scenario, or in response to an isolated event that is beyond the Bank’s control, is not recurring and could not have been anticipated by the Bank, are regarded as incidental to the business model objective and do not impact the classification of the respective financial assets.

The “hold to collect and sell” business model means that assets are held to collect the cash flows, but selling is also integral to achieving the business model’s objective, such as, managing liquidity needs, achieving a particular yield, or matching the duration of the financial assets to the duration of the liabilities that fund those assets.

The residual category includes those portfolios of financial assets, which are managed with the objective of realising cash flows primarily through sale, such as where a pattern of trading exists. Collecting contractual cash flow is often incidental for this business model.

Assessment whether cash flows are solely payments of principal and interest (“SPPI”)

Determining whether a financial asset’s cash flows are solely payments of principal and interest required judgement.

The Bank identified and considered contractual terms that change the timing or amount of contractual cash flows. The SPPI criterion is met if a loan allows early settlement and the prepayment amount substantially represents principal and accrued interest, plus a reasonable additional compensation for the early termination of the contract. The asset’s principal is the fair value at initial recognition less subsequent principal repayments, ie instalments net of interest determined using the effective interest method. As an exception to this principle, the standard also allows instruments with prepayment features that meet the following condition to meet SPPI: (i) the asset is originated at a premium or discount, (ii) the prepayment amount represents contractual par amount and accrued interest and a reasonable additional compensation for the early termination of the contract, and (ii) the fair value of the prepayment feature is immaterial at initial recognition.

The Bank’s loans include cross-selling clauses that represent a reduction in the interest rate upon the customer entering into other contracts with the Bank or achieving certain criteria, such as maintaining a minimum turnover on current bank accounts held with the Bank. The cash flows are SPPI if such clauses merely reduce the Bank’s overall profit margin on the instrument and there are no other features inconsistent with a basic lending arrangement.

The Bank considered examples in the standard and concluded that features that arise solely from legislation and that are not part of the contract, that is, if legislation changed, the features would no longer apply, are not relevant for assessing whether cash flows are SPPI. The Bank’s loan agreements allow adjusting interest rates in response to certain macro-economic or regulatory changes. Management applied judgement and assessed that competition in the banking sector and the practical ability of the borrowers to refinance the loans would prevent it from resetting the interest rates at an above-market level and hence cash flows were assessed as being SPPI.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Modification of financial assets

When financial assets are contractually modified (e.g. renegotiated), the Bank assesses whether the modification is substantial and should result in derecognition of the original asset and recognition of a new asset at fair value. This assessment is based on quantitative and qualitative factors, described in the relevant accounting policy and the qualitative factors require significant judgment. In particular, the Bank applies judgment in deciding whether credit impaired renegotiated loans should be derecognised and whether the new recognised loans should be considered as credit impaired on initial recognition. The derecognition assessment depends on whether the risks and rewards, that is, the variability of expected (rather than contractual) cash flows, change as a result of such modifications. Management determined that risks and rewards did not change as a result of modifying such loans and therefore in substantially all such modifications, the loans were neither derecognised nor reclassified out of the credit-impaired stage.

(b) Fair value of securities

The fair value of financial instruments traded in an active market at the balance sheet date is based on quoted market prices of supply or demand, without any deduction for transaction costs. The fair value of financial instruments not quoted in an active market is determined using appropriate valuation techniques, which include net present value techniques, comparison with similar instruments for which there are market prices and other relevant models.

When market inputs are not available, they are determined by valuations that include some degree of judgment in estimating fair value. Valuation models reflect the current market situation at the measurement date and do not have to represent the market conditions before or after the measurement date. Therefore, valuation techniques are revised periodically to adequately reflect current market conditions.

More detailed disclosures are provided in Note 4.5 (fair valuation and FV levels).

The Bank determines whether a security is impaired when there is a significant or prolonged decline of its fair value below cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates, among other factors, regular movement in share price. The impairment may occur when there is an evidence of deterioration of the financial position of the borrower, industry performance, changes in technology and operational and financing cash flows.

(c) Estimate of the fair value of buildings and investment property and foreclosed assets

The Bank receives independent appraisals for its investment property and foreclosed assets at least annually, and for business premises (classified as property, plant and equipment) at least every four years.

At the end of each reporting period, management updates its estimate of the fair value of each property, taking into account the most recent independent valuations. Management determines the value of assets within the range of reasonable fair value estimates.

The best evidence of fair value is current prices in an active real estate market. If current price information is not available, management reviews information from a variety of sources, including:

- current active market prices for properties of different nature or recent prices for similar properties in less active markets, adjusted to reflect these differences,
- discounted cash flow projections on reliable estimates of future cash flows,
- capitalized revenue forecasts based on the estimated net income of the real estate market and the capitalization rate derived from market evidence analysis.

(d) Recognition of deferred tax assets

Deferred tax assets represent income taxes that may be collected through future reductions in taxable profit. Deferred tax assets are recorded if the achievement of the relevant tax benefits is probable. The future taxable profit and the amount of tax benefits that are probable in the future are based on the medium-term business plan prepared by management, as well as on the subsequent extrapolation of the results of the same plan. The Bank did not recognize deferred tax assets for tax lossess carried forward.

All amounts are expressed in thousands of RSD except if indicated otherwise

6. INTEREST INCOME AND EXPENSES

	2019.	2018.
Interest Income based on EIR		
Based on loans	538.370	563.124
Based on deposits	11.001	18.411
Based on securities and REPO transactions	102.833	86.959
Based on other placements	-	23
Based on foreign currency loans	4.870	4.761
Based on foreign currency deposits	2.806	79
Based on foreign currency securities	5.651	19.739
Total:	**665.531**	**693.096**
Interest expense		
Based on loans	47.591	-
Based on deposits	957	40.849
Based on securities and REPO transactions	463	456
Based on other placements	34.340	30
Based on foreign currency loans	72.622	49.447
Based on foreign currency deposits	2.032	64.682
Based on foreign currency securities	8.380	1.876
Based on other foreign currency liabilities	538.370	15.034
Total:	**166.385**	**172.374**
Net interest income	**499.146**	**520.722**

Total interest income and expense accounted for using the effective interest method presented in the table relate to financial assets and liabilities that are not carried at fair value through profit and loss.

Interest income from loans in dinars in the amount of RSD 538.370 thousand (2018: RSD 563.124 thousand), includes the income from collected suspended interest in the amount of RSD 50.786 thousand (2018: RSD 18.871 thousand).

Revenues from the securities interest in the amount of RSD 102.833 thousand (2018: RSD 86.959), relate to bonds purchased from RS amounting to RSD 99.989 thousand, discount based on bonds amounting to RSD 2.754 thousand and interest income from rev-repo transactions amounting to RSD 89 thousand.

Interest expense on foreign currency deposits in the amount of RSD 72.622 thousand (2018: RSD 64.682), mostly refers to interest expense on long-term retail savings deposits with 25 months maturity in foreign currency in the amount of RSD 37.039 thousand, while RSD 3.841 thousand relates to interest expenses on short-term foreign currency deposits with other foreign banks (Note 27).

Interest expense on foreign currency loans in the amount of RSD 34.340 thousand (2018: RSD 49.447 thousand), was generated on a base and at the rates explained in more detail in Note 27.

All amounts are expressed in thousands of RSD except if indicated otherwise

6. INTEREST INCOME AND EXPENSES (continued)

Interest income

	2019	**2018**
Corporate	332.813	327.225
- interest	*313.263*	*307.472*
- fees	*19.550*	*19.753*
Retail	138.963	188.542
- interest	*136.914*	*184.350*
- fees	*2.049*	*4.192*
Foreign entities	1.629	1.740
- interest	*1.598*	*1.676*
- fees	*31*	*64*
National bank of Serbia	8.124	14.372
Republic of Serbia	108.395	102.895
Entrepreneurs	23.697	35.448
- interest	*21.833*	*31.870*
- fees	*1.864*	*3.578*
Banks and other financial institutions	1.124	4.004
Retail fee suspension	13.987	7.869
Corporate fee suspension	35.147	10.688
Entrepreneurs fee suspension	1.652	313
Total	**665.531**	**693.096**

Interest expense	**2019**	**2018**
Corporate	24.415	20.575
Retail	79.697	60.473
Entrepreneurs	54	-
Republic of Serbia	2.989	2.331
Banks and other financial institutions	42.440	41.983
Public sector	12	26
Foreign entities	4.617	45.606
National Bank of Serbia	2.524	-
Other clients	9.637	1.380
Total	**166.385**	**172.374**
Net interest income	**499.146**	**520.722**

7. FEE AND COMISSION INCOME AND EXPENSE

	2019	**2018**
Fees and commissions income		
Fees and commissions income	139.923	132.373
Fees and commissions income in foreign currency	8.672	10.114
Total:	**148.595**	**142.487**
Fees and commissions expense		
Fees and commissions expense	7.825	9.931
Fees and commissions expenses in foreign currency	13.001	13.275
Total:	**20.826**	**23.205**
Net fees and commissions income:	**127.769**	**119.282**

All amounts are expressed in thousands of RSD except if indicated otherwise

7. FEE AND COMISSION INCOME AND EXPENSE (continued)

Fee and commission income in dinars in the amount of RSD 139.923 thousand (2018: RSD 132.373 thousand) mainly relates to fees for banking services from enterprises in payment transactions in the amount of RSD 42.400 thousand (2018: RSD 40.915 thousand); fees for providing other banking services to individuals in the amount of RSD 9.763 thousand (2018: RSD 17.147 thousand); fees for foreign exchange purchases from other customers in the amount of RSD 17.223 thousand (2018: RSD 17.213 thousand); fees for banking services from companies under avals, guarantees, letters of intent, etc. in the amount of RSD 17.198 thousand (2018: RSD 11.66 thousand); fees for banking services from entrepreneurs in payment transactions in the amount of RSD 12.186 thousand (2018: RSD 12.21 thousand).

Income from fees for banking services

	2019	2018
- payment cards	12.694	16.650
- domestic payment operations (companies, banks, retail)	55.690	54.886
- commissions for issued guarantees	19.760	13.090
- banking services	21.377	22.693
- foreign currency payment operations	8.058	8.670
- other fees and commissions	6.685	4.698
- exchange operations	110	100
- buying and selling of foreign currency	17.223	17.213
- early repayment	6.998	4.489
Total income	**148.595**	**142.487**
Expenses from fees for banking services		
- payment cards	8.277	7.701
- domestic payment operations	4.633	6.800
- foreign currency payment operations	6.676	6.748
- brokerage services	-	348
- other fees and commissions	940	1.082
- exchange operations	109	212
- buying and selling of foreign currency	191	316
Total expenses:	**20.826**	**23.205**
Net gains fees and commissions	**127.769**	**119.282**

8. NET GAINS FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

	2019	2018
Gains from the sale of bonds at FVOCI of Republic of Serbia	32.211	48.192
Losses from the sale of bonds at FVOCI of Republic of Serbia	-	(2.119)
Net gain:	**32.211**	**46.074**

9. NET (LOSS) / GAIN FROM RISK PROTECTION

	2019	2018
Gain from the change in the value of derivatives intended for risk protection	-	4.313
Loss on the basis of changes in the value of derivatives intended for risk protection	(4.179)	(901)
Net (loss) / gain based on protection from risk	**(4.179)**	**3.412**

All amounts are expressed in thousands of RSD except if indicated otherwise

10. NET FOREIGN EXCHANGE GAINS AND CURRENCY CLAUSE EFFECTS

	2019	2018
Foreign exchange gains based on:		
Foreign currency deposits and loans	143.445	249.594
Foreign currency accounts	4.464	9.697
Transactions with derivatives	21.414	34.355
Cash and deposits held with NBS	13.472	34.145
Payment card transactions	27.872	46.478
Other	157.750	162.057
Currency clause	40.601	106.232
Based on securities	4.727	27.757
Total	**413.745**	**670.314**
Foreign exchange losses on:		
Foreign currency deposits and loans	102.032	248.110
Foreign currency accounts	6.634	9.045
Transactions with derivatives	3.605	4.593
Cash and deposits held NBS	17.546	37.373
Payment card transactions	27.648	45.988
Other	156.905	161.991
Currency clause	78.274	107.014
Based on securities	4.222	27.515
Total	**396.866**	**641.629**
Foreign exchange gains, net	**16.879**	**28.685**

Foreign exchange differences generated a net income of RSD 54.552 thousand, and the effect of the contracted currency clause is negative and amounts to RSD 37.673 thousand. (2018: RSD foreign exchange differences of RSD 29.466 thousand, and the negative effect of the foreign currency clause RSD 781 thousand).

11. NET (LOSS) / GAIN FROM IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT

	2019	2018
Losses of impairment of balance sheets assets	(649.233)	(783.012)
Income from reversal of impairment of balance sheet assets	495.414	823.333
Provision for off-balance sheet items	(21.939)	(16.883)
Income from reversal of provisions for off-balance sheet items	15.993	17.531
Expenses from write-off on uncollectible receivables	(10.727)	(804)
Income from collected receivables previously written-off	114.617	103.736
Impairment of financial assets valued at FV through OCI	(5.995)	(1.833)
Reversal of impairment of financial assets valued through OCI	3.815	4.299
Total	**(58.055)**	**146.367**

All amounts are expressed in thousands of RSD except if indicated otherwise

11. NET (LOSS) / GAIN FROM IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

Movements on the accounts of impairment of balance assets during 2019 were as follows:

	Loans to clients	Other placements	Receivables for interest and fees	Other receivables	Total
Balance at 1.1.2019.	247.890	-	5.160	61.063	314.113
New impairment allowance	603.851	10.982	26.521	7.879	649.233
Reversal of impairment allowances	(469.236)	(10.982)	(7.820)	(7.376)	(495.414)
Transfer to off-balance	(112.150)	-	(18.407)	(56.668)	(187.225)
Write-offs	10.661	-	-	-	10.661
Stanje na kraju godine	**281.016**	**-**	**5.454**	**4.898**	**291.368**

Movements on the accounts of impairment allowances of balance assets during 2018 were as follows:

	Loans to clients	Other placements	Receivables for interest and fees	Other receivables	Total
Balance at 1.1.2018	267.481	15	5.430	60.256	333.182
IFRS 9 adjustment	20.544	(8)	917	(2)	21.451
Adjusted balance 1.1.2018.	288.025	7	6.347	60.254	354.633
New impairment allowance	704.055	57	8.833	70.017	782.962
Reversal of impairment allowances	(744.190)	(64)	(9.933)	(69.145)	(823.332)
Write-offs	-	-	(87)	(63)	(150)
Balance at the end of the year	**247.890**	**-**	**5.160**	**61.063**	**314.113**

12. NET LOSS FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

	2019	2018
Gain from derecognition of the financial instruments measured at amortized cost	6.732	-
Loss from derecognition of the financial instruments measured at amortized cost	(106.058)	-
Net loss	**(99.326)**	**-**

The net loss is largely related to the implementation of the CHF Indexed Housing Conversion Law. The implementation of the Law was reflected in the expense accounts in the amount of RSD 100.386 thousand, with 109 loan files converted out of 119 that the Bank had in its portfolio.

13. OTHER OPERATING INCOME

	2019	2018
Rent income	9.989	9.792
Income from sales of assets from collection of receivables	1.630	582
Income from sales of foreclosed assets	-	84
Income from reimbursement of damages	1.099	1.104
Total	**12.718**	**11.562**

All amounts are expressed in thousands of RSD except if indicated otherwise

14. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

	2019	2018
Employee salaries	188.020	199.532
Employee compensations	37.998	37.237
Taxes for salaries and wages	28.161	29.500
Contributions for salaries and wages	54.049	57.304
Other personal expenses	5.712	8.776
Provisions for retirement and other provisions for employees	18.998	253
Provisions for unused days of annual leave	525	1.705
Total	**333.463**	**334.307**

15. DEPRECIATION COSTS

	2019	2018
Intangible assets	28.288	36.167
Fixed assets	18.750	24.891
Right of use of assets	18.603	-
Total	**65.641**	**61.058**

16. OTHER INCOME

	2019	2018
Income from liability reduction	1	1.982
Income from sale of fixed assets	315	-
Reversal of unrealized provisions for liabilities	-	233
Other Income	5.086	4.751
Total	**5.402**	**6.966**

17. OTHER EXPENSES

	2019	2018
Costs of materials	18.153	17.052
Costs of production services	17.297	43.576
Non-material costs (without taxes and contributions)	246.230	209.879
Taxes	20.461	11.975
Contributions	51.874	57.068
Provision for liabilities	22.510	2.656
Losses on sale of fixed assets and intangible assets	-	-
Losses on write-off of fixed assets and intangible assets	115	46
Shortages and damages	2	2
Other expenses	9.127	2.479
Losses on the basis changes in value, fixed assets acquired by collecting receivables and investment property	17.560	5.681
Total	**403.329**	**350.414**

Costs of materials amounting to RSD 18.153 thousand (2018: RSD 17.052 thousand) mainly relate to costs of electricity and heating in the amount of RSD 10.015 thousand (2018: RSD 10.844 thousand).

Of the total costs of production services in the amount of RSD 17.297 thousand (2018: RSD 43.576 thousand), the amount of RSD 10.738 thousand (2018: RSD 10.513 thousand) are the costs of electronic communications and automatic data processing.

All amounts are expressed in thousands of RSD except if indicated otherwise

17. OTHER EXPENSES (continued)

Non-material expenses in the amount of RSD 246.230 thousand (2018: RSD 209.879 thousand) are mainly comprised of RSD 49.714 thousand (2018: RSD 39.627 thousand) related to the cost of bank deposit insurance premium; an amount of RSD 42.613 thousand (2018: RSD 49.211 thousand) related to software service-maintenance; an amount of RSD 25.295 thousand (2018: RSD 20.972 thousand) related to the cost of maintaining software applications; an amount of RSD 20.648 thousand (2018: RSD 19.624 thousand) related to servicing - IT equipment.

Expenses arising from changes in the value of foreclosed assets and investment property, of RSD 17.560 thousand, relate to the recording of valuations of authorized appraisers, in December 2019, and the expenses of new estimates of foreclosed assets of RSD 15.517 thousand and investment property RSD 2.042 thousand.

18. INCOME TAX

Total tax expense/income consists of the following taxes:

	2019	2018
Income tax	-	-
Deferred taxe credit (Note 30)	3.552	2.270
Total tax income	**3.552**	**2.270**

Current income tax on the Bank's profit before tax differs from the theoretical amount that would result from the use of weighted average tax rate and would be as follows:

	2019	2018
Gain / (Loss) prior to taxation	(269.868)	137.291
Income tax per rate of 15%	40.480	(20.594)
Tax effects of income and expenses not recognized for tax purposes	7.935	11.438
Tax effect of unrecognized tax losses carried forward	(48.415)	-
Tax incentives based on losses transferred from previous years	-	9.156
Income tax presented in the income statement	-	-

The Bank did not recognize potential deferred tax assets based on unused amounts of tax losses carried forward. The table below shows tax losses and the amount of unused tax credit per year:

Tax period of unused tax credit inception	Tax loss	Amount of unused tax credit	Last tax period in which unused tax credit may be used
2015	753.914	113.087	2020
2016	892.708	133.906	2021
2019	322.768	48.415	2024
TOTAL	**1.969.390**	**295.408**	

All amounts are expressed in thousands of RSD except if indicated otherwise

19. CASH AND BALANCES WITH THE CENTRAL BANK

	31.12.2019	**31.12.2018**
Giro account	764.204	342.530
Cash on hand in RSD	75.997	101.938
Receivables for calculated interest, fee and commission per cash funds held with central Bank	1	2
Cash on hand in foreign currency	253.690	328.241
Obligatory foreign currency reserve held with NBS	925.155	817.838
Prepayments per cash funds held with central Bank	190	364
Total	**2.019.237**	**1.590.911**

The Bank calculates and allocates the obligatory reserve with the National Bank of Serbia in the amount and in the manner determined by the Decision on obligatory reserve of banks with the National Bank of Serbia (Official Gazette RS No. 76/2018.). The obligatory reserve in dinars is allocated to the giro account, and is therefore not separately disclosed.

The obligatory reserve with the NBS represents the minimum reserve of dinar and foreign currency funds allocated in accordance with the Decision of the NBS and can be used for liquidity if necessary.

The obligatory reserve in dinars is calculated by the Bank on liabilities in dinars, loans and securities, as well as in other dinars liabilities other than dinars deposits received on transactions performed by the Bank in the name and on behalf of third parties which do not exceed the amount of placements provided by the Bank given from those deposits.

The National Bank of Serbia pays interest on the amount of the average daily balance of the allocated RSD obligatory reserve in the accounting period, which does not exceed the amount of the RSD obligatory reserve at the interest rate of 1,25% annually.

The Bank calculates its foreign currency obligatory reserve on liabilities for foreign currency deposits, loans and securities and other foreign currency liabilities, as well as on deposits, loans and other foreign currency received from abroad in the operations performed by the Bank on behalf and for the account of third parties.

The National Bank of Serbia does not pay interest on the amount of realized average balance of allocated foreign currency reserves.

20. SECURITIES

	31.12.2019	**31.12.2018**
Securities in dinars	2.559.967	1.583.556
Securities in foreign currency	120.018	50.059
Premium / (discount)	8.861	(1.309)
Total	**2.688.846**	**1.632.306**

Securities measured at fair value through other comprehensive income contains entirely of long-term bonds of the Republic of Serbia.

Movement of impairment allowance is shown in the table below:

All amounts are expressed in thousands of RSD except if indicated otherwise

20. SECURITIES (continued)

Impairment allowance of securities measured at fair value through other comprehensive income.

	31.12. 2019	31.12. 2018
Balance at 1 January	3.716	-
IFRS 9 adjustment	-	6.181
Increase	6.004	1.838
Decrease	(3.824)	(4.303)
Total impairment allowance	**5.896**	**3.716**

21. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31.12.2019	31.12.2018
Foreign currency accounts	243.767	193.883
The funds in account at the local bank for purchase of securities	1.973	3.996
The funds in account at the foreign bank for purchase of securities	187	185
Foreign currency accounts of Bank in CRHOV	46	51
Loans per repo transactions of NBS	7.639	250.080
Other dedicated deposits in foreign currency	-	7.676
Total	**253.612**	**455.870**

Movement of impairment allowance are presented in the following table:

Impairment allowance of loans and receivables from banks and other financial organizations

	31.12.2019	31.12. 2018
Balance at 1 January	462	-
Increase	5.418	2.637
Decrease	(4.551)	2.175
Total impairment allowance	**1.329**	**462**

All amounts are expressed in thousands of RSD except if indicated otherwise

22. LOANS AND RECEIVABLES FROM CUSTOMERS

	31.12.2019	31.12.2018
Receivables in RSD		
Receivables for accrued interest on loans, deposits, and other receivables	24.070	28.559
Receivables for accrued fee and commission on loans, deposits and other receivables	2.323	1.907
Impairment allowance of receivables for accrued interest, fee and commission on loans, deposits and other receivables	*(3.920)*	*(4.393)*
Receivables for accrued interest on loans, deposits, and other foreign currency receivables	331	323
Transaction accounts overdrafts	87.010	104.872
Consumer loans	2.255	2.424
Loans for liquidity and current assets	5.721.505	6.006.580
Investment loans	1.365.103	1.427.834
Housing loans	1.829.293	2.240.203
Cash loans	494.999	678.282
Other loans	214.729	493.596
Impairment allowance of loans in RSD	*(280.579)*	*(247.448)*
Other placements	-	56
Accrued interest receivables on loans, deposits and other receivables	119.294	73.953
Impairment allowance of accrued receivables in RSD	*(417)*	*(415)*
Loans for payment of import of goods and services from abroad in foreign currency	104.742	121.490
Accrued interest receivables on loans, deposits and other foreign currency receivables	3.013	1.210
Deferred income from receivables measured at amortized cost using effective interest rate	(33.740)	(40.624)
Total	**9.650.011**	**10.888.409**

All amounts are expressed in thousands of RSD except if indicated otherwise

22. LOANS AND RECEIVABLES FROM CUSTOMERS

Changes in loans and receivables from customers during the year are as follows:

	Short-term loans		Long-term loans			
	In RSD	In foreign currency	In RSD	In foreign currency	Total 2019	Total 2018
On 1 January						
Receivables for interest and fees	2.758	-	27.708	324	30.790	32.307
New calculation	94.207	-	434.505	4.913	533.625	575.851
Repayments	(92.905)	-	(439.881)	(4.906)	(537.692)	(577.369)
Impairment allowance of receivables for interest and fees	*(751)*	-	*(3.169)*	-	*(3.920)*	*(4.393)*
Accrued receivables for interest on loans, deposits and other receivables	112.718	2.814	6.576	199	122.307	75.163
Deferred income for receivables measured at amortized cost	(33.740)	-	-	-	(33.740)	(40.623)
Impairment allowance of prepayments in RSD	*(78)*	-	*(339)*	-	*(417)*	*(416)*
Net interest and fee receivables 31 December	**82.209**	**2.814**	**25.400**	**530**	**110.953**	**60.520**
Loans to customers on 1 January	699.058	-	10.254.789	121.490	11.075.337	9.723.686
New loans	2.563.772	-	7.188.905	16.622	9.769.299	10.117.132
Currency clause	1.276	-	39.326	-	40.601	106.232
Currency clause	(3.595)	-	(74.433)	-	(78.028)	(107.014)
Write-offs	-	-	(205)	-	(205)	(150)
Repayments	(2.312.906)	-	(8.641.091)	(33.370)	(10.987.367)	(8.764.548)
Impairment allowances	*(16.289)*	-	*(264.290)*	-	*(280.579)*	*(247.449)*
Net loans 31 December	**931.316**	**-**	**8.503.001**	**104.742**	**9.539.058**	**10.827.889**
Loans and receivables from customers 31 December	**1.013.524**	**2.814**	**8.528.401**	**105.272**	**9.650.011**	**10.888.409**

	Enterprises	Entrepreneurs	Retail	Foreign entities	Other clients	Total 2019	Total 2018
Receivables for interest in RSD	15.408	2.141	6.446	73	-	24.070	28.559
Receivables for fees in RSD	324	8	1.060	46	885	2.323	1.907
Impairment allowance of receivables for interest and fee in RSD	*(1.471)*	*(338)*	*(2.103)*	*(1)*	*(7)*	*(3.920)*	*(4.393)*
Receivables for interest in foreign currency	331					331	324
Accrued receivables for interest calculated on the basis of loans, deposits and other placements	1.882	537	5.892	249	113.747	122.307	75.162
Impairment of accrued receivables in RSD	*(39)*	*(11)*	*(327)*	*(2)*	*(39)*	*(418)*	*(415)*
Accrued income for receivables measured at amortized cost using effective interest rate	(27.618)	(2.174)	(3.948)	-	-	(33.740)	(40.623)
Short-term loans							
- in RSD	890.368	48.802	8.434	-	-	947.604	710.826
Long-term loans							
- in RSD	6.015.810	371.262	2.350.474	29.746	-	8.767.291	10.242.965
- in foreign currency	104.742					104.742	121.490
Impairment allowance of loans	*(154.890)*	*(11.775)*	*(113.749)*	*(165)*	-	*(280.579)*	*(247.448)*
Other placements							
- in RSD	-	-	-	-	-	-	56
- in foreign currency	-	-	-	-	-	-	-
Impairment of other placements	-	-	-	-	-	-	-
Total gross	**6.844.847**	**408.452**	**2.252.179**	**29.947**	**114.586**	**9.650.011**	**10.888.409**

All amounts are expressed in thousands of RSD except if indicated otherwise

22. LOANS AND RECEIVABLES FROM CUSTOMERS (continued)

The concentration of exposure to credit risk by industry is given in the table below:

	31.12.2019	31.12.2018
Accommodation and catering	49.855	68.676
Administrative and support service activities	57.604	111.085
Agriculture, forestry and fishing	1.380.605	1.268.588
Art, entertainment and recreation	4.214	5.508
Construction	1.130.040	1.091.661
Financial and insurance activities	44.984	40.919
Information and communication	3.810	9.820
Manufacturing industry	2.554.670	3.091.001
Professional, scientific, innovation and technical activities	147.446	226.637
Real estate	692	122.439
Transportation and storage	206.165	248.563
Wholesale and retail, repair of motor vehicle and motorbikes	1.755.155	1.706.135
Other	2.599.688	3.149.632
Loans and receivables from customers – gross	**9.934.928**	**11.140.666**

23. INTANGIBLE ASSETS

Balance on 1 January 2018	**281.692**
New additions	39.704
Balance on 31 December 2018	**321.396**
Accumulated amortization	
Balance on 1 January 2018	**230.004**
Amortization	36.167
Balance on 31 December 2018	**266.171**
Balance on 1 January 2019	**321.396**
New additions	13.422
Balance on 31 December 2019	**334.820**
Accumulated amortization	
Balance on 1 January 2019	**266.171**
Amortization	28.288
Balance on 31 December 2019	**294.459**
Net carrying amount 31 Deecember 2018	**55.225**
Net carrying amount 31 Deecember 2019	**40.360**

All amounts are expressed in thousands of RSD except if indicated otherwise

24. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Equipment and other fixed assets	Leasehold improvements	Right of use of assets	Total
Cost					
Balance on 1 January 2018	**456.757**	**279.462**	**16.011**	**-**	**752.230**
New additions	-	4.136	-	-	4.136
Transfers	-	-	-	-	-
Disposals (sale)	-	-	-	-	-
Write off	-	(4.215)	-	-	(4.215)
Balance on 31 December 2018	**456.757**	**279.383**	**16.011**	**-**	**752.151**
Accumulated depreciation					
Balance on 1 January 2018	**179.260**	**249.325**	**14.109**	**-**	**442.694**
Depreciation	5.938	18.022	931	-	24.891
Write off	-	(4.169)	-	-	(4.169)
Balance on 31 December 2018	**185.198**	**263.178**	**15.040**	**-**	**463.416**
Net carrying amount 1 January 2018	**277.497**	**30.137**	**1.902**	**-**	**309.536**
Net carrying amount 31 December 2018	**271.559**	**16.205**	**971**	**-**	**288.735**
Cost					
Balance on 1 January 2019	**456.757**	**279.383**	**16.011**	**99.972**	**852.123**
New additions	-	2.637	772	-	3.409
Transfers	-	70.980	281	-	71.261
Disposals (sale)	(6.402)	-		-	(6.402)
Write off	-	(14.031)	(3.044)	-	(17.075)
Change of contractual terms	-	-	-	(11.789)	(11.789)
Balance on 31 December 2019	**450.355**	**338.970**	**14.020**	**88.183**	**891.528**
Accumulated depreciation					
Balance on 1 January 2019	**185.198**	**263.178**	**15.040**	**-**	**463.416**
Depreciation	5.889	12.064	797	18.603	37.353
Write off	-	(13.915)	(3.044)	-	(16.959)
Disposals (sale)	(2.113)	-	-	-	(2.113)
Change of contractual terms	-	-	-	(5.132)	(5.132)
Balance on 31 December 2019	**188.974**	**261.327**	**12.793**	**13.471**	**476.565**
Net carrying amount 31 December 2018	**271.559**	**16.205**	**971**	**99.972**	**388.707**
Net carrying amount 31 December 2019	**261.381**	**77.643**	**1.227**	**74.712**	**414.963**

There are no mortgages recorded on the buildings as collateral to repay the loan.

The Bank made the transition to IFRS16 in accordance with a modified retrospective approach. The comparative figures from the previous year were not corrected. As a result of the change to IFRS16 from 1 January 2019, contracts that were previously recognized as operating leases now qualify as leases defined by the new standard, and the following leasing categories are identified: 5 properties, Disaster recovery space and one vehicle.

All amounts are expressed in thousands of RSD except if indicated otherwise

24. PROPERTY, PLANT AND EQUIPMENT (continued)

In the first application of IFRS16, the right to use the lease asset is generally measured in the amount of the lease liability, using an incremental borrowing rate of 2,65% to 2,99%, depending on the leasing period, while the rate of 5% was used for vehicle. The first application resulted in the recording of lease liabilities in the amount of RSD 99.972 thousand and, accordingly, the right to use the asset in the amount of RSD 99.972 thousand in the balance sheet as of 1 January 2019. On 31 December 2019, lease liabilities amount to RSD 75.218 thousand, while the right to use the assets amounts to RSD 74.712 thousand.

Rental costs are RSD 24.580 thousand (2018: RSD 20.241 thousand), but this year they are shown through the cost of depreciation of the right of use in the amount of RSD 18.603 thousand, interest in the amount of RSD 2.524 thousand, VAT cost in the amount of RSD 3.851 thousand and foreign exchange gains in the amount of RSD 398 thousand. The standard provides that the total costs during the lease period will be the same as before application of IFRS16, but they are higher in the initial periods and subsequently reduced.

Below is an overview of leases on 31 December 2019:

	Name of lessor	Contract	Maturity in months	Monthly payment eur	Discount rate	Right of use	Lease liability
1	Hidrozavod, Petra Drapšina 56, Novi Sad	D-262 od 04.04.14	52	2.900,00	2,84	16.598	16.666
2	Stojan Ristić, Generala Bože Jankovića 2, Niš	D-135 od 29.01.15	61	2.500,00	2,94	16.487	16.631
3	Marko Purković, Bulevar Mihaila Pupina 16d, Zemun	D-03 od 12.01.19	60	3.000,00	2,94	19.482	19.654
4	Karavidić, Masarikova 9 Šabac	02-235 od 27.05.08	41	2.000,00	2,94	9.119	9.192
5	Matijević, Gradsko šetalište bb, Čačak	D-179 od 04.06.10	65	1.250,00	2,94	8.619	8.716
6	Asseco, DR location, Katanićeva, Beograd	02-1340/10 od 19.11.10	30	1.200,00	2,65	4.075	4.091
7	Autotehnika, vehicle, Herc	22 od 09.02.12.	4	576,00	5,00	332	268
						74.712	**75.218**

25. INVESTMENT PROPERTY

	31.12.2019	31.12.2018
Investment property	254.443	219.785
Total	**254.443**	**219.785**

At the end of 2019, the value of all investment properties were reconciled to the value estimated by the authorized valuator CBRE Serbia. Below is an overview of movement of the investment properties during 2019.

All amounts are expressed in thousands of RSD except if indicated otherwise

25. INVESTMENT PROPERTY (continued)

	Book value 01.01.2019.	Changes throughout the year	Note	Value correction-estimate	Book value on 31.12.2019.
Apartment with gallery, Admirala Vukovića 66., Belgrade	29.729	239	Roof adaptation	(452)	29.516
Business facility for storing and keeping fruit and vegetables with packaging and processing in Šimanovci	165.820	226	Connection - water supply and sewerage network	(1.416)	164.630
Basement rooms and equipment in business space K.Petra number 15	23.289	-		(167)	23.122
Family residential buliding-Zmajevo	947	-		(6)	941
Land, buildings and cold storage with equipment 430m2- Arilje	-	35.330		-	35.330
Retail store Tulare	-	904		-	904
Total	**219.785**	**36.699**		**(2.041)**	**254.443**

During 2019, two real estate and refrigeration equipment, assets acquired during the year, were leased.

Property tax as well as tax for the transfer of absolute rights, are covered by the Bank. Net income based on the rent for 2019 amount to RSD 8.672 thousand (2018: RSD 9.792 thousand).

The net income from investment property in 2019 is shown in the table below.

	Book value at 31.12.2019.		Total cost	Realized income from rent	Net income
Apartment with gallery, Admirala Vukovića 66., Belgrade	29.516	Anex II 13.06.2017 Anex III 23.05.2018	138	707	569
Business facility for storing and keeping fruit and vegetables with packaging and processing in Šimanovci	164.630	Aneks 25.09.2014.	655	7.200	6.545
Basement rooms and equipment in business space K.Petra number 15	23.122	Rent contract D-1242, 31.10.2017.	497	1.768	1.271
Family residential buliding-Zmajevo	941	Rent contract D-607 29.11.2018.	4	71	67
Land, buildings and cold storage with equipment 430m2- Arilje	35.330	Rent contract o1-277 27.11.2019	21	235	214
Retail store Tulare	904	Rent contract 01-283 02.12.2019	1	7	6
Total	**254.443**		**1.316**	**9.989**	**8.672**

All amounts are expressed in thousands of RSD except if indicated otherwise

25. INVESTMENT PROPERTY (continued)

The book value of investment property at the beginning and at the end of the period:

Balance as of 1 January 2018	**201.636**
Value correction-estimates/investments	(1.612)
Sale	(4.653)
Transfer from inventories	24.414
Balance at 31 December 2018	**219.785**
Balance as of 1 January 2019	**219.785**
Value correction-estimates/investments	(2.041)
Capital investments	465
Transfer from inventories	36.234
Balance at 31 December 2019	**254.443**

26. OTHER ASSETS

	31.12.2019	31.12.2018
Fee and commission receivables	3.263	1.509
Impairment allowance of receivables for fee and commission, receivables on sale and other receivables in RSD	(1.532)	(766)
Receivables based on advances paid for current assets	6.009	11.834
Receivables from employees	432	3.801
Receivables on the basis of prepaid taxes and contributions	70	30
Other operating receivables	7.367	52.852
Suspense and temporary accounts	23	(387)
Receivables in settlement	881	1.016
Impairment allowance of other receivables	(3.571)	(53.274)
Receivables based on advances paid for current assets in foreign currency	5.495	5.267
Receivables from employees in foreign currency	4	7.295
Other receivables from business in foreign currency	27	95
Receivables in settlement in foreign currency	1.562	1.497
Impairment allowance of other receivables in foreign currency	-	(7.317)
Other investments	476	476
Impairment allowance of investments in RSD	(2)	(2)
Other deferred expenses	3.095	3.346
Other prepayments	11.794	13.598
Impairment allowance of prepayments in RSD	(15)	(20)
Foreclosed assets	537.639	329.783
Total	**573.017**	**370.633**

Other operating receivables in the amount of RSD 7.367 thousand (31.12.2018: RSD 52.852 thousand) were significantly reduced due to the transfer of receivables from the disputed transactions to the off-balance sheet.

Receivables on the basis of advance payments provided for current assets in foreign currency in the amount of RSD 5.495 thousand (31.12.2018: RSD 5.267 thousand), are related to the advance payment with Banca Intesa for the use of Visa and Master cards.

Also, the amount of foreclosed assets which at the end of 2019 amounted to 537.639 thousand (31.12.2018: RSD 329.783 thousand) represents the result of the following changes: in the course of the year, a new additions of RSD 292.802 thousand was made, transfer to investment property was made in amount of RSD 36.234 thousand, a sale in the amount of RSD 33.195 thousand was made, as well as a decrease in value due to estimates for RSD 15.517 thousand.

All amounts are expressed in thousands of RSD except if indicated otherwise

26. OTHER ASSETS (continued)

The book value of foreclosed assets at the beginning and end of the period:

Balance on 1 January 2018	**368.360**
Value correction-estimates/investment	(4.069)
Sale	(12.647)
New acquisition	2.553
Transfer to investment property	(24.414)
Balance on 31 December 2018	**329.783**
Balance on 1 January 2019	**329.783**
Value correction-estimates/investment	(15.517)
Sale	(33.195)
New acquisition	292.802
Transfer to investment property	(36.234)
Balance on 31 December 2019	**537.639**

Below we give an overview of the property that was on 31.12.2019. recorded as an foreclosed asset:

Acquisition Date	Name of the property	Impact of estimates decrease	31.12.19.
17.3.2016.	Valjevo, apartment number 3, within the family residential building number 1, cad. 3319/1, LN 7228, KO Valjevo, street Prešernova 23	(22)	3.057
01.07.2016	Residential and commercial building, KO Čačak, parc. 4554/2 – THREE FACILITIES	(67)	9.172
08.05.2016	LN 4425, KO Padina, plot 2873/79, street Sportska 13/B	(78)	988
01.09.2016	Two bedroom apartment, measuring 77 m2, street Prokop 3 / 1a, first floor	(52)	7.244
10.01.2016	Parc. 584, building number in street Milošev put 57, KO Novi Bečej, LN 13393, land under building 67m2, 35 m2,, 8m2,	(4)	588
12.03.2012	Residential building in street Zelena Gora no. 9, second floor, apartment 10, Kraljevo	(19)	2.587
30.05.2013.	Business premises, Svetozara Markovića no. 49 (MANJEŽ), Beograd	-	68.697
12.07.2016	1/2 Family buildings. street Ivo Lola Ribar no. 47,in the town of Lok near Titela, 83 m2 with a garden 520 m2; 1/2 Filed category 3 520 m2; 1/2 Arable land under orchard category 2 2011 m2	(3)	422
29.11.2013	Mortgage Kralja Petra no. 15, Stari grad, Beograd –business place bb in loft in business building(no. building.1 built on k.p. 1902 KO Stari Grad -	(598)	82.711
30.04.2013.	Residential building and land, Stepojevac	(1.277)	45.626
31.3.2017	Family building 84 M2 Grocka street Dimitrija Tucovića 11	(21)	2.940
21.12.2012	HYLA/Agreement on the sale of movable and immovable items since 26.12.2011. OV3 br.267/2011	(1.877)	63.030
04.08.2017	Family residential building, Bore Atanackovića 20 Valjevo	(14)	1.940
06.11.2017	Family residential building, street Rada Končara 36	(25)	3.528
23.05.2019.	Two bedroom apartment-61 m2, Kragujevac	-	3.481
19.09.2019.	Family residential building - surface of 102 m2, gross area of 270 m2 - right of ownership of 1/2 ideal parts, Arilje	-	2.640
27.09.2019.	Complex (mill, warehouse, shop, land); 6.195m2 of land and 1,702m2 of building - Kursumlija	(11.460)	42.593
21.11.2019.	Equipment - Pellet presses, dryers, heaters. Boiler..V.Banja, Novo Selo	-	26.673
05.12.2019.	Agricultural buildings 3,578 m2, refrigerator 1,616m2, KO Zdravčići	-	85.890
09.12.2019.	Complex of wood processing facilities, Sid, KO Morović	-	49.688
09.12.2019.	Wood processing equipment, Sid, Ko Morović	-	25.045
09.12.2019.	Electric motor Simon, V. Banja, Novo Selo	-	31
27.12.2019.	Equipment to specification - 47 items in Kuršumlima location	-	9.067
	Total	**(15.517)**	**537.639**

All amounts are expressed in thousands of RSD except if indicated otherwise

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

	31.12.2019	31.12.2018
Transaction deposits	8.574	4.468
Other deposits	3.523	3.426
Other financial liabilities	11.345	3.333
Liabilities from fees and commissions on borrowings, deposits and other financial liabilities	423	349
Accrued interest payable on borrowings, deposits and other financial liabilities	195	151
Transaction deposits in foreign currency	458	460
Deposits related to given loans in foreign currency	211.667	-
Other deposits in foreign currency	1.708.882	1.152.589
Borrowings in foreign currency	430	1.835.822
Accrued interest payable on borrowings deposits and other financial liabilities in foreign currency	8.574	2.383
Total	**1.945.497**	**3.002.981**

Within other foreign currency deposits, RSD 211.667 thousand (31/.2.2018: RSD 1.152.589 thousand) relates to Expobank CZ deposits (EUR 1.800 thousand). The structure and conditions of the largest deposits are set out below.

Date of Agreement	Currency	Amount in the currency	Amount in 000 RSD	Maturity	Period	Interest rate %
14.8.2009	EUR	800.000	94.074	12.3.2020	3M	0,01
22.6.2018	EUR	1.000.000	117.593	19.3.2020	3M	0,01
Total EUR		**1.800.000**				
Total 000 RSD			**211.667**			

Foreign currency loans received in the amount of RSD 1.708.882 thousand (12.31.2018: RSD 1.835.822 thousand) refer to loans received from EXPOBANK CZ in the amount of EUR 10.032 thousand and EXPOBANK LLC in the amount of 4.500 thousand, with the following structure and conditions:

Date of Agreement	Currency	Amount in the currency	Amount in 000 RSD	Maturity	Period	Interest rate %
14.8.2009	EUR	10.032.197	1.179.714	21.4.2020	1M	1,547
22.6.2018	EUR	4.500.000	529.168	22.7.2020	1M	2,6
Total EUR		**14.532.197**				
Total 000 RSD			**1.708.882**			

The original long-term loan agreement was signed on 14.08.2009 with Cyprus Popular Bank Ltd. Later, creditors changed on various grounds, but the original long-term loan reported as such to the NBS did not change, only the creditor information changed and the amounts annexed. The last creditor is Expobank CZ a.s. which, on the basis of the bank purchase agreement, assumed the receivables from long-term loans from the previous lender.

All amounts are expressed in thousands of RSD except if indicated otherwise

28. DEPOSITS AND OTHER LIABILITIES TO CUSTOMERS

	31.12.2019	31.12.2018
Transaction deposits	1.437.444	1.596.859
Savings deposits	520.136	598.351
Deposits related to given loans	27.581	23.431
Specific purpose deposits	106.807	99.380
Other deposits	642.203	231.489
Other financial liabilities	1.235	1.235
Liabilities from interests on borrowings, deposits and other fin. liabilities	812	1.771
Accrued interest payable on borrowings, deposits and other financial liabilities	4.712	4.716
Transaction deposits in foreign currency	1.107.707	861.173
Savings deposits in foreign currency	4.460.952	3.928.373
Deposits related to given loans in foreign currency	267.468	200.935
Specific purpose deposits in foreign currency	71.952	104.607
Other deposits in foreign currency	1.186.518	764.189
Other financial liabilities in foreign currency	13.202	22.168
Accrued interest payable on borrowings, deposits and other financial liabilities in foreign currency	60.398	32.420
Total	**9.909.127**	**8.471.097**

All amounts are expressed in thousands of RSD except if indicated otherwise

28. DEPOSITS AND OTHER LIABILITIES TO CUSTOMERS (continued)

	Enterprises	Entrepreneurs	Public sector	Retail	Foreign entities	Other clients	Total 2019	Total 2018
Transaction deposits								
- in RSD	1.056.688	175.407	923	118.791	8.666	76.968	**1.437.443**	**1.596.859**
- in foreign currency	156.135	26.683	-	613.777	310.113	998	**1.107.707**	**861.173**
Savings deposits								
Short-term deposits:								
- in RSD	-	-	-	505.540	-	-	**505.540**	**554.464**
- in foreign currency	-	-	-	1.904.785	7.110	-	**1.911.895**	**1.985.857**
Long-term deposits:								
- in RSD	-	-	-	14.596	-	-	**14.596**	**43.887**
- in foreign currency	-	-	-	2.511.427	37.630	-	**2.549.057**	**1.942.516**
Deposits based on granted loans								
Short-term deposits:								
- in RSD	-	-	-	-	-	-	**-**	**-**
- in foreign currency	-	-	-	93.448	-	-	**93.448**	**38.292**
Long-term deposits:								
- in RSD	26.881	-	-	700	-	-	**27.581**	**23.431**
- in foreign currency	41.157	-	-	132.834	29	-	**174.020**	**162.644**
Specific-purpose deposit								
Short-term deposits:								
- in RSD	106.195	-	-	211	-	-	**106.407**	**98.280**
- in foreign currency	2.230	-	-	-	225	-	**2.456**	**944**
Long-term deposits:								
- in RSD	400	-	-	-	-	-	**400**	**1.100**
- in foreign currency	69.293	204	-	-	-	-	**69.497**	**103.663**
Other deposits								
Short-term deposits:								
- in RSD	504.678	6.054	1	-	101.835	11.685	**624.253**	**218.676**
- in foreign currency	1.091.829	-	-	-	-	-	**1.091.829**	**686.399**
Long-term deposits:								
- in RSD	17.950	-	-	-	-	-	**17.950**	**12.813**
- in foreign currency	28.719	65.970	-	-	-	-	**94.688**	**77.790**
Total	**3.102.156**	**274.318**	**924**	**5.896.109**	**465.608**	**89.651**	**9.828.767**	**8.408.787**
Other financial liabilities								
- in RSD	**-**	**-**	**-**	1.235	-	-	**1.235**	**1.235**
- in foreign currency	13.202	-	-	-	-	-	**13.202**	**22.168**
Interest liabilities								
- in RSD	812	-	-	-	-	-	**812**	**1.771**
- in foreign currency	-	-	-	-	-	-	**-**	**-**
Fee liabilities								
- in RSD	3.156	-	-	1.486	49	21	**4.712**	**4.716**
Accrued interest payable on borrowings, deposits and other financial liabilities	4.052	-	-	56.038	309	-	**60.399**	**32.420**
- in RSD	**-**	**-**	**-**	1.235	-	-	**1.235**	**1.235**
- in foreign currency	13.202	-	-	-	-	-	**13.202**	**22.168**
Total	**21.222**	**-**	**-**	**58.759**	**358**	**21**	**80.360**	**62.310**
Total deposits and other liabilities	**3.123.378**	**274.318**	**924**	**5.954.868**	**465.967**	**89.672**	**9.909.127**	**8.471.097**

Transaction deposits are non-interest bearing
The interest rate on avista deposits in RSD ranged from 1,00% to 3,00%.
The interest rate on short-term deposits in RSD ranged from 1,25% to 2,5%.
The interest rate on long-term RSD deposits was 2,75%.
The interest rate on avista deposits in EUR ranged from 0,15% to 1,00%.
The interest rate on short-term deposits in EUR ranged from 0,25% to 1,25%.

Short-term savings deposits from households and foreign persons in foreign currency, in the amount of RSD 1.911.895 thousand refer to: avista foreign currency savings deposits of natural persons in the amount of RSD 14.857 thousand (31.12.2018: RSD 24.066 thousand), up to three months in the amount of RSD 6.074 thousand (31.12.2018: RSD 10.420 thousand), up to four months in the amount of RSD 791 thousand (31.12.2018: RSD 1.549 thousand;), up to six months in the amount of RSD 48.057 thousand (31.12.2018: RSD 64.057 thousand), up to 9 months in the amount of RSD 6.674 (31.12 .2018: RSD 6,650) and up to a year in the amount of RSD 1.835.330 thousand (31.12.2018: RSD 1.877.600 thousand).

All amounts are expressed in thousands of RSD except if indicated otherwise

28. DEPOSITS AND OTHER LIABILITIES TO CUSTOMERS (continued)

Retail long-term foreign currency savings deposits amount to RSD 5.385 thousand at 13 months maturity (31.12.2018: RSD 12.000 thousand), at 15 months RSD 21.880 thousand (31 December 2018: RSD 34.524 thousand) and at 25 months amount to RSD 2.484.162 thousand (31.12.2018: RSD 1.865.262 thousand).

Interest rate on long-term deposits in RSD (25 months) was 2,75%, while interest rates on long-term deposits in EUR ranged from 0,6 – 2,0%. while interest rates on short and long-term deposits in USD, CFH, GBP were 0,1%.

Short-term foreign currency savings deposits of foreign persons refer to avista savings deposits in the amount of RSD 112 thousand (31.12.2018: RSD 111 thousand), up to six months in the amount of RSD 325 thousand (31.12.2018: RSD 320 thousand) up to nine months in the amount of RSD 6.674 thousand (31.12.2018: RSD 6.650 thousand), and long-term deposits for 25 months amount to RSD 37.630 thousand (31.12.2018: RSD 30.731 thousand).

29. PROVISIONS

	31.12.2019	31.12.2018
Provisions for court litigations	33.345	10.835
Provisions for losses per off-balance sheet items	7.556	2.472
Provisions for pensions	4.042	3.745
Provisions for vacations	11.098	11.178
Total	**56.040**	**28.230**

Provisions for court litigations in the amount of RSD 33.345 thousand (31.12.2018: RSD 10.835 thousand) refer to provisions for potential liabilities arising due to the possibility of losing the Bank's litigations. Provisions were formed based on the assessment of litigations by the Bank's legal department and external attorneys. The formed amount of provisions represents the best possible assessment of the Bank's management regarding expected loss for court litigations, where a negative outcome for the Bank was estimated.

As of 31 December 2019, provisions for pensions in the amount of RSD 4.042 thousand (31.12.2018: RSD 3.745 thousand were determined in accordance with IAS 19.

Movement in provisions during 2019:

	Provisions for pensions	Provisions for unused days of vacation	Provision for court litigations	Provision for losses per off-balance sheet items
Balance on 01.01.2019.	3.745	11.178	10.835	2.472
Provisions for the year	297	-	22.510	20.005
Reversal/income from reversal	-	(80)	-	(14.921)
Balance on 31.12.2019	**3.745**	**11.098**	**33.345**	**7.556**

Movement in provisions during 2018:

	Provisions for pensions	Provisions for unused days of vacation	Provision for court litigations	Provision for losses per off-balance sheet items
Balance on 01.01.2018.	3.484	9.473	8.179	3.362
Provisions for the year	394	1.705	2.656	15.571
Reversal/income from reversal	(133)	-	-	(16.461)
Balance on 31.12.2018	**3.745**	**11.178**	**10.835**	**2.472**

All amounts are expressed in thousands of RSD except if indicated otherwise

30. DEFERRED TAX ASSETS AND LIABILITIES

Deferred taxes are calculated on temporary differences under the liability method using the effective 15% tax rate (31.12.2018: 15%).

Deferred tax assets and liabilities are netting when there is a legally enforceable right to “net" current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

	31.12.2019	31.12.2018
Deferred tax assets	5.608	2.187
Deferred tax liabilities	(12.503)	(12.634)
Net deferred tax liabilities	**(6.895)**	**(10.447)**

Movement in deferred tax assets and liabilities are presented in the following table:

	Tax credits- provision for court litigations	Tax credits – provision on the basis of IAS 19	Tax depreciation	Total
Balance on 01.01.2018.	**1.227**	**522**	**(14.466)**	**(12.717)**
Charged (credited) to IS	398	39	1832	2.269
Balance on 31.12.2018.	**1.625**	**561**	**(12.634)**	**(10.447)**
Charged (credited) to IS	3.377	45	131	3.552
Balance on 31.12.2019	**5.002**	**606**	**(12.503)**	**(6.895)**

31. OTHER LIABILITIES

	31.12.2019	31.12.2018
Other liabilities in RSD		
Liabilities on the basis of received advances and other liabilities	3	3
Liabilities towards suppliers	11.300	11.029
Liabilities from advances	7	6
Other operating liabilities	42.338	32.846
Liabilities in settlement	15.769	15.741
Transient and temporary accounts	-	33
Liabilities based on temporary and periodic operation	1.117	888
Other liabilities towards employees	375	448
Liabilities for value added tax	2.188	1.062
Liabilities for other taxes and contributions	908	772
Deferred liabilities for other expenses	10.669	21.339
Deferred interest income	3.464	3.463
Deferred other income	7.547	5.008
Other accruals and deferred revenues	567	373
Liabilities towards suppliers in foreign currency	773	877
	75.218	-
Other operating liabilities in foreign currency	17.095	17.126
Liabilities in settlement in foreign currency	-	56
Other accruals in foreign currency	-	2.949
Total	**189.338**	**114.019**

All amounts are expressed in thousands of RSD except if indicated otherwise

31. OTHER LIABILITIES (continued)

Other operating liabilities in the amount of RSD 42.338 thousand (31.12.2018: RSD 32.846 thousand) mainly relate to liabilities on the basis of calculated expenses in the amount of RSD 20.153 (31.12.2018: RSD 16.113) and to the transfer of assets of physical persons from the closed accounts in the amount of RSD 11.069 thousand (31 December 2018: RSD 10.955 thousand).

Payables in the amount of RSD 15.769 thousand (31.12.2018: RSD 15.741 thousand) mainly relate to advance payments on loans of households in the amount of RSD 10.275 thousand (31.12.2018: RSD 11.799 thousand) and payments on corporate loans in the amount of RSD 3.781 thousand (31/12/2018: RSD 1.703 thousand).

Other liabilities from foreign currency operating activities in the amount of RSD 17.095 thousand (31/12/2018: RSD 17.126 thousand) mainly relate to the transfer of funds from closed foreign currency accounts in the amount of RSD 14.198 thousand (31/12/2018: RSD 14.911 one thousand).

32. EQUITY

The Bank presents within Equity its share capital, share premium, current year profit/loss, prior periods profit/loss, reserves created from profit, other reserves, revaluation reserves.

	31.12.2019	**31.12.2018**
Share capital – ordinary shares	5.671.608	5.671.608
Share premium	2.877.487	2.877.487
Gain from the current year	(266.316)	139.561
Loss from the previous years	(5.110.679)	(5.254.589)
Reserves from profit	103.228	103.228
Other reserves	48.445	48.445
Revaluation reserves	465.143	296.634
Total	**3.788.916**	**3.882.374**

Other reservations relate to special reserves from profit for the estimated losses for balancing assets amounting to RSD 38.782 thousand and off balance sheet items in the amount of RSD 9.663 thousand, which were formed in earlier periods.

Revaluation reserves in the amount of RSD 465.143 thousand (31.12.2018: RSD 296.634), are made up of reserve arising from changes in the values of fixed assets in the amount of RSD 259.238 thousand (31.12.2018: RSD 263.587. thousand), actuary losses in the amount of RSD 2.289 thousand (31.12.2018: RSD 2,596 thousand) and the effects of changes in fair value from financial assets in the amount of RSD 208.193 thousand (31.12.2018: RSD 35.643 thousand).

All amounts are expressed in thousands of RSD except if indicated otherwise

32. EQUITY (continued)

	31.12.2019		31.12.2018	
	Share Capital	**% of capital**	**Share Capital**	**% of capital**
Kim Vladimirovich Igor	4.097.772	72.25	4.097.772	72,25
Tsoy Alekseevich German	1.012.914	17.86	1.012.914	17,86
Vladimirovich Kirill Nifontov	180.357	3.18	180.357	3,18
Morelam OOO	156.536	2.76	156.536	2,76
Valentinovich Proshin Aleksander	86.775	1.53	86.775	1,53
MC Naughton John	79.403	1.40	79.403	1,40
Ernst Bekker	28.358	0.50	28.358	0,50
Borislav Strugarević	28.358	0.50	28.358	0,50
Sergeevich Ganushkin Dmitriy	1.135	0.02	1.135	0,02
Total	**5.671.608**	**100,00**	**5.671.608**	**100,00**
Other	-	-	-	-
Total share capital	**5.671.608**	100.00	**5.671.608**	100.00

a) Share capital and the Share premium

In November 2018 a transfer of ownership occurred when the sole shareholder Expobank CZ A.S. sold off all shares to the above listed shareholders (except for Borislav Strugarević and Ernst Bekker) , in order for, at the end of December, the two largest shareholders sold of a part of their shares, which resulted in the stated structure.

Foreign individuals own 96,74% of the Bank’s capital, foreign corporate entity 2,76% and domestic individual 0,50%. The total value of share capital including the share premium on 31.12.2019 amounts to RSD 8.549.095 thousand (31.12.2018: RSD 8.549.095 thousand).

b) Revaluation reserves

Revaluation reserves comprise the effects of changes in fair value of assets, as well as changes in value of financial assets.

c) Reserves from profit

Reserves from profit were created in accordance with Law for estimated losses, reserve for general banking risks and other reserves from profit in accordance with legal regulations, the Bank's Statute and other internal rules and regulations.

d) Loss from the current year

Loss from the current year in the amount of RSD 266.316 thousand (2018: profit of RSD 139.561 thousand) represents the difference between income and expenses of the accounting period, reduced by the income from deductions of deferred tax liabilities, in the amount of RSD 131 thousand and reduced by the income from the increase of deferred tax assets, in the amount of RSD 3.421 thousand. Prior years' loss is covered in accordance with the Law, the Statute and Agreement of establishment of the Bank where is specified that the loss in the Bank's operations shall be covered in the following order:

1. From the current operating income;
2. From the Bank’s reserves; and
3. From the Bank’s share capital, i.e. the shareholder interest, where funds from items 1 and 2 are not sufficient.

All amounts are expressed in thousands of RSD except if indicated otherwise

33. COMPLIANCE WITH INDICATORS PRESCRIBED BY THE NATIONAL BANK OF SERBIA

The Bank is obliged to perform its business activities in accordance with provisions of the Law on Banks and other regulations of the National Bank of Serbia. According to the annual accounts for 2019, the Bank achieved the following indicators:

Business indicators	**Prescribed**	**Actual in 2019.**
Equity	Min. EUR 10.000.000	30.034.271
The Bank's investments	Max. 60%	18,96%
The sum of large exposures of the Bank, as follows:	Max 400%	28,14%
The sum of large exposures to a single entity or a group of related entities		28,14%
The sum of exposures to entities related to the Bank		-
Average monthly liquidity ratio:		
- in the first month of the period	Min. 1,00	3,43
- in the second month of the period	Min. 1,00	2,85
- in the third month of the period	Min. 1,00	2,35
Foreign currency risk ratio	Max 20%	1,98

As of 31 December 2019, the Bank had achieved compliance with all indicators.

34. RELATED PARTY TRANSACTIONS

	31.12.2019		**31.12.2018**	
Assets	**Bank shareholders**	**Other related parties**	**Bank shareholders**	**Other related parties**
Foreign currency accounts	-	117.712	-	27.703
Receivables for fees on loans and deposits	-	-	-	20
Housing loans	-	14.477	-	22.128
Cash loans	-	1.573	-	561
Other loans	-	-	-	53
Accrued interest receivables on loans, deposits and other receivables	-	30	-	31
Total assets	**-**	**133.792**	**-**	**50.496**

A foreign currency account with a value of RSD 117.712 thousand relates to funds on the nostro account opened by the Bank with Expobank LLC in Moscow in amount of RSD 90.686 thousand and with Expobank CZ A.S. in amount of RSD 27.026 thousand. These related parties represent entities under common control of ultimate controlling party.

Housing loans in the amount of RSD 14.477 thousand (31.12.2018: RSD 22.128 thousand) are loans given to employees that are considered as the Bank's related parties according to the effective Law on Banks. The approved loans were granted at market conditions. No impairment allowance was made for these loans.

All amounts are expressed in thousands of RSD except if indicated otherwise

34. RELATED PARTY TRANSACTIONS (continued)

	31.12.2019		31.12.2018	
	Bank shareholders	**Other related parties**	**Bank shareholders**	**Other related parties**
Liabilities				
Transaction deposits in RSD	1.519	330	858	57
Transaction deposits in foreign currency	697	449	13.896	978
Savings deposits in RSD	6.718	302	101	401
Savings deposits in foreign currency	23.519	22.702	23.639	20.280
Deposits on the basis of granted loans in foreign currency	-	211.667	-	866.445
Borrowings in foreign currency	-	1.708.882	-	1.835.821
Accrued liabilities for interest and other expenses per subordinated liabilities in foreign currency	-	406	-	2.359
Total liabilities	**32.453**	**1.944.738**	**38.494**	**2.726.341**

Deposits in the amount of RSD 211.667 thousand and rborrowings in the amount of RSD 1.708.882 thousand, are explained in more detail in note 27.

Income and expense arising from related parties transactions:

	31.12.2019		31.12.2018	
	Bank shareholders	**Other related parties**	**Bank shareholders**	**Other related parties**
Expenses				
Interest expenses on the basis of deposits foreign retail entity	74	211	2.404	-
Interest expenses on the basis of loans in foreign currency	-	34.461	38.655	10.792
Interest expenses on the basis of deposits in foreign currency	-	4.739	9.207	3.959
Total	**74**	**39.411**	**50.266**	**14.751**

Foreign exchange losses	31.12.2019		31.12.2018	
	Bank shareholders	**Other related parties**	**Bank shareholders**	**Other related parties**
Foreign exchange losses per deposits from foreign banks in foreign currency	-	15.199	43.386	9.251
Foreign exchange losses per borrowings from foreign banks in foreign currency	-	5.305	21.417	1.971
Foreign exchange losses – others	-	-	1.431	620
Total	**-**	**20.504**	**66.234**	**11.842**

	31.12.2019		31.12.2018	
	Bank shareholders	**Other related parties**	**Bank shareholders**	**Other related parties**
Income				
Based on interest from housing loans	-	1.028	-	1.202
Total	**-**	**1.028**	**-**	**1.202**

All amounts are expressed in thousands of RSD except if indicated otherwise

34. RELATED PARTY TRANSACTIONS (continued)

Foreign exchange gains	**31.12.2019**		**31.12.2018**	
	Bank shareholders	**Other related parties**	**Bank shareholders**	**Other related parties**
Foreign exchange gains per loans from foreign banks in foreign currency	-	14.673	25.070	2.741
Foreign exchange gains per deposits from foreign banks in foreign currency	-	14.942	35.027	4.185
Foreign exchange gains - others	-	149	1.682	503
Total	**-**	**29.764**	**61.779**	**7.429**

The tables above present balance sheet assets and liabilities and income and expenses arising from other related party transactions with: Expobank LLC Moskva, Expobank CZ A.S. and management of the Bank.

At 31 December 2019, the Bank has approved loans to directors and management:

	31.12.2019	**31.12.2018**
Credits to directors and the management		
At the beginning of the year	42.777	64.430
Reductions based on change in management	(5.084)	(18.969)
Reductions based on CHF conversion to EUR	(2.036)	-
Credits approved during the year	1.080	900
Payments during the year and placement revalorization	(8.367)	(3.584)
Interest income	1.028	1.202
Collected interest	(1.028)	(1.202)
At the end of the year	**28.370**	**42.777**

In accordance with the methodology for the calculation of impairment, impairment for these loans was RSD 71 thousand in 2019 (2018: RSD 27 thousand).

Information on management remuneration

During 2019 the members of the Executive Board achieved gross salaries in the amount of RSD 35.225 thousand (2018: RSD 31.214 thousand).

35. RECONCILIATION OF RECEIVABLES AND LIABILITIES

The provisions of Article 18 of the Law on Accounting ("Official Gazette of the Republic of Serbia" no. 62/13, 30/2018) prescribe an obligation of reconciliation of mutual receivables and liabilities with customers. Reconciliation is to be performed at least once a year, before compiling financial statements. In accordance with the Bank's internal procedures, 31 October of the current year has been determined as the date for reconciliation of receivables and liabilities with customers.

All amounts are expressed in thousands of RSD except if indicated otherwise

35. RECONCILIATION OF RECEIVABLES AND LIABILITIES (continued)

As at 31 October 2019 there were no materially significant non reconciled balances of liabilities and receivables. The bank sent 2.503 IOS's to corporate entities, 1.850 IOS's to entrepreneurs, 22 to banks and financial institutions and 17 to non residential persons. The following are effects of reconciliation:

	Number of sent IOS's	Receivable	Liability
Total sent receivables/liabilities:	4.392	11.000.636	5.787.325
Unsent- unknown address, moved....	584	209.964	52.999
Confirmed	388	4.382.129	2.461.418
Not returned	3.419	6.597.543	3.272.906
Disputed	1	-	2

36. FOREIGN CURRENCY EXCHANGE RATE

Exchange rates of the major currencies used in translation of balance sheet positions include:

	31.12.2019	31.12.2018
EUR	117,5928	118,1946
USD	104,9186	103,3893
CHF	108,4004	104,9779

37. EVENTS AFTER THE REPORTING PERIOD

Late in 2019 the news first emerged from China about the COVID-19 (Coronavirus). The situation at year end was that a limited number of cases of an unknown virus had been reported to the World Health Organization. In the first few months of 2020, the virus spread globally and its negative impact gained momentum. Management considers this outbreak to be a non-adjusting post balance sheet event.

The management considers that the effects of the current situation on the economy of Serbia and the Bank's business will be seen mainly with respect to the Bank's liquidity and quality of the loan portfolio. Liquidity of the Bank will be influenced mainly by the moratorium on repayment of loans and other receivables from legal entities and individuals in the period of minimum 90 days starting from 1 April 2020, as well as any potential withdrawal of client deposits. The Bank considers that its exposure to industries, which might be affected first (i.e. tourism and transportation) is not significant.

Refer to disclosure in Note 5 for the sensitivity analysis related to significant risk in credit risk and Note 4.10 for the information about capital adequacy.

The Bank is currently unable to assess the full impact of COVID-19 virus on its future financial position and the results of operations, however, depending on future developments, this impact might be negative and significant.

After the date of the reporting period there were no other events which would require adjustments or disclosure in the Banks' financial statements for the year ended 31 December 2019.

Signed on behalf of Expobank A.D.., Beograd by:

Radaković

Dragana Radaković
Financial Control Manager

"Expobank" akcionarsko društvo Beograd
Expobank
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Borislav Strugarević
Chairman of the Executive Board