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TRANSLATION

Independent Auditor's Report

To the Shareholders of Eurobank akcionarsko društvo Beograd

Opinion

We have audited the accompanying financial statements of Eurobank akcionarsko društvo Beograd (the "Bank"), which comprise:

- the balance sheet as at 31 December 2019;

and, for the period from 1 January to 31 December 2019:

- the income statement;
- the statement of other comprehensive income;
- the statement of changes in equity;
- the cash flows statement;

and

- notes comprising a summary of significant accounting policies and other explanatory information

(the "financial statements").

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at 31 December 2019 and of its financial performance and its cash flows for the financial year then ended in accordance with International Financial Reporting Standards ("IFRS").

Registration No.: 17148656
Tax Identity No.: 100058593
Bank Acc.: 265-1100310000190-61

Basis for Opinion

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

Other information

Management is responsible for the other information. The other information comprises the Annual Business Report for the year ended 31 December 2019.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based solely on the work required to be undertaken in the course of the audit of the financial statements, in our opinion, the information given in the annual business report for the financial year for which the financial statements are prepared, is consistent with the financial statements.

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

Responsibility of Management and Those Charged with Governance for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view 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 Responsibility 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 of the Republic of Serbia, the Decision on External Audit of Banks and applicable auditing standards 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 of the Republic of Serbia, the Decision on External Audit of Banks and applicable auditing standards 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 on the audit of the financial statements 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 on the audit of the financial statements. 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.

KPMG d.o.o., Beograd

Signed on the Serbian original

Nikola Đenić
Certified Auditor

Belgrade, 22 April 2020

This is a translation of the original Independent Auditor's Report issued in the Serbian language.
All due care has been taken to produce a translation that is as faithful as possible to the original.
However, if any questions arise related to interpretation of the information
contained in the translation, the Serbian version of the document shall prevail.
We assume no responsibility for the correctness of the translation of the Bank's financial statements.

KPMG d.o.o., Beograd

DRUŠTVO ZA KONSALTING I REVIZIJU D.O.O. KPMG 1 BEOGRAD

Nikola Đenić
Certified Auditor

Belgrade, 22 April 2020

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

Contents

All amounts are expressed in 000 RSD unless stated otherwise

In RSD thousands	Note	2019	2018
Interest income	2.2, 6	7,713,811	7,885,320
Interest expenses	2.2, 6	(1,094,036)	(957,937)
Net interest income		**6,619,775**	**6,927,383**
Fee and commission income	2.2, 7	2,686,954	2,698,499
Fee and commission expenses	2.2, 7	(688,316)	(595,394)
Net fee and commission income		**1,998,638**	**2,103,105**
Net gains arising from change in fair value of financial instruments	2.2, 8	35,119	1,913
Net gains arising from derecognition of financial instruments measured at fair value	2.2, 9	3,656	485
Net foreign exchange rate gains	2.2, 10	38,991	49,928
Net losses arising from impairment of financial assets which are not measured at fair value	2.2, 11	(743,891)	(631,534)
Net (losses)/gains arising from derecognition of financial assets measured at amortized cost	2.2, 12	(2,103,411)	3,489
Other operating income	13	24,142	29,557
Total operating income		**5,873,019**	**8,484,326**
Salaries, benefits and other personnel expenses	2.4, 14	(2,025,231)	(1,932,417)
Depreciation and amortization	15	(779,782)	(429,498)
Other income	16	97,934	90,590
Other expenses	16	(3,092,931)	(3,639,187)
Profit before tax		**73,009**	**2,573,814**
Income tax	2.3, 17	-	(318,712)
Deferred income tax gains/(losses)	2.3, 17	235,841	(8,289)
Profit for the period		**308,850**	**2,246,813**
Earnings per share			
Basic earnings per share (in RSD, without paras)	2.17, 18	1,215	8,838

Belgrade, 15 April 2020

On behalf of the Bank:

Slavica Pavlovic, President of the Executive Board

Vladimir Tofoski, Chief Financial Officer

All amounts are expressed in 000 RSD unless stated otherwise

In RSD thousands	2019	2018
Profit for the period	**308,850**	**2,246,813**
Items that will not be reclassified to profit or loss		
Actuarial (losses)/gains on defined benefit pensions plans	(114)	6,096
Income tax relating to items that will not be reclassified to profit or loss	17	(915)
Items that may be reclassified subsequently to profit or loss		
Gains on fair value changes of financial assets measured at FVOCI	140,031	-
Income tax relating to items that may be reclassified subsequently to profit or loss	(20,214)	-
Other comprehensive income, net of tax	119,720	5,181
Total comprehensive income	**428,570**	**2,251,994**

Belgrade, 15 April 2020

On behalf of the Bank:

Slavica Pavlovic, President of the Executive Board

Vladimir Tofoski, Chief Financial Officer

All amounts are expressed in 000 RSD unless stated otherwise

In RSD thousands	Note	31 December 2019	31 December 2018
Assets			
Cash and assets held with the central bank	2.9, 19	22,869,217	18,922,554
Pledged financial assets	2.10, 20	1,833,270	1,523,992
Receivables from derivatives	2.6, 21	74,179	51,465
Securities	2.5, 22	6,717,417	10,809,118
Loans and receivables to banks and other financial institutions	2.5, 23	17,064,757	15,885,158
Loans and receivables to customers	2.5, 24	119,567,490	116,142,151
Investments in associates	2.11, 25	34,320	36,075
Intangible assets	2.13, 26	2,317,780	2,161,526
Property, plant and equipment	2.12, 27	5,624,366	3,376,835
Current tax assets	2.3, 17	300,622	-
Deferred tax assets	2.3, 28	291,474	42,805
Other assets	29	507,895	580,814
Total assets		**177,202,787**	**169,532,493**
Liabilities and equity			
Liabilities from derivatives	2.6, 30	80,363	56,127
Deposits and other financial liabilities due to banks, other financial institutions and central bank	2.18, 32	14,570,929	13,352,584
Deposits and other financial liabilities due to customers	2.18, 33	106,318,415	102,537,069
Provisions	2.19, 34	269,169	226,548
Current tax liabilities	2.3, 17	-	67,442
Deferred tax liabilities	2.3, 28	201,481	163,181
Other liabilities	2.20, 35	2,804,317	594,723
Total liabilities		**124,244,674**	**116,997,674**
Share capital and share premium	2.17, 36	31,478,699	31,478,699
Retained earnings	36	11,793,264	11,489,690
Reserves	36	9,686,150	9,566,430
Total equity		**52,958,113**	**52,534,819**
Total liabilities and equity		**177,202,787**	**169,532,493**

Belgrade, 15 April 2020

On behalf of the Bank:

Slavica Pavlovic, President of the Executive Board

Vladimir Tofoski, Chief Financial Officer

All amounts are expressed in 000 RSD unless stated otherwise

In RSD thousands	Share capital	Own shares	Share premium	Revaluation reserves	Other reserves	Retained earnings	Total equity
Opening balance as at 1 January 2018	**25,429,927**	**(500)**	**6,051,999**	**14,423**	**9,558,335**	**9,397,641**	**50,451,825**
Effects of initial application of IFRS 9	-	-	-	(14,236)	-	(175,869)	(190,105)
Other – increase/(decrease)	(2,727)	-	-	-	2,727	-	-
Adjusted opening balance as at 1 January 2018	**25,427,200**	**(500)**	**6,051,999**	**187**	**9,561,062**	**9,221,772**	**50,261,720**
Profit for the year ended 31 December 2018	-	-	-	-	-	2,246,813	2,246,813
Other comprehensive income for the year, net of tax	-	-	-	5,181	-	-	5,181
Deferred tax effects on initial application of IFRS 9	-	-	-	-	-	21,105	21,105
Other – increase/(decrease)	(500)	500	-	-	-	-	-
Balance as at 31 December 2018	**25,426,700**	**-**	**6,051,999**	**5,368**	**9,561,062**	**11,489,690**	**52,534,819**
Opening balance as at 1 January 2019	**25,426,700**	**-**	**6,051,999**	**5,368**	**9,561,062**	**11,489,690**	**52,534,819**
Profit for the year ended 31 December 2019	-	-	-	-	-	308,850	308,850
Other comprehensive income for the year, net of tax	-	-	-	119,720	-	-	119,720
Deferred tax effects on initial application of IFRS 9	-	-	-	-	-	(5,276)	(5,276)
Balance as at 31 December 2019	**25,426,700**	**-**	**6,051,999**	**125,088**	**9,561,062**	**11,793,264**	**52,958,113**

Belgrade, 15 April 2020

On behalf of the Bank:

Slavica Pavlovic, President of the Executive Board

Vladimir Tofoski, Chief Financial Officer

The accompanying notes form an integral part of these financial statements.

All amounts are expressed in 000 RSD unless stated otherwise

In RSD thousands	2019	2018
Cash inflow from operating activities	**10,833,271**	**10,635,828**
Inflow from interest	7,437,623	7,251,284
Inflow from fees and commissions	2,678,758	2,714,366
Inflow from other operating income	715,754	669,775
Inflow from dividends	1,136	403
Cash outflow from operating activities	**(7,031,729)**	**(6,622,940)**
Outflow from interest	(1,204,094)	(761,175)
Outflow from fees and commissions	(703,477)	(588,665)
Outflow from gross salaries, benefits and other personal expenses	(1,972,405)	(1,917,708)
Outflow from taxes, contributions and other duties charged to income	(613,150)	(673,523)
Outflow from other operating expenses	(2,538,603)	(2,681,869)
Net cash inflow from operating activities before increase or decrease in loans investments and deposits	**3,801,542**	**4,012,888**
Net inflow from securities and other financial assets not intended for investments	79,852	233,412
Net inflow from deposits and other liabilities to banks, other financial institutions, central bank and customers	4,422,667	5,908,864
	4,502,519	**6,142,276**
Net cash outflow from loans and investments		
Net outflow from loans and receivables to banks, other financial institutions, central banks and clients	(10,457,802)	(12,036,575)
	(10,457,802)	**(12,036,575)**
Net cash outflow for operating activities before profit tax	**(2,153,741)**	**(1,881,411)**
Profit tax paid	(368,065)	(140,518)
Net cash outflow for operating activities	**(2,521,806)**	**(2,021,929)**
Cash flow from investing activities	**8,237,998**	**3,087,935**
Inflow from selling of long-term investments	8,236,356	3,085,667
Inflow from selling of intangible assets, property, plant and equipment	1,642	2,268
Cash outflow from investing activities	**(3,036,533)**	**(2,522,479)**
Outflow for purchase of long-term investments	(2,453,030)	(1,801,381)
Outflow for purchase of intangible assets, property, plant and equipment	(583,503)	(721,098)
Net cash flow from investing activities	**5,201,465**	**565,456**
Cash inflow from financing activities	**28,507,083**	**21,657,191**
Inflow from borrowings	28,507,083	21,657,191
Cash outflow from financing activities	**(27,806,371)**	**(17,890,279)**
Outflows from borrowings	(27,525,304)	(17,890,279)
Other outflows from financial activities	(281,067)	-
Net cash inflow from financing activities	**700,712**	**3,766,912**

All amounts are expressed in 000 RSD unless stated otherwise

In RSD thousands	2019	2018
Cash inflow	**52,080,871**	**41,523,230**
Cash outflow	**(48,700,500)**	**(39,212,791)**
Net cash inflow	**3,380,371**	**2,310,439**
Cash and cash equivalent at the beginning of the year	**12,874,541**	**10,318,700**
Effect of exchange rate fluctuations on cash and cash equivalents held	(34,541)	245,402
Cash and cash equivalent at the end of the reporting period (Note 19)	**16,220,371**	**12,874,541**

Belgrade, 15 April 2020

On behalf of the Bank:

Slavica Pavlovic, President of the Executive Board

Vladimir Tofoski, Chief Financial Officer

1. General information

Eurobank A.D. (hereinafter ''The Bank'') has been established by the merger of Eurobank EFG a.d. Beograd and Nacionalna Štedionica Banka a.d. that was completed on 20 October 2006. The Bank is a subsidiary of Eurobank Ergasias ('Eurobank') which is listed on the Athens Stock Exchange.

The Bank is registered in Serbia for carrying out payment, credit and deposit operations in the country and abroad. The Bank operates in accordance with Law on Banks based on principles of liquidity, safety and profitability.

The registered office of the Bank is Vuka Karadžića 10, Belgrade.

As at 31 December 2019 the Bank had 1,483 employees (31 December 2018: 1,499 employees). The Bank's network comprises of 80 branches and 5 business centers (31 December 2018: 80).

The Bank's Registration number is 17171178. The Bank's Tax identification number is 100002532.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. The policies set out below have been consistently applied to all periods presented in these financial statements, except as described in this section as well as in notes 2.23 as result of transition to IFRS 16.

Accounting policies and estimates relating to recognition and measurement of assets and liabilities, applied in the preparation of these financial statements, are consistent with those applied in the preparation of the annual financial statements of the Bank for the year ended 31 December 2018, except for the changes in accounting policies arising from application of IFRS 16.

The Bank adopted IFRS 16 as at 1 January 2019. With respect to IFRS 16 initial application, the Bank has chosen the modified retrospective application and therefore comparative information will not be restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The detailed effects of the adoption of IFRS 16 on 1 January 2019 are presented in note 2.23.

2.1. Basis of preparation

The Bank prepares its financial statements in accordance with the International Financial Reporting Standards (IFRSs). Pursuant to the Law on Accounting (Official Gazette of the Republic of Serbia no. 62/2013 and 30/2018), banks are required to maintain their books of account and to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) while, by the Law on Banks (article 50.2), it has been designated that, when compiling Annual Financial Statements, a bank should apply the IFRSs as of date which the competed authority has designed as the date of the application of these standards.

These financial statements have been prepared under the historical cost basis except for the financial assets measured at fair value through other comprehensive income and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates. 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 3.

These financial statements are individual financial statements of the Bank since the Bank doesn't have subsidiaries.

The Bank's presentation currency is the RSD being the functional currency of the Bank. All financial information is presented in RSD rounded to the nearest thousand, unless stated otherwise.

The Bank's financial statements have been prepared on a going concern basis, which assumes that the Bank will continue in operational existence for the foreseeable future. In making this judgment management considered the Eurobank Group's financial position, current intentions, profitability of operations and access to financial resources.

a) New and amended Standards and interpretations

The following amendments to standards, as issued by the International Accounting Standards Board (IASB) apply from 1 January 2019:

IFRS 9, Amendments–Prepayment Features with Negative Compensation. The amendments in IFRS 9 requirements allow the measurement of a financial asset at amortised cost, or at fair value through other comprehensive income (FVOCI), depending on the business model, even in the case of prepayment options which could result in the party that triggers the early termination, receiving compensation from the other party (negative compensation). Therefore, these financial assets can now be measured at amortised cost or at FVOCI, regardless of the event or circumstance that caused the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination. Applying IFRS 9 before the amendments would probably result in these financial assets failing the "Solely Payments of Principal and Interest" criterion and thus being measured at FVTPL.

The amendments also confirm the modification accounting of financial liabilities under IFRS 9. Specifically, when a financial liability measured at amortised cost is modified without this to result in derecognition, a gain or loss, calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate, should be recognized in profit or loss.

The adoption of the interpretation had no material impact on the Bank's financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments. The interpretation clarifies the application of the recognition and measurement requirements of IAS 12 'Income Taxes' when there is uncertainty over income tax treatments. In such a circumstance, recognition and measurement of current or deferred tax asset or liability according to IAS 12 is based on taxable profit (tax loss), tax bases, unused tax losses and tax credits and tax rates as determined by applying IFRIC 23.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

According to the interpretation, each uncertain tax treatment is considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty. The entity also assumes that the taxation authority that will examine these uncertain tax amounts, has a right to examine has full knowledge of all related information when making those examinations.

If an entity concludes that it is probable that the taxation authority will accept an uncertain tax treatment, it will determine its taxable profits, tax bases, tax losses, tax credits and tax rates consistently with that treatment. If it concludes that it is not probable that the uncertain tax treatment will be accepted, the effect of the uncertainty in its income tax accounting should be reflected in the period in which that determination is made, using the method that best predicts the resolution of the uncertainty (i.e. the single most likely amount, or the expected value method which follows a probability weighted approach).

Judgments and estimates that are made for the recognition and measurement of the effect of the uncertain tax treatments should be reassessed whenever circumstances change or new information that affects those judgments arise (e.g. actions by the tax authority, evidence that it has taken a particular position in connection with a similar item or the expiry of its right to examine a particular tax treatment).

The adoption of the interpretation had no material impact on the Bank's financial statements.

IFRS 16, Leases

IFRS 16, which supersedes IAS 17 'Leases' and related interpretations, introduces a single, on-balance sheet lease accounting model for lessees, under which the classification of leases for a lessee, as either operating leases or finance leases, is eliminated and all leases are treated similarly to finance leases under IAS 17.

The definition of a lease under IFRS 16 mainly relates to the concept of control. The new standard distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

IFRS 16 provides for the recognition of a 'right-of-use-asset' and a 'lease liability' upon lease commencement in case that there is a contract, or part of a contract, that conveys to the lessee the right to use an asset for a period of time in exchange for a consideration.

The right-of-use-asset is, initially, measured at cost, consisting of the amount of the lease liability, plus any lease payments made to the lessor at or before the commencement date less any lease incentives received, the initial estimate of restoration costs and any initial direct costs incurred by the lessee and, subsequently, at cost less accumulated depreciation and impairment. The lease liability is initially recognized at an amount equal to the present value of the lease payments during the lease term that are not yet paid. Consequently, the typical straight-line operating lease expense of operating leases under IAS 17 is replaced by the depreciation charge of the 'right-of-use-asset' and the interest expense on the 'lease liability'. The recognition of assets and liabilities by lessees, as described above, is not required for certain short-term leases and leases of low value assets. The accounting treatment for lessors is not substantially affected by the requirements of IFRS 16.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

Adoption of IFRS 16

The Bank implemented the requirements of IFRS 16 on 1 January 2019. The Bank has chosen the modified retrospective application of IFRS 16 and therefore the comparative information was not restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations.

On transition to IFRS 16, the Bank adopted the practical expedient available not to reassess whether a contract is or contains a lease. Accordingly, existing contracts previously classified as service contracts such as ATMs, printing services, etc. were not classified as leases under IFRS 16, while the definition set out in IFRS 16 is applied to all lease contracts entered into or modified on or after 1 January 2019.

In accordance with IFRS 16, at the commencement date of the lease, the Bank as a lessee recognises right-of-use assets and lease liabilities in the balance sheet, initially measured at the present value of the future lease payments.

The Bank applied this initial measurement principle to all leases, except for those with a lease term of 12 months or less, and leases of low value (i.e. less than € 5,000) - making use of the relevant short-term leases and leases of low-value assets exemptions. The Bank also adopted the practical expedient not to separate non-lease components from lease components.

In applying the modified retrospective transition approach, the Bank used the following main estimates and judgments:

- The present value of the lease liabilities was measured by using the incremental borrowing rate on the transition date, since the interest rate implicit in the leases was not readily determinable. The Bank uses a risk-free rate of the relevant currency in the local market, which would be Government bond of the Republic of Serbia which takes into account currency in which particular contracts have been denominated (RSD or EUR), relevant term of the lease contract and risk of the economic environment. The rate is increased for the cost of risk of the Bank which is calculated in accordance with the internal risk methodology. The weighted average discount rate was 3,26%.
- Applicable taxes, Value Added Tax and stamp duties were excluded from the scope of IFRS 16 calculations.

The quantitative impact of applying IFRS 16 as at 1 January 2019 is disclosed in Note 2.23.

IAS 28, Amendments – Long-Term Interests in Associates and Joint Ventures. The amendments clarify that IFRS 9 'Financial Instruments' including its impairment requirements, applies to long-term interests in associates or joint ventures that form part of the entity's net investment in the associate or joint venture but are not accounted for using the equity method of accounting.

According to the amendments, an entity should not take into account any adjustments to the carrying amount of long-term interests (net investment in the associate or joint venture), resulting from the application of IAS 28 'Investments in Associates and Joint Ventures' when applying IFRS 9.

The adoption of the amendment had no material impact on the Bank's financial statements.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

IAS 19, Amendments –Plan Amendment, Curtailment or Settlement. The amendments clarify that when a change to a defined benefit plan i.e. an amendment, curtailment or settlement takes place and a remeasurement of the net defined benefit liability or asset is required, the updated actuarial assumptions from the remeasurement should be used to determine current service cost and net interest for the remainder of the reporting period after that event. Additionally, the amendments include clarifications about the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.

The adoption of the amendment had no material impact on the Bank's financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle. The improvements introduce key changes to several standards as set out below:

The amendments to IFRS 3 'Business Combinations' and IFRS 11 'Joint Arrangements' clarified how an entity accounts for increasing its interest in a joint operation that meets the definition of a business. Specifically, when an entity obtains control of a business that is a joint operation, then the transaction constitutes a business combination achieved in stages and the acquiring party re-measures the entire previously held interest in the assets and liabilities of the joint operation at fair value. In case when a party that participates in, but does not have joint control of, a joint operation obtains joint control of the joint operation, then the previously held interest is not re-measured.

The improvement to IAS 12 'Income Taxes' clarified that all income tax consequences of dividends, including payments on financial instruments classified as equity, should be recognized in profit or loss, other comprehensive income or equity, according to where the originating transaction or event that generated distributable profits giving rise to the dividend, was recognized.

IAS 23 'Borrowing costs' amendments clarified that any borrowing originally performed to develop a qualifying asset should be treated as part of the funds that the entity borrowed generally, when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The adoption of the amendment had no material impact on the Bank's financial statements.

b) New standards, amendments to standards and interpretations not yet adopted by the Bank

A number of new standards, amendments to existing standards and interpretations are effective for annual periods beginning after 2019, and earlier application is permitted; however, the Bank has not early adopted them in preparing these financial statements. Those that may be relevant to the Bank are set out below:

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7 (effective 1 January 2020)

In September 2019, the IASB issued amendments to IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' to address the implications for certain hedge accounting requirements related to the uncertainties arising from the market-wide reform of several interest rate benchmarks (referred to as 'IBOR reform'). As a result of the IBOR reform, there may be uncertainties about: a) the interest rate benchmark designated as a hedged risk and/or b) the timing or amount of the benchmark-based cash flows of the hedged item or the hedging instrument, during the period before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate (an 'RFR').

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

The amendments modify certain hedge accounting requirements under IAS 39 or IFRS 9 to provide temporary reliefs from the potential effect of uncertainty, during the transition period. These reliefs are related mainly to the highly probable requirement for the cash flows hedges, the compliance with the identifiable nature of the risk component and the application of prospective and retrospective effectiveness tests.

The IASB addresses the IBOR reform and its potential effects on financial reporting in two phases. These amendments conclude phase one that focuses on hedge accounting issues affecting financial reporting in the period before the interest rate benchmark reform, while the second phase focuses on potential issues that might affect financial reporting once the existing rates are replaced with an RFR.

The adoption of the amendment is not expected to materially impact the Bank's financial statements.

Amendments to the Conceptual Framework for Financial Reporting, including amendments to references to the Conceptual Framework in IFRS Standards (effective 1 January 2020)

In March 2018, the IASB issued its revised "Conceptual Framework for Financial Reporting" (Conceptual Framework). The revised Conceptual Framework is not a standard nor overrides any requirements of individual standards. This replaces the previous version of the Conceptual Framework issued in 2010. Revisions performed by IASB introduced guidance on measurement, presentation and disclosure on derecognition concepts. In addition, the revision includes updated definitions of an asset/liability and of recognition criteria, as well as clarifications on important areas.

Alongside the revised Conceptual Framework, the IASB has published an accompanying document "Amendments to References to the Conceptual Framework in IFRS Standards" which contains consequential amendments to affected standards so that they refer to the revised Framework.

The adoption of the amended Framework is not expected to materially impact the Bank's financial statements.

Amendments to IFRS 3 Business Combinations (effective 1 January 2020)

The IASB issued amendments to the definition of a business in IFRS 3 "Business Combinations" to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements and add guidance to help entities assess whether an acquired process is substantive. In addition, with the introduction of the amendments the definitions of a business and of outputs are narrowed, while an optional fair value concentration test is introduced.

The adoption of the amendment is not expected to materially impact the Bank's financial statements.

Amendments to IAS 1 and IAS 8: Definition of Material (effective 1 January 2020)

The amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" aim to align the definition of 'material' across the standards and to clarify certain aspects of the definition. According to the new definition, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both.

The adoption of the amendment is not expected to materially impact the Bank's financial statements.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

IAS 1, Amendments, Classification of Liabilities as Current or Non-Current (effective 1 January 2022)

The amendments affect only the presentation of liabilities in the balance sheet and provide clarifications over the definition of the right to defer the settlement of a liability, while they make clear that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. In addition, it is clarified that the assessment for liabilities classification made at the end of the reporting period is not affected by the expectations about whether an entity will exercise its right to defer settlement of a liability. The Board also clarified that when classifying liabilities as current or non-current, an entity can ignore only those conversion options that are recognised as equity.

The adoption of the amendment is not expected to materially impact the Bank's financial statements.

IFRS 17, Insurance Contracts (effective 1 January 2023)

IFRS 17, which supersedes IFRS 4 'Insurance Contracts' provides a comprehensive and consistent accounting model for insurance contracts.

It applies to insurance contracts issued, all reinsurance contracts and to investment contracts with discretionary participating features provided that the entity also issues insurance contracts. Financial guarantee contracts are allowed to be within the scope of IFRS 17 if the entity has previously asserted that it regarded them as insurance contracts.

According to IFRS 17 general model, groups of insurance contracts which are managed together and are subject to similar risks, are measured based on building blocks of discounted, probability-weighted estimates of future cash flows, a risk adjustment and a contractual service margin ('CSM') representing the unearned profit of the contracts. Under the model, estimates are remeasured at each reporting period. A simplified measurement approach may be used if it is expected that doing so a reasonable approximation of the general model is produced, or if the contracts are of short duration.

Revenue is allocated to periods in proportion to the value of expected coverage and other services that the insurer provides during the period, claims are presented when incurred and any investment components i.e. amounts repaid to policyholders even if the insured event does not occur, are not included in revenue and claims. Insurance services results are presented separately from the insurance finance income or expense.

IFRS 17 is not relevant to the Bank's activities.

c) Transactions and balances in foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Assets and liabilities denominated in foreign currencies have been translated into the functional currency at the market rates of exchange ruling at the balance sheet date and exchange differences are accounted for in the income statement.

2. Summary of significant accounting policies (continued)

2.1. Basis of preparation (continued)

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at each reporting date and exchange differences are recognized in the income statement.

Non-monetary assets and liabilities are translated into the functional currency at the exchange rates prevailing at initial recognition, except for non-monetary items denominated in foreign currencies that are measured at fair value which are translated at the rate of exchange at the date the fair value is determined. The exchange differences relating to these items are treated as part of the change in fair value and are recognized in the income statement or recorded directly in equity depending on the classification of the non-monetary item.

2.2. Income statement

a) Interest income and expense

Interest income and expense is recognized in the income statement on an accrual basis, using the effective interest rate (EIR) method. 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 gross carrying amount of the financial asset or to the amortized cost of a financial liability. When calculating the EIR for financial instruments the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider expected credit losses.

The amortized cost of a financial asset or liability is the amount at which it is measured upon initial recognition minus principal repayments, plus or minus cumulative amortization using the EIR (as described above) and for financial assets, adjusted for the expected credit loss allowance. The gross carrying amount of a financial asset is its amortized cost before adjusting for ECL allowance.

The EIR calculation includes nominal interest rate and disbursement fees. Disbursement fees are mainly related to corporate short-term loans and they are linearly amortised during whole life of the loans. However, the Bank’s assessment is that such method has no material effects on the financial statements.

The Bank calculates interest income and expense by applying the EIR to the gross carrying amount of non-impaired financial assets (exposures in Stage 1 and 2) and to the amortized cost of financial liabilities respectively. For financial assets that have become credit-impaired subsequent to initial recognition (exposures in Stage 3), the Bank calculates interest income by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the EIR is applied again to the gross carrying amount.

Interest income and expense is presented separately in the income statement for all interest-bearing financial instruments within net interest income.

b) Fee and commission income

Fee and commission received or paid that are integral to the effective interest rate on a financial asset or financial liability which are in the scope of IFRS 9 are included in the effective interest rate.

2. Summary of significant accounting policies (continued)

2.2. Income statement (continued)

Other fee and commission income such as account servicing and loan servicing/monitoring is recognised over time as the related services are being provided to the customer, to the extent that it is highly probable that a significant reversal of the revenue amount recognized will not occur. Transaction-based fees such as foreign exchange transactions, imports-exports, remittances, bank charges and brokerage activities are recognised at the point in time when the transaction takes place.

Other fee and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

c) Net trading income

Net trading income comprises gains and losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences.

All net gains and losses are presented under net gains arising from change in fair value of financial instruments (note 8), net gains arising from derecognition of financial instruments measured at fair value (note 9) and net foreign exchange gains (note 10).

2.3. Income tax expense

Income tax expense comprises current and deferred tax. Current income tax presents the amount calculated and paid to the tax authorities based on legislations of Republic of Serbia. Estimated monthly instalments are calculated by the Bank and paid in advance on a monthly basis.

Income tax at the rate of 15% (2018: 15%) is payable based on the profit calculated as per the tax return. In order to arrive at the taxable profit, the accounting profit is adjusted for certain differences and reduced for certain investments made during the year. Tax return is to be submitted to tax authorities until the 30 June of the following year, bearing in mind that deadline for submission to the tax authorities is 180 days from the date on which tax is determined. Bank has not yet finished transfer pricing study, however, the management believes that there will not be material effects on 2019, since so far there were no or minimal corrections based on related parties transactions, and there were no significant changes on services types in 2019, compared to the previous year.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognized where it is probable that future taxable profit will be available against which the temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available. The Bank recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2. Summary of significant accounting policies (continued)

2.3. Income tax expense (continued)

The deferred tax asset on income tax losses carried forward is recognized as an asset when it is probable that future taxable profits will be available against which these losses can be utilized.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.4. Employee benefits

a) Short term benefits

Short term employee benefits are those expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related services and are expensed as these services are provided.

The Bank and its employees are obliged to make payments to the pension fund of Republic of Serbia in accordance with the defined contribution plan. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due.

b) Standard legal staff retirement indemnity obligations (SLSRI) and termination benefits

In accordance with the local labor legislation, the Bank provides for staff retirement indemnity obligation for employees which are entitled to a lump sum payment based on the number of years of service and the level of remuneration at the date of retirement, if they remain in the employment of the Bank until normal retirement age. Provision has been made for the actuarial value of the lump sum payable on retirement (SLSRI) using the projected unit credit method. Under this method the cost of providing retirement indemnities is charged to the income statement so as to spread the cost over the period of service of the employees, in accordance with the actuarial valuations which are performed every year.

The SLSRI obligation is calculated as the present value of the estimated future cash outflows using interest rates of high-quality corporate bonds. In countries where there is no deep market in such bonds, the yields on government bonds are used. The currency and term to maturity of the bonds used are consistent with the currency and estimated term of the retirement benefit obligations.

Actuarial gains and losses that arise in calculating the Bank's SLSRI obligations are recognized directly in other comprehensive income in the period in which they occur and are not reclassified to the income statement in subsequent periods.

Interest on the staff retirement indemnity obligations and service cost, consisting of current service cost, past service cost and gains or losses on settlement are recognized in the income statement. In calculating the SLSRI obligation, the Bank also considers potential separations before normal retirement based on the terms of previous voluntary exit schemes.

2. Summary of significant accounting policies (continued)

2.4. Employee benefits (continued)

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of the following dates: (a) when the Bank can no longer withdraw the offer of those benefits; and (b) when the Bank recognizes costs for a restructuring that involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Termination benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

c) Other employee's benefits

The Bank provides other benefits for the retirement. An employee is usually entitled to these benefits if they were employees of the Bank until reaching the prescribed age for retirement and the minimum required years of employment. The above-mentioned benefits are accumulated during the service. The defined retirement obligations are estimated annually by an independent certified actuary through the projected credit unit valuation method.

The present value of benefit obligations is determined by discounting the expected future cash payments by reference to the interest rates of the high-quality bonds expressed in the same currency, which mature approximately at the same period when retirement obligations are due.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The basic assumptions used in calculations are presented in the note 34.

2.5. Financial assets

Financial assets - Classification and measurement

The Bank classifies financial assets based on the business model for managing those assets and their contractual cash flow characteristics. Accordingly, financial assets are classified into one of the following measurement categories: amortized cost ("AC"), fair value through other comprehensive income or fair value through profit or loss.

Purchases and sales of financial assets are recognized on trade date, which is the date the Bank commits to purchase or sell the assets. Loans originated by the Bank are recognized when cash is advanced to the borrowers.

Financial Assets measured at Amortized Cost ('AC')

The Bank classifies and measures a financial asset at AC only if both of the following conditions are met:

a) The financial asset is held within a business model whose objective is to collect contractual cash flows (hold-to-collect business model) and
b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI).

2. Summary of significant accounting policies (continued)

2.5. Financial assets (continued)

These financial assets are recognized initially at fair value plus direct and incremental transaction costs, and are subsequently measured at amortized cost, using the effective interest rate (EIR) method. Interest income and changes in expected credit losses from assets classified at AC, are included in the income statement.

Financial Assets measured at Fair Value through Other Comprehensive Income ('FVOCI')

The Bank classifies and measures a financial asset at FVOCI only if both of the following conditions are met:

a) The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets (hold-to-collect-and-sell business model); and
b) The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

Financial assets that meet these criteria are debt instruments and are measured initially at fair value, plus direct and incremental transaction costs. Subsequent to initial recognition, FVOCI debt instruments are re-measured at fair value through OCI, except for interest income, related foreign exchange gains or losses and expected credit losses, which are recognized in the income statement. Cumulative gains and losses previously recognized in OCI are transferred from OCI to the income statement when the debt instrument is de-recognized.

Equity Instruments designated at FVOCI

The Bank may make an irrevocable election to designate an equity instrument at FVOCI. This designation, if elected, is made at initial recognition and on an instrument by instrument basis. Gains and losses on these instruments, including when de-recognized, are recorded in OCI and are not subsequently reclassified to the income statement. Dividends received are recorded in the income statement.

Financial Assets measured at Fair Value through Profit and Loss ("FVTPL")

The Bank classifies and measures all other financial assets that are not classified at AC or FVOCI, at FVTPL. Accordingly, this measurement category includes debt instruments such as loans and debt securities that are held within the hold–to-collect (HTC) or hold-to-collect-and-sell models (HTCS), but fail the SPPI assessment, equities that are not designated at FVOCI and financial assets held for trading. Receivables from derivatives are measured at FVTPL, unless they are designated and effective hedging instruments, in which case hedge accounting requirements under IAS 39 continue to apply. Furthermore, a financial asset that meets the above conditions to be classified at AC or FVOCI, may be irrevocably designated by the Bank at FVTPL at initial recognition, if doing so eliminates, or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets measured at FVTPL are initially recorded at fair value and any unrealized gains or losses arising due to changes in fair value are included in the income statement.

Business model and contractual characteristics assessment

The business model assessment determines how the Bank manages a group of assets to generate cash flows. That is, whether the Bank's objective is solely to collect contractual cash flows from the asset, to realize cash flows from the sale of assets, or both to collect contractual cash flows and cash flows from the sale of assets. In addition, the business model is determined after aggregating the financial assets into groups (business lines) which are managed similarly rather than at an individual instrument's level.

2. Summary of significant accounting policies (continued)

2.5. Financial assets (continued)

The business model is determined by the Bank's key management personnel consistently with the operating model, considering how financial assets are managed in order to generate cash flows, the objectives and how performance of each portfolio is monitored and reported and any available information on past sales and on future sales' strategy, where applicable. Accordingly, in making the above assessment, the Bank will consider a number of factors including the risks associated with the performance of the business model and how those risks are evaluated and managed, the related personnel compensation, and the frequency, volume and reasons of past sales, as well as expectations about future sales activity.

Business model assessment

The Bank's business models fall into three categories, which are indicative of the key strategies used to generate returns.

The hold-to-collect (HTC) business model has the objective to hold the financial assets in order to collect contractual cash flows. Sales within this model are monitored and may be performed for reasons which are not inconsistent with this business model. More specifically, sales of financial assets due to credit deterioration, as well as, sales close to the maturity are considered consistent with the objective of hold-to-collect contractual cash flows regardless of value and frequency. Sales for other reasons may be consistent with the HTC model such as liquidity needs in any stress case scenario or sales made to manage high concentration level of credit risk. Such sales are monitored and assessed depending on frequency and value to conclude whether they are consistent with the HTC model. Debt instruments classified within this business model include bonds, due from banks and Loans and receivables to customers which are measured at amortized cost, subject to meeting the SPPI assessment criteria.

The hold-to-collect-and-sell business model (HTC&S) has the objective both to collect contractual cash flows and sell the assets. Activities such as liquidity management, interest yield and duration are consistent with this business model, while sales of assets are integral to achieving the objectives of this business model. Debt instruments classified within this business model would include investment securities which are measured at FVOCI, subject to meeting the SPPI assessment criteria.

Other business models include financial assets which are managed and evaluated on a fair value basis as well as portfolios that are held for trading. This is a residual category for financial assets not meeting the criteria of the business models of HTC or HTC&S, while the collection of contractual cash flows may be incidental to achieving the business models' objective.

The Bank's business models are reassessed at least annually or earlier, if there is a sales' assessment trigger or if there are any changes in the Bank's strategy and main activities, as evidenced by the Bank's business plan, budget and Non-performing exposures (NPE) strategy.

Cash flow characteristics assessment

For a financial instrument to be measured at AC or FVOCI, its contractual terms must give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

2. Summary of significant accounting policies (continued)

2.5. Financial assets (continued)

In assessing whether the contractual cash flows are SPPI, the Bank will consider whether the contractual terms of the instrument are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin. On the initial recognition of a financial asset, an assessment is performed of whether the asset contains a contractual term that could change the amount or timing of contractual cash flows in a way that it would not be consistent with the above condition. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is considered to have failed the SPPI assessment and will be measured at FVTPL.

For the purpose of the SPPI assessment, the Bank considers the existence of various features, including among others, contractually linked terms, prepayment terms, deferred interest-free payments, extension and equity conversion options and terms that introduce leverage including index linked payments. In case of special lending arrangements such as non-recourse loans, in its assessment of the SPPI criterion, the Bank considers various factors such as the nature of the borrower and its business, the pricing of the loans, whether it participates in the economic performance of the underlying asset and the extent to which the collateral represents all or a substantial portion of the borrower's assets. Moreover, for special purpose entities, the Bank takes into consideration the borrower's adequacy of loss absorbing capital by assessing jointly the criteria of equity sufficiency, Loan to Value ratio (LTV), the Average Debt Service Coverage ratio (ADSCR) as well as the existence of corporate and personal guarantees.

In addition, for the purposes of the SPPI assessment, if a contractual feature could have an effect that is de-minimis on the contractual cash flows of the financial asset, it does not affect its classification. Moreover, a contractual feature is considered as not genuine by the Bank, if it affects the instrument's contractual cash flows only on the occurrence of an event that is extremely rare, highly abnormal and very unlikely to occur. In such a case, it does not affect the instrument's classification.

The Bank performs the SPPI assessment for its lending exposures on a product basis for the retail and part of the wholesale portfolio where contracts are of standardized form, whereas for the remaining wholesale portfolio and debt securities, the assessment is performed on an individual basis.

Derecognition and modification of Financial assets

The Bank derecognizes a financial asset when its contractual cash flows expire, or the rights to receive those cash flows are transferred in an outright sale in which substantially all risks and rewards of ownership have been transferred. In addition, a financial asset is derecognized even if rights to receive cash flows are retained but at the same time the Bank assumes an obligation to pay the received cash flows without a material delay (pass through agreement) or when substantially all the risks and rewards are neither transferred nor retained but the Bank has transferred control of the asset. Control is considered to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to unrelated third party.

The Bank may modify the contractual terms of a financial asset either as a concession granted to a client facing or that is about to face financial difficulties or due to other commercial reasons such as changes in market conditions, competition or customer retention. In cases where the contractual cash flows of a financial asset have been modified and the modification is considered substantial, the original financial asset is then derecognized.

The Bank records the modified asset as a 'new' financial asset at fair value and the difference with the net carrying amount of the existing one is recorded in the income statement as de-recognition gain or loss.

2. Summary of significant accounting policies (continued)

2.5. Financial assets (continued)

Modifications that may result in de-recognition include:

- change in borrower,
- change in the currency that the lending exposure is denominated,
- debt consolidation features where two or more consumer unsecured lending contracts are consolidated into a single new secured lending agreement,
- the removal or addition of conversion features and/or profit-sharing mechanisms and similar terms which are relevant to the SPPI assessment.

Reclassifications of financial assets

The Bank reclassifies a financial asset only when it changes its business model for managing financial assets. Generally, a change in the business model is expected to be rare and occurs when the Bank either begins or ceases to perform an activity that is significant to its operations; for example, when a business line is acquired, disposed of or terminated. In the rare event when there is a change to the existing business models, the updated assessment is approved by the Bank's Executive Board and the amendment is reflected appropriately in the Bank's budget and business plan.

The reclassification is applied prospectively from the reclassification date, therefore previously recognized gains, losses (including impairment losses) or interest are not restated.

2.6. Derivatives

Receivables from derivatives, including foreign exchange contracts, currency swaps, and other receivables from derivatives, are initially recognized in the balance sheet at fair value on the date on which a derivative contract is entered into and subsequently are re-measured at their fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The changes in the fair value of derivatives are included in the income statement. The Bank does not apply hedge accounting.

Fair values of derivatives are determined based on quoted market prices, including recent market transactions, or by using other valuation techniques, as appropriate. The principles for the fair value measurement of financial instruments, including receivables from derivatives, are described in note 21.

In order to efficiently manage liquidity in different currencies, the Bank uses excess of liquidity in one currency to overcome the lack of liquidity in other currency through the currency swap transaction (FX Swap) and the cross-currency interest rate swap transaction (CIRS). Also, in order to protect against the interest rate risk exposure, to which it is exposed by concluding interest swap deals with corporate clients, the Bank simultaneously close its position with the Group with the interest rate swap transactions of the same characteristics. All of the transactions with derivatives are concluded by the Bank for economic reasons and it can be considered as economic hedge.

Offsetting derivative financial instruments

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

2. Summary of significant accounting policies (continued)

2.7. Fair value measurement of financial instruments

Fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Bank uses other valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The Bank has elected to use mid-market pricing as a practical expedient for fair value measurements within a bid-ask spread.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received unless the Bank determines that the fair value at initial recognition differs from the transaction price. In this case, if the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. Level 1 input) or based on a valuation technique that uses only data from observable markets, a day one gain or loss is recognized in the income statement. On the other hand, if the fair value is evidenced by a valuation technique that uses unobservable inputs, the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price (day one gain or loss).

Subsequently the deferred gain or loss is amortized on an appropriate basis over the life of the instrument or released earlier if a quoted price in an active market or observable market data become available or the financial instrument is closed out. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole (note 5).

2.8. Impairment of financial assets

The Bank recognizes allowance for expected credit losses (ECL) that reflect changes in credit quality since initial recognition to financial assets that are measured at AC and FVOCI, including loans, debt securities, financial guarantee contracts and loan commitments. ECL is a probability-weighted average estimate of credit losses that reflects the time value of money. Upon initial recognition of the financial instruments in scope of the impairment policy, the Bank records a loss allowance equal to 12-month ECL, being the ECL that result from default events that are possible within the next twelve months. Subsequently, for those financial instruments that have experienced a significant increase in credit risk (SICR) since initial recognition, a loss allowance equal to lifetime ECL is recognized, arising from default events that are possible over the expected life of the instrument.

Accordingly, ECL are recognized using a three-stage approach based on the extent of credit deterioration since origination:

- Stage 1 – When there is no significant increase in credit risk since initial recognition of a financial instrument, an amount equal to 12-months ECL is recorded. The 12 – month ECL represent a portion of lifetime losses, that result from default events that are possible within the next 12 months after the reporting date and is equal to the expected cash shortfalls over the life of the instrument or group of instruments, due to loss events probable within the next 12 months. Not credit-impaired financial assets that are either newly originated or purchased are classified initially in Stage 1.

2. Summary of significant accounting policies (continued)

2.8. Impairment of financial assets (continued)

- Stage 2 – When a financial instrument experiences a SICR subsequent to origination but is not considered to be in default, it is included in Stage 2. Lifetime ECL represent the expected credit losses that result from all possible default events over the expected life of the financial instrument.
- Stage 3 – Financial instruments that are considered to be in default are included in this stage. Similar to Stage 2, the allowance for credit losses captures the lifetime expected credit losses.

Definition of Default

To determine the risk of default, the Bank applies a default definition for accounting purposes, which is consistent with the one used for internal credit risk management purposes.

A default is considered to have occurred with regard to a particular client when either or both of the following have taken place:

- Bank considers that the client is unlikely to pay its credit obligations to the Bank, the holding or any of the Bank's related parties in full, without recourse by the Bank to actions such as realising collateral;
- The obligor is past due by more than 90 days on any material credit obligation to the Bank, the holding or any of the Bank's related parties.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that exposure have occurred:

- The borrower faces a significant difficulty in meeting his financial obligations.
- There has been a breach of contract, such as a default or past due event. Bank, for economic or contractual reasons relating to the borrower's financial difficulty, has granted to the borrower a concession(s) that the Bank would not otherwise consider.
- There is a probability that the borrower will enter bankruptcy or other financial re-organization.

For debt securities, the Bank determines the risk of default using an internal credit rating scale. The Bank considers debt securities as credit impaired if the internal rating of the issuer/counterparty corresponds to a rating equivalent to "C" (Moody's rating scale) or texternal rating of the issuer/counterparty at the reporting date is equivalent to "C" (Moody's rating scale) and the internal rating is not available.

Significant increase in credit risk (SICR) and staging allocation

Determining whether a loss allowance should be based on 12-month expected credit losses or lifetime expected credit losses depends on whether there has been a significant increase in credit risk (SICR) of the financial assets, issued loan commitments and financial guarantee contracts, since initial recognition. The assessment for SICR is performed using both qualitative and quantitative criteria based on reasonable and supportable information that is available without undue cost or effort.

The Bank classifies in Stage 2 a financial asset which has experienced a significant increase in credit risk since initial recognition (SICR). In assessing SICR, the Bank uses following criteria:

- Absolute thresholds on the 12-month probability of default;
- Watch list status;
- Forbearance;
- 30 days past due (current and historical in the last 12 months).

2. Summary of significant accounting policies (continued)

2.8. Impairment of financial assets (continued)

Forbearance measures as monitored by the Bank are considered as a SICR indicator and thus the exposures are allocated into Stage 2 upon forbearance, unless they are considered credit-impaired in which case they are classified as stage 3. Furthermore, regardless of the outcome of the SICR assessment based on the above indicators, the credit risk of a financial asset is deemed to have increased significantly when contractual payments are more than 30 days past due.

Bank plans to enhance the staging allocation approach, by implementation of PD comparison criteria instead of absolute thresholds on the 12–month PD. Based on the analysis which the Bank has performed with data for end of 2019, this change of the approach would have immaterial effect on loss allowance. Previously stated proves the adequacy of absolute thresholds on the 12-month PD which are currently in use.

The Bank considers all non-performing exposures in accordance with NBS asset quality regulation as credit-impaired and classifies such exposures as stage 3. Therefore, besides objective criterion of 90 days past due, the Bank uses the existence of unlikeness to pay (UTP) criteria and criteria for non-performing forborne status (prescribed in NBS regulation) as Stage 3 criteria.

Assessment of SICR for debt securities is performed on an individual basis based on the number of notches downgrade in the internal credit rating scale since the origination date.

Transfers from Stage 2 to Stage 1

A financial asset, which is classified to Stage 2 due to Significant Increase in Credit Risk (SICR), is reclassified to Stage 1, as long as it does not meet anymore any of the Stage 2 Criteria.

Where forbearance measures have been applied, the Bank uses a probation period of two years, in order to fulfill the requirements for a transfer back to Stage 1. If at the end of that period the borrowers have made regular payments of a significant aggregate amount during at least half of the probation period, there are no past due amounts over 30 days and the loans are neither credit impaired, nor any other SICR criteria are met, they exit forborne status and are classified as stage 1.

Transfers from Stage 3 to Stage 2

A financial asset is transferred from Stage 3 to Stage 2, when the criteria based on which the financial asset was characterized as credit impaired, are no longer valid.

Criteria for grouping of exposures based on shared credit risk characteristics

The assessment of loss allowance is performed either on an individual basis or on a collective basis for groups of similar items with homogeneous credit risk characteristics.

The Bank segments its lending exposures on the basis of shared credit risk characteristics for the purposes of both assessing significant increase in credit risk and measuring loan loss allowance on a collective basis. The different segments aim to capture differences in credit risk parameters.

The shared credit risk characteristics used for the segmentation of exposures include several elements such as: instrument type, portfolio type, product type, credit risk rating, collaterals, forbearance status and days in arrears.

2. Summary of significant accounting policies (continued)

2.8. Impairment of financial assets (continued)

The Bank performs individual assessment for:

- Stage 3 corporate clients which are under responsibility of NPL Department,
- Individually significant Stage 3 retail clients (with exposure above EUR 750 thousand), and
- Individually significant specialized lending exposures (with exposure above EUR 750 thousand).

Individual assessment is performed at the financial instrument level. The Bank takes into consideration borrower's specific information, both qualitative and quantitative factors, in order to calculate the final impairment amount.

Individual assessment for non-Stage 3 specialized lending exposures includes individual assessment of PD and LGD parameters and it is performed at least once in a year. Individual assessment for all other clients is performed at least quarterly. The level of impairment of loans is determined based on the projection of expected cash flows which shall be collected pursuant to contracts with clients, taking into consideration the assessment of financial position and creditworthiness of the client, the realizable value of collateral, as well as the timing of the expected cash flows from realization of collaterals, etc.

For all other instruments the Bank calculates ECLs on collective basis. This incorporates borrower specific information, collective historical experience of losses and forward-looking information.

Measurement of expected credit losses

The measurement of ECL is an unbiased probability-weighted average estimate of credit losses that reflects the time value of money, determined by evaluating a range of possible outcomes. A credit loss is the difference between the cash flows that are due to the Bank in accordance with the contractual terms of the instrument and the cash flows that the Bank expects to receive (i.e. cash shortfalls) discounted at the original effective interest rate (EIR) of the same instrument. In measuring ECL, information about past events, current conditions and reasonable and supportable forecasts of future conditions are considered. For undrawn commitments, and financial guarantees, credit conversion factors are used in the calculation of ECL.

The Bank estimates expected cash shortfalls, which reflect the cash flows expected from all possible sources, including collateral and other credit enhancements that are part of the contractual terms and are not recognized separately. In case of a collateralized financial instrument, the estimated expected cash flows related to the collateral reflect the amount and timing of cash flows that are expected from liquidation less the discounted costs of obtaining and selling the collateral, irrespective of whether liquidation is probable.

ECL are calculated over the maximum contractual period over which the Bank is exposed to credit risk, which is determined based on the substantive terms of the instrument.

ECL Key Inputs

The ECL calculations are based on the probability of default (PD), the loss given default (LGD), the exposure at default (EAD) and other input parameters such as the credit conversion factor (CCF).

2. Summary of significant accounting policies (continued)

2.8. Impairment of financial assets (continued)

The PD represents the likelihood of default assessed on the prevailing economic conditions at the reporting date, adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default, over a given time horizon. The Bank uses Point in Time (PiT) PDs in order to remove any bias towards historical data thus aiming to reflect management's view of the future as at the reporting date, incorporating relevant forward-looking information including macroeconomic scenarios.

Two types of PD are used for calculating ECL:

- 12-month PD, which is the estimated probability of default occurring within the next 12 months (or over the remaining life of the financial asset if this is less than 12 months). It is used to calculate 12-month ECL for Stage 1 exposures.
- Lifetime PD, which is the estimated probability of a default occurring over the remaining life of the financial asset. It is used to calculate lifetime ECL for Stage 2 exposures.

For debt securities, PDs are obtained by an international rating agency using risk methodologies that maximize the use of objective non-judgmental variables and market data. The Bank assigns internal credit ratings to each issuer/counterparty based on these PDs.

The Exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest and expected drawdowns on committed facilities. The EAD includes both on and off-balance sheet exposures. The on-balance sheet exposure corresponds to the total amount that has been withdrawn and is due to be paid, which includes the outstanding principal, accrued interest and any past due amounts. The off-balance sheet exposure represents the credit that is available to be withdrawn, in excess of the on-balance sheet exposure. Furthermore, the CCF factor is used to convert the amount of a credit facility and other off-balance sheet amounts to an EAD amount. CCF is based on the regulatory credit conversion factors with the difference that minimal possible credit conversion factor is 20%.

LGD represents the Bank's expectation of the extent of loss on a defaulted exposure and is the difference between the contractual cash flows due and those that the Bank expects to receive including any amounts from collateral liquidation. LGD varies by type of counterparty, type and seniority of claim, availability of collateral or other credit support, and is usually expressed as a percentage of EAD. In the calculation of the LGD, the Bank separately observes collections and costs from real estate collateral sales and collections from other sources.

Forward looking information

The measurement of expected credit losses for each stage considers information about reasonable and supportable forecasts of future events and macroeconomic conditions.

Forward looking information are included in the calibration of PD models used for ECL calculation, through two macroeconomic indicators (GDP growth and inflation rate), which proved to be relevant.

2. Summary of significant accounting policies (continued)

2.8. Impairment of financial assets (continued)

Presentation of impairment allowance

For financial assets measured at amortized cost, impairment allowance is recognized as a loss allowance reducing the gross carrying amount of the financial assets in the balance sheet. For debt instruments measured at FVOCI, impairment allowance is recognized in other comprehensive income and does not reduce the carrying amount of the debt instruments in the balance sheet. For off-balance sheet financial items arising from lending activities, impairment allowance is presented in Other Liabilities. The respective ECL for the above financial items is recognised within impairment losses.

Uncollectable receivables write-off

When a loan is uncollectible, it is written-off. Such loans are written-off after all the necessary procedures have been completed and after the Bank recognises loss allowance in the amount of 100% of its gross carrying amount. The Bank recognises loss allowance in the amount of 100% of its gross carrying amount after 9 years of delay for secured and after 3 years of delay for unsecured exposures in retail portfolio (mortgage, small business, and consumer).

2.9. Cash and assets held with the central bank

Cash and assets held with the central bank comprise of cash on Giro and current accounts in dinars, cash in hand and other cash and cash equivalents in dinars, foreign currency account, cash in hand and other cash and cash equivalents in foreign currency and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost in the balance sheet.

2.10. Sale and repurchase agreements

Securities sold subject to repurchase agreements (‘repos’) are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the securities; the corresponding liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to purchase and sell (“reverse repos”) are recorded as due from other banks or Loans and receivables to customers, as appropriate. The difference between purchase and sale price is recognized as interest and accrued over the life of the agreements using the effective interest rate method.

2.11. Investments in associates

Investments in associates are accounted for using the equity method of accounting in the financial statements in accordance with IAS 28 Investments in Associates and Joint Ventures. These are undertakings over which the Bank exercises significant influence, but which are not controlled.

Equity accounting involves recognizing in the income statement the Bank's share of the associate's profit or loss for the year. The Bank's interest in the associate is carried on the balance sheet at an amount that reflects its share of the net assets of the associate and any goodwill identified on acquisition net of any accumulated impairment losses. If the Bank's share of losses of an associate equal or exceeds its interest in the associate, the Bank discontinues recognizing its share of further losses, unless it has incurred obligations or made payments on behalf of the associate. Where necessary the accounting policies used by the associates have been changed to ensure consistency with the policies of the Bank.

All amounts are expressed in 000 RSD unless stated otherwise

2. Summary of significant accounting policies (continued)

2.11. Investments in associates (continued)

When the Bank obtains or ceases to have significant influence, any previously held or retained interest in the entity is remeasured to its fair value, with any change in the carrying amount recognized in the income statement, except in cases where an investment in associate becomes an investment in a joint venture where no remeasurement of the interest retained is performed and use of the equity method continues to apply.

2.12. Property, plant and equipment

All property and equipment are carried at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

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

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	2019 in years	**2018 in years**
Buildings	77	77
Leasehold improvements	up to 18	up to 18
Computer equipment	5-7	5-7
Furniture and other equipment	7-25	7-25
Motor vehicles	5	5
RoU assets	up to 34	-

The assets' residual value represents the estimated amount that the Bank might obtain at present through the sale of the asset, decreased by the estimated cost of sale. If the Bank expects to utilize the asset until the expiration of its useful life, the residual value amounts to zero. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income/other expenses in the income statement.

2.13. Intangible assets

Licenses

Licenses are initially recognized at cost. They have limited useful life and are stated at cost less accumulated amortization. Amortization is calculated using the straight-line method over their estimated useful lives (from 1 to 15 years).

Software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives.

2. Summary of significant accounting policies (continued)

2.13. Intangible assets (continued)

Costs associated with developing or maintaining computer software are recognized as an expense as incurred. Costs that are directly associated with identifiable and unique software products controlled by the Bank and will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include the costs of employees involved in software development. Computer software development costs recognized as assets are amortized over their estimated useful lives from 3 to 15 years.

2.14. Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognized 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 flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.15. Repossessed assets

Land and buildings repossessed through an auction process to recover impaired loans are, except where otherwise stated, included in "Other Assets". Assets acquired from an auction process are held temporarily for liquidation and are valued at the lower of cost and net realizable value, which is the estimated selling price, in the ordinary course of business, less costs necessary to make the sale. Any gains or losses on liquidation are included in "Other income".

2.16. Leases

a) Policy applicable after 1 January 2019

(i) Accounting for leases as lessee

When the Bank becomes the lessee in a lease arrangement, it recognizes a lease liability and a corresponding right-of-use (RoU) asset at the commencement of the lease term when the Bank acquires control of the physical use of the asset.

Lease liabilities are presented within Other liabilities and RoU assets within Property, plant and equipment. Lease liabilities are measured based on the present value of the future lease payments over the lease term, discounted using an incremental borrowing rate. The interest expense on lease liabilities is presented within Interest expenses.

The RoU asset is initially recorded at an amount equal to the lease liability and is adjusted for rent prepayments, initial direct costs, or lease incentives received. Subsequently, the RoU asset is depreciated over the shorter of the lease term or the useful life of the underlying asset, with the depreciation presented within Other expenses.

When a lease contains extension or termination options that the Bank considers reasonably certain to be exercised, the expected future lease payments or costs of early termination are included within the lease payments used to calculate the lease liability.

2. Summary of significant accounting policies (continued)

2.16. Leases (continued)

(ii) Accounting for leases as 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.

The Bank is leasing the assets under the lease. The asset under the lease is included in the balance sheet of the Bank based on the nature of the asset. Lease income is recognised over the term of the lease on a straight-line basis on the income statement.

b) Policy applicable before 1 January 2019

(i) The Bank is a lessee

Leases entered into by the Bank are primarily operating leases. With an operating lease, a significant part of both risk and benefits remains with the lessor. The total payments made under operating leases are charged to other operating expenses in the income statement on straight-line basis over period of the lease.

The Bank has entered into commercial leases for premises, equipment and motor vehicles. The majority of the Bank's leases are under long-term agreements, according to the usual terms and conditions of commercial leases of each jurisdiction, including renewal options. The Bank's lease agreements, do not include any clauses that impose any restriction on the Bank's ability to pay dividends, engage in debt financing transactions or enter into further lease agreements.

When an operating lease is terminated before lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Operating lease commitments as at 31 December 2018, presented in accordance with the disclosure requirements of IAS 17 for the minimum lease payments under non-cancellable operating leases, are set out in note 37a).

(ii) The Bank is a 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.

The Bank is leasing the assets under operating lease. The asset under operating lease is included in the balance sheet of the Bank based on the nature of the asset.

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

2.17. Share capital

a) Ordinary shares and share issue costs

Ordinary shares are classified as equity. Share issue costs directly attributable to the issue of new shares are shown in equity as a deduction. Any excess of the fair value of consideration received over the par value of shares issued is recorded as share premium in equity.

2. Summary of significant accounting policies (continued)

2.17. Share capital (continued)

b) Dividends on ordinary shares

Dividends are recognized as liabilities for the period in which the decision of their payment has been reached. Dividends approved for the year after the balance sheet date are dealt with in the subsequent events note.

c) Earnings per share

The Bank voluntary presents earnings per share which are determined by dividing the profit or loss attributable to owners of the Bank by the weighted average number of participating shares outstanding during the reporting year.

2.18. Financial liabilities

The Bank is measuring financial liabilities at amortized cost except derivatives that are measured at fair-value-through-profit-or-loss.

a) Borrowings, including debt securities in issue

Borrowings are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. Borrowings are subsequently stated at amortised cost and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

b) Due to banks

Amounts due to banks are recorded when money or other assets are advanced to the Bank by counterparty banks. The non-derivative liability is carried at amortised cost.

c) Customer accounts

Customer accounts are non-derivative liabilities to individuals, state or corporate customers and are carried at amortised cost.

Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability of the Bank is replaced by another from the same counterparty on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as an extinguishment of the original liability and the recognition of a new liability and any difference arising is recognized in the income statement.

2.19. Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and reliable estimates of the amount of the obligation can be made.

2. Summary of significant accounting policies (continued)

2.19. Provisions (continued)

The amount recognized as a provision is the best estimate of the expenditure required to settle the present obligation at each reporting date, taking into account the risks and uncertainties surrounding the amount of such expenditure.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If, subsequently, it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

2.20. Other liabilities

Other liabilities are recognized initially at fair value net of transaction costs incurred. Other liabilities are subsequently measured at amortized cost.

2.21. Related party transactions

Related parties of the Bank include:

a) an entity that has control over the Bank and entities controlled, jointly controlled or significantly influenced by this entity, as well as members of its key management personnel and their close family members,
b) members of key management personnel of the Group, their close family members and entities controlled or jointly controlled by the abovementioned persons,
c) associates and joint ventures of the Bank and
d) fellow subsidiaries.

Transactions of similar nature are disclosed on an aggregate basis.

2.22. Financial guarantees and commitments to extend credit

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 the terms of a debt instrument. Such financial guarantees are granted to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized at fair value. Subsequent to initial recognition, such guarantees are measured at the higher of the amount of the loss allowance, and the amount initially recognised less any cumulative amortization of the fee earned, where appropriate.

Commitments to extend credit

Commitments represent off-balance sheet items where the Bank commits, over the duration of the agreement, to provide a loan with pre-specified terms to the customer. Such contractual commitments represent commitments to extend credit and standby letters and they are part of the normal lending activities of the Bank, for which an impairment allowance is recognised under IFRS 9 (Note 3a).

All amounts are expressed in 000 RSD unless stated otherwise

2. Summary of significant accounting policies (continued)

2.23. IFRS 16 'Leases' – Impact of adoption

Adoption of IFRS 16

The Bank implemented the requirements of IFRS 16 on 1 January 2019 and the impact of the transitioning to the new standard is discussed below.

On 1 January 2019, the Bank recognized right-of-use assets of RSD 2,140 million and corresponding lease liabilities of RSD 2,140 million arising from leases of properties, vehicles and other equipment, without impact on shareholders' equity. The Bank had RSD 15 million of advance paid for lease as at 1 January 2019.

With regard to subsequent measurement, the Bank, acting as a lessee, applies the cost model for the measurement of right-of-use asset. Accordingly, the right-of-use asset is measured at cost less any accumulated depreciation and accumulated impairment losses as determined in accordance with IAS 36, and is adjusted for the remeasurement of the lease liability.

On the other hand, interest expense is recognized on the lease liabilities, while their carrying amount is reduced to reflect the lease payments made. In case of any reassessments or lease modifications specified, the carrying amount of the lease liabilities is remeasured to reflect revised lease payments. For the year ended 31 December 2019, the depreciation charge for right-of-use assets was RSD 305 million and the interest expense recognised on lease liabilities was RSD 74 million.

The reconciliation between the operating lease commitments under IAS 17 for the year ended 31 December 2018 and the lease liabilities under IFRS 16 on 1 January 2019 is presented in the below table:

	In RSD million
Commitments for operating leases under IAS 17 as of 31 December 2018	**3,620**
Recognition exemption for low value leases	(6)
Recognition exemption for short-term leases	(40)
Tax effects	(611)
Discount	(838)
Prepayment of leasing liabilities as at 31.12.2018	15
Total lease liability recognized under IFRS 16 as of 1 January 2019	**2,140**

The following table presents the effects of the IFRS 16 implementation in the first year of its adoption on the Bank's income statement:

Operating lease expenses in the period 01.01. - 31.12.2018	**439,217**
Lease expenses out of the IFRS 16 scope	88,925
Depreciation expenses for leases in the scope of IFRS 16	305,283
Interest expenses for leases in the scope of IFRS 16	73,578
Net gains from fx changes of lease liabilities	(11,314)
Total Lease expenses in the period 01.01. - 31.12.2019	**456,472**
IFRS 16 FTA PnL effects in the first year of adoption	**17,255**

The standard provides that the total costs during the whole lease period will be the same as before the adoption of IFRS 16, but they will be higher in the initial periods and subsequently reduced.

3. Critical accounting estimates and judgments

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are addressed below.

a) Impairment losses on loans and advances and off-balance exposures

ECL measurement

The ECL measurement requires management to apply significant judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors which can result in significant changes to the timing and amount of allowance for credit loss to be recognized.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

Determination of a significant increase of credit risk

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering primarily the change in the risk of default occurring over the remaining life of the financial instrument. The Bank assesses whether a SICR has occurred since initial recognition based on qualitative and quantitative reasonable and supportable information that includes significant management judgment.

Development of ECL models including the various formulas, choice of inputs and interdependencies

For the purposes of ECL measurement the Bank performs the necessary model parameterization based on observed point-in-time data. The ECL calculations are based on input parameters, i.e. EAD, PDs (incorporating management's view of the future), LGDs, CCFs, etc..

Furthermore, the PDs are unbiased rather than conservative and incorporate relevant forward-looking information including macroeconomic scenarios. The forecasting risk parameters models incorporate a number of explanatory variables with adequate predictive capability. The models are developed using advanced methodology and validated in order to ensure independent review of the model's characteristics and predictivity.

Segmentation of financial assets when their ECL is assessed on a collective basis

The Bank segments its exposures on the basis of shared credit risk characteristics upon initial recognition for the purposes of both assessing significant increase in credit risk and measuring loan loss allowance on a collective basis. The different segments aim to capture differences in PDs and in the rates of recovery in the event of default.

b) Classification of financial instruments

The Bank applies significant judgment in assessing the classification of its financial instruments and especially, in the below areas:

3. Critical accounting estimates and judgments (continued)

Business model assessment

Judgment is exercised in order to determine the appropriate level at which to assess the business model. In assessing the business model of financial instruments, these are aggregated into groups (business lines) based on their characteristics, and the way they are managed in order to achieve the Bank’s business objectives. In assessing the business model for financial instruments, the Bank performs a past sales evaluation of the financial instruments and assesses their expected evolution in the future. Judgment is exercised in determining the effect of sales to a “hold to collect” business model depending on their objective and their acceptable level and frequency (whether sales are more than infrequent but insignificant in value, or infrequent but significant in value).

Contractual cash flow characteristics test (SPPI test)

The Bank performs the SPPI assessment of loans and debt securities by considering all the features which might potentially lead to SPPI failure. Judgment is applied by the responsible Business Units and Finance and control Division when considering whether certain contractual features significantly affect future cash flows.

c) Provisions for litigation cases

The Bank continuously monitors status of litigation cases and as a part of that process Bank performs testing of the adequacy of calculated provisions on quarterly basis. In making this judgment, the Bank divided all litigation cases in two major groups: a) Litigation cases for which provisions are assessed on the individual basis and b) Interest rate related litigation cases for which provisions are assessed and monitored on the “portfolio” level, i.e., assessment is made whether total level of provisions is adequately covering claim amount.

d) Uncertain tax position

The Bank's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

e) Deferred tax assets and liabilities

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

The recognized deferred tax liability represents income taxes obligation arising from temporary difference between book expenses and tax deductions recorded on the balance sheet which will be paid in a future accounting period.

3. Critical accounting estimates and judgments (continued)

f) Impairment of non-financial assets

The Bank monitors and annually assesses the carrying amounts of the Bank's intangible assets and property, plant and equipment and assesses whether it is necessary to perform impairment of fixed and intangible assets in its books. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount. An impairment review requires from management to make judgment concerning the cash flows, growth rates and discount rates of the cash generating units under review.

g) Useful lives of intangible assets, property, plant and equipment

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

h) Fair value of financial assets and liabilities

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

The fair value of financial instruments that are not quoted in an active market are determined by using other valuation techniques that include the use of valuation models. In addition, for financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using other valuation techniques.

The valuation models used include present value methods and other models based mainly on observable inputs and to a lesser extent to non-observable inputs, in order to maintain the reliability of the fair value measurement. Valuation models are used mainly to value over-the-counter derivatives and securities measured at fair value.

Where valuation techniques are used to determine the fair values of financial instruments that are not quoted in an active market, they are validated and periodically reviewed by qualified personnel independent of the personnel that created them. All models are certified before they are used, and are calibrated to ensure that outputs reflect actual data and comparative market prices. The main assumptions and estimates, considered by management when applying a valuation model include:

- the likelihood and expected timing of future cash flows;
- the selection of the appropriate discount rate, which is based on an assessment of what a market participant would regard as an appropriate spread of the rate over the risk-free rate; and
- judgment to determine what model to use in order to calculate fair value.

3. Critical accounting estimates and judgments (continued)

To the extent practicable, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates to reflect uncertainties in fair values resulting from the lack of market data inputs. Inputs into valuations based on unobservable data are inherently uncertain because there is little or no current market data available. However, in most cases there will be some historical data on which to base a fair value.

As at the balance sheet date, management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

Information about fair values of instruments that were valued using assumptions that are not based on observable market data is disclosed in Note 5.

i) Retirement and other post-employment benefits

The costs of defined employee benefits payable upon termination of employment, i.e. retirement in accordance with the fulfilled legal requirements are determined based on the actuarial valuation. The actuarial valuation includes an assessment of the discount rate, future movements in salaries, mortality rates and fluctuation of employees. As these plans are long-term, significant uncertainties influence the outcome of the estimation. Additional information is disclosed in Note 34.

j) Incremental borrowing rate estimate

The adoption of the IFRS 16 requires management to apply significant judgment, in particular, the estimation of the incremental borrowing rate. In order to determine incremental borrowing rate the Bank uses a risk free rate of the relevant currency in the local market, which would be Government bond of the Republic of Serbia, which takes into account currency in which particular contracts have been denominated (RSD or EUR), relevant term of the lease contract and risk of the economic environment. The rate is increased for the cost of risk of the Bank which is calculated in accordance with the internal risk methodology.

4. Risk management policies

Due to its activities, the Bank is exposed to a number of financial risks, such as credit risk, market risk (including currency and interest rate risk), liquidity and operational risks. The Bank's overall risk management strategy seeks to minimize any potential adverse effects on its financial performance, financial position and cash flows.

The Bank acknowledges that taking risks is an integral part of its operations in order to achieve its business objectives. Therefore, the Bank’s management sets adequate mechanisms to identify those risks at an early stage and assesses their potential impact on the achievement of these objectives.

Due to the fact that economic, industry, regulatory and operating conditions will continue to change, risk management mechanisms are set in a manner that enables the Bank to identify and deal with the risks associated with those changes. The Bank’s structure, internal processes and existing control mechanisms ensure both the independence principle and the exercise of sufficient supervision.

4. Risk management policies (continued)

The Bank's Management considers effective risk management as a top priority, as well as a major competitive advantage, for the organization. As such, the Bank has allocated significant resources for upgrading its policies, methods and infrastructure, in order to ensure compliance with the requirements of the National Bank of Serbia (NBS), the guidelines of the Basel Committee for Banking Supervision and the best international banking practices. The Bank implements a well-structured credit approval process, independent credit reviews and effective risk management policies for credit, market, liquidity and operational risk. The risk management policies implemented by the Bank are reviewed annually.

The Bank's risk and capital management strategies, which have been formally documented, outline the Bank's overall direction regarding risk and capital management issues, the risk management mission and objectives, risk definitions, risk management principles, risk appetite framework, risk governance framework, strategic objectives and key management initiatives for the improvement of the risk management framework in place.

The maximum amount of risk which the Bank is willing to assume in the pursuit of its strategic objectives is articulated via Risk Appetite Policy, which includes specific tolerance levels. The objectives are to support the Bank's business growth, balance a strong capital position with higher returns on equity and to ensure the Bank's adherence to regulatory requirements.

Risk appetite that is clearly communicated throughout the Bank, determines risk culture and forms the basis on which risk policies and risk limits are established.

Risk Committee (RC)

The Risk Committee (RC) is a committee of the BoD and its task is to assist the BoD to ensure that the Bank has a well-defined risk and capital strategy in line with its business plan and an adequate and robust risk appetite.

The RC assesses the Bank's risk profile, monitors compliance with the approved risk appetite and risk tolerance levels and ensures that the Bank has developed an appropriate risk management framework with appropriate methodologies, modeling tools, data sources and sufficient and competent staff to identify, assess, monitor and mitigate risks.

The RC consists of four members, meets at least on a quarterly basis and reports to the BoD on a quarterly basis and on ad hoc instances if it is needed.

Risk Management Division

The Bank's Risk Management Division which is headed by the Chief Risk Officer (CRO), operates independently from the business units and is responsible for the monitoring, measurement and management of credit, market, operational and liquidity risks of the Bank. It comprises of the Credit Risk Department, the Credit Control Department, the Market Risk Department, the Operational Risk Department, the Risk Modeling Department, the Integrated Risk Management Department and the Data Management Unit.

Troubled Assets Committee (TAC) and Troubled Assets Sector (TAS)

The Troubled Assets Committee (TAC) has been established in order to provide strategic guidance and monitoring of the troubled assets of Eurobank ensuring independence from business and compliance with the requirements of the National Bank of Serbia. In particular, the main competencies that have been delegated to TAC relate to the monitoring of loans in arrears and the management of non-performing loans, the determination and implementation of the troubled assets' policy, as well as approving and assessing the sustainability of the forbearance and closure procedure measures.

4. Risk management policies (continued)

The Troubled Assets Sector (TAS) is responsible for the management of the Bank's troubled assets portfolio, for the whole process, from the pre-delinquency status in case of high exposures with increased credit risk, up to legal workout. It ensures close monitoring, tight control and course adjustment taking into account the continuous developments in the macro environment, the regulatory and legal requirements, the international best practices and new or evolved internal requirements.

TAS comprises the Retail Collection Division, the NPL Department and the Strategy and Policies Department. TAS structure is completely segregated from the Bank's business units both in terms of account management, as well as credit approval process, which ensures transparency, flexibility, better prioritization and management accountability.

TAS cooperates with Risk Management Division to reach a mutual understanding of the implemented practices and to develop appropriate methodologies for the assessment of risks that may be inherent in any type of forbearance and, generally, troubled assets strategy deployment for all portfolios managed.

4.1. Credit risk

Credit risk is the risk of negative impact on the financial result and capital of the Bank if a debtor fails to meet its contractual obligations. For the risk management reporting purposes, the Bank considers all relevant elements of credit risk exposure (such as individual obligor default risk, concentration risk in terms of groups of related parties, sector concentration risk).

4.1.1. Management of credit risk

The Bank approves loans in accordance with its credit policies. Maturity dates of loans approved, and interest rates are aligned with the purpose of loans, type of the loan or client and creditworthiness of its clients.

The Board of Directors has delegated responsibility for the approval of credit exposures to several different levels in accordance with the limits set forth by the Board. The underlying foundation of the credit processes is the application of the "four-eye principle", which assumes involvement of the business units („front office") and Risk Management.

Business Units, under the Corporate Banking Division, incorporate the following:

- Large Corporate (LC) Department and
- Small & Medium Enterprises (SME) Department.

Business Divisions, responsible for retail lending operations, incorporate the following:

- Household Lending Division and
- Small Business Lending Division.

The Risk Management Division (RMD) incorporates the following units handling credit risk:

- Credit Risk Department (CRD),
- Credit Control Department (CCD),
- Risk Modelling Department,
- Integrated Risk Management Department and
- Collateral Management Department.

4. Risk management policies (continued)

4.1. Credit risk (continued)

Troubled Asset Sector is also involved in credit risk management, by handling Non-Performing Loans (NPL Department) and collection in Retail segment (Retail Collection Division).

Credit Control Department, Credit Risk Department and Risk Modelling Department are responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures and compliance with regulatory and statutory requirements. This task is performed by Credit Control Department and Credit Risk Department.
- Credit Risk Department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the relevant business unit, and provides independent credit opinion. Renewals and reviews of facilities are subject to the same assessment process.
- Limiting concentrations of exposure to counterparties, countries and industries (for loans and advances), and by issuer, credit rating and market liquidity (for investment securities).
- Developing and maintaining the Bank's risk grading (rating/scoring) policy. Ratings and scores are used to provide an objective and consistent assessment of client's financial standing and creditworthiness and to support credit decision. Ratings are used in the calculation of the expected credit loss (credit risk loss allowance). A model which incorporates financial and qualitative variables is implemented for corporate clients while behavioral models are implemented for retail clients. Corporate ratings are subject to regular reviews and retail ratings are updated monthly. In addition, an application scorecard is in place, as one of the key elements of loan approval process in Consumer segment. The rating system is maintained by the Risk Modelling Department.

Reviewing compliance of business units with defined exposure limits, including those for selected industries and product types is the responsibility of Credit Control Department. Reporting about the indicators of the quality of the portfolios and information are regularly provided to various Bank's bodies, based on which appropriate corrective actions are considered.

Each business unit is required to implement Bank's credit policies and procedures, with credit approval authorities delegated from the Board of Directors. Each business unit is responsible for the quality and performance of its credit portfolio.

The Bank has developed and adopted a credit policy for each lending business unit. Each credit policy of the Bank (hereinafter: the Credit Policy) defines basic concepts, guidelines and rules that ensure the proper management of the process of approving, disbursing, monitoring and collecting of loans and other exposures.

The Credit Policy includes:

- the goals of the credit policy,
- the basic concepts of credit policy,
- lending principles,
- the organization of credit operations,
- responsibilities and decision making,
- the procedure for granting loans and other placements,
- guidelines on credit risk analysis,
- acceptable collateral instruments and
- procedures for collecting outstanding amounts.

4. Risk management policies (continued)

4.1. Credit risk (continued)

For the purposes of implementing the Credit Policies, relevant guidelines and procedures have been defined.

When assuming credit risk, the Bank applies a number of important fundamental rules.

A prerequisite for every financing transaction is the understanding of the economic background of the transaction.

A loan is granted only when the Bank has sufficient information on the borrower's creditworthiness. The Bank will not grant a loan (or increase an existing one) to a borrower who is unwilling or unable to provide sufficient information.

Collateral is accepted only to support an exposure, it cannot serve as a substitute for the borrower's ability to meet obligations (exception: Lombard loans, cash collateralized loans, etc.).

The large exposures towards any borrower (or group of connected borrowers), exposures towards related parties as well as the total exposure of the Bank (both on and off-balance sheet), is kept within limits prescribed by the Law on Banks, relevant decisions of the National bank of Serbia and internal regulatory documents,

The Bank approves new loans or decides to extend or not to extend the existing ones based on creditworthiness of the client, as well as details and characteristics of the transaction.

All Bank credit facilities are based on relevant approvals, which lay down the terms and other conditions for their implementation. The approval levels and limits are defined by the relevant Board of Directors Decision on approval levels.

For wholesale placements, appropriate approval authority levels depending on exposures are defined, with the highest one being Board of Directors (or other nominated authority) in case of large exposures and exposures to related parties.

For retail placements, there are also different approval levels depending on the type of business (consumer lending, mortgage lending or SBB lending), with the highest authority being specific Credit Committee for each business type.

In each committee/commission, risk management has the right of vote. All decisions must be unanimous.

In addition to the client's creditworthiness, risk limits are also determined taking into account various collateral instruments. Risk exposure to individual borrower, including banks, is limited and includes both balance and off-balance sheet risk exposures. The total risk exposure per individual client (or group of related parties) with regards to the limits, is considered and analysed prior to completion of the transaction.

In order to ensure the safety of the business operations, and based on the estimated risks of potential losses, the Bank calculates loss allowances, which arise from loans and off-balance sheet exposures. The levels of the loss allowance are related to the risk grade of the placement.

4. Risk management policies (continued)

4.1. Credit risk (continued)

Rating system for wholesale (corporate) clients

The rating of the borrower (and not the credit facility) is based on the following parameters:

- Financials,
- Sector,
- Management and
- Operations.

In addition, other factors such as debt servicing, change in the borrower's ownership, etc. may affect the final rating of a customer.

The credit rating is based on a profound analysis of qualitative and quantitative factors. Qualitative factors are those that deal with the borrower's management, industry, operating conditions, etc. Quantitative factors are those that refer to a set of various ratios (main ratios: profitability, leverage, liquidity) emerging from the borrower's financial statements (balance sheet, income statement, notes to financial statements etc.).

Credit related commitments

The primary purpose of undrawn credit commitments is to ensure that funds are available to a customer in accordance with the agreement.

Guarantees and letter of credits expose the Bank to the credit risk as well. Credit conversion factors are applied in the process of loss allowance calculation.

4.1.2. Collaterals

Collaterals are the most commonly used credit risk mitigation technique. Most often the collateral consists of one or more of the following collateral instruments:

- residential real estate and commercial real estate;
- deposits;
- guarantees and letters of support;
- pledge over movable property (e.g. equipment, vehicles);
- pledge over securities (bonds, shares or ownership stakes);
- assignment of receivables; and
- assignment of insurance policies.

For exposures, other than loans to customers (i.e. reverse repos, derivatives), the Bank accepts as collateral only cash or liquid bonds.

4. Risk management policies (continued)

4.1. Credit risk (continued)

Valuation principles of collaterals

In defining the maximum collateral ratio for loans, the Bank considers all relevant information available, including the collaterals' specific characteristics, if market participants would take those into account when pricing the relevant assets. The valuation and hence eligibility are based on the following factors:

- the collateral's market value, as defined in the national and international standards;
- a reduction in the collateral's value is considered if the type, location or condition (such as deterioration and obsolescence) of the asset indicate so; and
- no collateral value is assigned if a pledge is not legally enforceable.

The Bank performs collaterals' valuation in accordance with its processes and policies. With the exception of special cases (e.g. syndicated loans), the real estate collaterals of all units are valued by Eurobank Property Services, which employs qualified appraisers based on predefined criteria (qualifications and expertise). All appraisals take into account factors such as the region, age and marketability of the property, and are further reviewed and countersigned by experienced staff. The valuation methodology employed is based on national valuation standards, RICS and International Valuation Standards (IVS), while quality controls are in place, such as reviewing mechanisms, independent sample reviews by independent well-established valuation companies.

In order to re-evaluate and monitor the valuation of property held as collateral, the Bank uses the Residential Property Index, physical inspection and desktop valuation, depending on the performance status and the balance of the loan.

Collateral policy and documentation

Regarding collaterals, Bank's policy emphasizes the need that collaterals and relevant processes are timely and prudently executed, in order to ensure that collaterals and relevant documentation are legally enforceable at any time. The Bank holds the right to liquidate collateral in the event of the obligor's financial distress and can claim and control cash proceeds from the liquidation process.

4.1.3. Credit risk monitoring

The Bank constantly monitors the state of the borrower's business and any change in its creditworthiness. Besides the regular evaluation of financial statements, the responsible business units carry out regular checks of the borrower's business operations. In addition, special monitoring mechanism is defined by the Credit Risk Management Policy, on individual client level for Corporate and materially significant Retail exposures, focusing on clients with early indicators of increased credit risk.

The monitoring of the borrower is institutionalized through regular credit reviews. Credit reviews are prepared by the relevant business unit and approved by the relevant approval authority in accordance with Approval levels and Credit policies. In case of corporate customers, the review frequency depends on their rating.

The Bank's maximum exposure to credit risk is reflected in the carrying amounts of financial assets on the Balance sheet. For guarantees and commitments to extend credit, the maximum exposure to credit risk is the amount of the commitment.

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

Overview of balance sheet items exposed to credit risk

Balance sheet items and their respective credit risk exposures as at 31 December 2019 and as at 31 December 2018 are presented in the below table:

	31 December 2019		31 December 2018	
	Total, of which	Credit risk exposure	Total, of which	Credit risk exposure
Cash and assets held with the central bank	22,869,448	19,127,134	18,922,770	15,128,152
Less: Impairment allowance	*(231)*	*(231)*	*(216)*	*(216)*
	22,869,217	**19,126,903**	**18,922,554**	**15,127,936**
Pledged financial assets	1,833,270	1,833,270	1,523,992	1,523,992
	1,833,270	**1,833,270**	**1,523,992**	**1,523,992**
Receivables from derivatives	74,179	74,179	51,465	51,465
	74,179	**74,179**	**51,465**	**51,465**
Securities	6,719,113	6,677,005	10,822,020	10,794,077
Less: Impairment allowance	*(1,696)*	*(1,696)*	*(12,902)*	*(12,902)*
	6,717,417	**6,675,309**	**10,809,118**	**10,781,175**
Loans and receivables to banks and other financial institutions	17,066,975	17,066,975	15,887,437	15,887,437
Less: Impairment allowance	*(2,218)*	*(2,218)*	*(2,279)*	*(2,279)*
	17,064,757	**17,064,757**	**15,885,158**	**15,885,158**
Loans and receivables to customers	124,413,155	124,411,668	121,463,204	121,461,684
Less: Impairment allowance	(4,845,665)	(4,845,665)	(5,321,053)	*(5,321,053)*
	119,567,490	**119,566,003**	**116,142,151**	**116,140,631**
Investments in associates	58,500	-	58,500	-
Less: Impairment allowance	*(24,180)*	-	*(22,425)*	-
	34,320	**-**	**36,075**	**-**
Intangible assets	4,752,410	-	4,625,635	-
Less: Impairment allowance	*(2,434,630)*	-	*(2,464,109)*	-
	2,317,780	**-**	**2,161,526**	**-**
Property, plant and equipment	8,050,969	-	5,720,507	-
Less: Impairment allowance	*(2,426,603)*	-	*(2,343,672)*	-
	5,624,366	**-**	**3,376,835**	**-**
Current tax assets	300,622	-	-	-
Deferred tax assets	291,474	-	*42,805*	-
	592,096	**-**	**42,805**	**-**

All amounts are expressed in 000 RSD unless stated otherwise

	31 December 2019		31 December 2018	
	Total, of which	Credit risk exposure	Total, of which	Credit risk exposure
Other assets	638,509	193,834	714,042	292,265
Less: Impairment allowance	*(130,614)*	*(130,614)*	*(133,228)*	*(133,228)*
	507,895	**63,220**	**580,814**	**159,037**
Total assets	**177,202,787**	**164,403,641**	**169,532,493**	**159,669,394**
Off-balance sheet items exposed to credit risk	32,038,940	32,038,940	322,281,291	30,115,838
Less: Provisions for off-balance sheet items exposed to credit risk	*(51,707)*	*(51,707)*	*(53,393)*	*(53,393)*
Total off-balance sheet items exposed to credit risk	**31,987,233**	**31,987,233**	**322,227,898**	**30,062,445**
Total balance sheet and off-balance sheet	**209,190,020**	**196,390,874**	**491,760,391**	**189,731,839**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

Financial assets exposed to credit risk

The table below represents the Bank's maximum credit risk exposure as at 31 December 2019 and 31 December 2018 respectively, without taking account of any collateral.

	31-Dec-2019	31-Dec-2018
Credit risk exposure relating to on balance sheet assets		
Cash and assets held with the central bank	19,127,134	15,128,152
Less: Impairment allowance	*(231)*	*(216)*
	19,126,903	**15,127,936**
Receivables from derivatives	74,179	51,465
Loans and receivables to banks and other financial institutions	17,066,975	15,887,437
Less: Impairment allowance	*(2,218)*	*(2,279)*
	17,064,757	**15,885,158**
Financial instruments at fair value through profit or loss		
Bonds	19,271	87,775
	19,271	**87,775**
Financial instruments at fair value through OCI		
Bonds	3,700,327	-
Financial instruments at amortized cost		
Bonds	4,790,677	12,230,295
Less: Impairment allowance	(1,696)	(12,903)
	8,489,308	**12,217,392**
Loans and receivables to customers	124,411,668	121,461,684
- Corporate	53,655,822	50,960,990
- SBB	8,568,786	8,663,168
- Mortgage	13,664,126	17,966,200
- Consumer	48,522,934	43,871,326
Less: Impairment allowance	*(4,845,665)*	*(5,321,053)*
	119,566,003	**116,140,631**
Other assets	193,834	292,265
Less: Impairment allowance	(130,614)	(133,228)
	63,220	**159,037**
Total on balance sheet items	**164,403,641**	**159,669,394**
Credit risk exposures relating to off-balance sheet items		
Guarantees and other commitments	32,038,940	30,115,838
Less: Provisions	*(51,707)*	*(53,393)*
Total off-balance sheet items	**31,987,233**	**30,062,445**
Total balance sheet and off-balance sheet	**196,390,874**	**189,731,839**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

Regarding securities and exposures presented under loans and receivables to banks and other financial institutions and cash and assets held with the central bank, the Bank calculates impairment for the following instruments:

- Nostro accounts held with NBS and other banks,
- Mandatory reserve (RSD and FCY) the Bank keeps with NBS,
- Interbank placements, including collaterals (e.g. independent amount for CIRS),
- Reverse repo with NBS and other banks,
- Debt securities measured at amortized cost (AC) under IFRS 9,
- Debt securities measured at fair value through other comprehensive income (FVOCI) under IFRS 9, and
- Fee and other claims from banks and other financial institutions.

Exposure toward National bank of Serbia (e.g. cash, repo, mandatory reserve) is considered as an exposure toward the Republic of Serbia, as well as all debt securities measured at amortized cost and at fair value through other comprehensive income. Probability of default is determined based on expected default frequency (EDF) model. All above mentioned exposures are classified in Stage 1 as of 31 December 2019.

Stock and movement in the exposure and loss allowance in 2019

Overview of the balance and movement in the exposure for credit risk in 2019 in total is presented in tables below:

Loans and receivables to customers at amortized cost

	31 December 2019				
In RSD thousands	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	**Total**
Loans and receivables to customers at amortised cost					
Balance at 1 January	**100,198,531**	**9,867,652**	**11,395,501**	**-**	**121,461,684**
New financial assets originated or purchased*	55,238,824	2,095,949	430,382	-	**57,765,155**
Transfer to Stage 1	2,732,506	(2,273,570)	(458,936)	-	**-**
Transfer to Stage 2	(4,192,964)	4,919,063	(726,099)	-	**-**
Transfer to Stage 3	(837,193)	(1,058,117)	1,895,310	-	**-**
Remeasurement impact of transfers between 12M/Lifetime ECLs during the period	(784,307)	(869,593)	(214,976)	-	**(1,868,876)**
Fully repaid	(34,192,940)	(2,666,182)	(764,353)	-	**(37,623,475)**
Amounts written-off	(32)	(64)	(1,411,692)	-	**(1,411,788)**
Foreign exchange and other movements**	(11,985,063)	(747,550)	(1,178,419)	-	**(13,911,032)**
Balance at 31 December	**106,177,362**	**9,267,588**	**8,966,718**	**-**	**124,411,668**

* *New financial assets originated or purchased is the classification under the level of 31 December 2019, and not during the initial approval.*
** *Besides foreign exchanges, position includes changes, including repayments, on instruments classified in the same stage at the beginning and end of period.*

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

Loans and receivables to customers at amortized cost subject of CHF conversion

	31 December 2019				
In RSD thousands	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	**Total**
Loans and advances to customers at amortised cost					
Balance at 1 January	**7,195,480**	**1,696,119**	**1,768,768**	**-**	**10,660,367**
New financial assets originated or purchased*	63,177	7,887	40,851	-	**111,915**
Transfer to Stage 1	1,397,510	(1,051,917)	(345,593)	-	**-**
Transfer to Stage 2	(142,703)	311,345	(168,642)	-	**-**
Transfer to Stage 3	(24,589)	(77,100)	101,689	-	**-**
Remeasurement impact of transfers between 12M/Lifetime ECLs during the period	(581,950)	(125,170)	(41,675)	-	**(748,795)**
Fully repaid	(383,558)	(167,469)	(128,688)	-	**(679,715)**
Amounts written off	-	-	(588)	-	**(588)**
Foreign exchange and other movements**	(2,869,951)	(172,532)	(390,059)	-	**(3,432,542)**
Balance at 31 December	**4,653,416**	**421,163**	**836,063**	**-**	**5,910,642**

* *New financial assets originated or purchased is the classification under the level of 31 December 2019, and not during the initial approval.*
** *Besides foreign exchanges, position includes changes, including repayments, on instruments classified in the same stage at the beginning and end of period. The most significant part of the position refers to partial write-off of loan's gross carrying amount in accordance with Law on conversion of CHF mortgage loans.*

	31 December 2018				
In RSD thousands	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	**Total**
Loans and receivables to customers at amortised cost					
Balance at 1 January	**86,729,416**	**10,659,559**	**17,275,018**	**-**	**114,663,993**
New financial assets originated or purchased*	50,395,369	2,144,443	601,583	-	**53,141,395**
Transfer to Stage 1	3,546,635	(3,278,226)	(268,409)	-	**-**
Transfer to Stage 2	(3,668,509)	4,527,233	(858,724)	-	**-**
Transfer to Stage 3	(839,691)	(1,292,095)	2,131,786	-	**-**
Remeasurement impact of transfers between 12M/Lifetime ECLs during the period	(564,446)	(633,301)	(190,412)	-	**(1,388,159)**
Repayment	(25,179,582)	(1,471,663)	(2,330,360)	-	**(28,981,605)**
Amounts written off	(90)	(1,289)	(4,398,966)	-	**(4,400,345)**
Foreign exchange and other movements**	(10,220,571)	(787,009)	(566,015)	-	**(11,573,595)**
Balance at 31 December	**100,198,531**	**9,867,652**	**11,395,501**	**-**	**121,461,684**

* *New financial assets originated or purchased is the classification under the level of 31 December 2018, and not during the initial approval.*
** *Besides foreign exchanges, position includes changes, including repayments, on instruments classified in the same stage at the beginning and end of period.*

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

The overview of the balance and movement in the loss allowance for credit risk in 2019 in total and by client type is presented in tables below:

Loans and receivables to banks and other financial institutions

In RSD thousands	Stage 1	Stage 2	Stage 3	**2019 Total**	**2018 Total**
Loans and advances to banks and other financial institutions at amortised cost					
Balance at 1 January	**2,274**	**5**	**-**	**2,279**	**9,756**
Transfer to Stage 1	-	-	-	**-**	**-**
Transfer to Stage 2	-	-	-	**-**	**-**
Transfer to Stage 3	-	-	-	**-**	**-**
Net remeasurement of loss allowance	(773)	(1)	-	**(774)**	**21**
New financial assets originated or purchased*	10,201	-	-	**10,201**	**12,686**
Financial assets that have been derecognized	(9,496)	-	-	**(9,496)**	**(20,186)**
Write-offs	-	-	-	**-**	**-**
Foreign exchange and other movements**	8	-	-	**8**	**2**
Balance at 31 December	**2,214**	**4**	**-**	**2,218**	**2,279**

* *New financial assets originated or purchased is the classification under the level of 31 December 2018, and not during the initial approval.*
** *Besides foreign exchanges, position includes changes, including repayments, on instruments classified in the same stage at the beginning and end of period.*

Loans and receivables to customers at amortized cost

In RSD thousands	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	**31-Dec-2019 Total**	**31-Dec-2018 Total**
Loans and receivables to customers at amortised cost						
Balance at 1 January	**335,816**	**404,565**	**4,580,672**	**-**	**5,321,053**	**9,669,159**
Transfer to Stage 1	577,213	(537,795)	(39,418)	-	**-**	**-**
Transfer to Stage 2	(121,485)	302,627	(181,142)	-	**-**	**-**
Transfer to Stage 3	(2,291)	(175,870)	178,161	-	**-**	**-**
Net remeasurement of loss allowance	(599,151)	428,464	1,574,900	-	**1,404,213**	**1,642,854**
New loss allowance	393,941	112,723	142,286	-	**648,950**	**396,246**
Financial assets that have been derecognized	(124,043)	(127,514)	(552,371)	-	**(803,928)**	**(1,424,101)**
Gains from derecognition of financial instruments – CHF conversion	(2,230)	(8,680)	(256,513)		**(267,423)**	**-**
Write-offs	-	-	(1,338,048)	-	**(1,338,048)**	**(4,380,613)**
Interest income on impaired loans	-	-	(119,927)	-	**(119,927)**	**(614,096)**
Foreign exchange and other movements	(802)	(78)	1,655	-	**775**	**31,604**
Balance at 31 December	**456,968**	**398,442**	**3,990,255**	**-**	**4,845,665**	**5,321,053**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

Loans and receivables to customers at amortized cost - retail customers

	31 December 2019				
In RSD thousands	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	**Total**
Loans and receivables to customers at amortised cost - Retail customers					
Balance at 1 January	**193,842**	**383,780**	**2,823,999**	**-**	**3,401,621**
Transfer to Stage 1	557,488	(519,553)	(37,935)	-	**-**
Transfer to Stage 2	(113,031)	293,490	(180,459)	-	**-**
Transfer to Stage 3	(1,903)	(171,749)	173,652	-	**-**
Net remeasurement of loss allowance	(505,762)	411,480	1,207,407	-	**1,113,125**
New loss allowance	156,048	104,069	104,728	-	**364,845**
Financial assets that have been derecognized	(73,164)	(112,716)	(377,395)	-	**(563,275)**
Gains from derecognition of financial instruments – CHF conversion	(2,230)	(8,680)	(256,513)		**(267,423)**
Write-offs	-	-	(689,927)	-	**(689,927)**
Interest income on impaired loans	-	-	(46,742)	-	**(46,742)**
Foreign exchange and other movements	(111)	(4)	4,106	-	**3,991**
Balance at 31 December	**211,177**	**380,117**	**2,724,921**	**-**	**3,316,215**

Loans and receivables to customers at amortized cost - corporate customers

	31 December 2019				
In RSD thousands	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	**Total**
Loans and receivables to customers at amortised cost - Corporate customers					
Balance at 1 January	**141,974**	**20,785**	**1,756,673**	**-**	**1,919,432**
Transfer to Stage 1	19,725	(18,242)	(1,483)	-	**-**
Transfer to Stage 2	(8,454)	9,137	(683)	-	**-**
Transfer to Stage 3	(388)	(4,121)	4,509	-	**-**
Net remeasurement of loss allowance	(93,389)	16,984	367,493	-	**291,088**
New loss allowance	237,893	8,654	37,558	-	**284,105**
Financial assets that have been derecognized	(50,879)	(14,798)	(174,976)	-	**(240,653)**
Write-offs	-	-	(648,121)	-	**(648,121)**
Interest income on impaired loans	-	-	(73,185)	-	**(73,185)**
Foreign exchange and other movements	(691)	(74)	(2,451)	-	**(3,216)**
Balance at 31 December	**245,791**	**18,325**	**1,265,334**	**-**	**1,529,450**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

Securities, cash and assets held with the central bank and other assets

In RSD thousands	31-Dec-19	31-Dec-18
Debit investment securities at amortised cost		
Balance at 1 January	**12,903**	**22,148**
New financial assets originated or purchased	(11,206)	(9,247)
Foreign exchange and other movements	(1)	2
Balance at 31 December	**1,696**	**12,903**
Debit investment securities at FVTOCI cost		
Balance at 1 January	**-**	**-**
New financial assets originated or purchased	5,272	-
Balance at 31 December	**5,272**	**-**
Cash and assets held with the central bank		
Balance at 1 January	**216**	**421**
Net remeasurement of loss allowance	15	(205)
Balance at 31 December	**231**	**216**
Other assets		
Balance at 1 January	**133,228**	**153,588**
Net remeasurement of loss allowance	(548)	(657)
Write-offs	(1,917)	(19,581)
Foreign exchange and other movements	(149)	(122)
Balance at 31 December	**130,614**	**133,228**
Loan commitments and financial guarantee contracts		
Balance at 1 January	**53,393**	**206,691**
Net remeasurement of loss allowance	(55,768)	56,492
New loan commitments and financial guarantees issued	54,230	(209,673)
Foreign exchange and other movements	(148)	(117)
Balance at 31 December	**51,707**	**53,393**

4.1.4. Loans and receivables

Loans and receivables to customers are presented in the following table, per segment:

	31-Dec-19	31-Dec-18
Loans and receivables to customers measured at amortized cost	**124,411,668**	**121,461,684**
Corporate	53,655,822	50,960,990
SBB	8,568,786	8,663,168
Mortgage	13,664,126	17,966,200
Consumer	48,522,934	43,871,326
Loans and receivables to customers measured at fair value	**1,487**	**1,520**
Corporate	1,487	1,520
Total	**124,413,155**	**121,463,204**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

Loans and advances measured at fair value include accrued interest from derivative contracts with clients from corporate segment. All further tables related to credit risk exposure and portfolio quality are prepared without including this amount.

Credit portfolio quality

The following tables present the quality of the portfolio (gross loans, payable and performance guarantees, as well as revocable and irrevocable commitments i.e. credit risk bearing balance sheet assets and off-balance exposures) per types of exposure based on the Bank's classification system as at 31 December 2019:

				Stage 3		**Total**
Lending	Internal credit rating	Stage 1	Stage 2	Individual	Collective	**2019**
Retail Lending						
Mortgage	Strong	10,151,504	-	-	-	10,151,504
	Satisfactory	1,065,055	-	-	-	1,065,055
	Watch list	-	904,592	-	-	904,592
	Impaired (Defaulted)	-	-	-	1,542,975	**1,542,975**
	Loss allowance	*(12,417)*	*(3,527)*	-	*(178,271)*	***(194,215)***
Consumer	Strong	11,889,827	-	-	-	**11,889,827**
	Satisfactory	26,246,322	-	-	-	**26,246,322**
	Watch list	4,321	6,609,217	-	-	**6,613,538**
	Impaired (Defaulted)	-	-	-	3,773,247	**3,773,247**
	Loss allowance	*(182,924)*	*(368,489)*	-	*(1,923,820)*	***(2,475,233)***
Small business	Strong	1,657,769	-	-	-	**1,657,769**
	Satisfactory	4,312,680	-	-	-	**4,312,680**
	Watch list	-	540,371	-	-	**540,371**
	Impaired (Defaulted)	-	-	119,514	1,938,452	**2,057,966**
	Loss allowance	*(57,370)*	*(24,629)*	*(85,298)*	*(1,159,490)*	***(1,326,787)***
Corporate Lending						
Large corporate	Strong	17,360,593	-	-	-	**17,360,593**
	Satisfactory	12,919,202	-	-	-	**12,919,202**
	Watch list	-	889,650	-	-	**889,650**
	Impaired (Defaulted)	-	-	643,724	13,439	**657,163**
	Loss allowance	*(98,970)*	*(1)*	*(191,493)*	*(4,551)*	***(295,015)***
SMEs	Strong	6,170,293	-	-	-	**6,170,293**
	Satisfactory	14,399,796	-	-	-	**14,399,796**
	Watch list	-	323,758	-	-	**323,758**
	Impaired (Defaulted)	-	-	883,637	51,730	**935,367**
	Loss allowance	*(105,287)*	*(1,795)*	*(444,618)*	*(2,715)*	***(554,415)***
Total loans		**106,177,362**	**9,267,588**	**1,646,875**	**7,319,843**	**124,411,668**
Total loss allowance		***(456,968)***	***(398,441)***	***(721,409)***	***(3,268,847)***	***(4,845,665)***

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

The following tables present the quality of the portfolio (gross loans, payable and performance guarantees, as well as revocable and irrevocable commitments i.e. credit risk bearing balance sheet assets and off-balance exposures) per types of exposure based on the Bank's classification system as at 31 December 2018:

Lending	Internal credit rating	Stage 1	Stage 2	Stage 3 Individual	Stage 3 Collective	**Total 2018**
Retail Lending						
Mortgage	Strong	9,387,472	-	-	-	**9,387,472**
	Satisfactory	3,641,747	-	-	-	**3,641,747**
	Watch list	-	2,218,513	-	-	**2,218,513**
	Impaired (Defaulted)	-	-	-	2,718,468	**2,718,468**
	Loss allowance	*(19,831)*	*(23,570)*	-	*(384,093)*	***(427,494)***
Consumer	Strong	8,704,081	-	-	-	**8,704,081**
	Satisfactory	25,702,646	-	-	-	**25,702,646**
	Watch list	-	6,248,696	-	-	**6,248,696**
	Impaired (Defaulted)	-	-	-	3,215,903	**3,215,903**
	Loss allowance	*(165,663)*	*(350,395)*	-	*(1,583,859)*	***(2,099,917)***
Small business	Strong	1,343,151	-	-	-	**1,343,151**
	Satisfactory	3,963,953	-	-	-	**3,963,953**
	Watch list	-	480,730	-	-	**480,730**
	Impaired (Defaulted)	-	-	-	2,875,334	**2,875,334**
	Loss allowance	*(29,789)*	*(20,537)*	-	*(1,658,862)*	***(1,709,188)***
Corporate Lending						
Large corporate	Strong	17,759,766	-	-	-	**17,759,766**
	Satisfactory	12,060,133	-	-	-	**12,060,133**
	Watch list	-	665,544	-	-	**665,544**
	Impaired (Defaulted)	-	-	1,338,493	-	**1,338,493**
	Loss allowance	*(67,366)*	*(8,988)*	*(271,811)*	-	***(348,165)***
SMEs	Strong	5,655,039	-	-	-	**5,655,039**
	Satisfactory	11,980,543	-	-	-	**11,980,543**
	Watch list	-	254,169	-	-	**254,169**
	Impaired (Defaulted)	-	-	1,237,008	10,295	**1,247,303**
	Loss allowance	*(53,166)*	*(1,075)*	*(678,168)*	*(3,880)*	***(736,289)***
Total loans		**100,198,531**	**9,867,652**	**2,575,501**	**8,820,000**	**121,461,684**
Total loss allowance		***(335,815)***	***(404,565)***	***(949,979)***	***(3,630,694)***	***(5,321,053)***

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

Credit Related Commitments	Internal credit rating	Stage 1	Stage 2	Stage 3 Individual	Stage 3 Collective	**Total gross amount 2019**
Commitments	Strong	11,106,745	-	-	-	**11,106,745**
	Satisfactory	10,010,424	-	-	-	**10,010,424**
	Watch list	887	240,146	-	-	**241,033**
	Impaired (Defaulted)	-	-	-	33,289	**33,289**
	Provisions	*(21,086)*	*(3,374)*	-	*(5,630)*	***(30,090)***
Guarantees	Strong	4,250,503	-	-	-	**4,250,503**
	Satisfactory	4,374,045	-	-	-	**4,374,045**
	Watch list	-	34,767	-	-	**34,767**
	Impaired (Defaulted)	-	-	1,972,704	6,647	**1,979,351**
	Provisions	*(19,909)*	*(194)*	-	*(1,493)*	***(21,596)***
Letters of credit	Strong	5,485	-	-	-	**5,485**
	Satisfactory	3,298	-	-	-	**3,298**
	Provisions	*(21)*	-	-	-	***(21)***
Total off balance		**29,751,387**	**274,913**	**1,972,704**	**39,936**	**32,038,940**
Total loss allowance		***(41,016)***	***(3,568)***	**-**	***(7,123)***	***(51,707)***

Credit Related Commitments	Internal credit rating	Stage 1	Stage 2	Stage 3 Individual	Stage 3 Collective	**Total gross amount 2018**
Commitments	Strong	7,557,025	-	-	-	**7,557,025**
	Satisfactory	11,308,149	-	-	-	**11,308,149**
	Watch list	-	222,254	-	-	**222,254**
	Impaired (Defaulted)	-	-	-	22,005	**22,005**
	Provisions	*(19,928)*	*(2,054)*	-	*(5,874)*	***(27,856)***
Guarantees	Strong	4,840,669	-	-	-	**4,840,669**
	Satisfactory	3,993,107	-	-	-	**3,993,107**
	Watch list	-	99,069	-	-	**99,069**
	Impaired (Defaulted)	-	-	2,057,347	5,042	**2,062,389**
	Provisions	*(22,533)*	*(1,778)*	-	*(1,223)*	***(25,534)***
Letters of credit	Strong	3,029	-	-	-	**3,029**
	Watch list	-	8,142	-	-	**8,142**
	Provisions	*(3)*	-	-	-	***(3)***
Total off balance		**27,701,979**	**329,465**	**2,057,347**	**27,047**	**30,115,838**
Total loss allowance		***(42,464)***	***(3,832)***	**-**	***(7,097)***	***(53,393)***

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

Overview of other assets per stages as at 31 December 2019 and as at 31 December 2018

In RSD thousands	Stage 1	Stage 2	Stage 3	**Total as at 31-Dec-2019**
Other assets gross	63,737	73	130,024	**193,834**
Less: Impairment allowance	*(793)*	-	*(129,821)*	***(130,614)***
Total	**62,944**	**73**	**203**	**63,220**

In RSD thousands	Stage 1	Stage 2	Stage 3	**Total as at 31-Dec-2018**
Other assets gross	160,011	100	132,154	**292,265**
Less: Impairment allowance	*(1,462)*	*(5)*	*(131,761)*	***(133,228)***
Total	**158,549**	**95**	**393**	**159,037**

Portfolio quality classification is based on the following criteria:

Segment	Strong	Satisfactory	Watch list	Impaired (Defaulted)
Corporate	Stage 1 Internal Credit Rating 1-4	Stage 1 Internal Credit Rating 5-6	Stage 2 Internal Credit Rating 7	Stage 3
Retail	Stage 1 Rating (A; BBB)	Stage 1 Rating (BBB-; CCC+)	Stage 2 Rating (CCC – C)	Stage 3

The table below provides data regarding 12-month weighted average PD per portfolio segments:

		31-Dec-19	**31-Dec-18**
	Internal credit rating	12-month weighted average PD	12-month weighted average PD
Retail Lending			
Mortgage	Strong	0.55%	0.63%
	Satisfactory	2.85%	2.04%
	Watch list	3.09%	8.17%
Consumer	Strong	0.84%	0.86%
	Satisfactory	2.09%	2.00%
	Watch list	9.46%	10.89%
Small business	Strong	0.73%	0.61%
	Satisfactory	3.28%	2.29%
	Watch list	11.18%	8.56%
Corporate Lending	Strong	0.45%	0.42%
	Satisfactory	1.44%	1.08%
	Watch list	13.69%	37.44%

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

Overdue analysis of total loans and placements per segment as at 31 December 2019:

	Retail lending			Wholesale lending			
31 December 2019	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	**Total**
Up to 30 days	55,327,477	6,954,160	2,390,513	50,849,885	1,197,930	592,779	**117,312,744**
31 to 90 days	-	1,100,022	625,831	-	15,476	44,789	**1,786,118**
91 to 180 days	-	-	728,618	-	-	-	**728,618**
181 to 360 days	-	-	667,682	-	-	35,919	**703,601**
More than 360 days	-	-	2,961,543	-	-	919,044	**3,880,587**
Total Gross Carrying Amount	**55,327,477**	**8,054,182**	**7,374,187**	**50,849,885**	**1,213,406**	**1,592,531**	**124,411,668**
Loss Allowance	*(252,711)*	*(396,645)*	*(3,346,879)*	*(204,257)*	*(1,796)*	*(643,377)*	***(4,845,665)***
Net Carrying amount at 31 December	**55,074,766**	**7,657,537**	**4,027,308**	**50,645,628**	**1,211,610**	**949,154**	**119,566,003**
Guarantees and other commitments	**11,645,066**	**234,273**	**39,936**	**18,106,320**	**40,641**	**1,972,704**	**32,038,940**
Less: Provisions	*(15,613)*	*(3,485)*	*(7,122)*	*(25,404)*	*(83)*	-	***(51,707)***
Total off-balance sheet items	**11,629,453**	**230,788**	**32,814**	**18,080,916**	**40,558**	**1,972,704**	**31,987,233**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

	Mortgage			Consumer			Small business			
Retail lending	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	**Total**
Up to 30 days	11,216,559	857,564	865,991	38,140,469	5,564,253	1,207,210	5,970,449	532,343	317,312	**64,672,150**
31 to 90 days	-	47,028	174,040	-	1,044,965	389,937	-	8,029	61,854	**1,725,853**
91 to 180 days	-	-	180,545	-	-	509,284	-	-	38,789	**728,618**
181 to 360 days	-	-	104,861	-	-	493,383	-	-	69,438	**667,682**
More than 360 days	-	-	217,538	-	-	1,173,433	-	-	1,570,572	**2,961,543**
Total Gross Carrying Amount	**11,216,559**	**904,592**	**1,542,975**	**38,140,469**	**6,609,218**	**3,773,247**	**5,970,449**	**540,372**	**2,057,965**	**70,755,846**
Cumulative Loss Allowance	*(12,417)*	*(3,527)*	*(178,271)*	*(182,924)*	*(368,489)*	*(1,923,821)*	*(57,370)*	*(24,629)*	*(1,244,787)*	***(3,996,235)***
Net Carrying amount at 31 December	**11,204,142**	**901,065**	**1,364,704**	**37,957,545**	**6,240,729**	**1,849,426**	**5,913,079**	**515,743**	**813,178**	**66,759,611**

	Large Corporate			SMEs			
Wholesale lending	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	**Total**
Up to 30 days	30,279,796	889,649	13,439	20,570,089	308,281	579,340	**52,640,594**
31 to 90 days	-	-	-	-	15,476	44,789	**60,265**
91 to 180 days	-	-	-	-	-	-	**-**
181 to 360 days	-	-	-	-	-	35,919	**35,919**
More than 360 days	-	-	643,724	-	-	275,320	**919,044**
Total Gross Carrying Amount	**30,279,796**	**889,649**	**657,163**	**20,570,089**	**323,757**	**935,368**	**53,655,822**
Cumulative Loss Allowance	*(98,970)*	*(1)*	*(196,044)*	*(105,287)*	*(1,795)*	*(447,333)*	***(849,430)***
Net Carrying amount at 31 December	**30,180,826**	**889,648**	**461,119**	**20,464,802**	**321,962**	**488,035**	**52,806,392**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

Overdue analysis of total loans and placements per segment as at 31 December 2018:

	Retail lending			Wholesale lending			
31 December 2018	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	**Total**
Up to 30 days	52,743,049	7,577,526	2,563,223	47,455,482	919,713	798,378	**112,057,371**
31 to 90 days	-	1,370,413	697,893	-	-	-	**2,068,306**
91 to 180 days	-	-	1,044,009	-	-	181,806	**1,225,815**
181 to 360 days	-	-	629,571	-	-	66,006	**695,577**
More than 360 days	-	-	3,875,010	-	-	1,539,605	**5,414,615**
Total Gross Carrying Amount	**52,743,049**	**8,947,939**	**8,809,706**	**47,455,482**	**919,713**	**2,585,795**	**121,461,684**
Loss Allowance	*(215,283)*	*(394,502)*	*(3,626,814)*	*(120,532)*	*(10,063)*	*(953,859)*	***(5,321,053)***
Net Carrying amount at 31 December	**52,527,766**	**8,553,437**	**5,182,892**	**47,334,950**	**909,650**	**1,631,936**	**116,140,631**
Guarantees and other commitments	**9,960,961**	**187,831**	**22,083**	**17,741,017**	**141,635**	**2,062,311**	**30,115,838**
Less: Provisions	*(14,254)*	*(2,008)*	*(5,874)*	*(28,211)*	*(1,823)*	*(1,223)*	***(53,393)***
Total off-balance sheet items	**9,946,707**	**185,823**	**16,209**	**17,712,806**	**139,812**	**2,061,088**	**30,062,445**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

Retail lending	Mortgage Stage 1	Mortgage Stage 2	Mortgage Stage 3	Consumer Stage 1	Consumer Stage 2	Consumer Stage 3	Small business Stage 1	Small business Stage 2	Small business Stage 3	Total
Up to 30 days	13,029,218	2,020,484	1,177,715	34,406,727	5,107,907	976,522	5,307,104	449,135	408,986	**62,883,798**
31 to 90 days	-	198,029	273,333	-	1,140,789	366,427	-	31,595	58,133	**2,068,306**
91 to 180 days	-	-	429,571	-	-	521,911	-	-	92,527	**1,044,009**
181 to 360 days	-	-	180,169	-	-	363,562	-	-	85,840	**629,571**
More than 360 days	-	-	657,681	-	-	987,481	-	-	2,229,848	**3,875,010**
Total Gross Carrying Amount	**13,029,218**	**2,218,513**	**2,718,469**	**34,406,727**	**6,248,696**	**3,215,903**	**5,307,104**	**480,730**	**2,875,334**	**70,500,694**
Cumulative Loss Allowance	*(19,831)*	*(23,570)*	*(384,093)*	*(165,663)*	*(350,395)*	*(1,583,859)*	*(29,789)*	*(20,537)*	*(1,658,862)*	***(4,236,599)***
Net Carrying amount at 31 December	**13,009,387**	**2,194,943**	**2,334,376**	**34,241,064**	**5,898,301**	**1,632,044**	**5,277,315**	**460,193**	**1,216,472**	**66,264,095**

Wholesale lending	Large Corporate Stage 1	Large Corporate Stage 2	Large Corporate Stage 3	SMEs Stage 1	SMEs Stage 2	SMEs Stage 3	Total
Up to 30 days	29,819,900	665,544	184,900	17,635,582	254,169	613,478	**49,173,573**
31 to 90 days	-	-	-	-	-	-	**-**
91 to 180 days	-	-	-	-	-	181,806	**181,806**
181 to 360 days	-	-	66,006	-	-	-	**66,006**
More than 360 days	-	-	1,087,586	-	-	452,019	**1,539,605**
Total Gross Carrying Amount	**29,819,900**	**665,544**	**1,338,492**	**17,635,582**	**254,169**	**1,247,303**	**50,960,990**
Cumulative Loss Allowance	*(67,366)*	*(8,988)*	*(271,811)*	*(53,166)*	*(1,075)*	*(682,049)*	***(1,084,454)***
Net Carrying amount at 31 December	**29,752,534**	**656,556**	**1,066,682**	**17,582,416**	**253,094**	**565,254**	**49,876,536**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

Restructured loans

In order to protect from the risk of borrower default or to minimize losses arising from default, the Bank undertakes the following measures in managing receivables: restructuring, repossession of assets in collection of receivables, initiation of court proceedings and other measures. The Bank approves restructuring of receivables to the borrowers who experience certain setbacks in their business operations. Such loans are classified as forborne in accordance with the NBS regulation.

The following table shows forborne loans per portfolio:

	31-Dec-2019		31-Dec-2018	
	Gross Carrying Amount	ECL Loss allowance	Gross Carrying Amount	Impairment allowance
Retail Lending	**4,651,118**	**(1,398,421)**	**5,376,741**	**(1,649,087)**
Mortgage	1,206,079	(94,227)	1,710,686	(179,483)
Consumer	2,214,853	(640,957)	2,010,898	(577,318)
Small business	1,230,186	(663,237)	1,655,157	(892,286)
Corporate Lending	**1,071,576**	**(389,504)**	**2,392,638**	**(744,138)**
Total	**5,722,694**	**(1,787,925)**	**7,769,379**	**(2,393,225)**

Forbearance is a modification of contract terms and conditions, which is considered as concession due to financial difficulties of the obligor. According to internal definition, the Bank distinguishes between performing and non-performing category of forborne loans as follows:

a) *Exposures are considered as Forborne Performing in the following cases (it is assumed that the exposure fulfils conditions not to be classified as Non-performing)*

- Modified contract with more favorable terms than other debtors with similar risk profile;
- Total or partial refinancing of a troubled debt contract due to financial difficulties;
- Modified contract which has been more than 30 days past due even if the clause was included in the original contract;
- Forborne Non-Performing exposures for which conditions to be treated as cured have been met, after at least one year from the date of modification.

b) *The following cases are considered as Forborne Non-Performing exposure*

- Modification of contract terms and conditions or refinancing, when the client was under Non-Performing status and for at least one year after the last concession;
- A Forborne Performing exposure, which during the Forborne Performing probation period met the criteria for Non-Performing status;
- Modifications of exposures which were Non-Performing and after one year under Forborne Non-Performing probation period met the criteria for entering the Forborne Performing („cured“) status, but during the Forborne Performing probation period, the exposure was either re-modified or more than 30 days past due;
- Renewals of forbearance coming from Forborne Performing exposure (less than 90 days past due and not unlikely to pay/defaulted/impaired), will be classified as Forborne Non-Performing if there has been more than one additional concession during probation period.

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

A forborne contract is considered under probation either from the moment of forbearance, if at the time of forbearance, it was not classified as non-performing and forbearance did not lead to its being classified as non-performing, or from the moment it was classified as performing.

The forbearance classification shall be discontinued when all the following conditions are met:

- a minimum 2-year probation period has passed from the date the forborne exposure was considered as performing;
- regular payments of more than an insignificant aggregate amount of principal or interest have been made during at least half of the probation period;
- none of the exposures to the debtor is more than 30 days past-due at the end of the probation period.

c) Segmentation of Forbearance measures (indicative)

1. **Short-term forbearance measures (duration up to 2 years):** Arrears Capitalization, Arrears Repayment Plan, Reduced Payment above interest only, Interest only, Reduced Payment below interest only and Grace Period.
2. **Long-term forbearance measures (duration > 2 years):** Interest Rate Reduction, Loan term extension, Split balance, Partial Debt Forgiveness/Write Down, Operational Restructuring and Debt/Equity Swap.

The following table presents a summary of the types of the Bank's forborne activities as at 31 December 2019:

Forbearance measures	**31-Dec-19**	**31-Dec-18**
Loan term extension	4,552,328	6,098,982
Arrears capitalization	52,929	72,106
Reduced payment	406,629	633,440
Interest rate reduction	24,122	30,038
Interest only	513,816	826,714
Grace period	140,490	82,265
Other	32,380	25,833
Total gross carrying amount	**5,722,694**	**7,769,378**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

The distribution of forborne loans per stage is presented below, as at 31 December 2019:

31 December 2019	Total loans & receivables	Forborne loans & receivables	% of Forborne loans & receivables
Gross carrying amounts			
Stage 1	106,177,362	-	0%
Stage 2	9,267,588	1,353,452	15%
Stage 3	8,966,718	4,369,242	49%
Total Gross Amount	**124,411,668**	**5,722,694**	**5%**
Cumulative ECL Loss allowance			
Stage 1	(456,968)	-	
Stage 2	(398,441)	(36,755)	
Stage 3	**(3,990,256)**	**(1,751,170)**	
Individually assessed	*(721,408)*	*(473,151)*	
Collectively assessed	*(3,268,848)*	*(1,278,019)*	
Total ECL Loss allowance	**(4,845,665)**	**(1,787,925)**	**37%**
Total Net carrying amount	**119,566,003**	**3,934,769**	**3%**

The distribution of forborne loans per stage is presented below, as at 31 December 2018:

31 December 2018	Total loans & receivables	Forborne loans & receivables	% of Forborne loans & receivables
Gross carrying amounts			
Stage 1	100,198,533	-	**0%**
Stage 2	9,867,651	1,250,048	**13%**
Stage 3	11,395,500	6,519,330	**57%**
Total Gross Amount	**121,461,684**	**7,769,378**	**6%**
Cumulative ECL Loss allowance			
Stage 1	(335,816)	-	
Stage 2	(404,565)	(38,300)	
Stage 3	**(4,580,672)**	**(2,354,924)**	
Individually assessed	*(949,983)*	*(744,138)*	
Collectively assessed	*(3,630,689)*	*(1,610,786)*	
Total ECL Loss allowance	**(5,321,053)**	**(2,393,224)**	**45%**
Total Net carrying amount	**116,140,631**	**5,376,154**	**5%**

Credit risk mitigation (collaterals)

The amount and type of the requested collateral depends on estimated credit risk of a borrower or transaction. Conditions for all collaterals are determined by the analysis of the client's solvency, type of credit risk exposure, loan maturity, as well as the exposure amount.

4. Risk management policies (continued)

4.1. Credit risk (continued)

Through its internal methodology, the Bank determined acceptable types of collateral and the parameters of their valuations.

Valuations of collaterals are performed at the time of loan origination, and generally are updated periodically in accordance with the relevant internal regulations.

The Bank monitors the movements in the collateral market value and demands additional collateral in accordance with the loan agreements (where it is applicable).

Collateral overview

Collaterals per portfolio quality types (total portfolio) and caped at the level of exposure are presented in the following table:

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

	Gross carrying amount				Impairment allowance				Collateral
31 December 2019	Stage 1	Stage 2	Stage 3	Total gross amount	Stage 1	Stage 2	Stage 3	Total net amount	value capped to exposure*
Retail Lending	**55,327,477**	**8,054,181**	**7,374,188**	**70,755,846**	**(252,711)**	**(396,645)**	**(3,346,879)**	**66,759,611**	**16,461,986**
Mortgage	11,216,559	904,592	1,542,975	13,664,126	(12,417)	(3,527)	(178,271)	13,469,911	-
Collateral held for financial assets	*11,154,732*	*898,270*	*1,423,154*	*13,476,156*	-	-	-	*13,476,156*	*13,476,156*
Consumer	38,140,469	6,609,218	3,773,247	48,522,934	(182,924)	(368,489)	(1,923,821)	46,047,700	-
Collateral held for financial assets	*26,403*	*3,210*	-	*29,613*	-	-	-	*29,613*	*29,613*
Small business	5,970,449	540,371	2,057,966	8,568,786	(57,370)	(24,629)	(1,244,787)	7,242,000	-
Collateral held for financial assets	*1,379,975*	*216,566*	*1,359,676*	*2,956,217*	-	-	-	*2,956,217*	*2,956,217*
Wholesale Lending	**50,849,885**	**1,213,407**	**1,592,530**	**53,655,822**	**(204,257)**	**(1,796)**	**(643,377)**	**52,806,392**	**19,001,571**
Large corporate	30,279,795	889,649	657,164	31,826,608	(98,970)	(1)	(196,044)	31,531,593	-
Collateral held for financial assets	*9,755,862*	*889,607*	*629,617*	*11,275,086*	-	-	-	*11,275,086*	*11,275,086*
SMEs	20,570,090	323,758	935,366	21,829,214	(105,287)	(1,795)	(447,333)	21,274,799	-
Collateral held for financial assets	*6,872,886*	*167,540*	*686,059*	*7,726,485*	-	-	-	*7,726,485*	*7,726,485*
Total Lending	**106,177,362**	**9,267,588**	**8,966,718**	**124,411,668**	**(456,968)**	**(398,441)**	**(3,990,256)**	**119,566,003**	**35,463,557**
Credit Related Commitments									
Guarantees	8,624,548	34,767	1,979,351	**10,638,666**	(19,909)	(194)	(1,493)	**10,617,070**	-
Letters of credit	8,783	-	-	**8,783**	(21)	-	-	**8,762**	-
Commitments	21,118,056	240,146	33,289	**21,391,491**	(21,086)	(3,374)	(5,630)	**21,361,401**	-
Collateral held for financial assets	*1,283,173*	*23,005*	*1,978,444*	***3,284,622***	-	-	-	***3,284,622***	*3,284,622*
Total Credit Related Commitments	**29,751,387**	**274,913**	**2,012,640**	**32,038,940**	**(41,016)**	**(3,568)**	**(7,123)**	**31,987,233**	**3,284,622**
Total	**135,928,749**	**9,542,501**	**10,979,358**	**156,450,608**	**(497,984)**	**(402,009)**	**(3,997,379)**	**151,553,236**	**38,748,179**

* *Collateral value capped to exposure relates to market value of collateral capped to exposure.*

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

	Gross carrying amount				Impairment allowance				Collateral
31 December 2018	Stage 1	Stage 2	Stage 3	Total gross amount	Stage 1	Stage 2	Stage 3	Total net amount	value capped to exposure*
Retail Lending	**52,743,050**	**8,947,939**	**8,809,705**	**70,500,694**	**(215,283)**	**(394,502)**	**(3,626,814)**	**66,264,095**	**21,413,328**
Mortgage	13,029,219	2,218,513	2,718,468	17,966,200	(19,831)	(23,570)	(384,093)	17,538,706	-
Collateral held for financial assets	*12,948,697*	*2,189,589*	*2,490,815*	*17,629,101*	-	-	-	-	*17,629,101*
Consumer	34,406,727	6,248,696	3,215,903	43,871,326	(165,663)	(350,395)	(1,583,859)	41,771,409	-
Collateral held for financial assets	*30,520*	*5,401*	*1,172*	*37,093*	-	-	-	-	*37,093*
Small business	5,307,104	480,730	2,875,334	8,663,168	(29,789)	(20,537)	(1,658,862)	6,953,980	-
Collateral held for financial assets	*1,681,396*	*168,299*	*1,897,439*	*3,747,134*	-	-	-	-	*3,747,134*
Wholesale Lending	**47,455,481**	**919,713**	**2,585,796**	**50,960,990**	**(120,532)**	**(10,063)**	**(953,859)**	**49,876,536**	**19,586,986**
Large corporate	29,819,899	665,544	1,338,493	31,823,936	(67,366)	(8,988)	(271,811)	31,475,771	-
Collateral held for financial assets	*11,223,611*	*665,722*	*1,252,202*	*13,141,535*	-	-	-	-	*13,141,535*
SMEs	17,635,582	254,169	1,247,303	19,137,054	(53,166)	(1,075)	(682,048)	18,400,765	-
Collateral held for financial assets	*5,434,318*	*176,200*	*834,933*	*6,445,451*	-	-	-	-	*6,445,451*
Total Lending	**100,198,531**	**9,867,652**	**11,395,501**	**121,461,684**	**(335,815)**	**(404,565)**	**(4,580,673)**	**116,140,631**	**41,000,314**
Credit Related Commitments									
Guarantees	8,833,776	99,069	2,062,389	10,995,234	(22,533)	(1,778)	(1,223)	10,969,700	-
Letters of credit	3,029	8,142	-	11,171	(3)	-	-	11,168	-
Commitments	18,865,174	222,254	22,005	19,109,433	(19,928)	(2,054)	(5,874)	19,081,577	-
Collateral held for financial assets	*2,006,978*	*74,265*	*2,061,455*	*4,142,698*	-	-	-	*4,142,698*	*4,142,698*
Total Credit Related Commitments	**27,701,979**	**329,465**	**2,084,394**	**30,115,838**	**(42,464)**	**(3,832)**	**(7,097)**	**30,062,445**	**4,142,698**
Total	**127,900,510**	**10,197,117**	**13,479,895**	**151,577,522**	**(378,279)**	**(408,397)**	**(4,587,770)**	**146,203,076**	**45,143,012**

* *Collateral value capped to exposure relates to market value of collateral capped to exposure.*

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

Residential mortgage lending

The following tables stratify credit exposures from mortgage loans and advances to retail customers by ranges of loan-to-value (LTV) ratio. LTV is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral.

Mortgages	31-Dec-19 LTV	31-Dec-18 LTV
Less than 50%	6,404,659	4,623,571
50%-70%	3,820,127	5,086,845
71%-80%	2,047,327	3,338,268
81%-90%	666,629	2,016,897
91%-100%	208,084	1,165,845
101%-120%	152,565	851,881
121%-150%	155,090	513,952
Greater than 150%	140,562	203,982
Total exposure	**13,595,043**	**17,801,241**

The following table shows comparative view of collateral received as at 31 December 2019:

	Value of collateral received			Guarantees
31 December 2019	Real Estate	Financial	Total	received
Retail Lending	**40,980,989**	**759,564**	**41,740,553**	-
Mortgage	34,607,163	67,909	34,675,072	-
Consumer	-	56,573	56,573	-
SBB	6,373,826	635,082	7,008,908	-
Wholesale Lending	**36,623,289**	**983,625**	**37,606,914**	**1,205,326**
Total 2019	**77,604,278**	**1,743,189**	**79,347,467**	**1,205,326**

The following table shows comparative view of collateral received as at 31 December 2018:

	Value of collateral received			Guarantees
31 December 2018	Real Estate	Financial	Total	received
Retail Lending	**42,537,416**	**862,894**	**43,400,310**	-
Mortgage	34,433,590	139,796	34,573,386	-
Consumer	-	37,093	37,093	-
SBB	8,103,826	686,005	8,789,831	-
Wholesale Lending	**46,287,640**	**690,210**	**46,977,850**	-
Total 2018	**88,825,056**	**1,553,104**	**90,378,160**	-

4. Risk management policies (continued)

4.1. Credit risk (continued)

4.1.5. Securities, treasury bills and other eligible bills

As of 31 December 2019, the Bank has dinar bonds of Republic of Serbia Ministry of Finance in the total amount of RSD 8,165,450 thousand (31 December 2018: RSD 11,960,829 thousand) and shares in the total amount of RSD 266 thousand (31 December 2018: RSD 214 thousand). The Bank also has foreign currency bonds of Republic of Serbia Ministry of Finance in the amount of RSD 343,172 thousand (31 December 2018: RSD 344,724 thousand) and shares in the amount of RSD 41,799 thousand (31 December 2018: RSD 27,343 thousand) – (Note 22). The above-mentioned bonds and trading securities are not rated. The rating of country is BB+ with positive outlook based on Standard and Poor's rating.

As of 31 December 2019, part of the RS Ministry of Finance bills in dinars in amount of RSD 1,833,270 thousand and they are used as pledge given as collateral for deposits taken from companies in bankruptcy.

4.1.6. Repossessed collateral

As at 31 December 2019 and 31 December 2018 Bank had no assets that were obtained by taking possession of collateral.

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.1. Credit risk (continued)

4.1.7. Concentration of risks of financial assets with credit risk exposure

Geographical and industry sectors

The following table breaks down the Bank's main credit exposure at their carrying amounts, as categorized by the product line, industry sectors and geographical region of counterparties:

	Gross amount: Serbia			Gross amount: Greece			Gross amount: Other Countries				
31 December 2019	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	**31-Dec-19**	**31-Dec-18**
Exposure toward financial institutions	**27,820,121**	**-**	**-**	**4,808,086**	**-**	**-**	***3,565,902**	**-**	**-**	**36,194,109**	**31,015,589**
Financial assets at fair value through P&L	**19,271**	**-**	**-**	**-**	-	**-**	**-**	**-**	**-**	**19,271**	**87,775**
Financial assets at fair through other comprehensive income	**3,700,327**	**-**	**-**	**-**	-	**-**	**-**	**-**	**-**	**3,700,327**	**-**
Financial assets at amortized cost	**4,790,677**	**-**	**-**	**-**	-	**-**	**-**	**-**	**-**	**4,790,677**	**12,230,295**
Retail Lending	**55,290,710**	**8,050,979**	**7,365,555**	**10,175**	**-**	**23**	**26,593**	**3,201**	**8,610**	**70,755,846**	**70,500,694**
Mortgage	11,181,725	904,592	1,535,313	9,636	-	-	25,198	-	7,662	**13,664,126**	17,966,200
Consumer	38,138,536	6,606,016	3,772,276	539	-	23	1,395	3,201	948	**48,522,934**	43,871,326
Small business	5,970,449	540,371	2,057,966	-	-	-	-	-	-	**8,568,786**	8,663,168
Wholesale Lending	**50,849,884**	**1,213,408**	**1,592,530**	**-**	**-**	**-**	**-**	**-**	**-**	**53,655,822**	**50,960,990**
Commerce and services	38,825,722	398,401	157,642	-	-	-	-	-	-	**39,381,765**	33,491,297
Manufacturing	9,238,703	103,887	239,828	-	-	-	-	-	-	**9,582,418**	11,199,627
Construction	1,760,002	43	409,438	-	-	-	-	-	-	**2,169,483**	3,610,047
Financial institutions	-	-	-	-	-	-	-	-	-	**-**	-
Private individuals	822,816	-	-	-	-	-	-	-	-	**822,816**	574,663
Other	202,641	711,077	785,622	-	-	-	-	-	-	**1,699,340**	2,085,356
Total Loans and receivables to customers	**106,140,594**	**9,264,387**	**8,958,085**	**10,175**	**-**	**23**	**26,593**	**3,201**	**8,610**	**124,411,668**	**121,461,684**
Impairment allowance	*(461,103)*	*(398,253)*	*(3,989,373)*	*(5)*	-	*(21)*	*(5)*	*(188)*	*(862)*	***(4,849,810)***	*(5,336,450)*
Credit Related Commitments	**29,742,732**	**274,913**	**2,010,876**	**745**	**-**	**-**	**7,910**	**-**	**1,764**	**32,038,940**	**30,115,838**
Impairment allowance	*(41,014)*	*(3,568)*	*(7,099)*	-	-	-	*(2)*	-	*(24)*	*(51,707)*	*(53,393)*
Total Gross Carrying Amount	**172,213,722**	**9,539,300**	**10,968,961**	**4,819,006**	**-**	**23**	**3,600,405**	**3,201**	**10,374**	**201,154,992**	**194,911,181**
Loss Allowance	***(502,117)***	***(401,821)***	***(3,996,472)***	***(5)***	**-**	***(21)***	***(7)***	***(188)***	***(886)***	***(4,901,517)***	***(5,389,843)***
Net Carrying amount	**171,711,605**	**9,137,479**	**6,972,489**	**4,819,001**	**-**	**2**	**3,600,398**	**3,013**	**9,488**	**196,253,475**	**189,521,338**

* *Mostly exposures toward Germany and USA.*

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.2. Market Risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices.

4.2.1. Foreign exchange risk

The Bank is necessarily exposed to foreign exchange risk, i.e. to the risk of changes in FX rates since it has been working with different foreign currencies, Daily FX transactions cause the possible loss to the Bank due to uncertainty of the FX rate at which an open FX position can be closed, as well as in terms of negative effects of the revaluation of net open FX positions in individual currencies in the event of adverse movements in foreign exchange rates.

In order to protect Bank’s equity and financial result the Bank identifies, measures, monitors and manages exposure to foreign exchange risk on daily basis.

The Bank manages the exposure to foreign exchange risk in a manner that ensures compliance of currency structure of its assets and liabilities with the risk ratios prescribed by the National Bank of Serbia, as well as with the limits prescribed in the internal acts enacted by the Bank’s management and Risk Committee, Bank is using scenario analysis for measurement of FX risk.

The concentration risk based on open currency position may occur if the total open currency position limit is utilized in only one currency, In order to avoid this risk concentration, the Bank's management and the Risk Committee have defined the maximum allowed open currency position by individual currencies, and the utilization of this limit is monitored by the Bank's management through a weekly report on the Open currency position by currencies prepared and submitted by the Market Risk Department.

The table below summarises the Bank’s exposure to foreign currency exchange rate risk at the end of the reporting period:

	At 31 December 2019				At 31 December 2018			
	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position	Monetary financial assets	Monetary financial liabilities	Derivatives	Net position
EUR	86,903,015	87,803,604	140,091	(760,498)	79,453,348	83,741,543	6,207,312	1,919,117
CHF	3,048,009	3,064,737	(153,951)	(170,679)	12,025,791	2,660,393	(9,448,011)	(82,613)
USD	1,966,681	1,987,376	-	(20,695)	1,386,149	1,549,080	-	(162,931)
Other	411,759	372,986	-	38,773	428,897	269,985	-	158,912
Total	**92,329,464**	**93,228,703**	**(13,860)**	**(913,099)**	**93,294,185**	**88,221,001**	**(3,240,699)**	**1,832,485**

* *Including foreign currency clause.*

4. Risk management policies (continued)

4.2. Market Risk (continued)

4.2.2. Interest rate risk

Interest rate risk is defined as Bank's exposure to adverse movements in interest rates which can cause negative effects on Bank's earning and economic value of capital. Interest rate risk could come in the variety of forms, including reprising risk, yield curve risk, basis and optionality risk.

In order to protect Bank's equity and financial result the Bank identifies, measures, monitors and manages exposure to interest rate risk on monthly basis, in total and per all major currencies.

In measuring and assessing interest rate risk the Bank applies the following techniques:

- Gap analysis of interest rate risk,
- Scenario analysis,
- Stress testing, and
- Analysis of embedded options.

The Bank manages the exposure to interest rate risk by applying the following techniques, which are executed on open interest rate positions recognized in the gap analysis:

- The natural hedge – is achieved by adjusting dates and re-pricing tenor of new products, which should influence decrease of an open gap in specific time bucket.
- Hedging an open interest rate position with OTC derivatives such as: interest rate swaps and options on interest rates.

According to internal methodology for interest rate gap, the Bank projects future cash flows (including future interest) of assets/liabilities with fixed interest rate and off-balance items and allocates them into time buckets according to contractual maturity dates. For items with floating interest rate, principal and future interest (only the part maturing until the next repricing date) is allocated according to repricing date. The Bank calculates early repayment/withdrawal rates] taking into account statistical analysis based on historical experience. For all items without contractual repayment schedule, the Bank allocates cash flows into time buckets according to statistical analysis, trend, seasonality and unpredictability factor. Assessment of the deposits stability is based on both statistical analysis and Basel committee guidelines. Future cash flows for loans are reduced by the expected cost of risk (CoR) for each individual segment of the portfolio.

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.2. Market Risk (continued)

Table below summarises the Bank's exposure to interest rate risks. The table presents the aggregated amounts of the Bank's financial assets and liabilities and off-balance items at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates, according to the above-mentioned methodology:

31 December 2019	Exposure to IRR	Less than 3 months	3-6 months	6-12 months	1-5 year	More than 5 years
Total financial assets exposed to IRR	**172,040,586**	**135,574,775**	**8,756,350**	**3,691,083**	**16,330,024**	**7,688,354**
Cash and assets held with central bank	22,864,865	13,853,127	1,040,274	1,836,035	3,141,949	2,993,480
Loans and receivables to banks and other financial institutions	16,997,079	16,740,171	-	256,908	-	-
Loans and receivables to customers	122,541,732	104,555,996	3,162,576	1,524,478	9,446,891	3,851,791
Securities	8,894,126	425,481	4,553,500	73,662	3,741,184	100,299
Other asset	742,784	-	-	-	-	742,784
Total financial liabilities exposed to IRR	**(124,951,017)**	**(59,329,767)**	**(11,609,209)**	**(10,479,173)**	**(21,960,373)**	**(21,572,495)**
Deposits and other financial liabilities due to banks, other financial institutions and central bank	(13,984,516)	(8,553,561)	(5,242,829)	(9,474)	(73,899)	(104,753)
Deposits and other financial liabilities due to customers	(106,953,540)	(49,812,199)	(6,201,921)	(10,293,753)	(20,770,623)	(19,875,044)
Other liabilities	(4,012,961)	(964,007)	(164,459)	(175,946)	(1,115,851)	(1,592,698)
Net interest rate gap	**47,089,569**	**76,245,008**	**(2,852,859)**	**(6,788,090)**	**(5,630,349)**	**(13,884,141)**
Effect of derivatives held for risk management exposed to IRR	(13,860)	(12,790)	-	-	-	(1,070)
Other off-balance asset exposed to IRR	(4,828,573)	(3,858,436)	(57,975)	(87,885)	(489,081)	(335,196)
Other off-balance liability exposed to IRR	(608,504)	(608,504)	-	-	-	-
Total interest rate gap	**41,638,632**	**71,765,278**	**(2,910,834)**	**(6,875,975)**	**(6,119,430)**	**(14,220,407)**

31 December 2018	Exposure to IRR	Less than 3 months	3-6 months	6-12 months	1-5 year	More than 5 years
Total financial assets exposed to IRR	**173,054,423**	**122,877,657**	**9,755,939**	**7,211,444**	**24,329,445**	**8,879,938**
Cash and assets held with central bank	18,916,934	8,614,295	1,042,024	2,189,760	4,420,126	2,650,729
Loans and receivables to banks and other financial institutions	15,569,834	15,569,834	-	-	-	-
Loans and receivables to customers	125,224,813	94,234,727	8,520,415	1,857,842	15,070,660	5,541,169
Securities	12,740,624	4,458,801	193,500	3,163,842	4,838,659	85,822
Other asset	602,218	-	-	-	-	602,218
Total financial liabilities exposed to IRR	**(116,968,066)**	**(47,755,703)**	**(12,034,251)**	**(13,469,272)**	**(26,514,075)**	**(17,194,765)**
Deposits and other financial liabilities due to banks, other financial institutions and central bank	(13,051,069)	(5,983,795)	(5,714,752)	(1,162,364)	(66,606)	(123,552)
Deposits and other financial liabilities due to customers	(103,105,909)	(40,960,820)	(6,319,499)	(12,306,908)	(26,447,469)	(17,071,213)
Other liabilities	(811,088)	(811,088)	-	-	-	-
Net interest rate gap	**56,086,357**	**75,121,954**	**(2,278,312)**	**(6,257,828)**	**(2,184,630)**	**(8,314,827)**
Effect of derivatives held for risk management exposed to IRR	(33,567)	(2,549,930)	2,516,363	-	-	-
Other off-balance asset exposed to IRR	(4,536,086)	(3,682,822)	(50,608)	(78,065)	(330,795)	(393,796)
Other off-balance liability exposed to IRR	(638,207)	(638,207)	-	-	-	-
Total interest rate gap	**50,878,497**	**68,250,995**	**187,443**	**(6,335,893)**	**(2,515,425)**	**(8,708,623)**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.2. Market Risk (continued)

For purpose of measurement of interest rate risk, the Bank is using sensitivity analysis by applying duration-based sensitivity weights, followed with stress tests incorporating various changes in interest rate variables. The Bank is managing interest rate risk through set of interest rate exposure limits.

4.2.3. Sensitivity analysis

The management of interest rate risk and currency risk against gap limits is supplemented by monitoring the sensitivity of the Bank's income statements to various interest rate and foreign currency rate scenarios. The sensitivity of the income statement is the effect of the assumed changes in interest rates for 100 basis points on the net interest income and economic value of equity, as well as of the assumed RSD FX rate depreciation for 10%.

Analysis of the Bank's sensitivity to an increase or decrease in market interest rates and FX rates (assuming no asymmetrical movements in yield curves and constant balance sheet position) is presented in the following table:

	Sensitivity of income statement 2019				
Interest rate sensitivity	RSD	EUR	CHF	Other	Loss
+100 bps parallel shift					
NII effect	(349,686)	(213,601)	(14,924)	(8,858)	(587,069)
EVE effect	181,629	(1,205,695)	(92,913)	(26,969)	(1,143,948)
Foreign exchange sensitivity					
10% depreciation of RSD		42,360	17,068	(3,392)	56,036

	Sensitivity of income statement 2018				
Interest rate sensitivity	RSD	EUR	CHF	Other	Loss
+100 bps parallel shift					
NII effect	(299,031)	(305,249)	16,605	(8,966)	(613,246)
EVE effect	300,789	(1,092,549)	190,008	(24,835)	(626,587)
Foreign exchange sensitivity					
10% depreciation of RSD		(208,590)	1,278	(16,230)	(223,542)

4.3. Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations when they come due, which can have a negative result on the Bank's financial results and equity. Liquidity risk is imminent in the banking business which arises from the nature of the basic activity of the Bank and maturity transformation necessary performed by the Bank.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity management of the Bank represents a continuous process of perceiving liquidity needs and maintaining a satisfactory liquidity level in a variety of business scenarios, as well as contingency planning.

4. Risk management policies (continued)

4.3. Liquidity risk (continued)

In order to perform these activities, attention is mainly directed to analyse stability and level of deposits concentration and other sources of funding of the Bank that include:

- customer's deposits with different maturities,
- deposits from the money market and available lines with financial institutions,
- available lines form the majority shareholder, and
- share capital.

Sources of liquidity are regularly reviewed so as to maintain a wide diversification by currency, geography, provider, product and term.

Diversity and stability of core deposit base involves an analysis allowing the Bank to more effectively controls and measures deposit-based liquidity and more accurately measures liquidity risk by defining deposit inputs.

Liquidity risk measurement includes assessment of the risk under normal market conditions and under stress scenarios. Scenarios, which are defined based on historical data and case studies, should allow the bank to evaluate the potential adverse impact these factors can have on its liquidity position. Liquidity risk is monitored through a set of short-term limits. Following the NBS methodology, the Bank has defined minimum level of liquidity expressed in terms of short-term liquidity ratio. For internal methodology purposes, limit framework includes ratios as limit definition of acceptable levels of short-term liquidity mismatches.

According to internal methodology for liquidity gap, the Bank projects future cash flows (including future interest) of assets/liabilities and off-balance items and allocates them into time buckets according to contractual maturity dates. The Bank calculates early repayment/withdrawal rates taking into account statistical analysis based on historical experience. For all items without contractual repayment schedule, the Bank allocates cash flows into time buckets according to statistical analysis, trend, seasonality and unpredictability factor. Assessment of the deposits stability is based on both statistical analysis and Basel committee guidelines. Future cash flows for loans are reduced by the expected cost of risk (CoR) for each individual segment of the portfolio.

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.3. Liquidity risk (continued)

The table below summarizes the Bank's exposure to liquidity rate risks. The table presents the aggregated amounts of the Bank's financial assets/liabilities and off-balance items, according to the above-mentioned methodology:

31 December 2019	Gross nominal inflow/ (outflow)	Less than 3 months	3-6 months	6-12 months	1-5 year	More than 5 years
Total financial assets exposed to liquidity risk	**183,908,042**	**43,013,933**	**19,706,951**	**19,151,456**	**77,035,180**	**25,000,522**
Cash and assets held with central bank	22,864,866	13,953,222	1,006,060	1,868,485	3,043,576	2,993,523
Loans and receivables to banks and other financial institutions	16,997,078	16,614,346	-	256,908	-	125,824
Loans and receivables to customers	134,409,188	12,020,884	14,147,391	16,952,401	70,250,420	21,038,092
Securities	8,894,126	425,481	4,553,500	73,662	3,741,184	100,299
Other asset	742,784	-	-	-	-	742,784
Total financial liabilities exposed to liquidity risk	**(125,317,493)**	**(59,847,662)**	**(9,935,174)**	**(10,672,211)**	**(23,069,735)**	**(21,792,711)**
Deposits and other financial liabilities due to banks, other financial institutions and central bank	(14,028,951)	(8,109,274)	(3,820,015)	(62,075)	(1,712,907)	(324,680)
Deposits and other financial liabilities due to customers	(106,953,540)	(50,452,340)	(5,950,700)	(10,434,190)	(20,240,977)	(19,875,333)
Other liabilities	(4,335,002)	(1,286,048)	(164,459)	(175,946)	(1,115,851)	(1,592,698)
Net liquidity gap	**58,590,549**	**(16,833,729)**	**9,771,777**	**8,479,245**	**53,965,445**	**3,207,811**
Cumulative net liquidity gap		**(16,833,729)**	**(7,061,952)**	**1,417,293**	**55,382,738**	**58,590,549**
Effect of derivatives held for risk management exposed to liquidity risk	(13,860)	(13,860)	-	-	-	-
Other off-balance asset exposed to liquidity risk	(4,943,363)	(3,859,337)	(60,577)	(96,102)	(502,479)	(424,868)
Other off-balance liability exposed to liquidity risk	(608,504)	(608,504)	-	-	-	-
Total liquidity gap	**53,024,822**	**(21,315,430)**	**9,711,200**	**8,383,143**	**53,462,966**	**2,782,943**
Cumulative total liquidity gap		**(21,315,430)**	**(11,604,230)**	**(3,221,087)**	**50,241,879**	**53,024,822**

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.3. Liquidity risk (continued)

31 December 2018	Gross nominal inflow/ (outflow)	Less than 3 months	3-6 months	6-12 months	1-5 year	More than 5 years
Total financial assets exposed to liquidity risk	**182,492,630**	**45,148,259**	**13,379,830**	**23,126,550**	**76,678,756**	**24,159,235**
Cash and assets held with central bank	18,916,935	8,664,691	1,036,079	2,258,436	4,307,005	2,650,724
Loans and receivables to banks and other financial institutions	15,569,893	14,984,710	585,183	-	-	-
Loans and receivables to customers	134,654,835	17,290,057	11,306,943	17,704,272	67,533,092	20,820,471
Securities	12,748,749	4,208,801	451,625	3,163,842	4,838,659	85,822
Other asset	602,218	-	-	-	-	602,218
Total financial liabilities exposed to liquidity risk	**(116,979,619)**	**(48,176,871)**	**(11,434,134)**	**(13,850,326)**	**(26,196,294)**	**(17,321,994)**
Deposits and other financial liabilities due to banks, other financial institutions and central bank	(13,053,880)	(5,703,566)	(5,525,640)	(1,197,673)	(376,464)	(250,537)
Deposits and other financial liabilities due to customers	(103,114,651)	(41,662,217)	(5,908,494)	(12,652,653)	(25,819,830)	(17,071,457)
Other liabilities	(811,088)	(811,088)	-	-	-	-
Net liquidity gap	**65,513,011**	**(3,028,612)**	**1,945,696**	**9,276,224**	**50,482,462**	**6,837,241**
Cumulative net liquidity gap		**(3,028,612)**	**(1,082,916)**	**8,193,308**	**58,675,770**	**65,513,011**
Effect of derivatives held for risk management exposed to liquidity risk	(33,567)	(15,986)	(17,581)	-	-	-
Other off-balance asset exposed to liquidity risk	(4,620,208)	(3,683,776)	(52,299)	(88,159)	(340,941)	(455,033)
Other off-balance liability exposed to liquidity risk	(638,207)	(638,207)	-	-	-	-
Total liquidity gap	**60,221,029**	**(7,366,581)**	**1,875,816**	**9,188,065**	**50,141,521**	**6,382,208**
Cumulative total liquidity gap		**(7,366,581)**	**(5,490,765)**	**3,697,300**	**53,838,821**	**60,221,029**

The table below summarizes the availability of the Bank`s financial assets to support future funding (liquidity reserve):

31 December 2019	Gross carrying amount	Impairment	Net carrying amount	Fair value
Cash (Note 19)	**3,742,312**	**(44)**	**3,742,268**	**3,742,312**
Nosto accounts (Note 23)	**2,754,750**	**(53)**	**2,754,697**	**2,754,750**
Money market placements to banks (Note 23)	**7,402,079**	**(440)**	**7,401,639**	**7,402,079**
Securities	**14,237,452**	**(7,152)**	**14,230,300**	**14,263,435**
RRepo (Note 23)	5,861,626	(184)	5,861,442	5,861,626
AC Bonds* (Note 22)	4,790,677	(1,696)	4,788,981	4,816,660
FVOCI (Note 22)	3,565,569	(5,272)	3,560,297	3,565,569
Trading Bonds (Note 22)	19,271	-	19,271	19,271
Shares (Note 22)	309	-	309	309
Total	**28,136,596**	**(7,689)**	**28,128,907**	**28,162,579**

* *Pledged amount as of 31 December 2019: 1,833,270.*

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.3. Liquidity risk (continued)

Bonds classified as amortised cost are included in the liquidity reserves, considering that they represent high quality liquid assets, which are recognized as well in the calculation of the regulatory liquidity coverage ratio. It is also taken into account that, according to IFRS 9, occasional (rare, or in small amounts) sales under unfavorable scenarios are permitted without the impact on business model. In addition, maturity of the AC bonds in the portfolio as of 31 December 2019 is relatively short (April 2020).

31 December 2018	Gross carrying amount	Impairment	Net carrying amount	Fair value
Cash	**3,794,528**	**(53)**	**3,794,475**	**3,794,528**
Nosto accounts	**3,377,936**	**(218)**	**3,377,718**	**3,377,936**
Money market placements to banks	**7,103,709**	**(1,695)**	**7,102,014**	**7,103,709**
Securities	**16,820,462**	**(12,966)**	**16,807,496**	**16,926,660**
RRepo	4,501,793	(63)	4,501,730	4,501,793
AC Bonds*	12,230,294	(12,903)	12,217,391	12,336,492
Trading Bonds	88,161	-	88,161	88,161
Shares	214	-	214	214
Total	**31,096,635**	**(14,932)**	**31,081,703**	**31,202,833**

* *Pledged amount as of 31 December 2018: 1,523,992.*

4.4. Operational risk

Operational risk is the risk of possible negative effects on the financial result and capital of the bank caused by human error, inadequate internal procedures and processes, inadequate management of the information management of the information system and other systems in the bank, as well as by unforeseeable external events and includes legal risk. Legal risk is the risk of adverse effects on the bank's financial result and capital arising from court or out-of-court proceedings relating to the bank's operation (contracts and torts, labor relations, etc.).

Operational risk processes consist of risk identification, exposure assessment (including measurement and valuation), control management and risk mitigation, operational risk reporting and performance improvement applying following operational risk methods: Risk and Control Self-Assessment (RCSA), Key Risk Indicators (KRI), Operational Risk Events Management, Operational Risk Reporting, Operational Risk Capital Charge Calculation and Allocation and Operational Risk Stress Testing.

The Bank includes in its risk management system all risks that arise from outsourcing activities and from launching of new products and services.

4.5. Capital management

The Bank actively manages capital base to cover risk inherent to the business, The Bank's objectives, when managing capital, which is a broader concept than "equity" on the face of the balance sheet, are:

- To comply with the capital requirements set by the National Bank of Serbia,
- To provide an adequate level of capital so as to enable the Bank to continue its operations as a going concern, and
- To maintain a strong capital base to support the development of its business.

4. Risk management policies (continued)

4.5. Capital management (continued)

Capital adequacy, as well as the use of the Bank's capital is monitored on a monthly basis by the Bank's management.

The National Bank of Serbia has defined the following capital limits:

- The minimum amount of the capital of EUR 10 million,
- Capital adequacy ratio of 8%,
- Tier I CAD – minimum prescribed 6%, and
- Core Tier I CAD – minimum prescribed 4.5%.

Additional capital buffers are:

- Capital conservation buffer – 2,5% of total RWA;
- Countercyclical capital buffer – Rates of this buffer are determined quarterly by NBS for exposures in Serbia they are 0%; and
- System risk buffer - The systemic risk buffer rate is equal to 3% of total foreign currency and foreign currency-indexed placements of a bank approved to corporates and households in the Republic of Serbia. All banks whose share of foreign currency and foreign currency-indexed placements approved to corporates and households in the Republic of Serbia in total placements of that bank approved to corporates and households in the Republic of Serbia exceeds 10% are obliged to maintain the systemic risk buffer.

The Bank's total capital comprises of tier 1 and tier 2 capital with corresponding deductible items.

Tier 1 capital: The share capital is the basic share capital and additional share capital. Basic Bank's share capital is the sum of share capital from ordinary shares, corresponding share premium, and reserves from profit and other reserves Tier 1 deductible items comprise intangible assets, deferred tax assets that are dependent on future profitability other than those arising from temporary differences, net of related deferred tax liabilities, new consumer loans with DTI over 60%, and a new consumer loans with regulatory prescribed maximal tenor and regulatory adjustments i.e., required reserve for estimated losses as prescribed by relevant NBS regulations.

Tier 2 capital: share capital from preference shares, share premium from preference shares, and acquired own preference shares as Tier 2 capital deductible items.

The risk weighted balance and off-balance assets are determined in accordance with the prescribed risk weights for all types of assets. When calculating the capital adequacy ratio, and in accordance with the regulations of the National Bank of Serbia, the overall credit risk-weighted balance and off-balance assets are increased for the calculated foreign currency, price risk and operational risk capital requirements divided by 8%.

All amounts are expressed in 000 RSD unless stated otherwise

4. Risk management policies (continued)

4.5. Capital management (continued)

The table below summarizes the structure of the Bank's capital as at 31 December 2019 and 31 December 2018, as well as the capital adequacy ratio:

	31 December 2019*	31 December 2018*
Shareholders' equity	25,422,400	25,422,400
Share premium	6,051,999	6,051,999
Reserves	9,558,335	9,558,335
Intangible assets	(2,317,780)	(2,161,526)
CET 1 deductible items	(2,115,193)	(45,206)
CET 1	**36,599,761**	**38,826,002**
TIER I capital	**36,599,761**	**38,826,002**
Preference shares	4,300	4,300
TIER II capital	**4,300**	**4,300**
Tier II deductible items	-	-
Total regulatory capital	**36,604,061**	**38,830,302**
Capital adequacy	**26.20%**	**28.37%**

* *Figures and percentages are unaudited.*

5. Classification and fair value of financial assets and liabilities

a) *Fair value of financial assets and liabilities*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price). When a quoted price for an identical asset or liability is not observable, fair value is measured using another valuation technique that is appropriate in the circumstances, and maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Observable inputs are developed using market data, such as publicly available information about actual events or transactions, and reflect assumptions that market participants would use when pricing financial instruments, such as quoted prices in active markets for similar instruments, interest rates and yield curves, implied volatilities and credit spreads.

Fair value of some financial instruments presented at nominal value is approximately equal to their carrying value. This includes Cash and assets held with the central bank, Loans and receivables to banks and other financial institutions and other assets. For loans and receivables, the expected future cash flow is discounted up to their present value by means of the credit risk-adjusted discount rate. Credit Risk Adjusted Discount Rate is built up of the following components:

- Risk-free interest rate;
- Funding costs;
- Minimum Equity Requirements costs;
- Loans' servicing costs;
- Loans' fees and commissions; and
- Cost of risk.

5. Classification and fair value of financial assets and liabilities (continued)

Investment securities carried at amortized cost: the fair values of financial investments are determined using prices quoted in an active market when these are available. In other cases, fair values are determined using quoted market prices for securities with similar credit risk, maturity and yield, quoted market prices in non-active markets for identical or similar financial instruments, or by using the discounted cash flows method

Fair value of deposits, irrevocable loan obligations and potential obligations is the same as their carrying values. Management of the Bank is of the opinion that, giving ordinary business activities of the Bank and its general policies, as well as dominantly short-term structure of deposits there are no significant differences between carrying amount of assets and liabilities and their fair values. Furthermore, Management of the Bank is of opinion that fair value of borrowings is same as carrying value either due to short-term maturity of liabilities or due to EURIBOR related variable interest rates with low fixed margins.

There is not enough market experience in the Republic of Serbia neither the stability nor liquidity in the trade of receivables and other financial assets and liabilities, since official market information is not always available. Therefore, fair value cannot be reliably determined in the absence of active market.

Assessment of financial instruments

The Bank's financial instruments carried at fair value or at amortized cost for which fair value is disclosed are categorized into the three levels of the fair value hierarchy based on whether the inputs to the fair values are observable or unobservable, as follows:

(a) Level 1-Financial instruments measured based on quoted prices (unadjusted) in active markets for identical financial instruments that the Bank can access at the measurement date. A market is considered active when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and represent actually and regularly occurring transactions. Level 1 financial instruments include actively quoted debt instruments, held or issued by the Bank, equity and derivative instruments traded on exchanges, as well as mutual funds that have regularly and frequently published quotes.

(b) Level 2-Financial instruments measured using valuation techniques with inputs, other than level 1 quoted prices, that are observable either directly or indirectly, such as: i) quoted prices for similar financial instruments in active markets, ii) quoted prices for identical or similar financial instruments in markets that are not active, iii) inputs other than quoted prices that are directly or indirectly observable, mainly interest rates and yield curves observable at commonly quoted intervals, forward exchange rates, equity prices, credit spreads and implied volatilities obtained from internationally recognized market data providers and iv) other unobservable inputs which are insignificant to the entire fair value measurement. Level 2 financial instruments include over-the-counter (OTC) derivatives, less liquid debt instruments held or issued by the Bank and equity instruments.

(c) Level 3-Financial instruments measured using valuation techniques with significant unobservable inputs. When developing unobservable inputs, best information available is used, including own data, while at the same time market participants' assumptions are reflected (e.g. assumptions about risk). Level 3 financial instruments include unquoted equities or equities traded in markets that are not considered active, certain OTC derivatives and Loans and receivables to customers.

All amounts are expressed in 000 RSD unless stated otherwise

5. Classification and fair value of financial assets and liabilities (continued)

Tables below analyse financial instruments measured at fair value at the end of the reporting period according to the fair value hierarchy within which the fair value measurement takes place:

31 December 2019	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Shares (Note 4.1.5; 22)	42,065	-	-	42,065
Treasury bonds	-	19,314	-	19,314
Receivables from derivatives (Note 21)	-	74,179	-	74,179
Financial assets at fair value through other comprehensive income				
Bonds	-	3,700,327	-	3,700,327
Total assets	**42,065**	**3,793,820**	**-**	**3,835,885**
Liabilities from derivatives (Note 30)	-	80,363	-	80,363
Total liabilities	-	**80,363**	**-**	**80,363**

31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Shares (Note 4.1.5; 22)	27,557	-	-	27,557
Treasury bonds	-	88,161	-	88,161
Receivables from derivatives (Note 21)	-	51,465	-	51,465
Total assets	**27,557**	**139,626**	**-**	**167,183**
Liabilities from derivatives (Note 30)	-	56,127	-	56,127
Total liabilities	-	**56,127**	**-**	**56,127**

All amounts are expressed in 000 RSD unless stated otherwise

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

The following tables present the fair value of financial instruments not measured at fair value and analyse them according to the fair value hierarchy within which the fair value measurement takes place:

	31 December 2019		31 December 2018	
	Book value	Fair value	Book value	Fair value
Financial assets				
Cash and assets held with the central bank	22,869,217	22,869,217	18,922,554	18,922,554
Loans and receivables to banks and other financial institutions	17,064,757	17,064,757	15,885,158	15,885,158
Loans and receivables to customers	119,567,490	120,388,364	116,142,151	114,694,551
Securities (measured at amortized cost)	4,788,981	4,816,660	12,217,392	12,336,492
Total	**164,290,445**	**165,138,998**	**163,167,255**	**161,838,755**
Financial liabilities				
Deposits and other financial liabilities due to banks, other financial institutions and central bank	14,570,929	14,570,929	13,352,584	13,352,584
Deposits and other financial liabilities due to customers	106,318,415	106,318,415	102,537,069	102,537,069
Total	**120,889,344**	**120,889,344**	**115,889,653**	**115,889,653**

	Fair value			
31 December 2019	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and assets held with the central bank	-	22,869,217	-	22,869,217
Securities (measured at amortized cost)	-	4,816,660	-	4,816,660
Loans and receivables to banks and other financial institutions	-	17,064,757	-	17,064,757
Loans and receivables to customers	-	-	120,388,364	120,388,364
Total	**-**	**44,750,634**	**120,388,364**	**165,138,998**
Financial liabilities				
Deposits and other financial liabilities due to banks, other financial institutions and central bank	-	14,570,929	-	14,570,929
Deposits and other financial liabilities due to customers	-	-	106,318,415	106,318,415
Total	**-**	**14,570,929**	**106,318,415**	**120,889,344**

All amounts are expressed in 000 RSD unless stated otherwise

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

	Fair value			
31 December 2018	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and assets held with the central bank	-	18,922,554	-	18,922,554
Securities (measured at amortized cost)	-	12,336,492	-	12,336,492
Loans and receivables to banks and other financial institutions	-	15,885,158	-	15,885,158
Loans and receivables to customers	-	-	114,694,551	114,694,551
Total	**-**	**47,144,204**	**114,694,551**	**161,838,755**
Financial liabilities				
Deposits and other financial liabilities due to banks, other financial institutions and central bank	-	13,352,584	-	13,352,584
Deposits and other financial liabilities due to customers	-	-	102,537,069	102,537,069
Total	**-**	**13,352,584**	**102,537,069**	**115,889,653**

b) Classification of financial assets and liabilities

The following table provides a reconciliation between line items in the balance sheet and categories of financial instruments.

In RSD thousand	Financial assets at FVTPL	Financial assets at FVTOCI	Financial assets at amortised cost	**Total 31.12.2019**
Financial assets				
Cash and assets held with the central bank	-	-	22,869,217	22,869,217
Pledged financial assets	-	-	1,833,270	1,833,270
Receivables from derivatives	74,179	-	-	74,179
Securities	135,558	3,700,327	2,881,532	6,717,417
Loans and receivables to banks and other financial institutions	-	-	17,064,757	17,064,757
Loans and receivables to customers	1,487	-	119,566,003	119,567,490
Other assets	-	-	507,895	507,895
Total financial assets	**211,224**	**3,700,327**	**164,722,674**	**168,634,225**
Financial liabilities				
Liabilities from derivatives	80,363	-	-	80,363
Deposits and other liabilities due to banks, other financial institutions and central bank	-	-	14,570,929	14,570,929
Deposits and other liabilities due to customers	-	-	106,318,415	106,318,415
Total financial liabilities	**80,363**	**-**	**120,889,344**	**120,969,707**

All amounts are expressed in 000 RSD unless stated otherwise

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

In RSD thousand	Financial assets at FVTPL	Financial assets at amortised cost	**Total 31.12.2018**
Financial assets			
Cash and assets held with the central bank	-	18,922,554	18,922,554
Pledged financial assets	-	1,523,992	1,523,992
Receivables from derivatives	51,465	-	51,465
Securities	115,718	10,693,400	10,809,118
Loans and receivables to banks and other financial institutions	-	15,885,158	15,885,158
Loans and receivables to customers	1,520	116,140,631	116,142,151
Other assets	-	580,814	580,814
Total financial assets	**168,703**	**163,746,549**	**163,915,252**
Financial liabilities			
Liabilities from derivatives	56,127	-	56,127
Deposits and other liabilities due to banks, other financial institutions and central bank	-	13,352,584	13,352,584
Deposits and other liabilities due to customers	-	102,537,069	102,537,069
Total financial liabilities	**56,127**	**115,889,653**	**115,945,780**

All amounts are expressed in 000 RSD unless stated otherwise

6. Interest income and expense

	2019	2018
INTEREST INCOME		
Interest income from dinar assets measured at amortised cost		
Loans	6,887,910	6,760,193
Deposits in banks	136,487	117,643
Securities	291,619	485,274
Other placements	67,068	153,223
Interest income from dinar assets measured at FVTPL		
Securities	-	9,592
Interest income from dinar assets measured at FVTOCI		
Securities	21,451	-
Interest income from foreign currency assets measured at amortised cost		
Loans	124,388	131,319
Deposits in banks	161,510	134,764
Securities	6,394	7,631
Other placements	16,984	490
Interest income from foreign currency assets measured at FVTPL		
Other placements (derivatives)	-	85,191
Total interest income	**7,713,811**	**7,885,320**
INTEREST EXPENSE		
Interest expense from dinar liabilities measured at amortised cost		
Deposits	(570,244)	(625,539)
Other liabilities	(26,438)	-
Interest expense from foreign currency liabilities measured at amortised cost		
Borrowings	(92,304)	(42,399)
Deposits	(357,910)	(240,449)
Interest expense from foreign currency liabilities measured at FVTPL		
Other liabilities (derivatives)	-	(49,550)
Other liabilities (lease liabilities)	(47,140)	-
Total interest expense	**(1,094,036)**	**(957,937)**
NET INTEREST INCOME	**6,619,775**	**6,927,383**

Total interest income on impaired loans in 2019 amounted RSD 120 million.

All amounts are expressed in 000 RSD unless stated otherwise

7. Fee and commission income and expense

	2019	2018
Fees and commissions income		
Fees for banking services	2,260,453	2,255,518
Commissions from issued guarantees and other sureties	84,177	92,590
Other fees and commissions	342,324	350,391
Total	**2,686,954**	**2,698,499**
Fees and commissions expense		
Fees for domestic payment transactions	(79,404)	(76,244)
Fees for payment transactions abroad	(39,872)	(34,079)
Other fees and commissions	(569,040)	(485,071)
Total	**(688,316)**	**(595,394)**
Net fees and commissions income	**1,998,638**	**2,103,105**

8. Net gains arising from changes in the fair value of financial instruments

Net gains from changes in the fair value of financial instruments:

	2019	2018
Net gains/(losses) from changes in the fair value of derivatives	13,727	(2,488)
Net gains from changes in the fair value of financial instruments at fair value through profit and loss	21,392	4,401
Net gains	**35,119**	**1,913**

9. Net gains arising from derecognition of financial instruments measured at fair value

	2019	2018
Gains from derecognition of financial instruments measured at fair value	3,660	677
Losses from derecognition of financial instruments measured at fair value	(4)	(192)
Net gains	**3,656**	**485**

10. Net foreign exchange gains

	2019	2018
Foreign exchange gains	14,462,610	19,591,023
Foreign exchange losses	(14,423,619)	(19,541,095)
Net foreign exchange rate gains	**38,991**	**49,928**

All amounts are expressed in 000 RSD unless stated otherwise

11. Net losses arising from impairment of financial assets which are not measured at fair value

	2019	2018
Income from reversal of provisions and impairment losses		
Loans and receivables to customers (Note 24)	3,384,563	1,995,205
Other assets (Note 29)	15,143	30,488
Off balance sheet items (Note 34)	38,475	209,673
Loans and receivables to banks	430	453
Collected written off loans and receivables	575,723	519,122
Subtotal	**4,014,334**	**2,754,941**
Expenses for provisions and impairment charge		
Loans and receivables to customers (Note 24)	(4,712,251)	(3,244,895)
Other assets (Note 29)	(8,675)	(20,379)
Off balance sheet items (Note 34)	(36,937)	(56,492)
Loans and receivables to banks	(362)	(64,709)
Subtotal	**(4,758,225)**	**(3,386,475)**
Net provisions and impairment	**(743,891)**	**(631,534)**

12. Net gains/(losses) arising from derecognition of financial instruments measured at amortized cost

Net gains/(losses) on derecognition of CHF mortgage portfolio and net gains from sale of receivables to the third parties for the year 2019 and 2018 are presented in the below table:

	2019	2018
Net losses on derecognition of CHF mortgage loans	(2,103,559)	-
Net gains from sale of receivables	148	3,489
Net gains	**(2,103,411)**	**3,489**

As of 25th April 2019, the Parliament of Republic of Serbia has adopted the Law on the Conversion of Mortgage Loans Indexed in Swiss Francs. Pursuant to the aforementioned Law, the banks were obligated to offer the conversion of the remaining debt indexed in CHF into debt indexed in EUR within 30 days of the Law coming into effect. The conversion also envisaged a 38% haircut of the converted debt amount and the application of interest rate as per the bank offer valid on 31 March 2019 for EUR indexed loans.

The Republic of Serbia has undertaken to reimburse 15% of the debt amount obtained through conversion while 23% was the Bank's loss. The Bank is also entitled to tax credit of 2% of the amount of the remaining debt at conversion date (outstanding principal plus due but not collected interest) (Note 21). Regarding the tax and accounting treatment of the debt reduction, the Bank recorded it in its books as tax recognized expenditure pursuant to the corporate income tax law.

All amounts are expressed in 000 RSD unless stated otherwise

13. Other operating income

	2019	2018
Rental income	1,077	2,678
Dividends income	1,136	403
Other income	21,929	26,476
Total other operating income	**24,142**	**29,557**

14. Salaries, benefits and other personnel expenses

	2019	2018
Salaries	(1,384,202)	(1,353,933)
Taxes on salaries and benefits	(170,881)	(166,067)
Contributions on salaries and benefits	(365,828)	(357,779)
Other personnel expenses	(41,635)	(29,133)
Expenses related to retirement benefits	(62,685)	(25,505)
Total	**(2,025,231)**	**(1,932,417)**

15. Depreciation and amortization

	2019	2018
Intangible assets (Note 26)	(279,898)	(240,576)
RoU assets – IFRS 16 (Note 27)	(305,283)	-
Property, plant and equipment (Note 27)	(194,601)	(188,922)
Total	**(779,782)**	**(429,498)**

16. Other income and other expenses

a) Other income

	2019	2018
Income from reversal of provisions	6,297	9,362
Gains on sale of property, plant, equipment and intangible assets	64	1,044
Income from collection of claims and litigation	82,660	66,615
Other income	8,913	13,569
Total	**97,934**	**90,590**

All amounts are expressed in 000 RSD unless stated otherwise

16. Other income and other expenses (continued)

b) *Other expenses*

	2019	2018
Administrative expenses	1,193,026	1,520,750
Non-material expenses	1,124,743	1,062,418
Contributions for salaries on behalf of employer	315,274	321,822
Materials	155,994	147,916
Taxes	50,605	54,199
Disposals and write-offs of intangible assets and PPE	5,936	9,392
Impairment of property	-	314,242
Legal expenses and taxes	70,200	64,580
Other expenses	132,007	103,997
Provisions for legal cases (Note 34)	45,146	39,871
Total	**3,092,931**	**3,639,187**

Detailed breakdown of administrative expenses is presented in the table below:

	2019	2018
Transportation services	42,148	72,945
Communication services	122,904	117,714
Telephone	24,752	21,931
Software maintenance	514,174	448,459
Hardware maintenance	50,555	47,790
Maintenance of fixed assets	35,968	36,060
ATM maintenance	17,847	17,083
Marketing and advertising	226,220	295,926
Donations	10,131	16,792
Rent	70,647	375,997
Other services	77,680	70,053
Total	**1,193,026**	**1,520,750**

As of 31 December 2019, non–material expenses in the amount of RSD 1,124,743 thousand (2018: RSD 1,062,418 thousand) comprise of the following expenses: deposit insurance expenses in the amount of RSD 526,018 thousand (2018: RSD 475,374 thousand), expenses for legal services in the amount of RSD 184,936 thousand (2018: RSD 193,081 thousand), employee transportation expenses in the amount of RSD 45,864 thousand (2018: RSD 45,169 thousand), cleaning services in the amount of RSD 31,290 thousand (2018: RSD 25,013 thousand), safeguarding expenses in the amount of RSD 43,115 thousand (2018: RSD 38,677 thousand), expenses for printing statements for cards in the amount of RSD 39,480 thousand (2018: RSD 39,642 thousand), services of youth organization in the amount of RSD 10,999 thousand (2018: RSD 10,878 thousand), collection services in the amount of RSD 31,145 thousand (2018: RSD 25,814 thousand), information system services in the amount of RSD 25,862 thousand (2018: RSD 24,333 thousand), intellectual services in the amount of RSD 21,012 thousand (2018: RSD 29,508 thousand) and other expense.

All amounts are expressed in 000 RSD unless stated otherwise

17. Income tax

Income tax:

	2019	2018
Current income tax expense	-	(318,712)
Deferred income tax gains/(expenses)	235,841	(8,289)
Total	**235,841**	**(327,001)**

Deferred tax income/ (expense) relates to the following items:

	2019	2018
Depreciation	(18,104)	3,035
Long term provisions	1,643	(2,085)
Tax credits	252,302	(9,239)
Total	**235,841**	**(8,289)**

The tax on the Bank's profit or loss before tax differs from the theoretical amount that would arise by using prescribed tax rate:

		2019		2018
Profit before tax		**73,009**		**2,573,814**
Tax calculated at the rate of 15%		(10,951)		(386,072)
Reconciliation of effective interest rate				
Non-deductible expenses and other		(4,648)		(5,455)
Transfer prices adjustment		-		(83)
Non-taxable income		55,102		83,226
Difference in net carrying amount of asset for tax and financial reporting purpose		2,616		21,923
Employee benefits		(7,035)		579
Impairment of property		(263)		(47,345)
Other (effects of IFRS 9 implementation)		5,276		5,276
Tax losses carried forward		-		9,239
Current year income tax		**40,097**		**(318,712)**
Tax effect of temporary differences (gains/(losses))		(16,461)		950
Release of previously recognized tax credits		-		(9,239)
Tax credits (Note 28)		212,205		-
Total income tax income/(expense)	***-323.03%***	**235,841**	***12.70%***	**(327,001)**

As at 31 December 2019 the Bank has no income tax calculated in accordance with the tax legislation. The most significant effect on the CIT deduction came from the interest income on debt securities issued by the Republic of Serbia, which are exempted from taxation, along with the effects of the IFRS 9 first-time adoption (year 2019 is the second tax period for which these effects are recognized for tax purposes). The Bank reported a tax loss of RSD 267,312 thousand in the corporate income tax return for the year 2019.

All amounts are expressed in 000 RSD unless stated otherwise

17. Income tax (continued)

As at 31 December 2019, the Bank has RSD 300,622 thousand of current tax assets relating to receivables for income tax paid in advance.

Pursuant to the Article 14 of the Law on Conversion of Housing Loans Indexed in Swiss Francs (Official Gazette RS No. 31/19), the Bank is entitled to a tax credit calculated in the amount of RSD 212,205 thousand. The Bank has the right to use a tax credit for two consecutive tax periods in the amount of 50% of the tax credit. The unused tax credit amount can be carried forward and offset with the future tax liability, but not longer than ten years. The Bank expects to utilize tax credit over the next 10 years, starting from 2020. The Bank's management estimates that the level of taxable profit in the following period will be sufficient in order to utilize the amount of the tax credit.

18. Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

As at 31 December 2019, the Bank has 43 preference shares issued. No preference dividends are declared, and therefore there is no effect on basic earnings per share.

	2019	**2018**
Profit attributable to equity holders of the Bank (in RSD thousand)	308,850	2,246,813
Weighted average number of ordinary shares in issue	254,224	254,224
Basic earnings per share (expressed in RSD per share)	**1,215**	**8,838**

19. Cash and assets held with the central bank

	31-Dec-2019	**31-Dec-2018**
In dinars		
Current account	9,721,011	5,699,935
Cash in hand	1,946,978	1,528,679
In foreign currency		
Cash in hand	1,795,334	2,265,723
Other cash and cash equivalents	2,177	2,519
Required reserve at Central Bank	9,403,717	9,425,698
Total	**22,869,217**	**18,922,554**

Mandatory reserves in local currency and in foreign currency are calculated by Bank in accordance with the Decision on Bank's Mandatory Reserves with the National bank of Serbia (Official Gazette of Republic of Serbia no 76/2018), and "Guidelines for Implementing the Decision on mandatory reserves with the National Bank of Serbia" (Official Gazette of Republic of Serbia no, 76/2018, 21/2019).

All amounts are expressed in 000 RSD unless stated otherwise

19. Cash and assets held with the central bank (continued)

As at 31 December 2019 calculated mandatory reserves in local currency amounted to RSD 6,892,783 thousand (in 2018: RSD 6,950,539 thousand). Mandatory reserves in local currency are included in the balance of the current account, therefore not presented separately. The Bank can use mandatory reserves to maintain its liquidity.

As at 31 December 2019 calculated mandatory reserves in foreign currency amounted to EUR 79,526 thousand (in December 2018: EUR 79,640 thousand). Pursuant to NBS Decision on mandatory reserves the Bank is obligated to set aside funds for mandatory reserves in foreign currency on the separate account with NBS.

Foreign currency mandatory reserves on deposits with maturity up to 2 years stand at 20%. The reserves should be maintained as follows: 38% of the reserve should be maintained in dinars and 62% of reserve should be maintained in euros. Local currency mandatory reserves on deposits with maturity up to 2 years stand at 5%.

Foreign currency mandatory reserves on deposits with maturity over 2 years stand at 13%. This reserve should be maintained as follows: 30% of the reserve should be maintained in dinars and 70% of the reserve should be maintained in euros. Local currency mandatory reserves on deposits with maturity over 2 years do not require any reserves.

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances with less than 90 days original maturity:

	31 December 2019	31 December 2018
Cash and assets held with the central bank		
In dinars		
Current account	9,721,126	5,700,014
Cash in hand	1,946,978	1,528,679
In foreign currency		
Cash in hand	1,795,340	2,265,727
Other cash and cash equivalents	2,177	2,519
Loans and receivables to banks and financial institutions (Note 23)		
Foreign currency account	2,754,750	3,377,602
Total cash flow	**16,220,371**	**12,874,541**

20. Pledged financial assets

As at 31 December 2019 the Bank has pledged financial assets in the amount of RSD 1,833,270 thousand relate to the pledged RS Ministry of Finance bills in dinars that was given as collateral for deposits taken from companies in bankruptcy. As at 31 December 2018 the Bank has pledged financial assets in the amount of RSD 1,523,992 thousand.

All amounts are expressed in 000 RSD unless stated otherwise

21. Receivables from derivatives and liabilities from derivatives

Derivative assets and liabilities:

	31 December 2019			31 December 2018		
	Contract/ notional amount	Fair values Assets	Fair values Liabilities	Contract/ notional amount	Fair values Assets	Fair values Liabilities
Derivatives held for trading						
Currency swaps	930,053	-	159	3,195,928	23	458
Interest rate swaps	9,280,354	74,179	80,204	19,329,255	51,442	55,669
Total	**10,210,407**	**74,179**	**80,363**	**22,525,183**	**51,465**	**56,127**

22. Securities

	31 December 2019				31 December 2018		
	Financial assets at FVTPL	Financial assets at FVTOCI	Financial assets at amortized cost	Total	Financial assets at FVTPL	Financial assets at amortized cost	Total
In dinars							
Shares	415	-	-	415	418	-	418
State bonds	19,271	3,700,327	4,447,488	8,167,086	87,775	11,884,995	11,972,770
In foreign currency							
Shares	41,799	-	-	41,799	27,343	-	27,343
State bonds	-	-	343,189	343,189	-	345,300	345,300
Less adjustment or impairment allowance	(106)	-	(1,696)	(1,802)	182	(12,903)	(12,721)
Securities including pledged assets	**61,379**	**3,700,327**	**4,788,981**	**8,550,687**	**115,718**	**12,217,392**	**12,333,110**
Pledged financial assets (Note 20)	-	-	(1,833,270)	(1,833,270)	-	(1,523,992)	(1,523,992)
Total	**61,379**	**3,700,327**	**2,955,711**	**6,717,417**	**115,718**	**10,693,400**	**10,809,118**

All amounts are expressed in 000 RSD unless stated otherwise

23. Loans and receivables to banks and other financial institutions

	31 December 2019					31-Dec-2018
	Domestic banks	Foreign banks	Financial institutions	National Bank of Serbia	Total	Total
Repo in dinars	-	-	-	5,861,626	5,861,626	4,501,793
Receivables for calculated interest	14	-	-	-	14	46
Deposits in dinars						
Deposits in foreign currency						
Foreign banks accounts	-	2,754,750	-	-	2,754,750	3,377,602
Other deposits	2,760,619	4,641,195	4,704	-	7,406,518	7,108,099
Other special purpose deposits	-	976,571	-	-	976,571	833,236
Placements in dinars						
Investments loans	-	-	36,066	-	36,066	-
Other loans	606	-	24,622	-	25,228	57,918
Accrued interest receivables	-	-	414	-	414	338
Placements in foreign currency						
Other placements	-	-	1,841	-	1,841	1,834
Accrued interest receivables	82	2,363	1,502	-	3,947	6,571
Loans and placements, gross	**2,761,321**	**8,374,879**	**69,149**	**5,861,626**	**17,066,975**	**15,887,437**
Less: Provisions	(247)	(1,588)	(198)	(185)	(2,218)	(2,279)
Loans and placements, net	**2,761,074**	**8,373,291**	**68,951**	**5,861,441**	**17,064,757**	**15,885,158**

All amounts are expressed in 000 RSD unless stated otherwise

24. Loans and receivables to customers

	31 December 2019						31-Dec-2018
	Companies	Entrep-reneurs	Individuals	Foreign entities	Other clients	Total	Total
Deposits in dinars							
Other special purpose deposits	31,500	-	-	-	-	31,500	31,500
Placements in dinars							
Interest and fee receivables	84,409	110,150	140,607	36	82,127	417,329	515,946
Investment loans	9,200,714	2,314,047	-	-	4,697	11,519,458	7,238,568
Overdrafts	218,499	135,009	868,715	-	710	1,222,933	1,143,931
Working capital loans	30,182,737	200,558	-	-	114	30,383,409	33,699,648
Mortgage loans	-	-	13,325,461	30,362	-	13,355,823	17,745,542
Other loans	12,017,330	507,786	4,999,724	-	5,018	17,529,858	15,511,443
Cash loans	-	-	42,521,718	-	-	42,521,718	37,728,670
Consumer loans	-	-	26,680	-	-	26,680	27,906
Other placements	-	11	5,816	-	41	5,868	4,515
Accrued interest receivables	61,844	7,090	236,067	76	59	305,136	314,790
Placements in foreign currency							
Interest and fee receivables	-	-	-	-	-	-	-
Import loans	6,497,423	-	-	-	-	6,497,423	6,431,905
Other loans	85,287	-	-	-	-	85,287	118,906
Other placements	629,617	-	-	-	-	629,617	1,090,690
Accrued interest receivables	3,514	-	-	-	-	3,514	3,855
Deferred income using effective interest rate	(102,279)	-	(20,119)	-	-	(122,398)	(144,611)
Loans and placements, gross	**58,910,595**	**3,274,651**	**62,104,669**	**30,474**	**92,766**	**124,413,155**	**121,463,204**
Less: Provisions	(1,498,532)	(668,464)	(2,647,241)	(275)	(31,153)	(4,845,665)	(5,321,053)
Loans and placements, net	**57,412,063**	**2,606,187**	**59,457,428**	**30,199**	**61,613**	**119,567,490**	**116,142,151**

The Bank approves indexed loans to retail customers, where the interest rate ranges from 2.60% -16.40% per annum and RSD loans with interest rates between 2.98% - 34.51%. Interest rates for indexed loans to legal entities ranged between 1.60% and 3.75% per annum and for RSD loans between 2.40% and 4.10% per annum.

25. Investments in associates

	31 December 2019	31 December 2018
Investments in associates	**34,320**	**36,075**

As at 31 December 2019 the Bank is holding 49.49% of the voting rights of the ERB Leasing in liquidation a.d. Beograd (31 December 2018: 49.49%).

All amounts are expressed in 000 RSD unless stated otherwise

26. Intangible assets

	Intangible assets	In course of construction and advances	Total
As at 1 January 2018			
Cost	4,059,301	109,122	4,168,423
Accumulated amortization	(2,223,533)	-	(2,223,533)
Net book value	**1,835,768**	**109,122**	**1,944,890**
Year ended 31 December 2018			
Opening net book value	**1,835,768**	**109,122**	**1,944,890**
Additions	-	457,212	457,212
Transfers	452,095	(452,095)	-
Amortization (Note 15)	(240,576)	-	(240,576)
Closing net book value	**2,047,287**	**114,239**	**2,161,526**
As at 31 December 2018			
Cost	4,511,396	114,239	4,625,635
Accumulated amortization	(2,464,109)	-	(2,464,109)
Net book value	**2,047,287**	**114,239**	**2,161,526**
Year ended 31 December 2019			
Opening net book value	**2,047,287**	**114,239**	**2,161,526**
Additions	-	436,152	436,152
Transfers	370,347	(370,347)	-
Amortization (Note 15)	(279,898)	-	(279,898)
Closing net book value	**2,137,736**	**180,044**	**2,317,780**
As at 31 December 2019			
Cost	4,572,366	180,044	4,752,410
Accumulated amortization	(2,434,630)	-	(2,434,630)
Net book value	**2,137,736**	**180,044**	**2,317,780**

Book value of intangible assets does not materially differ from fair value.

All amounts are expressed in 000 RSD unless stated otherwise

27. Property, plant and equipment

a) *Fixed assets*

	Land and buildings	Equipment and other assets	In course of construction and advances	Total
As at 1 January 2018				
Cost	3,932,475	1,563,557	13,867	5,509,899
Accumulated depreciation and impairment	(869,640)	(1,057,107)	-	(1,926,747)
Net book value	**3,062,835**	**506,450**	**13,867**	**3,583,152**
Year ended 31 December 2018				
Opening net book amount	3,062,835	506,450	13,867	3,583,152
Additions	57,319	-	305,502	362,821
Transfers	41,366	182,706	(281,393)	(57,321)
Disposal/Write off	(1,207)	(7,447)	-	(8,654)
Impairment	(314,241)	-	-	(314,241)
Depreciation (Note 15)	(71,573)	(117,349)	-	(188,922)
Closing net book value	**2,774,499**	**564,360**	**37,976**	**3,376,835**
As at 31 December 2018				
Cost	4,018,411	1,664,119	37,976	5,720,506
Accumulated depreciation and impairment	(1,243,912)	(1,099,759)	-	(2,343,671)
Net book value	**2,774,499**	**564,360**	**37,976**	**3,376,835**
Year ended 31 December 2019				
Opening net book amount	2,774,499	564,360	37,976	3,376,835
Additions	30,585	-	257,312	287,897
Transfers	48,636	214,257	(293,479)	(30,586)
Disposal/Write off	-	(5,987)	-	(5,987)
Depreciation (Note 15)	(76,980)	(117,622)	-	(194,602)
Closing net book value	**2,776,740**	**655,008**	**1,809**	**3,433,557**
As at 31 December 2019				
Cost	3,744,338	1,808,761	1,809	5,554,908
Accumulated depreciation and impairment	(967,598)	(1,153,753)	-	(2,121,351)
Net book value	**2,776,740**	**655,008**	**1,809**	**3,433,557**

As at 31 December 2019 there are no pledges over the Bank's property, plant and equipment.

All amounts are expressed in 000 RSD unless stated otherwise

27. Property, plant and equipment (continued)

b) *Right of use (RoU) of assets – IFRS 16 Leases*

Information on leased assets with right of use, amounts recognized in the income statement and cash-flow statement are presented as follows:

Right of use assets - IFRS 16	Vehicles	Buildings	Other	Total
Cost				
As at 1 January 2019	**656**	**2,128,808**	**25,901**	**2,155,365**
Additions	159,371	185,169	-	344,540
Disposals	-	(3,843)	-	(3,843)
As at 31 December 2019	**160,027**	**2,310,134**	**25,901**	**2,496,062**
Accumulated depreciation and impairment				
As at 1 January 2019	**-**	**-**	**-**	**-**
Depreciation	(24,109)	(264,982)	(16,162)	(305,253)
Disposal/Write off	-	-	-	-
As at 31 December 2019	**(24,109)**	**(264,982)**	**(16,162)**	**(305,253)**
Net book value as at 31 December 2019	**135,918**	**2,045,152**	**9,739**	**2,190,809**
Net book value as at 1 January 2019	**656**	**2,128,808**	**25,901**	**2,155,365**

At 31 December 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows:

	31 December 2018
Not later than one year	65,667
Later than one year but no later than five years	-
Later than five years	-
Total	**65,667**

AMOUNTS RECOGNIZED IN INCOME STATEMENT	
2019 - Leases under IFRS 16	**2019**
Interest expense	73,578
Short-term lease expenses (exempted from the IFRS 16 scope)	5,616
Low value lease expenses, other than short-term leases (exempted from the IFRS 16 scope)	18,744
Tax expenses	64,719
2018 - Operating leases under IAS 17	**2018**
Operating lease expenses	439,217

AMOUNT RECOGNIZED IN THE STATEMENT OF CASH FLOWS	**2019**
Total cash outflows for leases	354,645

All amounts are expressed in 000 RSD unless stated otherwise

28. Deferred tax assets and liabilities

Deferred tax assets and liabilities as at 31 December:

	2019	2018
Deferred tax assets	291,474	42,805
Deferred tax liabilities	(201,481)	(163,181)

Deferred tax assets	**31 December 2019**	**31 December 2018**
Opening balance of deferred tax assets as at 1 January	**42,805**	**33,025**
Changes during the year:		
Increase/(decrease) of deferred tax assets related to temporary differences arising from the provisions for pensions	555	(232)
Increase/(decrease) of deferred tax assets related to temporary differences arising from the provisions for legal cases	1,088	(1,854)
Deferred tax assets on losses carried forward (Note 17)	40,097	-
Deferred tax assets on tax credits (Note 17)	212,205	(9,239)
Deferred tax income/(expense) for the year	**253,945**	**(11,325)**
(Decrease)/Increase of deferred tax assets on revaluation reserves	**(5,276)**	**21,105**
Deferred tax assets as at 31 December	**291,474**	**42,805**

Deferred tax liabilities	**31 December 2019**	**31 December 2018**
Opening balance of deferred tax liabilities as at 1 January	**(163,181)**	**(165,302)**
Changes during the year:		
(Increase)/decrease of deferred tax liabilities related to temporary differences arising from depreciation costs treatment	(18,104)	3,035
Deferred tax income/(expense) for the year	**(18,104)**	**3,035**
(Increase)/decrease of deferred tax liabilities on actuarial losses	17	(914)
(Increase)/decrease of deferred tax liabilities arising from revaluation reserves for securities	(20,213)	-
Deferred tax liabilities as at 31 December	**(201,481)**	**(163,181)**

All amounts are expressed in 000 RSD unless stated otherwise

29. Other assets

	31 December 2019	31 December 2018
Prepayments and accrued income in dinars		
Accrued interest	33	40
Prepayments	346,753	351,627
Other prepayments and accrued income	1,441	15,108
Prepayments and accrued income in foreign currency		
Accrued interest	108	109
Other prepayments and accrued income	14	-
Total	**348,349**	**366,884**
Other receivables in dinars		
Employees	16	12
Advances for current assets	29,959	30,981
Advances for property, plant and equipment	16,589	57,180
For prepaid taxes and contributions	364	137
Suspense and temporary accounts	39,636	28,376
Other fee receivables	43,407	34,727
Other receivables	35,665	48,876
Other receivables in foreign currency		
Advances for current assets	914	919
Suspense and temporary accounts	4,624	22,079
Other fee receivables	94	281
Other receivables	114,285	118,508
Total	**285,553**	**342,076**
Inventory		
Material	4,607	5,082
Total	**4,607**	**5,082**
Other assets, gross	**638,509**	**714,042**
Less: Impairment	(130,614)	(133,228)
Other assets, net	**507,895**	**580,814**

30. Liabilities from derivatives

	31 December 2019	31 December 2018
Liabilities in dinars		
Increase in fair value of derivatives	159	1,188
Liabilities in foreign currency		
Increase in fair value of derivatives	80,204	54,939
Total (Note 21)	**80,363**	**56,127**

All amounts are expressed in 000 RSD unless stated otherwise

31. Reconciliation of movements of liabilities to cash flows arising from financing activities

The table below sets out an analysis of our debt and the movements in Bank's debt for each of the periods presented. The debt items are those that are reported as financing in the statement of cash flows:

	Borrowed funds
Net debt at 1 January 2018	**8,985,917**
Cash inflows	21,657,191
Cash outflows	(17,890,279)
Foreign exchange adjustments	(27,021)
Net debt at 31 December 2018	**12,725,808**
Cash inflows	28,507,083
Cash outflows	(27,525,304)
Foreign exchange adjustments	(70,168)
Net debt at 31 December 2019	**13,637,419**

32. Deposits and other financial liabilities due to banks, other financial institutions and central bank

	31 December 2019				31-Dec-2018
	Foreign banks	Domestic banks	Financial institutions	Total	Total
Transaction deposits in dinars	**26,728**	**4,299**	**2,964**	**33,991**	**62,721**
Transaction deposits in foreign currency	**5**	**1**	**35,786**	**35,792**	**30,118**
Other deposits and liabilities in dinars					
Special purpose deposits	210	-	19,104	19,314	256
Other deposits	-	-	1,371,914	1,371,914	845,972
Interest and fees accruals in dinars	-	-	3,070	3,070	1,654
Other deposits and liabilities in foreign currency					
Special purpose deposits	215	-	770	985	785
Other deposits	-	262,296	95,945	358,241	332,832
Borrowings	-	-	12,734,949	12,734,949	12,044,151
Interest and fees accruals	8,707	11	24,518	33,236	34,095
Interest, fees and commissions liabilities	49	-	-	49	-
Deferred cost using effective interest rate	(20,612)	-	-	(20,612)	-
Total	**15,302**	**266,607**	**14,289,020**	**14,570,929**	**13,352,584**

The structure of the Bank's borrowings as at 31 December 2019 is presented in the below table:

	Currency	Balance as at 31 December 2019	Balance as at 31 December 2018	Nominal interest rate
European Bank for Reconstruction and Development	EUR	12,734,949	10,885,845	0.381% - 0.392%
Banca Popolare di Sondrio	EUR	-	1,158,306	0.254%
Total		**12,734,949**	**12,044,151**	

All amounts are expressed in 000 RSD unless stated otherwise

33. Deposits and other financial liabilities due to customers

	31 December 2019							31-Dec-2018
	Public sector	Companies	Entrep-reneurs	Private individuals	Foreign entities	Other clients	Total	Total
Transaction deposits in dinars	**710**	**6,828,607**	**1,077,529**	**5,621,152**	**54,685**	**5,605,200**	**19,187,883**	**10,383,818**
Transaction deposits in foreign currency	**-**	**2,176,695**	**91,303**	**25,235,083**	**1,126,795**	**168,547**	**28,798,423**	**26,169,830**
Other deposits and liabilities in dinars								
Savings deposits	-	-	-	1,437,150	6,803	-	1,443,953	1,206,636
Special purpose deposits	-	126,287	2,510	28,446	1,927	-	159,170	115,872
Deposits pledged as collateral	-	202,261	16,907	4,972	-	-	224,140	114,269
Other deposits	30,000	4,938,917	132,262	-	-	3,107,669	8,208,848	15,462,614
Other financial liabilities	-	125	-	55,337	-	610	56,072	49,865
Interest, provisions and fees payable	-	272	95	32	-	5	404	462
Interest accruals	4	6,379	320	17,700	68	12,474	36,945	232,336
Other deposits and liabilities in foreign currency								
Savings deposits	-	-	-	37,925,376	849,198	-	38,774,574	42,148,450
Special purpose deposits	-	547,332	19,188	96,078	42,119	24,789	729,506	381,976
Deposits pledged as collateral	-	959,774	7,644	627,025	1,843	-	1,596,286	1,724,883
Other deposits	4,197	5,012,645	-	-	260,830	547,913	5,825,585	3,670,877
Borrowings	902,471	-	-	-	-	-	902,471	681,660
Other financial liabilities	-	-	-	-	-	137,366	137,366	87,061
Interest, provisions and fees payable in foreign currency	-	-	-	245	-	-	245	252
Interest accruals	379	5,198	6	223,614	6,771	576	236,544	106,208
Total	**937,761**	**20,804,492**	**1,347,764**	**71,272,210**	**2,351,039**	**9,605,149**	**106,318,415**	**102,537,069**

No interest rates calculated on demand corporate deposits in local/foreign currency during 2019. Term corporate deposits in local currency carry interest rate from 1.5% to 3.75% per annum and corporate foreign currency term deposits carry interest rate from 0.50% to 1.00% per annum. The interest rate on the current and demand deposits of citizens range up to 0.50% per annum for EUR and up to 4.90% for RSD (stock of old products). New production of current and demand deposits is 0.50% for EUR and 2.40%RSD. Interest rate on foreign currency term deposits varied from 0.10% to 1.30% in EUR while interest rate on RSD term deposits of citizens ranged from 1.50% to 4.00% per annum.

Borrowings from the public sector in the amount of RSD 902,471 thousand as at 31 December 2019 (RSD 680,660 thousand as at 31 December 2018) are related to long-term loans from European investment bank (EIB) where the Bank acts as intermediary bank, while the Republic of Serbia is the ultimate debtor.

All amounts are expressed in 000 RSD unless stated otherwise

34. Provisions

	31 December 2019	31 December 2018
Provisions for off-balance sheet exposures	51,708	53,393
Provisions for legal cases (Note 37 b)	112,606	105,351
Provisions for retirement	43,021	39,319
Other provisions in accordance with IAS 19 requirements	61,834	28,485
Total	**269,169**	**226,548**

Movements in total provisions:

	Bonuses and other - IAS 19	Retirement	Legal cases	Off balance sheet	Total
Opening balance 2018	**29,369**	**40,869**	**117,706**	**243,374**	**431,318**
IFRS 9 first time adoption effects	-	-	-	(36,682)	(36,682)
Provisions paid during the year	(20,617)	(1,226)	(42,848)	-	(64,691)
New provisions	19,733	5,772	39,870	56,492	121,867
Release of provisions (Note 11)	-	(6,096)	(9,362)	(209,673)	(225,131)
Net exchange loss	-	-	(15)	(118)	(133)
Closing balance 2018	**28,485**	**39,319**	**105,351**	**53,393**	**226,548**
Provisions paid during the year	(23,802)	(1,945)	(31,594)	-	(57,341)
New provisions	57,151	5,534	45,146	36,937	144,768
Release of provisions (Note 11)	-	113	(6,297)	(38,475)	(44,659)
Net exchange loss	-	-	-	(147)	(147)
Closing balance 2019	**61,834**	**43,021**	**112,606**	**51,708**	**269,169**

The movement of the liability for standard legal staff retirement indemnity obligations is as follows:

	2019	2018
Retirement benefit obligation at 01 January	**39,319**	**40,869**
Benefits paid and expense included in staff costs	3,588	4,545
Remeasurement recognised in OCI	114	(6,095)
Retirement benefit obligation at 31 December	**43,021**	**39,319**

Principal actuarial assumptions used for retirement indemnities (expressed as weighted averages):

	31 December 2019	31 December 2018
Discount rate	4.70%	4.70%
National average salary increases	2.00%-4.25%	2.00%-4.25%
Inflation rate	3.00%	3.20%

All amounts are expressed in 000 RSD unless stated otherwise

35. Other liabilities

	31 December 2019	31 December 2018
Liabilities for salaries and benefits		
Temporary and occasional assignments	5,886	5,638
Other liabilities towards employees	281	952
Subtotal	**6,167**	**6,590**
Other liabilities in dinars		
Operations managed on behalf of third parties	263	258
Advances received	138	110
Suppliers	171,147	139,469
Temporary and suspense accounts	9,350	7,574
Liabilities from profit	700	700
Other liabilities	40,676	66,582
Lease liabilities	904,291	-
Liabilities for interest and fees	28,125	25,405
Other obligations in foreign currency		
Advances received	18,807	42,913
Lease liabilities	1,293,470	-
Suppliers	32,982	33,151
Temporary and suspense accounts	426	278
Other liabilities	7,984	6,095
Subtotal	**2,508,359**	**322,535**
Value added tax	63,055	59,745
Other taxes and contributions	9,404	7,385
Subtotal	**72,459**	**67,130**
Accruals and deferred income in dinars		
Other accrued expenses	79,850	103,898
Deferred income from fees	18,676	21,100
Deferred interest income	73,175	-
Other accruals and deferred income (revaluation of FX derivatives)	25,094	57,879
Accruals and deferred income in foreign currency		
Other accrued expenses	20,423	15,185
Other accruals and deferred income	114	406
Subtotal	**217,332**	**198,468**
Total	**2,804,317**	**594,723**

Long term lease liabilities in line with the IFRS 16 requirements as of 31 December 2019 are presented in the below table:

Maturity analysis - Contractual undiscounted cash flows	**31 December 2019**
Less than 1 year	340,405
Between 1 and 5 years	1,115,851
More than 5 years	1,592,698
Total	**3,048,954**

All amounts are expressed in 000 RSD unless stated otherwise

36. Equity

Equity of the Bank comprises share capital, share premium, statutory reserves, revaluation reserves and accumulated gains and losses:

	31 December 2019	31 December 2018
Share capital and share premium		
Share capital ordinary shares	25,422,400	25,422,400
Share capital preference shares	4,300	4,300
Share premium	6,051,999	6,051,999
Subtotal	**31,478,699**	**31,478,699**
Statutory and other reserves	9,561,062	9,561,062
Subtotal	**9,561,062**	**9,561,062**
Revaluation reserves		
Revaluation reserves	119,817	-
Actuarial loss on defined retirement benefits	5,271	5,368
Subtotal	**125,088**	**5,368**
Accumulated profit	11,484,414	9,242,877
Current year profit	308,850	2,246,813
Subtotal	**11,793,264**	**11,489,690**
Total shareholder's equity	**52,958,113**	**52,534,819**
Number of issued shares	**254,267**	**254,267**

Nominal value of the shares amounts to RSD 100,000 per share.

Statutory and other reserves in the total amount of RSD 9,561,062 thousand include:

a) Reserves from profit in the amount of RSD 533,941 thousand representing reserves which were formed before the Bank entered in the merger process with National Savings Bank, out which RSD 230,392 thousand were reserves of the National Savings Bank and RSD 303,549 thousand reserves of the EFG Eurobank a.d.

b) Reserves from profit in the amount of RSD 9,024,394 thousand are reserves that were formed as a special reserve from profit for estimated losses in accordance with past regulations. Reserves in the amount of RSD 6,635,693 thousand referring to the missing amount of reserves for estimated losses on balance sheet assets, and reserves in the amount of RSD 2,388,702 thousand referring to missing reserves for estimated losses on off-balance sheet items. Calculation of this reserve was established in the period from 2005 to 2013.

c) The revaluation reserves in the amount of RSD 2,727 thousand were reclassified at the beginning of the year 2018 from the position of the equity to other reserves from profit. These reserves were formed in the earlier period as an item intended to improve the housing conditions, when it was in compliance with the binding regulations for joint stock companies.

All amounts are expressed in 000 RSD unless stated otherwise

36. Equity (continued)

The shareholders structure of the Bank as at 31 December 2019 is presented in the table below:

Shareholder	Ordinary shares	%	Preference shares	%	Total shares	%
Eurobank Ergasias	141,868	55.80%	17	39.52%	141,885	55.80%
Berberis Investments Limited	3,690	1.45%	-	-	3,690	1.45%
ERB N.E. BV Holding Company Holland	108,666	42.75%	-	-	108,666	42.75%
Others	-	-	26	60.48%	26	0.00%
Total	**254,224**	**100.00%**	**43**	**100.00%**	**254,267**	**100.00%**

The reconciliation of the movements in number of common and preference shares is as follows:

	Common shares	Preference shares
Closing balance 2019	**254,224**	**43**
Closing balance 2018	**254,224**	**43**

Share issues and the changes in the Eurobank's share capital structure

During 2019 the Bank did not perform any capital increase.

Share premium

Share premium represents amounts issued over par. As at 31 December 2019 the Bank's share premium was RSD 6,051,999 thousand (31 December 2018: RSD 6,051,999).

37. Contingent liabilities and commitments

a) Litigations

As at 31 December 2019, the Bank has provisions for legal cases in the amount of RSD 112,606 thousand (31 December 2018: RSD 105,351 thousand). Provisions in the amount of RSD 90,017 thousand relate to litigations for the unilateral increase in interest rates that was performed in the past (31 December 2018: RSD 94,071 thousand), while provisions in the amount of RSD 15,536 thousand relate to litigations for the loan application fees.

As of 25th April 2019, the Parliament of Republic of Serbia has adopted the Law on the Conversion of Mortgage Loans Indexed in Swiss Francs. As a consequence of the performed conversion of 96% of the CHF mortgage loan portfolio, 703 litigations have been interrupted as of 31.12.2019, where the most probably the majority of them (primarily litigations for termination and annulment of the loan contract) shall be dismissed by the end of 2020.

All amounts are expressed in 000 RSD unless stated otherwise

37. Contingent liabilities and commitments (continued)

Management continues to monitor the issue and will decide on the need for a provision to be booked in accordance with IAS 37. At the moment, the management does not consider that possible negative implications for the Bank are probable.

b) *Off-balance positions*

The Bank's off-balance positions as at 31 December 2019 and as at 31 December 2018 are presented in the table below:

In RSD thousand	31 December 2019	31 December 2018
Off-balance sheet items exposed to credit risk		
Letters of credit	8,783	11,172
Performance guarantees	2,859,045	1,963,684
Payable guarantees	7,779,620	9,031,550
Irrevocable liabilities for undrawn loans and placements	21,391,492	19,109,432
Total off-balance items exposed to credit risk	**32,038,940**	**30,115,838**

38. Compliance with regulatory requirements

The Bank is obliged to comply with ratios defined by the Law on Banks. As at 31 December 2019, the Bank's ratios were in compliance with the prescribed levels:

Business indicators	Regulatory limit	2019*	Regulatory limit	2018*
Capital adequacy	min 8%	26.20%	min 8%	28.37%
Tier I CAD ratio	min 6%	26.20%	min 6%	28.37%
CET 1 ratio	min 4,5%	26.20%	min 4,5%	28.37%
Long term investments indicator	max 60%	15.37%	max 60%	8.70%
Largest individual exposure of the Bank	max 25%	16.03%	max 25%	19.35%
Large exposures indicator	max 400%	62.88%	max 400%	47.59%
Liquidity indicator:				
- first month of reporting period	min 1	1.52	min 1	1.43
- second month of reporting period	min 1	1.48	min 1	1.42
- last month of reporting period	min 1	1.63	min 1	1.48
Narrow liquidity indicator:				
- first month of reporting period	min 0.7	0.94	min 0.7	1.12
- second month of reporting period	min 0.7	1.04	min 0.7	0.97
- last month of reporting period	min 0.7	1.11	min 0.7	0.96
Currency risk	max 20%	1.63	max 20%	5.54
Liquidity coverage ratio	min 100%	196.00%	min 100%	224.63%
Concentration risk indicator	max 50%	4.22%	n/a	n/a

* *Unaudited*

As at 31 December 2019, the Bank was in compliance with all regulatory requirements.

39. Related parties' transactions

Eurobank a.d. Beograd is a subsidiary of Eurobank Ergasias ('Eurobank') which is listed on the Athens Stock Exchange.

In May 2019, following the increase of the share capital of the Bank in the context of the merger with absorption of Grivalia Properties REIC (note 47), the percentage of the Bank's ordinary shares with voting rights held by the Hellenic Financial Stability Fund (HFSF) decreased from 2.38% to 1.40%. The HFSF is still considered to have significant influence over the Bank pursuant to the provisions of the Law 3864/2010, as in force, and the Relationship Framework Agreement (RFA) the Bank has entered into with the HFSF. In particular, among others rights according to Law 3864/2010, as in force, and the RFA, HFSF exercises its voting rights in the Bank's General Assembly only for decisions concerning the amendment of the Bank's Articles of Association, including the increase or decrease of the Bank's capital or the granting of a corresponding authorization to the Bank's Board, decisions concerning the mergers, divisions, conversions, revivals, extension of duration or dissolution of the Bank, the transfer of assets (including the sale of subsidiaries), or any other issue requiring approval by an increased majority as provided for in Company Law 4548/2018. Further to this, the RFA signed on 4 December 2015 replacing the previous one, signed on 26 August 2014, regulates, among others, (a) the Bank's corporate governance, (b) the Restructuring Plan and its monitoring, (c) the monitoring of the implementation of the Bank's Non-Performing Loans (NPLs) management framework and of the Bank's performance on NPLs resolution, (d) the Material Obligations and the switch to full voting rights, (e) the monitoring of the Bank's actual risk profile against the approved Risk and Capital Strategy, (f) the HFSF's prior written consent for the Bank's Group Risk and Capital Strategy and for the Bank's Group Strategy, Policy and Governance regarding the management of its arrears and non-performing loans and any amendment, extension, revision or deviation thereof, and (g) the duties, rights and obligations of HFSF's Representative in the Bank's Board."

A number of banking transactions are entered into with related parties in the normal course of business and are conducted on an arm's length basis. These include loans, deposits and guarantees. In addition, as part of its normal course of business in investment banking activities, the Group at times may hold positions in debt and equity instruments of related parties.

On 20 March 2020 Eurobank Ergasias S.A. announced that, following the decision of the Extraordinary General Meeting of its shareholders held on 31 January 2020 and after obtaining the necessary approvals by the competent Authorities, its demerger through sector's hive down and establishment of a new company-credit institution ("Demerger") under the corporate name "Eurobank S.A." ("Eurobank") was completed. Furthermore, on 23 March 2020 the amendment of its Articles of Association was announced, according to which its corporate name of Eurobank Ergasias S.A. was amended to "Eurobank Ergasias Services and Holdings S.A." ("Eurobank Holdings"). Following the above, Eurobank substitutes Eurobank Holdings, by way of universal succession, to all the transferred assets and liabilities, as set out in the transformation balance sheet of the hived down sector (as at 30 June 2019) and formed up to Demerger's completion on 20 March 2020.

Eurobank Holdings, Eurobank's sole shareholder, ceases to be a credit institution and maintains activities and assets and liabilities that are not related to main banking activities, but are mainly related to the strategic planning of the administration of non-performing loans and the provision of services to the Group companies and third parties. Eurobank Holdings continues to be listed on the Athens Stock Exchange with its shares trading under its new name starting from 24 March 2020.

All amounts are expressed in 000 RSD unless stated otherwise

39. Related parties' transactions (continued)

Transactions with related parties for the year ended on 31 December 2019 are presented in the table below:

	Eurobank Ergasias	Be-Business Exchanges S.A.	IMO Property Investments	ERB Property services	ERB Leasing	RECO Real Property	ERB IT Shared Services	ERB New Europe Funding BV	ERB New Europe Holding B.V.	Eurobank private bank Luxemburg S.A
Assets										
Foreign currency account	40,883	-	-	-	-	-	-	-	-	-
Interest and fee receivables	183	-	1,895	-	-	-	-	-	-	-
Loans to clients	4,641,195	-	646,760	-	-	-	-	-	-	-
Investment in shares	125,824	-	-	-	58,627	-	-	-	-	-
Derivative assets	1,403	-	-	-	-	-	-	-	-	-
Other receivables		-	20	-	-	-	-	-	-	-
Total assets	**4,809,488**	**-**	**648,675**	**-**	**58,627**	**-**	**-**	**-**	**-**	**-**
Liabilities										
Due to customers	26,938	-	239,045	5,960	89,027	96,182	-	40	44,840	215
Interest and fee payables	-	-	-	-	-	-	-	-	-	-
Suppliers	6,646	-	-	-	-	-	-	-	-	-
Derivative liabilities	80,292	-	-	-	-	-	-	-	-	-
Total liabilities	**113,876**	**-**	**239,045**	**5,960**	**89,027**	**96,182**	**-**	**40**	**44,840**	**215**
Income										
Interest income	139,898	-	12,546	-	-	-	-	-	-	-
Interest income on derivatives	7,646	-	-	-	-	-	-	-	-	-
MtM	-	-	-	-	-	-	-	-	-	-
Fee and commission income	-	-	307	17	28	114	-	4,713	-	-
Services	-	-	-	-	184	138	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Total income	**147,544**	**-**	**12,853**	**17**	**212**	**252**	**-**	**4,713**	**-**	**-**
Expenses										
Interest expense	13,657	-	1,945	1	178	24,347	-	-	-	-
Interest expense from derivatives	56,448	-	-	-	-	-	-	-	-	-
Fee and commission expense	37,122	-	-	5,429	-	-	-	-	-	-
Services	13,857	3,536	5,117	1,971	-	22,537	64,691	-	-	-
Other			-	-	-	17	-	-	-	-
Total expenses	**121,084**	**3,536**	**7,062**	**7,401**	**178**	**46,901**	**64,691**	-	-	-
Off balance sheet										
Other	-	-	-	-	-	-	-	-	-	-

All amounts are expressed in 000 RSD unless stated otherwise

39. Related parties' transactions (continued)

Transactions with related parties for the year ended on 31 December 2018 are presented in the table below:

	Eurobank Ergasias	Be-Business Exchanges S.A.	IMO Property Investments	ERB Property services	ERB Leasing	ERB IT Shared Services	ERB New Europe Funding BV	ERB New Europe Holding B.V.	Eurobank private bank Luxemburg S.A	Eurobank Bulgaria A.D
Assets										
Foreign currency account	39,385	-	-	-	-	-	-	-	-	-
Interest and fee receivables	337	-	1,989	-	-	-	-	-	-	-
Loans to clients	6,677,871	-	650,070	77	-	-	-	-	-	-
Investment in shares	-	-	-	-	58,500	-	-	-	-	-
Derivative assets	216	-	-	-	-	-	-	-	-	-
Other receivables		-	16	23	17	-	-	-	-	-
Total assets	**6,717,809**	**-**	**652,075**	**100**	**58,517**	**-**	**-**	**-**	**-**	**-**
Liabilities										
Due to customers	17,347	-	676,917	4,181	97,320	-	40	45,070	216	10,495
Suppliers	5,273	-	-	-	-	-	-	-	-	-
Derivative liabilities	54,723	-	-	-	-	-	-	-	-	-
Total liabilities	**77,343**	**-**	**676,917**	**4,181**	**97,320**	**-**	**40**	**45,070**	**216**	**10,495**
Income										
Interest income	118,172	-	16,041	-	-	-	-	-	-	-
Interest income on derivatives	3,410	-	-	-	-	-	-	-	-	-
Services	18,070	-	239	108	81	-	4,731	-	-	-
Other	-	-	-	-	1,766	-	-	-	-	-
Total income	**139,652**	**-**	**16,280**	**108**	**1,847**	**-**	**4,731**	**-**	**-**	**-**
Expenses										
Interest expense	11,914	-	1,231	51	205	-	-	-	-	-
Interest expense from derivatives	18,393	-	-	-	-	-	-	-	-	-
Fee and commission expense	274	-	-	6,205	-	-	-	-	-	-
Services	47,065	3,572	5,445	5,239	-	64,974	-	-	-	-
Other			-	-	-	-	-	-	-	-
Total expenses	**77,646**	**3,572**	**6,676**	**11,495**	**205**	**64,974**	**-**	**-**	**-**	**-**
Off balance sheet										
Other	-	-	-	223	-	-	-	-	-	-

All amounts are expressed in 000 RSD unless stated otherwise

39. Related parties' transactions (continued)

As at 31 December 2019, loans to employees amounted to RSD 1,859,771 thousand (31 December 2018: RSD 2,230,597 thousand). All loans are given under terms defined in the Bank's lending policy and interest rates were in range from 1.6% to 3.2% for mortgage loans in EUR and from -0.6% to 2.0% for mortgage loans in CHF, while for consumer loans interest rates for RSD loans were in range from 4.0% to 14.8%.

Payments key management personnel

	31 December 2019	**31 December 2018**
Salaries and other contributions	91,997	81,048
Total	**91,997**	**81,048**

40. Foreign Exchange rates

The official exchange rates of major currencies which were used for translation of balance sheet items as at 31 December 2019 were as follow:

	31 December 2019	**31 December 2018**
USD	104.9186	103.3893
EUR	117.5928	118.1946
CHF	108.4004	104.9779

41. Reconciliation of loans, deposits and other liabilities with clients

In accordance with Article 18 of the Law on Accounting, the Bank performed the process of reconciliation of outstanding liabilities and receivables with its debtors and creditors as of 31 October 2019 and it maintains credible documentation on the process.

Out of the total of 13,355 submitted confirmations, 31 were disputed. All disputed confirmations are reconciled with the clients and there are no unreconciled outstanding receivables and liabilities.

42. Board of directors

Members of the Board of directors of Eurobank as at 31 December 2019 are listed below:

Chairman	**Members**
Michalakis Louis	Theodoros Karakasis
	Stavros Ioannou
	Angelos Tsichrintzis
	Anastasios Nikolaou
	Michail Vlastarakis
	Ivan Vujacic
	Konstantinos Vousvounis

43. Events after the reporting period

There have been no significant events after the reporting period, which would have significant impact on the financial statements of the Bank as at 31 December 2019. However, the management of the Bank considers that the COVID-19 pandemic virus is a significant non-adjusting subsequent event, which could not affect the financial year ended 31 December 2019 and therefore does not require correction of the financial statements.

Covid-19 outbreak

The World Health Organization declared the COVID-19 pandemic on March 11, 2020. The effects of the COVID-19 on the economic activity depend heavily on the range of its possible world expansion and the timing of its curbing. Countries worldwide, and Serbia among them, have already taken measures to contain the virus' expansion (e.g. travel restrictions, quarantine measures), strengthen the health systems' ability to deal with the outbreak and cushion the shock on both economic supply and demand via fiscal measures. In addition, certain Central Banks, including the US Fed, ECB, the Bank of England and many others have implemented measures of monetary accommodation. Conditional on the above, the baseline scenario is that the expansion of the virus globally and EU-wide will be contained and gradually slowed down (as is already the case in China) until the end of the first half of 2020. In such a case, the outbreak is expected to have a notable negative economic impact mainly on the first and, to a lesser extent on the second quarter of 2020. The European economies are expected to rebound in the second half of 2020. In the adverse scenario, however, a negative impact on certain industries of the global economy cannot be ruled out, such as a) lower tourism revenues, b) reductions in the demand for the manufacturing sector's product, as a result of the slowdown in key markets and c) disruptions in the manufacturing sector's supply chains. Continuation of the slowdown in economic activity could affect the non-performing exposures of the Bank and might put some pressure on the revenue side resulting from lower fees, commission and interest income.

The first case in the Republic of Serbia was officially registered on 6 March 2020, while on 16 March 2020 the Decision to introduce a state of emergency has come into force. After the introduction of the state of emergency on the territory of the Republic of Serbia, the Government on several occasions tightened the issued measures and introduced new restrictions and prohibitions that primarily relate to the movement of individuals. Pursuant to a Decision of the Government of Serbia adopted on 19 March 2020, all commercial international flights were suspended. All crossings for entry of passengers in Serbia by road, rail and river traffic were closed. Citizens over the age of 65 are completely barred from leaving their homes. There is limited public gathering outdoors and indoors, so the distance between persons must be at least 2 meters.

The Bank is continuously monitoring the developments on the COVID-19 front and has increased its level of readiness, so as to accommodate decisions, initiatives and policies to protect its capital and liquidity standing as well as the fulfilment, to the maximum possible degree, of its strategic and business plan for the quarters ahead. The Bank has established Crisis Committee that is on daily level monitoring the developments and takes necessary actions to protect clients and employees, move employees from offices to work at home and in parallel to ensure business continuity with minimal business disruptions.

Moratorium on debt payments and other NBS measures

Following the leading central banks in the world, on 11 March 2020 the NBS decided to cut the reference interest rate for 50 bp (from 2.25% to 1.75%) as a response on early signs of crisis.

On 17 March 2020, Executive Board of the NBS adopted Decision on Temporary Measures for Preserving Financial System Stability imposing a moratorium on debt payments. The moratorium is envisaged for all debtors who wish to apply it (natural persons, farmers, entrepreneurs and corporates) and implies a suspension of debt payments for at least 90 days, i.e. for the duration of the emergency state declared due to the pandemic (hereinafter: the Moratorium).

43. Events after the reporting period (continued)

Moratorium on debt payments and other NBS measures (continued) During the mentioned period, debtors are relieved of the repayment of their obligations under loan agreements. For the duration of the emergency state, banks do not charge any penalty interest on due outstanding receivables and do not initiate enforcement or enforced collection procedures or take other legal actions to collect receivables from their clients. Regular interest on undue principal is accruing during the Moratorium and it will be capitalised to the principal and evenly allocated for the remaining term of the facility extended for at least 90 days, or for the duration of the emergency state, if it is longer. All days-past-due counters for instalments due will be frozen until the end of the Moratorium and acceptance of the Moratorium will not trigger forbearance, non-performing or default statuses.

In line with the decision, the Bank published a notification on the offered the Moratorium on the website, and in that way all borrowers have been duly informed about it. If the clients did not refuse the offer by 31 March 2020, it was considered that they have accepted the Moratorium. Around 9,930 clients refused the Moratorium with on balance sheet exposure of around RSD 33.4 billion, what represents around 27% of total loans and receivables to customers as of 31 March 2020. In line with the NBS decision, on remaining 73% of total loans and receivables the Moratorium is automatically applied no matter if clients explicitly requested it.

State economic aid program

On 31 March 2020 the Minister of finance presented a State economic aid program to counter the negative effects of the outbreak of COVID-19 on the economy. The value of the set of measures is 5.1 billion EUR or 11% of Serbia's GDP and key measures are following:

1. Tax policy measures: postponement of payroll taxes payment until the end of the state of emergency with their payment in next two years (interest free) and postponement of advance payment of corporate income tax;
2. State aid to companies: The State will pay three minimum wages for about 900,000 people employed in micro, small and medium-sized enterprises and entrepreneurs as well, while for large companies is planned 50% of minimum wage but only for employees who stopped working due to reduced business volume;
3. Liquidity loans: loan granting program for liquidity and working capital of micro, small and medium-sized enterprises through Development fund of Republic of Serbia (200 M EUR) and State guaranteed scheme implemented through commercial banks loans for micro, small and medium-sized enterprises (2 billion EUR);
4. Direct assistance to the population and post-crisis increases of domestic demand: payment of 100 EUR for all adult Serbian citizens; and
5. Moratorium on dividends: until the end of the year non-public companies will not be able to pay dividends.

It is expected that within a month, the Government will introduce all acts necessary for the implementation of these measures. The Bank plans to use State guaranteed scheme implemented through commercial banks.

Stress test of capital adequacy and liquidity position

The management of the Bank uses the ICAAP as an important tool for the risk management of the Bank and for the assessment of the risks to capital. The management is aware of the risk assessment performed in the ICAAP document, including the scenarios applied for the stress tests performed for the purposes of the ICAAP, their underlying assumptions and the results of those scenarios. Along with the ICAAP, the Recovery Plan is another tool in assessment of effect of adverse situations.

43. Events after the reporting period (continued)

Stress test of capital adequacy and liquidity position (continued)

Further to it, the management closely monitors the development of the recent COVID-19 situation and its potential impact on the capital adequacy and liquidity position, but at this moment estimate of its financial effect cannot be made reliably. Considering the information available to date, management is of the opinion that the impact of the COVID-19 outbreak and taking into consideration the measures taken by the Government and the NBS would not lead to a more severe impact than the one incorporated in the stress test for the ICAAP and/or the Recovery Plan, where the Bank proved to be resilient in case of a stress scenario which assumes a significant increase of PD and LGD for all portfolio segments, as well as a material liquidity outflow.

Credit risk stress test in ICAAP was done under the assumption of significant increase of the main credit risk parameters – PD and LGD. Stress test was based on an increase in PD in Corporate segment by a factor of around 3 compared to the current (pre-crisis) PD, and by a factor of 6 compared to a more recent default rates. In Retail segments, stressed PDs were set to a maximum level since 2010, representing an increase by a factor of 1.7-5.3. At the same time, a 10% increase in LGD was assumed for all segments. Such LGD shock roughly corresponds to the highest realized LGD historically. Considering its purpose and nature, the Recovery Plan was done on an assumption of a more severe stress test, with PDs assumed to reach 10% and significant increase of LGD (i.e. worsening of both recovery rates and cure rates). Even under such a severe scenario, it was proved that the Bank has enough capital and adequate recovery options to continue with the business activities.

Likewise, the liquidity stress test assessment as part of the ICAAP and Recovery Plan shows sufficient liquidity buffers in the adverse scenario. Under the stress test in the ICAAP, a systemic liquidity crisis is assumed, corresponding to a stress of the banking system such as the fall in the financial market seen in 2008. This scenario is characterized by market contraction and institutions' inability to renew certain sources of funding (short term loans from the central bank could be utilized aiming to overcome the liquidity crisis). The risk tolerance of the systemic liquidity stress test scenario is set to a three months survival period. The assumptions used in the systemic stress test are based on the maximum historical withdrawals of term, sight and savings deposits of retail and corporate clients the Serbian market experienced from the period January 2004 – December 2019. Deposit outflow assumptions in the stress test were for Retail deposits from 15.10%-23.31% and for Wholesale deposits from 32.70%-35.40%, depending on the deposit type. In addition, the Bank takes into account diminishing of liquidity at interbank market.

The results from the Bank's credit and liquidity risk stress-testing framework demonstrate quantitatively that it has sufficient capital to cover all unexpected losses as well sufficient liquidity and expected stable cash inflows to meet the possible outflows in these negative scenarios, withstand severe levels of stress and continue to operate in the foreseeable future without jeopardising going concern assumption.

Belgrade, 15 April 2020

On behalf of the Bank:

Slavica Pavlovic, President of the Executive Board

Vladimir Tofoski, Chief Financial Officer

T R A N S L A T I O N

EUROBANK A.D.

ANNUAL BUSINESS REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

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1. GENERAL

Eurobank a.d. (hereinafter ''The Bank") has been established by the merger of Eurobank EFG a.d. Beograd and Nacionalna Štedionica Banka a.d. that was completed on 20 October 2006 and today represents one of the leading foreign investors and financial institutions in the country. Following the more than decade of successful business in Serbia Eurobank offers a wide selection of standard and innovative banking products and services.

The Bank is registered in Serbia for carrying out payment, credit and deposit operations in the country and abroad. The Bank operates in accordance with the Law on Banks based on principles of liquidity, safety and profitability.

Eurobank strives to be the leading choice bank for the clients in Serbia, both for the individuals and legal entities, operating with a sense of responsibility towards employees, clients, stakeholders and the community.

2. ORGANIZATIONAL STRUCTURE

Activities of the Bank employees are managed by the Executive Board of the Bank, represented by the President of the Executive Board. President and members of the Executive Board are elected by the Board of Directors. The Executive Board has 5 members.

The Bank is organized into Sectors, Divisions and Departments which cover basic business functions. As at 31 December 2019, the Bank had the following organizational parts:

- Cabinet of the President of the Executive Board,
- Retail Banking Sector,
- Troubled Assets Sector,
- Operations and Organization Sector,
- Corporate Banking Division,
- Treasury Division,
- Finance and Control Division,
- IT Division,
- Risk Management Division,
- Human Resources Division,
- Legal Division,
- Internal Audit Division,
- Marketing and Corporate Communication Division,
- Compliance Department, and
- AML Department.

Bank's Network

As at 31 December 2019, the Bank had the Head Office, 80 retail branches and 5 business centers through which it conducts its operations. As at 31 December 2019, the Bank did not have any branches or offices abroad.

Human resources

As at 31 December 2019 the Bank had 1,483 employees (31 December 2018: 1,499 employees). The number of employees includes the active staff, the employees on leave as well as direct sales agents.

Qualification structure of the employees of the Bank as at 31 December 2019 is presented below:

	Total	%
University degree	644	43.43%
College degree	327	22.05%
High-school degree	499	33.65%
Skilled workers	11	0.74%
Low-skilled workers	2	0.13%
Total	**1,483**	**100%**

3. FINANCIAL REVIEW

Economic growth reached ca. 4.3% in 2019, mostly on the back of strong domestic demand, but also due to improved investments, both private and public. CPI remained low and stable, ending the year at 1.9% annually, which gave room the NBS to ease on the monetary policy, with three quarter point cuts, to end the year at 2.25% (Key policy rate).

The fiscal situation has improved over the past three years, so that the state budget showed a mild surplus of 0.3% for the full year 2019. As a result, the public debt to GDP is now at 52%, and is expected to further decline in the coming period.

Industrial production rose by a light figure of 0.3%, while processing industry showed an even slower growth rate of just 0.2%. Imports rose a bit faster than exports, for a rise of trade deficit total of 18% YoY, to cca. Eur 6.4 bn. The current account deficit stood at 5.5%. FDIs rose significantly in the previous two years, with a total of Eur 3.7 bn for full year 2019, while remittances showed a continuing stable performance at Eur 2.8 bn. The breakdown in FDIs showed an improved portfolio, with higher brownfield and greenfield investments, totaling nearly 45% of all FDIs.

Domestic private credit also grew, by a total of 9.8% throughout the banking sector, with corporates growing at 9.5% and retail segment at 10.0%. NPLs went considerably down, to a 10-year low of 4.1% as of December 2019.

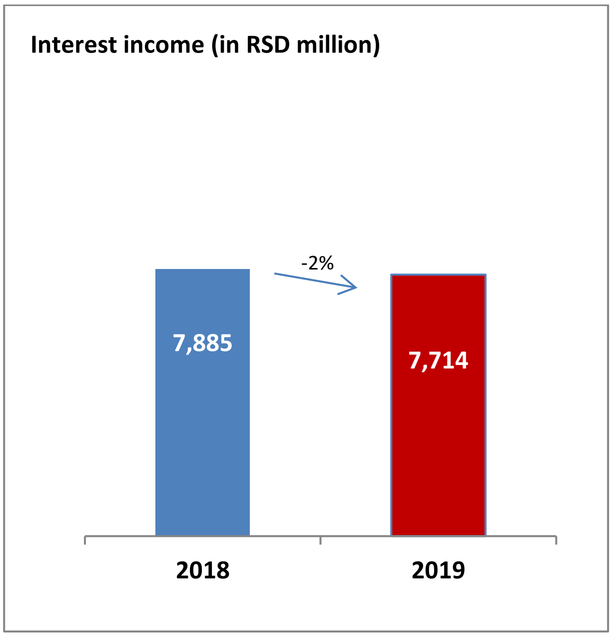
Labor force survey showed a reduction of a full 3 pp year on year to 9.7% in the fourth quarter of 2019. The decline is due to formal employment yearly rise of ca. 50 thousand people, but also thanks to the fact that the active population totals decrease as a consequence of emigration and retiring.

Average salary is closing in on the 500 eur figure net, although the mean is currently at around 390 eur, with also large discrepancies in the regional distribution.

Solid growth, ranging in the area of 4.0% is expected in the next two years, which is also the medium-term realistic target. The growth should be further spurred by the recovery of the demand, both domestic and foreign, growth in investments, especially public, as well as with the rise of local spending.

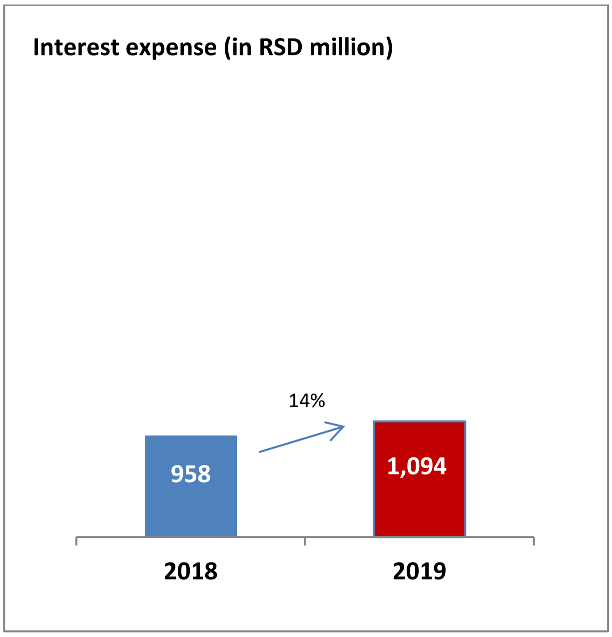
Operating revenues

Interest income



Although the credit portfolio of the Bank grew in 2019 vs. 2018 the interest income came down by RSD 172 mil (2%). The drop-in revenue is due to the decrease of the KPR (local RSD rate), which affected a large portion of the Bank's assets. Also, at the same time there had been pressures on the interest rates due to high level of competition in the market.

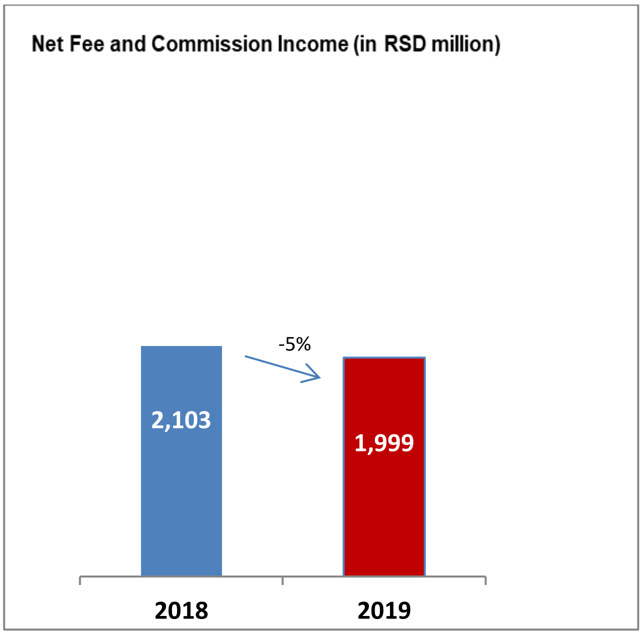
Interest expense



Interest expense rose in 2019 on the back of the rise in the deposit base year on year, as the liquidity ratios needed to be kept at the adequate level.

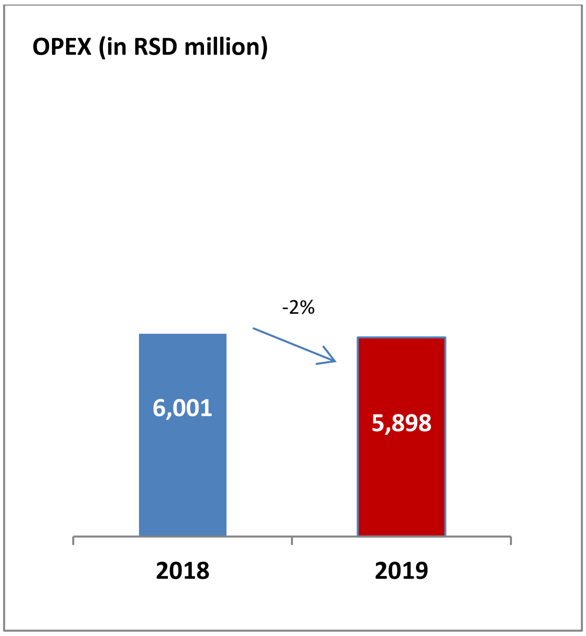
Total deposit levels and borrowings from other financial institutions rose 14% year on year in 2019.

Net Fee and Commission Income



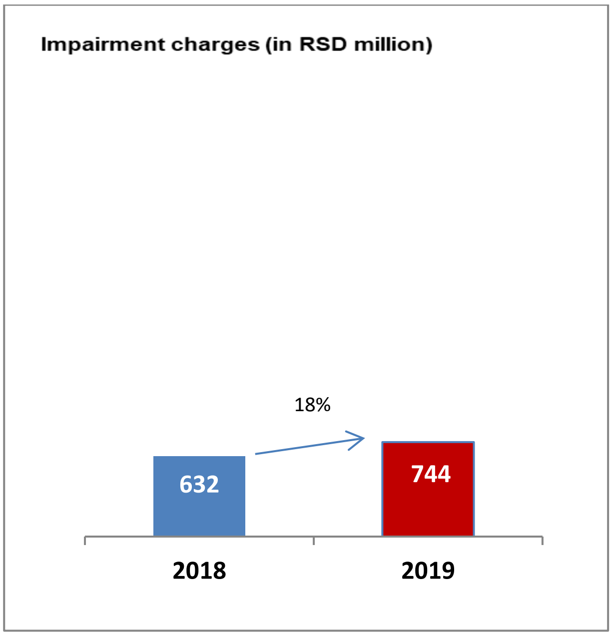
Net Fees and Commissions Income in the 2019 went down by 5% year on year. The drop is mostly a consequence of the higher Fees and Commissions expense compared to previous years.

OPEX



Operational expenses declined in 2019 by 2% year on year after firm control of costs were implemented over the last three years.

Impairment charges



In 2019 the Bank recorded a slight rise in provision expense in 2019, booking provisions worth RSD 112 mil higher than in 2018.

Derecognition loss

As of 25th April 2019, the Parliament of Republic of Serbia has adopted the Law on the Conversion of Mortgage Loans Indexed in Swiss Francs. Pursuant to the aforementioned Law, the banks were obligated to offer the conversion of the remaining debt indexed in CHF into debt indexed in EUR within 30 days of the Law coming into effect. The conversion also envisaged a 38% haircut of the converted debt amount and the application of interest rate as per the bank offer valid on 31 March 2019 for EUR indexed loans.

The Republic of Serbia has undertaken to reimburse 15% of the debt amount obtained through conversion while 23% was the Bank's loss. The Bank is also entitled to tax credit of 2% of the amount of the remaining debt at conversion date (outstanding principal plus due but not collected interest). Regarding the tax and accounting treatment of the debt reduction, the Bank recorded it in its books as tax recognized expenditure pursuant to the corporate income tax law.

Net derecognition loss based on CHF Mortgage Loans conversion program as at 31 December 2019 amounted RSD 2.1 billion.

Net Result

As of 31 December 2019, the Bank recorded net gains of RSD 309 million, despite the expense incurred post application of the Law on the conversion of CHF denominated mortgage loans.

Capital adequacy

As at 31 December 2019, the capital adequacy (CAD) ratio of the Bank was 26.20% as compared to the prescribed ratio of 8% (as at 31 December 2018: 28.37%). It is necessary to note that retained earnings of the Bank amounting to RSD 11.8 billion were not included in the calculation of CAD, as they have not been distributed yet. Including the retained earnings into CAD would increase the stated CAD ratio by app. 8.4 percentage points.

4. PROTECTION OF ENVIRONMENT

The protection of the environment is one of the key pillars of corporate social responsibility in Eurobank. Aiming on the formation of long-term relationships with clients, employees and local community and by continuously aspiring towards improvement and implementation of environmental programs and initiatives, the Bank has analysed its overall impact on the environment. As the result of such analysis the following key initiatives stand out, as a ground for Bank`s environment management system:

Waste Management

The Bank adopted internal procedures for waste management, which are aligned with the basic principles of waste management – reduce, reuse and recycle, as well as with the valid regulations. By sorting, collecting and managing hazardous and non-hazardous waste material, the Bank reduces solid waste pollution. In 2019, the Bank continued the program for recycling wastepaper, plastics and used-up printer cartridges and toners at all locations in Serbia, as well as its electrical and electronic waste material.

Responsible Financing – Social and Environmental Risks Management System

The Bank has integrated the Social and Environmental Risks Management System into its loan approval process pursuant to international standards and best practices. This System is one of the core elements of good cooperation established with the European Bank for Reconstruction and Development.

Energy and Climate Changes

Accordingly, with respect to the importance of reduction in greenhouse gas emission, the Bank continues to monitor the consumption of electric energy and all pertaining emissions.

Green Products – e-statements

The Bank introduced e-statements service in 2011, and since then has continued to work on the strategy of replacing hard copies with documents in electronic formats. This practice reduces the consumption of paper and tonners and contributes to the abatement of waste impact on the environment.

„The Green Procurement" Policy

Eurobank endeavors to transfer the culture of environment conservation to its clients and suppliers. Within this context, the Bank continues to develop and apply environmental protection criteria when assessing its suppliers and the products and services they offer.

5. PLANNED FUTURE DEVELOPMENT

The main objectives of the Bank's longer-term strategy are the following:

a) Protecting and improving profitability through enlargement of the loan book, firm control of operational expenses and prudent cost of risk policies.
b) Preserving a strong liquidity position, including being fully funded from own liquidity sources and IFIs (international financial institutions).
c) Maintaining a strong capital position through internal sources of capital generation and optimization.

The main targets for the next 3 years are the following:

- Net loans to growth rate to aim 7 to 8% p.a.,
- Deposit base to expand by a similar rate of ca. 7% p.a.,
- Profitability to aim a Return on Equity of 6%,
- Cost to Income to aim at around 60%, and
- Decrease of NPL to around 6%.

6. FINANCIAL RISK MANAGEMENT GOALS AND PRINCIPLES

Basics of risk management process

Risk taking is an integral part of banking business. To ensure adequate management of risks, the Bank defined policies, models, methodologies and processes, aiming to identify all risks at an early stage, assess their impact on the realization of goals and establish a framework that enables effective control and management of risks. Risk management framework is established in compliance with the Law on Banks, the regulations and requirements of the National Bank of Serbia, Basel standards, International Financial Reporting Standards (IFRS/IAS), policies and guidelines of the parent bank and best banking practice. Risk management system is established by the Bank`s Board of Directors and monitored, besides the Board of Directors alone, by the following Bank's bodies: Audit Committee, Risk Committee, Executive Board, Operational Risk Committee, Assets and Liabilities Committee and Troubled Assets Committee. Functioning of the risk management system is regulated by the adopted internal policies, guidelines and procedures for each materially important risk type and independently assessed by Internal Audit function.

Risk management system has been designed in accordance to the size and organizational structure, nature, scope and complexity of Bank operations i.e. its risk profile, and with the aim to support the vision of the organization as the leading, universal and client-oriented Bank which ensures:

- implementation of high-risk management standards;
- compliance with regulatory requirements;
- strong capital position;
- stable funding sources and strong liquidity.

With regards to the organizational structure of the Bank and basic principles of risk management, the risk management system is established and continuously improved in order to ensure the clearly defined competences and responsibilities, transparent and consistent lines of communication and exchange of information, and separation of risk-taking activities from risk management activities.

Strategic framework for risk management is determined by Risk Management Strategy, Capital Management Strategy and Risk Appetite Policy. Principles and rules are further regulated by individual risk management policies, and operationalized and implemented through guidelines, procedures and methodologies.

Main risk management goals of the Bank are to secure in long term the adequate capital level of the Bank in order to cover all materially significant risks that Bank is or may be exposed to in its operations and to increase economic value for shareholders, to optimize capital utilization through system of risk limits, allocation of total internal capital requirements and strategic planning. Moreover, risk management system has been conceived to ensure that all risks are identified, measured, controlled in a timely manner and reported to appropriate decision-making bodies.

In the course of 2019, the Bank continued to enhance risk management system by improvement of internal documents, methods and processes in a light of harmonization with guidelines and policies of the Parent Bank, as well as with the amendments to the domestic and international (EU) regulations and recommendations of the Internal and External Audit.

In the course of 2019, actions were taken in terms of further improvement of technical implementation, data management and processes related to credit portfolio reporting and expected credit losses (ECL) calculation in accordance with the International Financial Reporting Standard 9 (IFRS 9).

In addition, the activities were performed which are closely connected with the IFRS 9, however, which also have their independent role in improvement of the risk management function in the Bank. In concrete terms, it concerns the validation and recalibration of the models for the assessment of Probability of Default – PD, which have a crucial role in the impairment calculation process according to IFRS 9, as well as in the procedure of Internal capital adequacy assessment process (ICAAP).

The Bank continued with efforts aiming to improve data management, which represents a basis for risk analysis, modeling and reporting. In the course of 2019, significant improvement is achieved in the field of credit risk monitoring and reporting (e.g. credit portfolio reports, monitoring of Consumer portfolio quality etc.).

Risk management framework

Risk management processes include Bank's boards and committees, competent units responsible for identification, measurement and assessment, monitoring, limiting and reporting, and control, as well as risk taking units.

Risk management process comprises several phases which the Bank has defined as follows:

- risk identification;
- risk measurement and assessment;
- limitation and mitigation of risk;
- risk monitoring and risk control; and
- risk reporting.

The process is entirely based on the documented policies, guidelines and procedures that are regularly reviewed in terms of their comprehensiveness, accuracy and quality.

Major financial risks the Bank is exposed to in its operations are the following: credit risk, liquidity risk, market risk and operational risk.

The Risk Management Division operates independently from other business units. The Division comprises of the following departments:

- Credit Risk Department;
- Credit Control Department;
- Market Risk Department;
- Operational Risk Department;
- Collateral Management Department;
- Risk Modeling Department;
- Integrated Risk Management Department; and
- Data Management Unit.

7. MAJOR FINANCIAL RISK MANAGEMENT POLICIES

Liquidity risk

Liquidity risk is the negative effects risk on financial result and capital due to inability of the Bank to settle its due obligations. Liquidity risk occurs due to:

- withdrawal of the existing funding sources as well as due to inability to attract new sources (funding liquidity risk); or
- difficulties in conversion of assets into liquid assets due to market disruptions (market liquidity risk).

In order to ensure cautious liquidity risk management, within its Market, Counterparty and Liquidity Risk Management Policy, and in accordance with the Group liquidity risk management guidelines, the Bank defined liquidity risk management specifying the manner of liquidity measurement, monitoring, and management. The Policy includes projections of cash flows, minimal liquidity levels, functions involved in liquidity risk management, liquidity risk monitoring and review functions, limit monitoring roles and responsibilities, escalation procedure for limit breaches, etc. In addition, in order to ensure an efficient process of managing liquidity risk and stable functioning of the Bank in circumstances requiring increased monitoring and liquidity management, within the Methodology – Contingency Business Plan, the Bank defined:

- procedures for identifying possible liquidity problems;
- list of indicators for early detection of possible problems related to the Bank`s liquidity;
- the process of reporting, communication, the way of accessing available or potential sources of liquidity;
- persons and relevant Bank bodies responsible for identifying problems related to the Bank`s liquidity; and
- persons and relevant Bank bodies responsible for making decisions in such situations.

The goal of Bank's liquidity risk management is to ensure:

- that necessary liquidity management policies and procedures are established and implemented;
- sufficient liquid assets and adequate liquidity enabling a cautious carrying out of operations and settlement of Bank's due obligations;
- high quality of liquid assets enabling the Bank to successfully face a funding crisis;
- regular monitoring and control of the interbank financing capability, stability and diversity of the deposit base, total liquidity status of the Bank and external market environment;
- regular daily and continuous monitoring of the liquidity position through banking operations;
- assessment of Bank liquidity adequacy in crisis through stress testing; and
- fulfillment of regulatory requirements.

Also, the Assets and Liabilities Management Committee (ALCO) regularly monitors and analyzes the Bank's operational liquidity, while the Treasury Division performs operational liquidity management at the daily basis.

Referring to the Core Principles issued by the Basel Committee on Bank Supervision implemented from June 2017 regarding the reliable liquidity risk management and control, as well as to the NBS regulations, the Bank includes Liquidity coverage ratio (LCR) in its analyses.

In the event of an increased liquidity risk, the Bank shall use risk mitigation methods which include (but are not limited to):

- undertaking measures to change the balance sheet assets structure in terms of repayment deadline;
- utilization of the available lines with parent bank and other contractual parties; and
- focusing on placement of funds into highly liquid assets.

Credit risk

Credit risk is the risk of financial loss due to an obligor's failure to fulfil their obligations to the Bank. The Bank is exposed to credit risk mainly in terms of loans and placements to customers and off-balance sheet items, but also in respect of exposure to banks and securities.

Given that the granting of a loan is a core activity of the Bank, credit risk is the primary risks that the Bank is exposed to.

In order to manage credit risk, the Bank defined within the Risk Management Strategy credit risk and its sub-categories.

Credit risk management is directed at maximizing the bank's risk-adjusted rate of return, by maintaining credit risk exposure within acceptable parameters.

The Bank applies the best international practices concerning credit activities, and has a well-defined credit approval process, independent review of the granted loans and an efficient credit risk management function.

The main objectives of credit risk management are:

- maintain sound credit-granting standards;
- monitor and control credit risk;
- properly evaluate new business opportunities; and
- identify and manage problem credits.

To properly manage its credit risk, the Bank has formed an organizational structure that is well suited for the volume, type and complexity of activities the Bank engages in. This structure provides that the defined goals and credit risk management principles are adhered to, while also ensuring the independence of organizational units with risk control and management function (the Risk Management Division) from organizational units with risk taking function.

The following departments of the Risk Management Division are included in credit risk management: Credit Risk Department, Credit Control Department, Collateral Management Department, Risk Modeling Department and Integrated Risk Management Department.

Credit risk management processes include the main Bank's bodies: Board of Directors, Executive Board, Audit Committee, Risk Committee, Credit Committee of the Executive Board, Regional Credit Committee of the Board of Directors, Credit Committee for loans to individuals, small business and entrepreneurs, the Board of Directors Committee for Clients under Special Review-SHC I, Executive Board Committee for Clients under Special Review-SHC II, Troubled Assets Committee and New Products Committee.

The Bank has established in its internal documents, specifically in the Risk Management Strategy and policies and procedures, the responsibilities of the said organizational units and bodies within the Bank in the credit granting process, as well as in the process of monitoring and managing the granted credits and managing the credit risk arising from those activities.

To undertake and manage the credit risk, the Bank has put in place an appropriate credit-granting process and credit risk management process. Accordingly, the Bank has developed and adopted credit policy for each division involved in credit-granting. The Bank's every credit policy (hereinafter: the Credit Policy) defines the basic concepts, instructions and rules to ensure that the process of approval, disbursement, monitoring and collection of loans and other types of exposures are managed properly. To implement a relevant Credit Policy, the Bank has also adopted other necessary documents, decisions, rules, procedures etc.

The Bank manages the credit risk at the level of the entire credit portfolio, as well as at the level of individual clients and transactions.

At the level of the entire portfolio, the Bank manages the credit risk by implementing the following activities:

- analyzing the structure and quality of the Bank's entire credit portfolio by applying different criteria (by analyzing the currency structure and structure of the business sector, the risk of non-performance and adequacy of the provisions, as well as by analyzing the collaterals and their potential deterioration);
- monitoring different exposure limits (analyzing the limits toward large exposures and to troubled assets);
- monitoring individual exposures to credit risk where early warning signs have been identified, as well as those where issues with collection have been identified; and
- analyzing the efficiency of the collection from the collaterals.

Credit risk identification is performed in the phase of initial contact with the client, in the phase of client file formation and during the lifetime of the Bank's investment. Individual placements are subject to rigorous estimation. Manner of approval and monitoring of placements, collateral that the Bank accepts, as well as the assessment of the riskiness of each of the placements is precisely prescribed by the Bank's Credit Policies, as well as the documents constituting the credit risk management framework (Credit Risk Management Policy, methodologies). Within the framework of the Credit Risk Management Policy, the Bank defined three levels of deterioration in the borrower's creditworthiness: early warning, financial difficulties, and default, which identification is based on a set of defined indicators, the process of monitoring these indicators and the process of further action in case of occurrence of any of these indicators.

The Bank identifies as non-performing exposures (NPE) those exposures with respect to which the client is more than 90 days past due or the Bank has identified any other indication of unlikeliness to pay. Detailed criteria are defined in the Bank's Credit Risk Management Policy.

The acceptable level of non-performing receivables (NPE) and highest acceptable level of non-performing exposure (NPE) that the Bank assumes in order to accomplish its strategies goals are defined in Risk Appetite Policy and Credit Risk Management Policy. Accordingly, the Bank defined a 3 years target for NPE Ratio in Business Policy and Strategy.

Within the Credit Risk Management Policy, the Bank also defined the concept of forbearance, in accordance with the NBS Decision on Risk Management by Banks.

The basic rules which the Bank applies when assuming and managing credit risk at the level of individual clients and transactions include:

- a detailed understanding of the economic background for the transaction;
- an assessment of the client's credit capacity based on an analysis of the client's financial situation, his capacity to repay the loan, as well as of the loan repayment schedule and source of the repayment;
- an analysis of the alignment of the foreign exchange position;
- an analysis of the business sector in which the borrower operates, the borrower's position in the market, the borrower's specific characteristics and other relevant indicators;
- an analysis of the type and quality of collaterals;
- an analysis of the business relationship that has been established with the client;
- monitoring whether the loan is used for the intended purpose and of the sources of the loan repayment; and
- control of the client's operation during the loan repayment period.

The Bank systematically works to optimize existing collection processes and procedures in order to reduce the cost of collection and enable increased control over them while simultaneously increasing the collection and recovery rate. In order to ensure focused and transparent management of problematic placements of the Bank, adequate responsibility for their execution and independence from other business units responsible for risk taking, the Board of Directors (BoD) of the Bank established the Troubled Asset Sector (TAS) and adopted the Troubled Asset Sector Policy.

The Bank measures the credit risk at the level of individual clients and transactions, by assessing the client's financial situation, i.e. his creditworthiness, where the type of the indicators used depends on the type of the client and the specific nature of the client's business and legal status. Beside assessing the client's financial situation, i.e. the client's creditworthiness measured through quantitative indicators, the Bank uses a number of qualitative indicators, such as the business sector in which the client operates, the client's credit history, the quality of management, relationship with the client to date, etc.

The Bank assesses the credit risk at the level of the entire portfolio by monitoring credit risk indicators, calculating expected credit losses in accordance with IFRS 9, as well as by establishing the capital requirement for credit risk coverage in accordance with internally defined methodology. To investigate the impact of negative developments arising from credit risk exposure, the Bank also conducts stress tests for credit risk, where the Bank includes the impact of potential events or future changes in economic conditions, as well as stress scenarios related to development of main credit risk parameters, the delinquency rate and the loss caused by the failure to meet the obligations toward the Bank.

For the measurement of impairment on exposures held at amortized cost in accordance with the IFRS 9, the Bank uses expected credit loss (ECL) model. A loss allowance is recognized for expected credit losses and it is measured at each reporting date.

The main elements which constitute the framework of IFRS 9 implementation in the Bank are:

- definition of default,
- stage allocation criteria,
- differentiation between collective and individual assessment, and
- expected Credit Loss (ECL) measurement.

The Bank applies the standardized approach for the calculation of capital requirement for the needs of quantification of necessary capital for coverage of losses arising from exposure to credit risk, pursuant to the Decision on Capital Adequacy of the National Bank of Serbia.

By the Internal Capital Adequacy Assessment Process Policy (ICAAP Policy), the Bank has defined the manner of determining the adequacy of its capital compared to the risk profile. The bank determines the internal capital requirement for credit risk as well as the techniques for stress testing of credit risk, in accordance with the Methodology for determination of internal capital requirements and stress testing for credit risk. The Bank carries out stress testing of credit risk and its subcategories, which includes a scenario related to the development of the main parameters of credit risk, i.e. default rates and losses arising from non-settlement of liabilities towards the Bank.

In the Risk Appetite Policy, the Bank has stipulated in detail the limits the Bank adheres to in the context of credit risk management, as well as the method of calculation, the reference values, and also the calculation-related responsibilities and calculation frequency. In the Credit Risk Management Policy, the Bank has additionally set internal limits, at the same or, as a rule, at a lower threshold than the one defined by regulatory limitations (which is meant to ensure that regulatory limits are not exceeded) for indicators which are internally deemed to be important at the level which the management has assessed as adequate. Furthermore, to ensure timely reaction by the management, early warning limits have also been put in place. The Bank reviews and if necessary, updates the defined limits annually. In case the limits have been breached, the Executive Board and the Board of Directors are notified, and actions are taken in line with the measures/activities defined in the Bank's internal documents.

The Bank ensures protection from credit risk exposure through:

- selection of credit applications,
- applications of limits,
- diversification of granted credits, and
- application of adequate collaterals.

To ensure protection from exposure and to manage the credit risk, the Bank regularly conducts the analysis of exposures to different types of products, different types of clients, exposure to a single client or a group of clients, levels of decision making, exposure to economic sectors etc. By doing so, the Bank monitors and reviews the set limits and in case of large risk exposures or if the existing limits are being approached, the Bank undertakes the measures to reduce the exposure or to obtain additional collaterals. Bearing in mind that the collaterals have a significant role in risk mitigation and protection against credit risk exposure, the Bank conducts checks of collaterals in the process of their recognition and valuation.

Within credit risk and in accordance with the Methodology for assessment of risk materiality, the Bank is exposed to the following materially significant sub-categories of credit risk: foreign-currency induced credit risk, concentration risk, residual risk and interest-rate induced credit risk. Accordingly, the Bank controls and manages the aforementioned risks in parallel with managing the credit risk.

The objectives of the management of credit and foreign-currency induced credit risk, residual risk, interest-rate induced credit risk and concentration risk are in correlation with the objectives for credit risk management and aimed at ensuring adequate diversification of loan and collateral portfolios and prevention of high concentration.

Foreign-currency induced credit risk is the risk of financial loss due to an obligor's inability to fulfil their obligations to the Bank caused by adverse movements in foreign exchange rates.

The Bank manages the foreign-currency induced credit risk at the level of single borrowers and at the level of the entire credit portfolio. The Bank has set forth the main rules of financing and principles of credit-granting, credit monitoring and credit risk management, including credit risk in foreign-exchange transactions in its internal Credit Policies and in the Methodology for application of classification criteria of bank receivables in line with the Decision of the National Bank of Serbia on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet items.

Interest-rate induced credit risk is the risk of financial loss due to an obligor's inability to fulfil their obligations to the Bank caused by adverse movements in interest rates. In the current global low interest-rate environment, interest rate-induced credit risk also poses a significant concern.

The Bank performs the assessment of the internal capital requirement for interest-rate induced credit risk by varying PD's to account for possible impact of adverse movements in interest rates.

Concentration risk is the risk of large or correlated financial losses due to the Bank's overexposure to a single or correlated source of risk. This may be overexposure to a single entity, a group of related entities, or a group of entities or exposures subject to correlated adverse events (e.g. borrower segment, industry, product type, collateral type, and geographic region of the borrower or the collateral). Concentration risk may be present with respect to different types of risk, including credit, market and liquidity risk.

To asses and manage concentration risk, the Bank applies the established limits defined by the Decision on Risk management, as well as limits for exposure to this type of risk defined by internal policies and guidelines, which enable diversification of the credit portfolio.

The Risk Management Department continuously monitors exposure to certain types of clients, industry sectors and types of collateral and reports on the utilization of the set limits to the competent management bodies (Executive Board, Risk Committee, Audit Committee and the Board of Directors).

Additionally, the Bank analyzes the concentration risk at the level of the entire portfolio when assessing the internal capital requirements for this risk, within ICAAP.

Residual risk is the risk of financial loss due to the fact that credit risk mitigation techniques may prove less effective than expected. Residual risks include market, liquidity, legal and documentation risks with respect to credit risk mitigation techniques. Taking into consideration the importance of collaterals and their efficiency in credit risk mitigation, the Bank has within its credit policies and procedures clearly defined the acceptable categories of collaterals, the criteria for their acceptance, monitoring and insurance in case of negative developments.

The Bank includes the impact of this risk in the calculation of internal capital requirement for credit risk, in line with the Methodology for the calculation of internal capital requirements and stress testing for credit risk.

Country risk

Country risk is the risk of financial loss due to the Bank's inability to collect receivables from a counterparty for reasons arising from political, economic or social circumstances in their country of origin. Subcategories of country risk include:

- political and economic risk arises from restrictions established by regulations of government and other authorities of the borrower's country, as well as general and systemic circumstances in the country; and
- transfer risk arises from the Bank’s inability to collect receivables in a currency that is not the official currency of the borrower's country, due to the borrower’s inability to obtain the necessary foreign currency to meet its debt obligations or restrictions on payment of obligations to creditors from other countries in a specific currency, imposed by regulations of government and other authorities in the borrower's country of origin.

For all countries except Serbia, a specific limit per country is approved, based on the credit rating of the country, the size of its economy and the relevance of the specific country in the Bank’s operations.

Country exposure limits cover:

- securities issued by sovereign or corporate entities domiciled in the specific country;
- any exposure to financial institutions domiciled in the specific country; and
- cross-border loans and guaranties.

Market risk

Market risk is the risk of negative effects on the Bank financial result due to changes in the value of balance sheet positions caused by the change of market prices. In terms of market risk, the Bank is exposed to the risk of changing the prices of debt and equity securities and foreign exchange risk. The existing market risk related portfolio of the Bank consists of debt securities (bonds and T-bills of the Republic of Serbia), derivatives and to the small extent – shares of the companies that are listed on the Belgrade Stock Exchange (BSE).

The price risk of debt securities represents the risk of changes in the price of these securities due to changes in interest rates and includes the specific and general price risk. The general risk of the prices of debt securities is a risk of change in prices of debt financial instruments caused by changes in the general level of interest rates. The specific risk of the prices of debt securities represents the risk of change in prices of debt financial instruments caused by a change in the factors related to the issuer of the securities.

The price risk of equity securities represents the risk of change in the price of these securities and may be general or specific. The general price risk of equity securities represents the risk of change in the price of the owner's financial instruments caused by changes in the general level of prices of such securities. The specific price risk of equity securities is the risk of change in the price of the owner's financial instruments caused by the change of factors relating to the issuer of the securities.

The assessment of the market risk exposure includes the following in particular:

- all Bank activities sensitive to the change of market conditions;
- all open positions arising from Bank activities;
- exposure concentration in the trading book;
- liquidity of all financial markets the bank trades at;
- volatility of the market price of Bank's trading financial instruments;
- complex financial instruments and financial derivatives; and
- embedded options.

Goals of market risk control and monitoring are as follows:

- protecting the Bank from unforeseen market losses and contributing to the income stability through independent identification, assessment and understanding of market risks in operations;
- developing transparent, objective and consistent information on market risks as the basis of adequate decision making;
- implementing market risk control standards determined by the National Bank of Serbia and Eurobank Group.

Interest rate risk in the Banking Book

Interest rate risk in the Banking Book is the risk of negative effects occurrence on Bank financial results and capital due to changes in the value of its assets and liabilities or due to the opportunity cost caused by the change in interest rates on the market.

Main sources of interest rate risk are as follows:

- risk of maturity mismatch or re-pricing period mismatch of Asset and Liability (Repricing risk);
- yield curve risk the Bank is exposed to due to the change of short- and long-term interest rates, i.e. due to the change in the shape of the yield curve (Yield curve risk);
- basis risk the Bank is exposed to due to different referential interest rates in Asset and Liability, with the similar characteristics in terms of maturity or re-pricing (Basis risk); and
- optionality risk arising from the client's decision to use his contractual right to repay the loan early or to withdraw the deposit, as a result of an interest rate fluctuation (Optionality risk).

Interest rate risk management is directed at ensuring adequate profitability and safety of Bank business operations within the established risk appetite by maintaining interest rate exposure within the defined limits and specific thresholds.

Main goals of interest rate risk management are as follows:

- optimization of assets and liabilities position sensitive to interest rate movements;
- timely assessment of negative effects of interest rate changes; and
- limiting potential losses from change of interest rates.

With regards to the assessment of the interest rate risk exposure and its effect on financial result, the Bank analyses two perspectives:

- the perspective of the income sheet where the analysis focuses on the impact of interest rate changes to calculated and declared financial result, through the change in net interest income (short term perspective); and
- the perspective of the economic value, analyzing the impact of interest rate change on economic value of Bank assets, liabilities and off-balance sheet positions (long term perspective).

In order to measure and assess the interest rate risk, the Bank analyses the following:

- value of on balance sheet and off-balance sheet positions sensitive to interest rate changes;
- interest rate volatility;
- time period over which there is an exposure to interest rate risk; and
- application of stress scenarios.

The Bank manages interest rate risk by applying its internal policies through which it limits and monitors interest rate risks, as well as by implementing activities and techniques which mitigate the risk of net assets decrease due to adverse movements of interest rates. In this respect, the Bank applies the following models for interest rate risk management:

- gap analysis;
- measurement of Bank income sensitivity to change in interest rates; and
- scenario analysis.

Interest rate risk management represents a set of measures by which Bank minimizes interest rate risk as follows:

- ensuring that assets and liabilities items sensitive to interest rate movements are as balanced as possible; and
- monitoring defined internal limits which are regularly re-examined and reviewed, if necessary.

In order to decrease and hedge this risk, the Bank may carry out the following activities:

- undertake measures to change the date of balance sheet assets interest rate date;
- use financial derivatives to hedge the interest rate risk; and
- define new products to mitigate the undertaken interest rate risk.

Currency risk

Currency Risk represents the risk of the possibility of occurrence of negative effects on the Bank financial results and capital due to foreign currency exchange rate changes, and the Bank is exposed to this risk on the basis of the items in the banking book and the trading book.

Exposure to this risk may lead to a potential loss on open FX position that is not covered and secured (assets, liabilities, capital and FX obligations) if (from the viewpoint of the reporting currency) the currency of the FX position depreciates, or potential income if the foreign currency appreciates with regards to the reporting currency.

FX assets are defined as assets in foreign currency, RSD assets with currency clause, gold and precious metals, reduced by the amount of provisions for these assets.

FX liabilities are defined as liabilities in foreign currency, RSD liabilities with currency clause, gold and precious metals.

Currency risk management is directed at maintaining the exposure to this type of risk within the defined limits and achieving the planned profit.

Main goals of currency risk management are as follows:

- ensuring the optimal currency structure of assets and liabilities in Bank balance sheet;
- timely assessment of negative effects on financial result caused by adverse currency movements; and
- limiting potential losses from currency movements.

Main sources of currency risk include:

- direct risk arising as the consequence of currency exchange rate movements; and
- volatility risk representing the risk of the exchange rate volatility.

The Bank may be exposed to currency risk from assets and liabilities currency structure mismatch arising from the change in value of inter-currency rates and local currency leading to change in the value of future income and expense. Also, the Bank may be exposed to this risk due to transaction denominated in foreign currency.

In order to measure and assess currency risk, the Bank applies internally defined methodologies through which it examines the degree of currency risk exposure by calculating FX position and currency risk indicators, determining internal capital requirement, performing gap analysis and by stress testing.

The Bank maintains the currency risk exposure by regular monitoring and control of the open FX position in relation to:

- internally established limits in accordance with the risk appetite (the prescribed limit for open FX position stands at EUR 20 million maximum); and
- regulatory ratio (open FX position is limited to 20% of the Bank regulatory capital).

If the currency risk increases, the Bank shall use risk mitigation techniques which include (but are not limited to):

- undertaking measures to change the currency structure of assets and liabilities;
- closing of open position at the interbank market; and
- using financial derivatives to hedge currency risk;

Operational risk

Operational risk is the risk of the possible occurrence of negative effects on Bank financial results and capital due to omissions (deliberate or accidental) of the employees, inadequate internal procedures and processes, inadequate management of IT and other Bank systems, as well as due to the occurrence of unforeseeable external events. Operational risk includes legal risk representing the risk of adverse effects on the Bank's financial result and capital arising from court or out-of-court proceedings relating to the Bank's operation (contracts and torts, labor relations, etc.).

Bank strategy is to always maintain its operational risk exposure at the lowest possible level.

Main goals of operational risk management are as follows:

- preparation and implementation of Operational risk management policy and operational risk methodologies (including risk and control self-assessment);
- development and/or acquiring of appropriate operational risk management infrastructure and technology
- promoting the use of key risk indicators where suitable;
- establishing the minimum necessary data and information for reporting operational risk events by organizational units;
- periodical submission of reports that reflect the operational risk profile of the Bank, to the Executive Board, Operational Risk Committee, Risk Committee and to Audit Committee; and
- supervision and support to operational risk functions in all segments of the Bank's operations, including anti-fraud functions.

Fluid form of operational risks, which accounts for their presence in all segments of business operations, significantly affects modeling of the management process which is based on proactive approach and management at all decision-making levels of the Bank.

Operational risk management process has a functionally connected, phased structure. Main phases of the process are as follows:

- risk identification;
- assessment of exposure to operational risk;
- introduction of the appropriate control mechanisms for managing and mitigating operational risk exposure of the Bank;
- analysis of the implemented control mechanisms and their efficiency; and
- analysis of residual risks after the introduction of a control mechanism and the analysis of its efficiency.

Strategic goals of the Bank operational risk management are as follows:

- Maintaining the safety of the Bank and its resources at an acceptable level;
- Undertaking corrective activities related to operational risk events which significantly impact Bank performance and may lead to significant financial losses; and
- Complying with the requirement of the local bank supervision and the competent international institutions, including Basel Committee for Bank Supervision.

When managing operational risk, the Bank identifies the existing operational risk sources, as well as potential risk sources that may arise from the introduction of new products, services, new processes and systems and also from outsourcing of the Bank activities.

When identifying risks, the sources of operational risk are determined and are monitored per business lines and other criteria prescribed in the internal methodology by means of which the Bank creates an internal operational risks database.

Apart from collecting and managing operational risk events (historical data), the Bank applies the following methods:

- creating key risk indicators (KRI) – indicators based on historical data which point to the operational risk exposure (at present);
- risks and controls self-assessment (RCSA), the aim of which is to identify, assess and ultimately mitigate operational risk (short term aspect of risk assessment); and
- scenario analysis, through which internal capital requirement is determined and operational risk stress testing is performed (mid-term to long-term assessment).

Other than that, the Bank established standards of information systems operations (including also the alternative channels services), developed systems of their protection and established process of business continuity management – plan of operations in crisis situations, as well as disaster recovery plan.

In order to mitigate and hedge operational risk, the Bank uses the following measures:

- covering all Bank activities by appropriate internal regulatory documents (policies, guidelines, procedures, working instructions and the like) and their regular reviewing;
- controlling their implementation;
- providing crime and civil liability insurance policy (BBB), directors & officers liability insurance policy as well as cyber insurance policy;
- providing property insurance policy; and
- ensuring additional funds and capital where necessary.

8. EXPOSURE TO SIGNIFICANT FINANCIAL RISKS

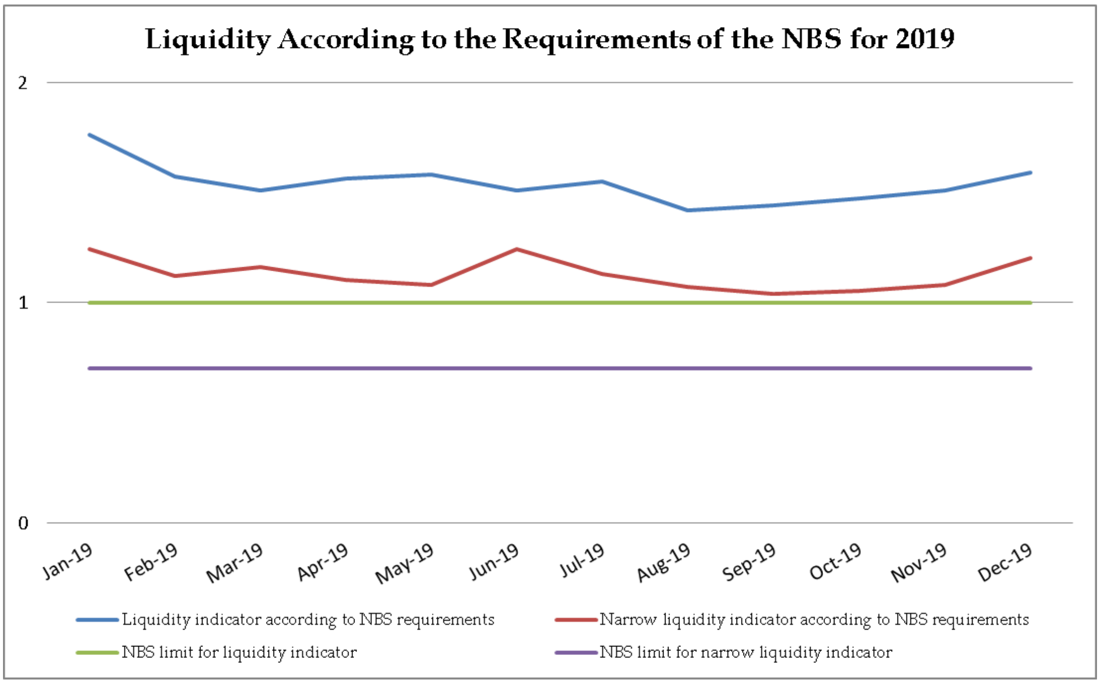
Liquidity risk

During 2019, the Bank continued to maintain a high level of liquidity which can be illustrated through the analysis of the prescribed regulatory liquidity ratio and narrow liquidity ratio.

The liquidity ratio is the ratio of the sum of first and second order liquid assets (cash, funds at the accounts with other banks, deposits with the Central Bank, receivables in realization process, irrevocable credit lined approved to the bank, financial instruments quoted on the stock market and other bank receivables with maturity up to 1 month).

The narrow liquidity ratio is the ratio of level 1 liquid receivables of a bank and the sum of liabilities payable on demand or with no agreed maturity and liabilities falling due within a month from the date of liquidity ratio calculation.

During the whole period, the two ratios were above the borderline values prescribed by NBS as illustrated in the graph bellow:



In accordance with the regulatory limits, the Bank maintained liquidity ratios above the prescribed level, which stands at above 1 for liquidity ratio, and above 0.7 for the narrow liquidity ratio.

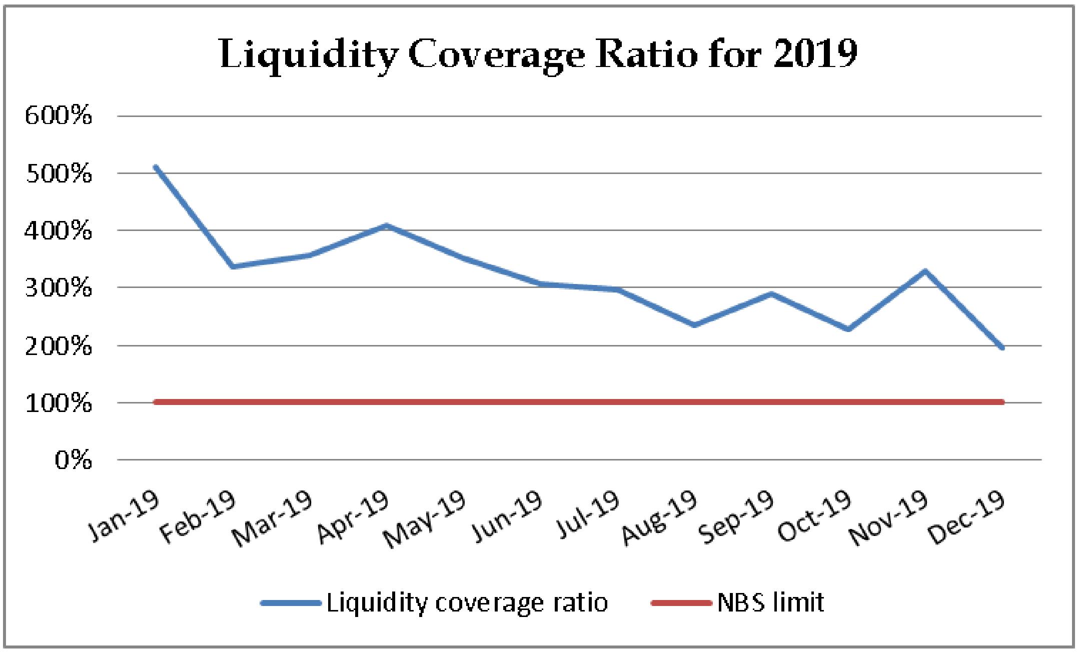
The Bank liquidity ratio in 2019, at the last day of the month, ranged from 1.42 to 1.76, whereas the narrow liquidity ratio ranged from 1.04 to 1.24.

As at 31 December 2019, the Bank calculated the following values:

- Liquidity ratio: 1.59;
- Narrow liquidity ratio: 1.20.

In addition to the aforementioned two ratios, the bank has calculated another liquidity ratio, Liquidity Coverage Ratio, which is an integral part of the regulatory requirements. The liquidity coverage ratio is the ratio of liquidity buffer and net liquidity outflows over a 30-day stress period.

Liquidity Coverage Ratio ranged all the time above the limit value prescribed by the NBS of 100%, which is illustrated in the graph bellow:



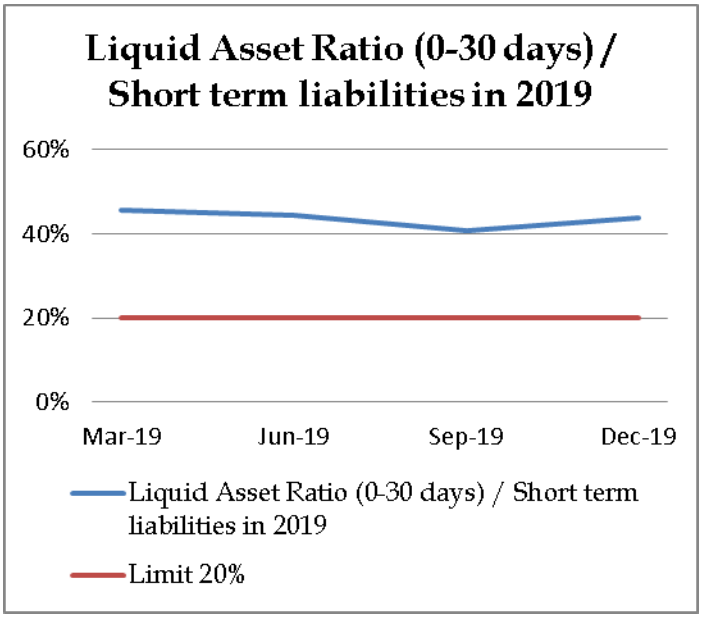
Liquidity coverage ratio in 2019 ranged from 196% to 511%. As at 31 December 2019, it amounted to 196%.

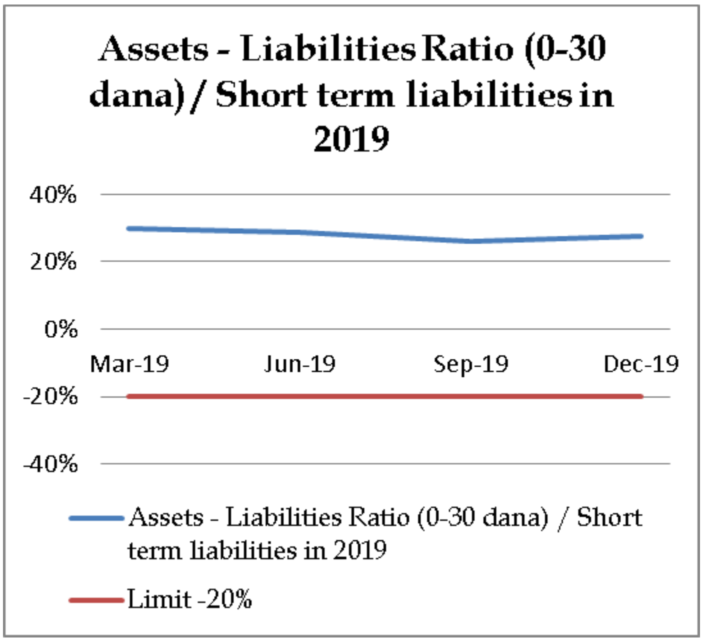
For the purpose of monitoring the risk exposure towards cash inflow and outflow gap, the Bank balance positions are distributed into 7-time segments based on which gap is determined, and in turn, based on this gap the Bank determined the internal liquidity ratios:

- Liquid assets (0 - 30 days)/short term liabilities, and
- Gap (0 - 30 days)/short term liabilities.

During 2019, the Bank maintained a high level of liquidity as per internally determined ratios which were above the prescribed limits which testifies to the fact that the Bank settled all its obligations without delays and that the clients could, at any given moment, dispose of their funds without limitations.

The Bank's highly liquid position is illustrated in the following graphs:





Internally prescribed limit for the ratio of liquid assets up to 30 days and short-term liabilities stands at 20%. During 2019, realized ratio ranged between 40.70% and 45.50%.

For the indicator which refers to the overall gap of assets and liabilities up to 30 days and short-term liabilities, the internally prescribed borderline value is -20%. Realized ratio ranged from 26.06% to 29.95%.

Considering the conditions in the local banking market, as well as the macroeconomic indicators in Serbia and globally, in 2019, the Bank demonstrated a highly efficient management of liquidity risk. A solid diversification of funding sources was achieved, whereas further optimization of the funding sources remains one of goals in 2020.

Credit risk

In accordance with the Decision on the capital adequacy, the Bank applies standardized approach for measurement of credit risk within which all exposures are assigned to the appropriate class for which different risk weights are applied and capital requirements for credit risk are calculated. For the purpose of internal capital adequacy assessment, the Bank applies the adjusted approach, correcting the standardized approach in line with internal risk appetite.

Comparative review of important classes of exposure and capital requirements is provided in the following table:

Exposure classes	**Net exposure**		**Capital requirements**	
(u 000 RSD)	**31.12.2019.**	**31.12.2018.**	**31.12.2019.**	**31.12.2018.**
Republic of Serbia and Central Bank of Serbia	39,653,416	46,244,617	-	-
Banks	18,108,461	11,900,665	415,982	216,443
Retail exposures	76,998,271	75,532,309	4,097,317	4,017,437
Corporative	53,807,271	53,282,415	3,616,777	3,605,749
Multilateral Development Banks	3,828,277	28,898,357	-	-
High Risk exposures	4,241,995	1,505,489	208,451	120,129
Exposures secured by mortgages on real estate	7,659,462	6,828,262	218,897	190,444
Exposures in default status	6,621,473	8,895,510	660,792	914,544
Other exposures	193,530,782	224,109,660	558,354	353,623
Total	**404,449,408**	**457,197,284**	**9,776,570**	**9,418,369**

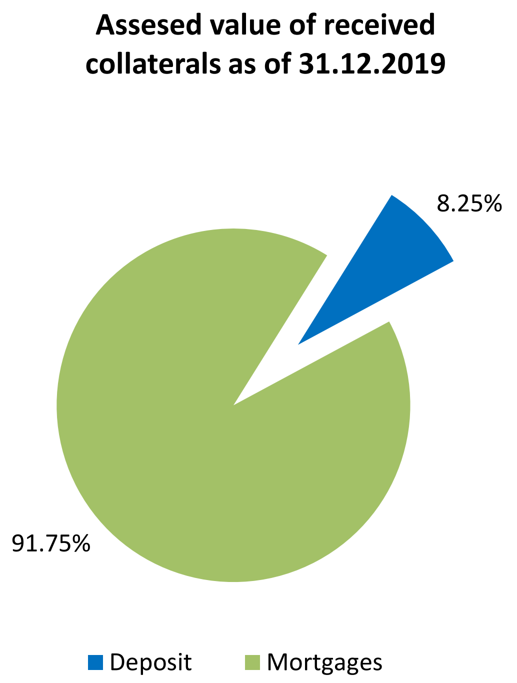
For the purposes of monitoring the quality of the loan portfolio, all exposures, according to the criteria of the National Bank of Serbia are classified into five categories of risk. Quality review of the total portfolio is given in the following table:

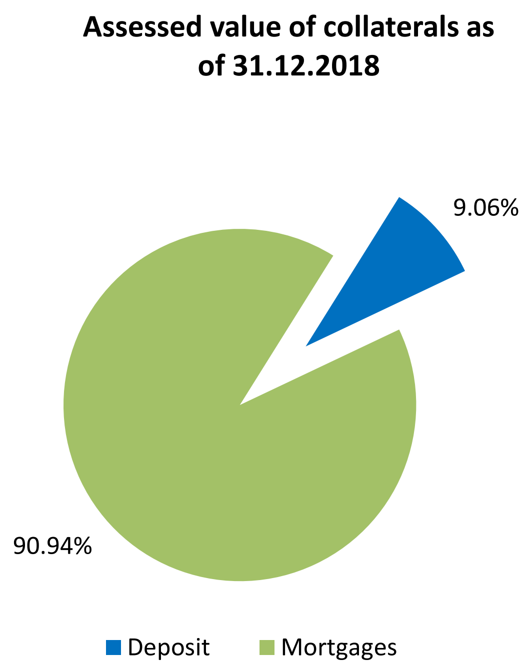
(in 000 RSD)

Period	**31.12. 2019.**			**31.12.2018.**
Category	**Assets**	**Off-balance items**	**Total**	**Total**
A	49,083,886	3,731,827	52,815,713	49,481,993
B	60,031,038	19,497,742	79,528,780	75,152,519
V	9,998,884	2,897,655	12,896,538	16,532,742
G	4,818,126	78,769	4,896,895	3,383,644
D	11,367,926	5,832,947	17,200,873	18,180,107
Total	**135,299,860**	**32,038,940**	**167,338,800**	**162,731,006**

In the total Bank's portfolio as at 31.12.2019, the largest amount of exposure refers to the categories of acceptable levels of risk (A, B and V category). Compared to the previous year, there was no significant change in the participation of problematic categories G and D decreased from 13.25% to 13.21%. On the other side, the participation of acceptable (i.e. performing) categories increased from 86.75% to 86.79%.

For the purpose of mitigating credit risk exposure, the Bank obtains credit risk mitigation instruments (collaterals). Overview of the received collaterals is given in the following graphic:





In order to minimize the exposure to credit risk, the Bank continuously conducts the following activities:

- consistent application of the methodology and procedures relating to credit risk assessment;
- adequate diversification of the credit portfolio in order to disperse credit risk and minimize potential losses;
- identifying early warning signals that may indicate a deterioration in the clients' creditworthiness, in order to timely take appropriate actions to protect the Bank's lending portfolio, and therefore also the capital;
- monitoring of individual exposures and clients; and
- monitoring the total lending portfolio, in order to maintain the quality of the loan portfolio, timely detect and monitor non-performing loans, as well as the formation of reserves that contribute to the coverage of credit losses.

Market risk

The Bank applies standardized approach for the calculation of capital requirements for market risk in accordance with NBS requirements in order to determine capital adequacy.

Capital requirement for price risk from open positions of trading portfolio of the debt and proprietary securities, as well as derivatives, shares, interest rates and foreign currency exchange rate, are calculated as the sum of the following:

- general risk, risk of price change of the relevant financial instrument due to general change of the interest rate or price level at the stock market, calculated on the basis of the standardized approach, and
- specific risk, i.e. the risk of price change of the relevant financial instrument due to factors related to the issuer, calculated on the basis of the standardized approach.

Capital requirement for price risk is calculated as per trading book elements, by means of the maturity date method, also considering long or short positions of debt securities as well as other short positions of swap and forward contracts recorded in the trading book in currencies as per transactions performed, as well as per the remaining period until due date.

On the basis of the trading book position in the amount of RSD 16.44 bn as at 31 December 2019, the Bank calculated capital requirements for:

- price risk from proprietary securities in the amount of RSD 43 thousand, and
- price risk from debt securities in the amount of RSD 7,114 thousand.

Bank exposure arising from investment into entities outside of the financial sector and into Bank PPE, as of 31 December 2019, were within regulatory requirement of 60% of the regulatory capital and amounted to 15.4%.

Interest rate risk

The Bank has internal mechanism developed for managing the interest rate risk in the banking book in accordance with the Risk Management Policy and Strategy and with the aim of defining in detail the process of identification, measurement, mitigation, and reporting on the interest rate risk.

Once a month, the Bank determines the total interest rate gap through which it observes maturity gap of interest-sensitive assets and liabilities as a whole, but also individually per significant currencies.

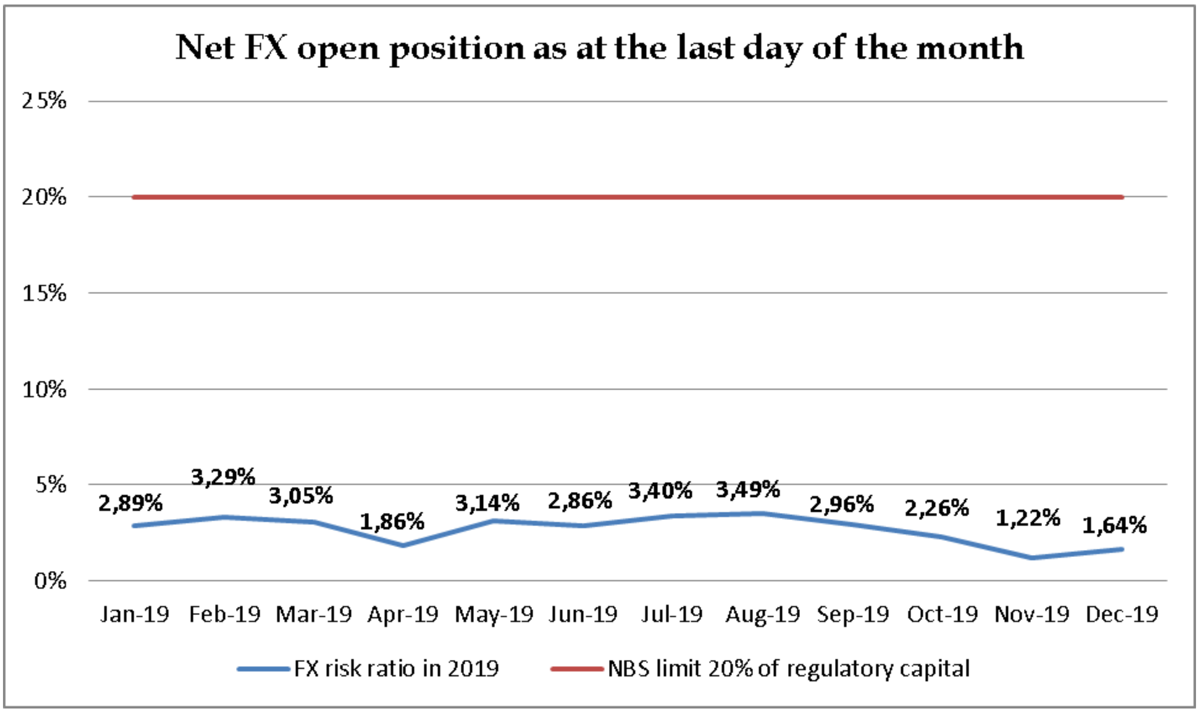
The impact of the interest rate on capital is measured by calculating the sensitivity of the economic value of equity to the change of interest rates.

During 2019, the interest rate risk indicator, as the measure of the impact on the Bank capital, remained below the defined limit of 10% of regulatory capital. Exposure to subcategories of interest rate risk, as of 31 December 2019 is as follows:

- base risk 0.57%;
- repricing risk 1.94%;
- yield curve risk 1.08%; and
- optionality risk 2.02%.

Currency risk

Bank's strategy in terms of the currency risk is aligned with the strategic goals of the overall business operations and is shown through compliance with both the regulatory limit of the National Bank of Serbia standing at 20% of the Bank's capital, and the internally prescribed limit for net open FX position amounting to EUR 20 million.



During 2019, at the last day of the month, the value of the FX risk ratio was well below the borderline value and as at December 31st it stood at 1.64%, whereas at the same date it ranged from 1.22% to 3.49%. The exposure in EUR is dominant in the currency exposure structure. The largest average exposure was in EUR, with the average limit utilization of 40.34%, (against the limit of EUR 20 million).

Open FX position as of 31 December 2019 is given in the following table:

(000 EUR)

	Currency	Exposure	Internal limit utilization %
FX open position	EUR	(3,602)	18.0%
	CHF	(1.451)	72.6%
	USD	(41)	0.8%
	Other currencies	330	5.5%

Gaps per currencies are continually monitored and, when necessary, appropriate measures are undertaken to mitigate severe oscillations and to control the currency risk exposure.

As at 31 December 2019, assets and liabilities in foreign currencies, both in total and individually per foreign currencies, are matched to the extent acceptable by the regulator and also by the Bank's management.

(000 EUR)	EUR	
	Total	**EUR- Indexed**
Long position	752,326	525,725
Short position	755,928	8,289
Gap	(3,602)	517,436

(000 EUR)	USD	
	Total	**EUR- Indexed**
Long position	16,879	-
Short position	16,920	-
Gap	(41)	-

(000 EUR)	CHF	
	Total	**EUR- Indexed**
Long position	34,137	6,356
Short position	35,588	308
Gap	(1,451)	6,048

(000 EUR)	Other currencies	
	Total	**EUR- Indexed**
Long position	3,502	-
Short position	3,172	-
Gap	330	-

The Bank continually conducts currency risk management in order to maintain the exposure to the acceptable level.

Currency risk internal controls system is integrated into all bank business activities, as well as the independent control of the adequacy and efficiency assessment of the currency risk management system.

As a part of the currency risk management, the Bank uses derivatives and other instruments and measures with regards to assets and sources of assets in order to decrease and mitigate the exposure to the said risk.

The Bank established a reporting system which includes internal and external reporting. In accordance with the said reporting system the Risk Management Division reports in a timely manner to the National Bank of Serbia and the Bank management, as well as to the competent boards and committees, and organizational units.

Internal reporting system includes the currency risk exposure assessment, compliance with the external and internal limits as well as the stress testing results.

Operational risk

Operational risk is encompassed by the regulatory capital requirement in line with the Decision on capital adequacy. Accordingly, the Bank decided to use the basic indicator approach (BIA) to calculating minimum capital requirements for operational risk.

In addition, the Bank monitors the regulatory capital adequacy through the establishment of an internal capital requirement, as well as through stress testing for operational risk using an internally developed loss distribution approach (LDA).

The amount of internal capital requirements for operational risk in 2019, calculated using LDA, necessary to cover the most probable exposures to operational risk was estimated at RSD 907,82 million and shows no need for increase of regulatory capital requirement for operational risk.

9. INFORMATION ON THE PURCHASE OF OWN SHARES

During 2019 the Bank did not performed purchase of own shares. During 2018 the Bank carried out annulment of 5 own preference shares repurchased during the year 2017.

10. EVENTS AFTER THE REPORTING PERIOD

There have been no significant events after the reporting period, which would have significant impact on the financial statements of the Bank as at 31 December 2019. However, the management of the Bank considers that the COVID-19 pandemic virus is a significant non-adjusting subsequent event, which could not affect the financial year ended 31 December 2019 and therefore does not require correction of the financial statements.

Covid-19 outbreak

The World Health Organization declared the COVID-19 pandemic on March 11, 2020. The effects of the COVID-19 on the economic activity depend heavily on the range of its possible world expansion and the timing of its curbing. Countries worldwide, and Serbia among them, have already taken measures to contain the virus' expansion (e.g. travel restrictions, quarantine measures), strengthen the health systems' ability to deal with the outbreak and cushion the shock on both economic supply and demand via fiscal measures. In addition, certain Central Banks, including the US Fed, ECB, the Bank of England and many others have implemented measures of monetary accommodation. Conditional on the above, the baseline scenario is that the expansion of the virus globally and EU-wide will be contained and gradually slowed down (as is already the case in China) until the end of the first half of 2020. In such a case, the outbreak is expected to have a notable negative economic impact mainly on the first and, to a lesser extent on the second quarter of 2020. The European economies are expected to rebound in the second half of 2020. In the adverse scenario, however, a negative impact on certain industries of the global economy cannot be ruled out, such as a) lower tourism revenues, b) reductions in the demand for the manufacturing sector's product, as a result of the slowdown in key markets and c) disruptions in the manufacturing sector's supply chains. Continuation of the slowdown in economic activity could affect the non-performing exposures of the Bank and might put some pressure on the revenue side resulting from lower fees, commission and interest income.

The first case in the Republic of Serbia was officially registered on 6 March 2020, while on 16 March 2020 the Decision to introduce a state of emergency has come into force. After the introduction of the state of emergency on the territory of the Republic of Serbia, the Government on several occasions tightened the issued measures and introduced new restrictions and prohibitions that primarily relate to the movement of individuals. Pursuant to a Decision of the Government of Serbia adopted on 19 March 2020, all commercial international flights were suspended. All crossings for entry of passengers in Serbia by road, rail and river traffic were closed. Citizens over the age of 65 are completely barred from leaving their homes. There is limited public gathering outdoors and indoors, so the distance between persons must be at least 2 meters.

The Bank is continuously monitoring the developments on the COVID-19 front and has increased its level of readiness, so as to accommodate decisions, initiatives and policies to protect its capital and liquidity standing as well as the fulfilment, to the maximum possible degree, of its strategic and business plan for the quarters ahead. The Bank has established Crisis Committee that is on daily level monitoring the developments and takes necessary actions to protect clients and employees, move employees from offices to work at home and in parallel to ensure business continuity with minimal business disruptions.

Moratorium on debt payments and other NBS measures

Following the leading central banks in the world, on 11 March 2020 the NBS decided to cut the reference interest rate for 50 bp (from 2.25% to 1.75%) as a response on early signs of crisis.

On 17 March 2020, Executive Board of the NBS adopted Decision on Temporary Measures for Preserving Financial System Stability imposing a moratorium on debt payments. The moratorium is envisaged for all debtors who wish to apply it (natural persons, farmers, entrepreneurs and corporates) and implies a suspension of debt payments for at least 90 days, i.e. for the duration of the emergency state declared due to the pandemic (hereinafter: the Moratorium). During the mentioned period, debtors are relieved of the repayment of their obligations under loan agreements. For the duration of the emergency state, banks do not charge any penalty interest on due outstanding receivables and do not initiate enforcement or enforced collection procedures or take other legal actions to collect receivables from their clients. Regular interest on undue principal is accruing during the Moratorium and it will be capitalised to the principal and evenly allocated for the remaining term of the facility extended for at least 90 days, or for the duration of the emergency state, if it is longer. All days-past-due counters for instalments due will be frozen until the end of the Moratorium and acceptance of the Moratorium will not trigger forbearance, non-performing or default statuses.

In line with the decision, the Bank published a notification on the offered the Moratorium on the website, and in that way all borrowers have been duly informed about it. If the clients did not refuse the offer by 31 March 2020, it was considered that they have accepted the Moratorium. Around 9,930 clients refused the Moratorium with on balance sheet exposure of around RSD 33.4 billion, what represents around 27% of total loans and receivables to customers as of 31 March 2020. In line with the NBS decision, on remaining 73% of total loans and receivables the Moratorium is automatically applied no matter if clients explicitly requested it.

State economic aid program

On 31 March 2020 the Minister of finance presented a State economic aid program to counter the negative effects of the outbreak of COVID-19 on the economy. The value of the set of measures is 5.1 billion EUR or 11% of Serbia's GDP and key measures are following:

1. tax policy measures: postponement of payroll taxes payment until the end of the state of emergency with their payment in next two years (interest free) and postponement of advance payment of corporate income tax;
2. state aid to companies: The State will pay three minimum wages for about 900,000 people employed in micro, small and medium-sized enterprises and entrepreneurs as well, while for large companies is planned 50% of minimum wage but only for employees who stopped working due to reduced business volume;
3. liquidity loans: loan granting program for liquidity and working capital of micro, small and medium-sized enterprises through Development fund of Republic of Serbia (200 M EUR) and State guaranteed scheme implemented through commercial banks loans for micro, small and medium-sized enterprises (2 billion EUR);
4. direct assistance to the population and post-crisis increases of domestic demand: payment of 100 EUR for all adult Serbian citizens; and
5. moratorium on dividends: until the end of the year non-public companies will not be able to pay dividends.

It is expected that within a month, the Government will introduce all acts necessary for the implementation of these measures. The Bank plans to use State guaranteed scheme implemented through commercial banks.

Stress test of capital adequacy and liquidity position

The management of the Bank uses the ICAAP as an important tool for the risk management of the Bank and for the assessment of the risks to capital. The management is aware of the risk assessment performed in the ICAAP document, including the scenarios applied for the stress tests performed for the purposes of the ICAAP, their underlying assumptions and the results of those scenarios. Along with the ICAAP, the Recovery Plan is another tool in assessment of effect of adverse situations.

Further to it, the management closely monitors the development of the recent COVID-19 situation and its potential impact on the capital adequacy and liquidity position, but at this moment estimate of its financial effect cannot be made reliably. Considering the information available to date, management is of the opinion that the impact of the COVID-19 outbreak and taking into consideration the measures taken by the Government and the NBS would not lead to a more severe impact than the one incorporated in the stress test for the ICAAP and/or the Recovery Plan, where the Bank proved to be resilient in case of a stress scenario which assumes a significant increase of PD and LGD for all portfolio segments, as well as a material liquidity outflow.

Credit risk stress test in ICAAP was done under the assumption of significant increase of the main credit risk parameters – PD and LGD. Stress test was based on an increase in PD in Corporate segment by a factor of around 3 compared to the current (pre-crisis) PD, and by a factor of 6 compared to a more recent default rates. In Retail segments, stressed PDs were set to a maximum level since 2010, representing an increase by a factor of 1.7-5.3. At the same time, a 10% increase in LGD was assumed for all segments. Such LGD shock roughly corresponds to the highest realized LGD historically. Considering its purpose and nature, the Recovery Plan was done on an assumption of a more severe stress test, with PDs assumed to reach 10% and significant increase of LGD (i.e. worsening of both recovery rates and cure rates). Even under such a severe scenario, it was proved that the Bank has enough capital and adequate recovery options to continue with the business activities.

Likewise, the liquidity stress test assessment as part of the ICAAP and Recovery Plan shows sufficient liquidity buffers in the adverse scenario. Under the stress test in the ICAAP, a systemic liquidity crisis is assumed, corresponding to a stress of the banking system such as the fall in the financial market seen in 2008.

This scenario is characterized by market contraction and institutions' inability to renew certain sources of funding (short term loans from the central bank could be utilized aiming to overcome the liquidity crisis). The risk tolerance of the systemic liquidity stress test scenario is set to a three months survival period. The assumptions used in the systemic stress test are based on the maximum historical withdrawals of term, sight and savings deposits of retail and corporate clients the Serbian market experienced from the period January 2004 – December 2019. Deposit outflow assumptions in the stress test were for Retail deposits from 15.10%-23.31% and for Wholesale deposits from 32.70%-35.40%, depending on the deposit type. In addition, the Bank takes into account diminishing of liquidity at interbank market.

The results from the Bank's credit and liquidity risk stress-testing framework demonstrate quantitatively that it has sufficient capital to cover all unexpected losses as well sufficient liquidity and expected stable cash inflows to meet the possible outflows in these negative scenarios, withstand severe levels of stress and continue to operate in the foreseeable future without jeopardising going concern assumption.

Belgrade, 15 April 2020

On behalf of the Bank:

Slavica Pavlovic, President of the Executive Board

Vladimir Tofoski, Chief Financial Officer