HALKBANK A.D., BEOGRAD

Financial Statements
Year Ended December 31, 2019 and
Independent Auditors' Report

Translation of the Auditors' Report issued in the Serbian language, prepared by the Auditor

CONTENTS

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This is a translation of the Auditors' Report issued in the Serbian language
In case of any discrepancy between the Serbian and English versions, the Serbian version shall prevail

INDEPENDENT AUDITORS' REPORT

To the Owners and Management of Halkbank A.D., Beograd

Opinion

We have audited the financial statements (pages 3 to 98) of Halkbank A.D., Beograd (hereinafter: the "Bank") which comprise the statement of the financial position as at December 31, 2019, and the related income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

We conducted our audit in accordance with the standards on auditing applicable in the Republic of Serbia and the Law on Audit of the Republic of Serbia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Co*de) 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 IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Report on Other Legal and Regulatory Requirements

Management is responsible for preparation of an annual business report in accordance with the requirements of the Law on Accounting of the Republic of Serbia, which is not an integral part of the accompanying financial statements. In accordance with the Law on Audit of the Republic of Serbia and the Decision on Amendments and Supplements to the Decision on External Audit of Banks, it is our responsibility to express an opinion on the compliance of the Bank's annual business report for the year 2019 with its financial statements for the same financial year. In our opinion, the financial information disclosed in the Bank's annual business report for 2019 is consistent with its audited financial statements for the year ended December 31, 2019.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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.

(Continued)

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INDEPENDENT AUDITORS' REPORT

To the Owners and Management of Halkbank A.D., Beograd (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, as well as 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 standards on auditing applicable in the Republic of Serbia and the Law on Audit of 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 standards on auditing applicable in the Republic of Serbia and the Law on Audit of the Republic of Serbia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

Miroslav Tončić
Certified Auditor

Terazije 8, 11000 Belgrade
April 16, 2020

Deloitte d.o.o.
BEOGRAD
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STATEMENT OF FINANCIAL POSITION
As of December 31, 2019
(Thousands of RSD)

	Note	December 31, 2019	December 31, 2018
ASSETS			
Cash and balances held with the central bank	3.9, 14	10,013,564	7,643,117
Pledged financial assets	16	2,260,870	-
Receivables under derivative financial instruments	15	-	6,278
Securities	3.8, 16	8,346,480	6,713,867
Loans and receivables due from banks and other financial institutions	3.8, 17	1,453,134	2,281,251
Loans and receivables due from customers	3.8, 18	45,804,396	38,765,127
Intangible assets	3.7, 19a	270,726	273,138
Property, plant and equipment	3.5, 19b, 19c, 19e	1,317,692	851,041
Investment property	3.6, 19d	137,845	123,883
Deferred tax assets	3.11, 13c	62,393	62,393
Other assets	20	326,443	184,995
TOTAL ASSETS		**69,993,543**	**56,905,090**
LIABILITIES AND EQUITY			
Liabilities under derivatives	15	1,563	-
Deposits and other liabilities due to banks, other financial institutions and the central bank	3.8, 21	8,438,685	6,180,692
Deposits and other liabilities due to customers	3.8, 22	48,486,776	39,165,999
Provisions	2.7, 23	117,590	97,677
Other liabilities	24	850,210	309,037
TOTAL LIABILITIES		**57,894,824**	**45,753,405**
EQUITY			
Share capital	3.12, 25	8,972,603	8,972,603
Profit	25	472,836	414,098
Reserves	3.12, 25	2,653,280	1,764,984
TOTAL EQUITY	25	**12,098,719**	**11,151,685**
TOTAL LIABILITIES AND EQUITY		**69,993,543**	**56,905,090**

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

These financial statements were adopted by the Executive Board of Halkbank a.d., Beograd on February 27, 2020.

Vesna Petrović	Dušica Erić	Kenan Bozkurt
Head of the Financial Management and Planning Division	Member of the Executive Board	Chairman of the Executive Board

INCOME STATEMENT
Year Ended December 31, 2019
(Thousands of RSD)

	Note	2019	2018
Interest income	3.1, 4a	2,528,261	2,068,379
Interest expenses	3.1, 4b	(423,985)	(315,868)
Net interest income		**2,104,276**	**1,752,511**
Fee and commission income	3.2, 5a	929,972	843,582
Fee and commission expenses	3.2, 5b	(158,613)	(145,030)
Net fee and commission income		**771,359**	**698,552**
Net (losses)/gains on changes in the fair value of financial instruments	6	(7,068)	4,042
Net gains on derecognition of the financial assets measured at fair value	7	20	7,910
Net foreign exchange gains and positive currency clause effects	3.4, 8	8,020	1,914
Net losses from impairment of financial assets not measured at fair value through profit or loss (FVtPL)	10a	(214,832)	(75,127)
Other operating income	9	16,395	5,102
TOTAL OPERATING INCOME, NET		**2,678,170**	**2,394,904**
Salaries, salary compensations and other personal expenses	11	(906,313)	(802,875)
Depreciation and amortization charge	3.5, 3.6, 3.7	(362,928)	(150,143)
Other income	12	15,588	11,278
Other expenses	12	(951,681)	(1,091,439)
PROFIT BEFORE TAXES		**472,836**	**361,725**
Current income tax expense	3.11, 13	-	-
Deferred tax gains/(losses)	3.11, 13	-	-
PROFIT FOR THE YEAR	25	**472,836**	**361,725**

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Translation of the Bank's Financial Statements and Notes to the Financial Statements issued in the Serbian language, prepared by the Bank's management (In case of any discrepancy between the Serbian and English versions, the Serbian version shall prevail.)

STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2019
(Thousands of RSD)

	2019	2018
PROFIT FOR THE YEAR	**472,836**	**361,725**
Components of other comprehensive income that cannot be reclassified to the profit or loss:		
Increase in revaluation reserves arising from intangible assets and property, plant and equipment	523	2,567
Actuarial losses	(773)	(829)
Components of other comprehensive income that can be reclassified to the profit or loss:		
Positive effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVtOCI)	478,764	98,018
Negative effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVtOCI)	(4,315)	(11,365)
Total positive other comprehensive income for the year	**474,199**	**88,391**
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE YEAR	**947,035**	**450,116**

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STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2019
(Thousands of RSD)

	Share and other capital	Share premium	Reserves from profit and other reserves	Revaluation reserves	Retained earnings	Total equity
Opening balance at January 1, 2018	**2,421,160**	**1,827,323**	**1,312,431**	**364,162**	**194,631**	**6,119,707**
Effects of IFRS 9 first-time adoption recorded against prior years‘ retained earnings	**-**	**-**	**-**	**-**	(142,258)	**(142,258)**
Opening balance at January 1, 2018, restated	**2,421,160**	**1,827,323**	**1,312,431**	**364,162**	52,373	**5,977,449**
Actuarial losses, net	-	-	-	(829)	-	**(829)**
Gains on the changes in the fair value of property, plant and equipment	-	-	-	2,567	-	**2,567**
Profit for the year	-	-	-	-	361,725	**361,725**
Share capital increase	3,839,120	-	-	-	-	**3,839,120**
Share issue premium increase	-	885,000	-	-	-	**885,000**
Other comprehensive income						
Positive effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVtOCI)	-	-	-	86,653	-	**86,653**
Balance at December 31, 2018	**6,260,280**	**2,712,323**	**1,312,431**	**452,553**	**414,098**	**11,151,685**
Opening balance at January 1, 2019	**6,260,280**	**2,712,323**	**1,312,431**	**452,553**	**414,098**	**11,151,685**
Actuarial losses, net	-	-	-	(773)	-	**(773)**
Gains on the changes in the fair value of property, plant and equipment	-	-	-	523	-	**523**
Profit for the year	-	-	-	-	472,836	**472,836**
Previous period’s profit distribution	-	-	414,098	-	(414,098)	**-**
Other	-	-	(1)	-	-	**(1)**
Other comprehensive income						
Positive effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVTOCI)	-	-	-	474,449	-	**474,449**
Balance at December 31, 2019	**6,260,280**	**2,712,323**	**1,726,528**	**926,752**	**472,836**	**12,098,719**

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STATEMENT OF CASH FLOWS
Year Ended December 31, 2019
(Thousands of RSD)

	2019	2018
Cash inflows from operating activities	**3,363,646**	**2,881,745**
Interest receipts	2,406,095	2,018,094
Fee and commission receipts	943,344	858,916
Receipts of other operating income	12,055	3,849
Dividend receipts and profit sharing	2,152	886
Cash outflows from operating activities	**(2,401,941)**	**(2,296,456)**
Interest payments	(394,245)	(291,577)
Fee and commission payments	(155,653)	(141,536)
Payments to, and on behalf of employees	(892,133)	(751,379)
Taxes, contributions and other duties paid	(184,911)	(185,280)
Payments for other operating expenses	(774,999)	(926,684)
Net cash generated by operating activities prior to increases/decreases in financial assets and financial liabilities	**961,705**	**585,289**
Decrease in financial assets and increase in financial liabilities	**11,364,052**	**8,786,035**
Decrease in receivables per securities and other financial assets not intended for investment	322	-
Increase in deposits and other liabilities due to banks, other financial institutions, the central bank and customers	11,363,730	8,786,035
Increase in financial assets and decrease in financial liabilities	**(8,113,395)**	**(11,471,006)**
Increase in loans and receivables due from banks, other financial institutions, the central bank and customers	(8,113,395)	(11,471,006)
Net cash generated by/(used in) operating activities before income tax	**4,212,362**	**(2,099,682)**
Income tax paid	103	-
Net cash generated by/(used in) operating activities	**4,212,259**	**(2,099,682)**
Cash inflows from investing activities	**1,823,071**	**1,583,070**
Proceeds from investing in investment securities	1,822,115	1,568,355
Proceeds from the sales of intangible assets, property, plant and equipment	956	14,715
Cash outflows from investing activities	**(5,395,521)**	**(3,636,183)**
Cash used for investing in investments securities	(5,226,747)	(3,357,329)
Cash used for the purchases of intangible assets, property, plant and equipment	(168,774)	(278,854)
Net cash used in investing activities	**(3,572,450)**	**(2,053,113)**
Cash inflows from financing activities	**2,152,990**	**7,879,373**
Capital increase	-	4,724,120
Inflows from the borrowings	2,152,990	3,155,253
Cash outflows from financing activities	**(2,293,847)**	**(1,888,821)**
Cash used in the repayment of borrowings	(2,117,368)	(1,888,821)
Other outflow from financing activities	(176,479)	-
Net cash (used in)/generated by financing activities	**(140,857)**	**5,990,552**
TOTAL CASH INFLOWS	**18,703,759**	**21,130,223**
TOTAL CASH OUTFLOWS	**(18,204,807)**	**(19,292,466)**
NET CASH INCREASE	**498,952**	**1,837,757**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**5,145,155**	**3,302,734**
FOREIGN EXCHANGE GAINS	93,669	112,670
FOREIGN EXCHANGE LOSSES	(106,115)	(108,006)
CASH AND CASH EQUIVALENTS, END OF YEAR	**5,631,661**	**5,145,155**

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

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1. BANK'S ESTABLISHMENT AND ACTIVITY

1.1. Establishment

Halkbank a.d., Beograd, formerly known as Čačanska banka, has been operating since July 1, 1956, and during its operations and development it has changed its legally registered name and organizational form several times.

In May 2015, Turkiye Halk Bankasi AS became the majority owner of Čačanska banka. The change of ownership caused the change to the Bank's name and headquarters. The new name of the Bank is Halkbank a.d., Beograd (hereinafter: the "Bank"). During 2018, Turkiye Halkbankasi AS became it sole (100%) owner after purchase of the remaining shares held by the minority (non-controlling) shareholders.

The Bank was registered with the Serbian Business Registers Agency under number BD 54244 as of September 13, 2005.

1.2. Activities

The Bank is registered in the Republic of Serbia for payment, credit and deposit activities in the country and abroad and it operates in accordance with the effective Law on Banks.

The Bank's head office is in Belgrade, at the address of no. 9e, Milutina Milankovica Street, as registered with the Business Registers Agency under number BD 82129/2016 on October 19, 2016.

As of December 31, 2019, the Bank's network consisted of 25 branches (2018: 24 branches), as follows: Belgrade (8 branches), Čačak (2 branches), Jagodina, Gornji Milanovac, Kraljevo, Užice, Kragujevac, Kruševac, Aranđelovac, Valjevo, Šabac, Niš, Novi Sad, Pančevo, Novi Pazar, Subotica and Smederevo. The Bank also had 9 sub-branches (2018: 9 sub-branches) in Paraćin, Požega, Topola, Ivanjica, Vrnjačka Banja, Leskovac, Mladenovac, Čačak and Tutin and 4 counters.

In 2019 the Bank opened a new branch in Smederevo.

As of December 31, 2019, the Bank had 525 employees (December 31, 2018: 487 employees). The Bank's tax identification number is 100895809.

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

2.1. Basis of Preparation and Presentation of the Financial Statements

Legal entities and entrepreneurs incorporated in Serbia are required to maintain their books of account, to recognize and value assets and liabilities, income and expenses, and to present, submit and disclose financial statements in conformity the Law on Accounting (hereinafter referred to as the "Law", Official Gazette of the Republic of Serbia no. 62/2013 and 30/2018). As a large legal entity, in accordance with the Law on Accounting, the Bank is required to apply International Financial Reporting Standards ("IFRS"), which as per the aforementioned law comprise the following: the Framework for the Preparation and Presentation of Financial Statements (the "Framework"), International Accounting Standards ("IAS"), International Financial Reporting Standards ("IFRS"), as well as the related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and additional amendments to the standards and related interpretations issued by the International Accounting Standards Board ("IASB"), the translations of which to the Serbian language were approved and published by the competent Ministry of Finance. In addition, in accordance with the Amendments and Supplements to the Law on Banks (Official Gazette of the Republic of Serbia no. 14/2015), upon preparation of the annual financial statements, banks in the Republic of Serbia are obligated to apply the International Financial Reporting Standards, subsequent revisions and amendments thereto and related interpretations as from their issue date by the competent authorities.

The accompanying financial statements are presented in the format prescribed by the Decision on Forms and Content of Items in the Financial Statement Forms to Be Completed by Banks (Official Gazette of RS nos. 101/2017, 38/2018 and 103/2018).

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

2.1. Basis of Preparation and Presentation of the Financial Statements

The accompanying financial statements are stand-alone financial statements of the Bank. The Bank is not a parent entity, i.e., it has no subsidiaries or associates so that it does not prepare consolidated financial statements. The Bank's sole shareholder is Turkiye Halkbankasi AS.

The accompanying financial statements pertain to the reporting period ended December 31, 2019. These financial statements were approved and adopted by the Bank's Executive Board on February 27, 2020.

These financial statements were prepared at historical cost principle, except for the measurement of the following significant balance sheet items:
- financial instruments measured at fair value through other comprehensive income (FVtOCI); and
- derivative financial instruments stated at fair value.

Historical cost is generally based on the fair value of consideration paid in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between the market participants at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Upon estimating the fair value of assets or liabilities, the Bank takes into account characteristics of assets or liabilities that other market participants would also consider upon determining the price of assets or liabilities at the measurement date. Fair value for measurement and/or disclosure purposes in the accompanying financial statements was determined in the aforesaid manner, except for leasing transactions, which are in the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as the net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:
- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

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

2.2. Standards, Amendments to the Existing Standards and Interpretations Effective for the Current Reporting Period

The following new amendments to the existing standards issued by the International Accounting Standards Board (IASB) have been effective over the current reporting period:

- IFRS 16 “Leases” (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IFRS 9 “Financial Instruments” - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IAS 19 “Employee Benefits” -Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after January 1, 2019);
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2019);
- Amendments to various standards due to “Improvements to IFRSs - Cycle 2015-2017 (IFRS 3 “Business Combinations”, IFRS 11 “Joint Arrangements”, IAS 12 “Income Taxes” and IAS 23 “Borrowing Costs” with the aim of eliminating inconsistencies and clarifying the text (effective for annual periods beginning on or after January 1, 2019); and
- IFRIC 23 “Uncertainty over Income Tax Treatments” Settlement (effective for annual periods beginning on or after January 1, 2019).

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

2.2. Standards, Amendments to the Existing Standards and Interpretations Effective for the Current Reporting Period (Continued)

Adoption of these amendments to the existing standards has not led to any material changes in the Bank's financial statements other than the adoption of IFRS 16, which is explained in more detail further in these financial statements. Quantitative effects of IFRS 16 were identified and recorded by the Bank at the beginning of 2019.

First-Time Adoption of IFRS 16 "Leases"

IFRS 16 sets out the main principles of recognition, presentation and the disclosure of lease contracts for the counterparties, i.e., the lessee and lessor. IFRS 16 is effective for accounting periods beginning on or after January 1, 2019 and supersedes the previous lease guidance including IAS 17 'Leases' and related interpretations: IFRIC 4 'Determining Whether an Arrangement Contains a Lease', SIC 15 'Operating Leases –Incentives' and SIC 27 'Evaluating the Substance of Transactions in the Legal Form of a Lease'.

IFRS 16 provides a new definition of a lease. The essential element differentiating the definition of a lease under IAS 17 and under IFRS 16 is the concept of control. Under IFRS 16, contract is a lease or contains a lease if it conveys the right to control the use of an identified asset for a given period in exchange for compensation. Control is considered to exist, or to have been conveyed, if the lessee 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. The lessee accounting for the leases is changed under IFRS 16 and stipulates recognition of a right-of-use asset for all leases. A right-of-use asset is a right to use the asset leased while at the same time the lessee recognizes a liability for future lease payments defined by the lease contract (a lease liability). On initial application of IFRS 16, the right-of-use asset is initially measured based on the contractual cash flows defined by the lease contract. Subsequently, the right-of use asset will be measured under the rules for measurement of asset set forth by IAS 16, IAS 38 or IAS 40, using the cost model, i.e., at cost net of accumulated depreciation and aggregate impairment losses, if any, or using the revaluation model or fair value model, as appropriate. The accounting treatment of lease contracts for lessors under IFRS16 has remained substantially unaltered in comparison to IAS 17. The lessors will continue to classify all lease contracts as either operating or finance leases.

The date of initial application of IFRS 16 for the Bank was January 1, 2019. The Bank elected to use the modified retrospective transition approach.

The Bank implemented activities of developing rules, principles and software solutions for appropriate assessment of the new assets and liabilities and subsequent calculation of the related performance to ensure adequate initial application of the standard. The Bank assessed all its lease contracts to identify those that will be in the scope of the new standard's first-time adoption given the new definition of a lease. The Bank has applied the new definition of a lease set out in IFRS 16 to all lease contracts effective on January 1, 2019 or entered into or modified after January 1, 2019. As permitted by the standard, the Bank decided not to apply provisions of IFRS 16 to the leases of intangible assets, short-term leases (with lease terms of up to 12 months from the first-time adoption of the standard) and leases with low-value assets leased (such as ATMs). In the aforesaid cases, the Bank applies the same accounting treatment as in prior years, i.e., recognizes lease costs on a straight-line basis within the income statement's line item of other expenses, as permitted by the standard.

Upon first-time adoption of IFRS 16, the Bank did not restate the comparative figures for 2018, but recognized the right-of-use asset in the amount equal to that of the lease liability adjusted by the amount of any prepaid or accrued lease payments before or on the date of the lease commencement date. In addition, the future cash flows were determined based on the contractual provisions, excluding VAT since the obligation to pay VAT is established at the moment of invoice issuance and not on the lease commencement date. On initial application of IFRS 16, the Bank initially measured the lease liability using its average incremental borrowing interest rate ranging from 1.37% to 2.71% for EUR borrowings and from 4.03% to 5.03% for RSD borrowings.

As of January 1, 2019, the Bank simultaneously recognized the right-of-use assets in the total amount of RSD 657,792 thousand (Note 19e) and the lease liabilities in the same amount of RSD 657,792 thousand.

The effects of the first-time adoption of IFRS 16 on the Bank's statement of financial position items are presented in the following tables.

All amounts expressed in thousands of RSD, unless otherwise stated.

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

2.2. Standards, Amendments to the Existing Standards and Interpretations Effective for the Current Reporting Period (Continued)

First-Time Adoption of IFRS 16 "Leases" (Continued)

The effects of the first-time adoption of IFRS 16, i.e., right-of-uses assets as of January 1, 2019, are presented in the tables below:

Overall lease contract terms (per years)	
0-1 year	**1,444**
Property, premises	1,444
1-5 years	**486,216**
Property, premises	427,764
Vehicles	58,452
5-10 years	**170,132**
Property, premises	170,132
Total	**657,792**

Type of vehicle leased	**Overall lease contract terms for vehicles leased (per years)**	
Automobile	1-3 years	37,500
Automobile	3-5 years	20,952
Total		**58,452**

Property/premises leased **Overall lease contract terms for property/premises leased (per years)**	
0-1 year	1,444
1-3 years	71,063
3-5 years	356,701
5-10 years	170,132
Total	**599,340**

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

At the date of approval of these financial statements the following new standards, amendments to the existing standards and new interpretations were in issue but not yet effective:

- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after January 1, 2021);
- Amendments to IFRS 3 "Business Combinations" - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period);
- Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures" - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture and further amendments (effective date deferred indefinitely until the research project on the equity method has been concluded);
- Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of Material (effective for annual periods beginning on or after January 1, 2020); and
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after January 1, 2020.

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

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

2.4. Comparative Information

Comparative information in the accompanying financial statements comprises the data from the Bank's financial statements for 2018. The Bank's accounting policies and estimates relating to the recognition and measurement of the assets and liabilities used upon preparation of the accompanying financial statements are consistent with the accounting policies and estimates used in preparation of the Bank's financial statements for FY 2018, except for the changes in the accounting policies resulting from the adoption of IFRS 16. The Bank applied the allowed exemption option not to adjust the comparative figures for prior years in respect of the changes relating to the classification and measurement of the financial assets and financial liabilities and impairment of financial assets. Differences between the carrying values of the financial assets and liabilities after IFRS 16 adoption and those from the period prior to IFRS 16 are recorded as a correction to the opening balances of the items property, plant and equipment and other liabilities. Consequently, the presented comparative figures for 2018 do not reflect the requirements of IFRS 16 and are not comparable with the figures presented for 2019 (Notes 19e and 24).

2.5. Statement of Compliance

The Bank's accompanying financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

2.6. First-Time Adoption of IFRS 16

In accordance with IFRS 16, effective as of January 1, 2019, after the reporting date the Bank has changed its accounting policies on leasing.

As permitted by the Standard, the Bank has not applied the provisions of IFRS 16 to the prior reporting periods; accordingly, the comparative data for 2018 remained presented in accordance with IAS 17 and are therefore not comparable with the data presented for 2019. The breakdown of the effects of IFRS 16 first-time adoption is presented in Notes 19e and 24.

2.7. Key Accounting Estimates and Judgments

Preparation and presentation of the financial statements requires the Bank's management to make the best estimates and reasonable assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, as well as income and expenses for the reporting period. The actual values of the assets and liabilities may vary from these estimates.

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

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

Impairment of Financial Assets

The Bank recognizes ECL provisions for financial assets measured at AC or for debt instruments measured at FVtOCI and for credit commitments and guarantees issued.

Assumptions and estimates used by the Bank as inputs to the model for ECL measurement and assessment of a significant increase in credit risk are disclosed in Note 28.1.

The evidence could include available data indicating adverse changes in respect of the customer's ability to settle its liabilities toward the Bank in a timely manner.

The Bank's management makes estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those of the portfolio at the time of projecting its future cash flows. The methodology and assumptions used for estimating both the amount and timing of the future cash flows are reviewed on a regular basis in order to reduce any differences between the estimated and actual losses (Notes 10b, 17 and 18).

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

2.7. Key Accounting Estimates and Judgments (Continued)

Useful Lives of Intangible Assets, Property, Plant and Equipment

The useful lives of intangible assets, property and equipment are determined based on historical experience with similar assets as well as on any anticipated technological development and changes influenced by a wide range of economic or industry factors. Adequacy of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions (Note19).

Impairment of Non-Financial Assets

As of the reporting date, the Bank's management reviews the carrying amounts of the Bank's intangible assets and property, plant and equipment presented in the financial statements. If there is any indication that such assets have been impaired, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying value, the carrying amount of the asset is reduced to its recoverable amount (Note 19).

Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. In order to be maintained, the best possible estimates are considered, determined and, if necessary, adjusted at each reporting date.

When the outflow of the economic benefits is no longer probable in order to settle legal or constructive liabilities, provisions are reversed through profit and loss. Provisions are monitored per type and they can be used only for the expenses they were initially recognized for. Provisions are not recognized for future operating losses.

Contingent liabilities are not recognized in the financial statements. Contingent liabilities are disclosed in the notes to the financial statements, unless the probability of an outflow of resources containing economic benefits is very remote (Note 23).

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

Provisions for Litigations

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

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

A provision for litigation is recognized when it is probable that an obligation exists and a related outflow of resources will occur (probability of a negative outcome higher than 50%), for which a reliable estimation can be made. Accordingly, when there is an expectation that the outcome of the dispute may be negative for the Bank, a provision is made in the amount of the estimated expenditure required to settle the obligation as of the statement date. Provisions are estimated on a quarterly basis. The required provision may change in the future due to occurrence of new events or obtaining additional information.

Deferred Tax Assets

Deferred tax assets are recognized for unused tax losses to the extent that it is probable that expected future taxable profit will be available, against which the unused tax losses can be utilized. The Bank's management necessarily makes significant estimates in order to determine the amount of deferred tax assets that can be recognized, based on the period of occurrence and the amount of future taxable profit. Additional information in this respect is disclosed in Note 3.12.

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

2.7. Key Accounting Estimates and Judgments (Continued)

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 the average salary paid in the Republic of Serbia, an assessment of the discount rate, future movements in salaries, mortality rates and employee turnover rate. As these plans are long-term, significant uncertainties influence the outcome of the estimations. Additional information in this respect is disclosed in Note 3.14.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. Interest Income and Expenses

The Bank presents within the income statement income (revenues) and expenses grouped according to their nature and discloses the amounts of the major types of income and expenses.

Presentation in the income statement and disclosures in the notes to the financial statements cover all the income and expense items in accordance with the prescribed content and forms for preparation of the financial statements.

For all interest-bearing financial instruments, interest income and expenses are recognized within the income statement using the effective interest rate method.

After identification of objective evidence of impairment and the recognition of the impairment, interest income on the receivables in Stage 3 is calculated by applying the effective interest rate to the net basis (unwinding).

The Bank ceases to recognize income from accrued regular interest in the following cases:

- when a decision has been made on instigation of a bankruptcy procedure over the borrower;
- when a decision on instigation of court proceedings for collection of receivables from the borrower has been made;
- when decision on derecognition of income from accrued interest has been made by the Bank's competent board/committee or when other circumstances, which aggravate the collection of receivables, have been identified;
- when the borrower, a legal entity or an entrepreneur, is over 150 days past due in liability settlement.

When the Bank ceases to recognize income from the accrued regular interest, the suspended (broken-period) interest is calculated and recorded within the off-balance sheet items for the purposes of balance reconciliations with the borrowers.

Loan origination fees per loans with pre-defined repayment schedules are recognized within the interest income in the profit or loss statement and are amortized using the effective interest method. Loan origination fees per loans without pre-defined repayment schedules (framework loans, current account overdrafts, credit cards and the like), guarantees and other types of sureties are amortized on a straight-line basis and presented within the fee and commission income.

3.2. Fee and Commission Income and Expenses

Fees and commissions originating from banking services are generally recognized as per the matching principle, on an accrual basis, at the time of occurrence or maturity for collection, except for loan origination fees, which are presented within the interest income using the effective interest method (Note 3.1).

Fee and commission expenses mostly relate to fees for transactions of domestic and international payment operations and other services and are recorded upon service rendering.

3.3. Dividend Income

Dividend income from investments in equity instruments is recognized as income when the shareholder's right to receive dividend payment is established, i.e., at the moment when the dividend is received.

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.4. Foreign Exchange Translation

Transactions denominated in foreign currencies are translated into dinars at the official middle exchange rate of the National Bank of Serbia effective as at the transaction date.

Assets and liabilities denominated in foreign currencies at the reporting date are translated into dinars at the official middle exchange rate of the National Bank of Serbia effective as at the reporting date.

Net foreign exchange effects arising upon performance of transactions in foreign currencies and upon translation of the assets and liabilities denominated in foreign currencies are recognized as foreign exchange gains or losses, in accordance with IAS 21 – "The Effects of Changes in Foreign Exchange Rates". Gains and losses arising in instances of annuities (installments) linked to a RSD/ foreign currency exchange rate are calculated at the reporting date and presented as positive or negative currency clause effects.

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

3.5. Property, Plant and Equipment

Building properties are initially measured at cost or at purchase price. Cost includes expenditure that is directly attributable to the acquisition of assets.

Subsequent expenditure is included in the asset's carrying amount or 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 costs are recognized as expenses in the income statement of the financial period in which they are incurred.

Valuation of buildings after the initial recognition is performed using the revaluation model stipulated by IAS 16 – "Property, Plant and Equipment", whereby buildings are stated at revalued amounts less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Assessment of revalued amounts and useful life of buildings is carried out at least once every three years by an independent certified appraiser (expert valuer in construction industry/civil engineering).

The last assessment of the building property market value/impairment was performed by an independent certified appraiser as of November 30, 2018.

Plant and equipment are initially measured at cost and subsequently at cost less accumulated depreciation and impairment losses, if any.

Depreciation is calculated on a straight-line basis to the cost or revalued amount of each item of property, plant and equipment and investment property in order to fully write off the cost of assets over their estimated useful lives in accordance with the Bank's Rulebook on Amortization of Intangible Assets and Depreciation of Property, Equipment and Investment Property.

At each year-end, the Bank internally reviews the carrying amounts of its buildings in order to determine if there are indications that there have been any impairment losses. If there are such indications, the Bank assesses the recoverable amounts of such assets in order to determine impairment loss amounts, if any.

The following depreciation rates were used in 2019 and were not changed compared to the rates used in 2018:

Buildings	2.50%
Investment property	2.50%
Leasehold improvements	16.67% - 20.00%
Computer equipment	20.00%
Furniture and other equipment	16.67% - 20.00%

3.6. Investment Property

Investment property is property held by the Bank for the purpose of lease and it is accounted for in accordance with IAS 40 – "Investment Property". Investment property is initially measured at cost or purchase price. After initial recognition, the Bank measures its investment property at cost less the accumulated depreciation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.6. Investment Property (Continued)

Depreciation of investment property is calculated using the straight-line method over an estimated useful life of investment property, in accordance with the Bank's internal bylaws. Depreciation of investment property has been carried out over the period of 40 years, using a depreciation rate of 2.5% (2018: 2.5%).

At each year-end, the Bank internally reviews the carrying amounts of its investment properties in order to determine if there are indications that there have been any impairment losses. If there are such indications, the Bank assesses the recoverable amounts of such assets in order to determine impairment loss amounts, if any.

3.7. Intangible Assets

Intangible assets are measured at cost or purchase price, while after initial recognition, intangible assets are carried at cost less accumulated amortization and subsequent accumulated impairment losses. Intangible assets comprise licenses, patents and software.

Amortization is calculated using the straight-line method to the cost of intangible assets over the contractually agreed period of use of such assets or their estimated useful lives unless a period of use is agreed. Most commonly, those are periods from 3 to 5 years.

3.8. Financial Instruments

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

The Bank recognizes its financial assets and financial liabilities in the statement of financial position in accordance with IFRS 9 “Financial Instruments”.

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

Financial instruments are classified into:

a) Financial assets:
- Equity instruments,
- Debt instruments,
- Derivatives, and

b) Financial liabilities.

3.8.1 Financial Assets

3.8.1.1 Equity Instruments

Financial equity instruments refer to the equity investments (interests) represent long-term financial investments in equity of other entities (banks, insurance companies, shareholding and limited liability companies) that have not been acquired for sale in the near term, as well as securities, i.e., shares of other entities acquired for sale in the near term.

The accounting treatment of the equity investments depends on the influence the investor has over the investee. The following three cases are possible:

- The investor has control over the investee (investments in subsidiaries) and the parent-subsidiary relationship is formed if the equity investment exceeds 50% or other criteria are met as defined by IAS 27;
- The investor exercises a significant influence over the investee (investments in associates) and the parent-associate relationship is formed if the equity investment exceeds 20% or other criteria are met as defined by IAS 28; and
- The investor exercises no significant influence over the investee (other investments) if the equity investment is below 20%.

The Bank is not a parent entity, i.e., it has neither subsidiaries nor associates and does not prepare consolidated financial statements.

Equity investments the Bank holds in other entities and shares are stated at fair value and the changes in fair value thereof are recorded in the profit or loss statement (FVtPL) under IFRS 9.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial Instruments (Continued)

3.8.1 Financial Assets

3.8.1.2 Debt Instruments

The Bank classifies debt instruments as financial assets subsequently measured at amortized cost (AC), at fair value through other comprehensive income (FVtOCI) and fair value through profit or loss (FVtPL) based on:

- the business model for management of the financial assets, and
- characteristics of the contractual cash flows of the financial assets.

Debt instruments are classified upon initial recognition, i.e., when the Bank becomes a party to the contractual terms of the instrument.

Debt instruments are initially measured at fair value increased by transaction costs directly attributable to the acquisition or issuance of the financial asset, except for the financial assets at FVtPL.

The transaction cost or fair value of the consideration given or received in exchange for a financial instrument is usually the best evidence of the fair value of the financial instrument upon initial recognition.

Debt instruments measured at amortized cost (AC)

Debt instruments are measured at AC if the following two criteria are met:

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

The Bank's business model for classification and measurement of the Bank's loans and receivables and letters of credit and guarantees except for debt securities is AC measurement model (the hold-to-collect model and cash flows that are solely payments of principal and interest – HTC and SPPI). Only if the SPPI test reveals that contractual terms exist due to which the assets have failed the SPPI test and cannot therefore be measured at AC, does the Bank use the fair value through profit or loss measurement model (FVtPL). Debt securities may be measured and held within the amortized cost model, FVtOCI model and FVtPL model, depending on each individual case and intention of the management.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Amortized cost is the amount at which a financial asset is measured upon initial recognitions increased or decreased by accumulated amortization using the effective interest method on all the differences between the initial amount and amount upon maturity, less any payments and adjustments for expected credit losses. All loans and receivables originated by the Bank are recognized in the statement of financial position in the amount of gross amortized cost less the individual allowances for impairment. Gross amortized costs represent total receivables from the Bank's customers (including principal outstanding, nominal interest, penalty interest, receivables for fees and other receivables) adjusted by the amount of unamortized fees.

The initial effective interest rate for IFRS 9 purposes represents the rate that precisely discounts the estimated future cash inflows or outflows during the expected life of a financial asset or a liability to the gross carrying value thereof. For IFRS 9 purposes, the effective interest rate is calculated so that it can he used in the process of determining the amortized cost and interest income during the life of a financial instrument. In using the effective interest method, the Bank identifies fees that are part of the effective interest rate of the financial asset in accordance with its Impairment Allowance Methodology under IFRS 9.

The Bank calculates and recognizes impairment allowance in accordance with its Impairment Allowance Methodology under IFRS 9 for all financial instruments measured at AC and at FVtOCI.

IFRS 9 introduces a concept of expected credit losses (ECL), entailing probability-weighted estimates of the lifetime ECL if the credit risk of the financial instruments has significantly increased since initial recognition or there is objective evidence of its impairment identified (Stage 2 and Stage 3 assets) or of the 12-month ECL the Bank is to identify and recognize for all financial for all financial instruments where the credit risk has not s significantly increased since initial recognition (Stage 1 assets).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial Instruments (Continued)

3.8.1 Financial Assets (Continued)

3.8.1.2 Debt Instruments (Continued)

Debt instruments measured at amortized cost (AC) (continued)

In its internal bylaws the Bank has defined parameters the identification of which is indicative of the significant increase in credit risk of Stage 2 customers and the default status for identification of Stage 3 customers.

Debt instruments measured at fair value through other comprehensive income (FVtOCI)

Financial assets are measured at FVtOCI if the following two criteria are met:
- the objective of the business model within which the Bank holds the assets is achieved by collection of the contractual cash flows and by sale of the assets; and
- the contractual terms of the assets give rise to the cash flows at specific future dates that represent solely payments of the principal and interest on the principal amount outstanding.

Debt instruments measured at FVtOCI are assets that the Bank intends to hold for an indefinite period yet they may be sold for liquidity maintenance purposes or due to changes in the interest rates, foreign exchange rates or market prices.

Upon initial recognition of such assets, the Bank measures them at fair value increased by transaction costs.

Following their initial recognition, these financial assets are measured at fair value with gains or losses on the changes in their fair value and impairment losses (impairment allowances) recognized under revaluation reserves within equity. Impairment allowance of the financial assets measured at FVtOCI is calculated in the same manner as the imapirment allowance of financial assets measured at AC, However, the accumulated impairment allowance in the financial statements is not deducted from the fair value of assets but from the cumulative change in the fair value recorded within the other comprehensive income. Foreign exchange gains or losses, i.e., gains or losses on the changes in the value of the financial asset arising from the movements in the foreign exchange rates (if the asset is denominated in a foreign currency or linked to a currency clause) are not recognized within equity. At the sale date, the carrying amount of the asset and revaluation reserves from the asset will be derecognized and the excess or shortage of the sale proceeds will be recognized as the gain or loss on the sale of the asset.

Debt instruments measured at fair value through profit or loss (FVtPL)

The Bank measures debt instruments at FVtPL if they are not measured at AC or at FVtOCI.

A financial asset at FVtPL is an asset acquired primarily for sale or repurchase in the near future, with the aim to earn a profit from short-term price fluctuations and/or dealer's margin, or such an asset is a derivative instrument.

A derivative is a financial instrument or another contract whose value is changing (as a result of changes in the defined/agreed interest rate or the price of the financial instrument or its stock exchange price or foreign exchange rate or price growth index or another variable), which requires no initial net investment or an initial net investment which is lower than that for other agreement types that are expected to show similar responses to the changes in market conditions, and which will be settled at a future date.

The initial positive or negative difference in the fair value of a derivative is recorded on-balance sheet as an asset or a liability. Effects of the changes in the fair value of a derivative are subsequently recorded within the income statement. The positive fair value of the derivative is recognized as an asset and the negative fair value of the derivative as a liability. The derivative is derecognized at the moment when the contractual rights and obligations (exchange of cash flows) arising from the derivative expire, i.e., at the termination date.

As of the termination date the carrying amount of an asset is derecognized and all the gains or losses (within the income or expenses) on the changes in the fair value of the asset are cancelled, with the ultimate effects of gain or loss from the derivative recorded within realized exchange gains or losses. In the event that there is an active market for derivatives in the country of the Bank's domicile, the ultimate effect of the sale of a derivative instrument is recorded in the profit or loss statement as a gain or loss on the sale of derivatives. The only derivative transactions the Bank performs are currency swaps.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.8 Financial Instruments (Continued)

3.8.1 Financial Assets (Continued)

3.8.1.2 Debt Instruments (Continued)

Debt instruments measured at fair value through profit or loss (FVtPL) (Continued)

Fair value option

Even if a financial asset meets the criteria for classification and measurement at AC or FVtOCI, it may be measured at FVtPL if doing so would eliminate or significantly reduce a measurement or recognition inconsistency (‘accounting mismatch’) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Bank did not use the FVtPL option.

Financial assets – derecognition and reclassification

The Bank derecognizes a financial asset when the Bank has transferred the asset to another party, and determined that it has transferred all the risks and rewards associated with the asset. If so, the asset will be derecognized from the Bank’s books. If the Bank has retained substantially all the risks and rewards of ownership over the asset, the asset cannot be derecognized.

If the Bank has neither transferred nor retained substantially all the risks and rewards of ownership over the asset, the Bank must assess whether it has given up control over the asset or not. If the Bank has no control over the asset, it may derecognize it. However, if the control over the asset is retained by the Bank, the Bank will continue to recognize the asset to extent of its continuing involvement in the asset.

Financial liabilities – measurement and derecognition

A financial liability is any contractual obligation of the Bank to give cash or another financial asset to the counterparty. Upon initial recognition, a financial liability is measured at cost, representing the fair value of the consideration received.

Financial liabilities held for trading are measured at FVtPL, while all other financial liabilities are measured at AC unless the fair value option is elected. The Bank does not use the fair value measurement option.

A financial liability is derecognized when the contractual obligation underlying the liability is discharged or cancelled or has expired.

A gain or loss on cancellation/derecognition of the initial financial liability is recognized within the profit or loss statement.

3.9. Cash and Balances Held with the Central Bank

Cash and balances held with the central bank are comprised of cash in RSD and in foreign currencies, i.e., cash held on the Bank’s gyro and current accounts, cash in hand (vault) and other cash in RSD and foreign currencies, gold and other precious metals and liquid surpluses deposited with the National Bank of Serbia.

For purposes of the cash flow statement, cash includes cash on hand in local and foreign currencies, balances on accounts held with other banks, as well as available funds held with the National Bank of Serbia.

3.10. Managed Funds

The funds that the Bank manages on behalf of and for the account of third parties for fees are disclosed within off-balance sheet items.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.11. Taxes and Contributions

Current Income Taxes

Income tax is recognized and calculated in accordance with IAS 12 – “Income Taxes“ and the effective Law on Corporate Income Tax.

Income tax represents the amount calculated by applying the statutory income tax rate of 15% to the profit before taxes, after deducting the effects of permanent differences that adjust the prescribed tax rate to the effective tax rate.

The final amount of income tax liability is calculated by applying the prescribed tax rate to the taxable income determined in the tax statement and reported in the annual tax return.

The Law on Corporate Income Tax of the Republic of Serbia does not allow any tax losses of the current period to be used to recover taxes paid in previous periods. However, any current year losses disclosed in the tax statements up to 2009 may be used to reduce the taxable profits for future periods, but only for a period of up to ten years. The losses in the tax statements for 2010 and thereafter may be used for reduction of the taxable profits for the ensuing periods, yet no longer than five years. In addition, the Bank may recognize the loss incurred on the negative opening balance adjustment as of January 1, 2018 due to IFRS 9 first-time adoption as expenses within the tax statement in equal amounts over 5 tax periods form the period in which the adjustment was made. Such tax losses, up to the amount of anticipated future taxable profit against which the tax losses can be offset, are recognized in the statement of the financial position as deferred tax assets.

Deferred Taxes

Deferred taxes are provided for using the balance sheet liability method on all temporary differences at the reporting date between the taxation-purpose amounts of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rate enacted at the reporting date is used to determine the deferred tax amount.

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

Deferred tax assets are recognized for all deductible temporary differences, unused portions tax credit and tax loss carryforwards to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the unused tax credits and tax losses carried forward can be utilized, except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit, nor taxable profit or loss; and in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, when deferred tax assets are recognized only to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and that sufficient 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 profit will be available to allow all or portion of the deferred tax assets to be utilized. Deferred tax assets and liabilities are calculated at tax rates that are expected to be effective in the year when the asset is realized or the liability is settled, based on tax rates and tax regulations enacted or substantively enacted at the reporting date.

Indirect Taxes and Contributions

Indirect taxes and contributions include property tax, value added tax, payroll taxes and contributions charged to the employer, as well as other taxes and contributions payable in accordance with the tax regulations of the Republic of Serbia and local municipal tax regulations. These taxes and contributions are presented within other operating expenses.

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.12. Equity and Reserves

Equity represents the Bank's assets in excess of all its liabilities. Equity is not assessed and measured separately. Equity consists of the Bank's issued (share) capital, reserves and retained earnings. The Bank is required to maintain at all times its regulatory capital in the amount sufficient to cover all the risks that may arise in the course of the Bank's business (capital requirements), as explained in greater detail in Note 28.2.

3.13. Employee Benefits

Long-Term Employee Benefits – Retirement Benefits

The Bank does not have its own pension funds or share-based payment options and consequently had no liabilities recognized in this respect as of December 31, 2019.

As of December 31, 2019, the Bank made provisions for retirement benefits and unused annual leaves based on the assessment carried out by a certified actuary. The provisions were made based of the following assumptions:

Average salary for October 2019 paid in Republic of Serbia	RSD 76,096.00
Discount rate	2.50%
Salary growth rate	5.00%
Employee turnover rate	5.50%

The Bank has also reserved funds for future bonus payments to employees based on their performance achieved in the previous period.

Short-Term Employee Benefits – Taxes and Contributions for Social Security

Pursuant to the regulations effective in the Republic of Serbia, the Bank has an obligation to pay personal income tax contributions to various state social security funds. This obligation involves the payment of the tax and contributions on behalf of the employee, by the employer, in amounts calculated by applying the specific, legally prescribed rates. The Bank is also legally obligated to withhold the tax amount and contributions from gross salaries to employees, and to transfer the withheld portions on their behalf directly to the appropriate government funds. These taxes and contributions payable on behalf of the employee and employer are charged to expenses in the period in which they arise.

Short-Term Compensated Absences

Accumulating compensated absences (annual vacation leaves) may be carried forward and used in future periods if the current period's entitlement is not used in full. Expenses for compensated absences are recognized at the amount the Bank expects to pay as a result of the unused entitlement that has accumulated at the reporting date. In the case of non-accumulating compensated absences, an obligation or expense is recognized when the absences occur.

3.14. Going Concern

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

3.15. Leasing

As from January 1, 2019, the Bank has applied International Financial Reporting Standard 16 (IFRS 16) to account for lease contracts. A lease is a contract, or part of a contract, that conveys the right to use an identified asset (the underlying asset) for a period of time in exchange for a consideration.

For each lease contract, the Bank assesses whether the contract contains elements of a lease. The Bank assesses whether the contract identifies the asset and whether the Bank has the right to control the use of identifiable assets for a specified period of time.

The interest rate used by the Bank in measurement of the lease liabilities/right-of-use assets is its incremental borrowing rate. It is the rate of interest that Bank (the lessee) would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

All amounts expressed in thousands of RSD, unless otherwise stated.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.15. Leasing (Continued)

The Bank does not apply the requirements of IFRS 16:
- to the lease contracts with lease terms shorter than 12 months and those that do not contain the purchase option, and/or
- lease contracts with low-value underlying assets..

4. INTEREST INCOME AND EXPENSES

a) Interest Income

	Year Ended December 31, 2019	2018
RSD loans measured at AC, due from:		
Banks	591	532
Public companies	4,262	1,308
Corporate customers	846,643	737,973
Entrepreneurs	163,813	138,733
Public sector	12,386	13,294
Retail customers - individuals	906,820	771,847
Other customers	77,310	47,119
	2,011,825	1,710,806
Foreign currency loans measured at AC, due from:		
Corporate customers	18,834	26,249
Entrepreneurs	-	17
Retail customers - individuals	92	90
Other customers	97,226	26,787
	116,152	53,143
RSD deposits measured at AC, due from:		
Banks	47,396	30,952
	47,396	30,952
Foreign currency deposits measured at AC, due from:		
Banks	488	299
Non-residents	12,897	3,826
	13,385	4,125
Securities measured at FVtOCI:		
In RSD	327,914	255,845
In foreign currencies	10,301	12,636
	338,215	268,481
Other receivables measured at AC:		
In RSD	318	455
In foreign currencies	970	417
	1,288	872
TOTAL	**2,528,261**	**2,068,379**

Total interest income recognized on impaired loans for the year ended December 31, 2019 amounted to RSD 95,178 thousand (2018: RSD 116,634 thousand).

All amounts expressed in thousands of RSD, unless otherwise stated.

4. INTEREST INCOME AND EXPENSES (Continued)

b) Interest Expenses

	Year Ended December 31, 2019	2018
RSD borrowings measured at AC, due to:		
Banks	1,503	3,601
	1,503	3,601
Foreign currency borrowings measured at AC, due to:		
Public sector	34,260	38,527
Banks	51,074	59,988
Other customers	168	-
	85,502	98,515
RSD deposits measured at AC, due to:		
Banks	46,942	35,367
Public companies	3,836	3,504
Corporate customers	56,450	27,448
Entrepreneurs	734	421
Public sector	7,579	18,405
Retail customers - individuals	36,260	31,210
Other customers	47,302	14,229
	199,103	130,584
Foreign currency deposits measured AC, due to:		
Banks	5,769	1,279
Corporate customers	25,725	18,755
Entrepreneurs	-	9
Retail customers - individuals	76,352	54,139
Other customers	19,493	8,986
	127,339	83,168
Other liabilities measured at amortized cost (IFRS 16):		
In RSD	1,336	-
In foreign currency	9,202	-
	10,538	-
TOTAL	**423,985**	**315,868**

Interest expenses on other liabilities measured at amortized cost (IFRS 16) relating to interest expenses per lease of business premises in 2019 totaled RSD 9,935 thousand, while interest expenses per lease of vehicles for the year ended December 31, 2019 amounted to RSD 603 thousand.

5. FEE AND COMMISSION INCOME AND EXPENSES

a) Fee and Commission Income

	Year Ended December 31, 2019	2018
Fee and commission income in RSD:		
Banks and other financial institutions	61,231	71,980
Public companies	1,859	994
Corporate customers	513,167	450,198
Entrepreneurs	112,565	104,707
Public sector	263	167
Retail customers - individuals	188,640	174,243
Non-residents, entities and individuals	3,087	2,070
Other customers	16,699	13,597
TOTAL	897,511	817,956
Fee and commission income in foreign currencies:		
Foreign banks	27,023	20,127
Western Union	1,301	1,784
Retail customers - individuals	2,773	2,366
Corporate customers	-	18
Entrepreneurs	1,364	1,331
	32,461	25,626
TOTAL	**929,972**	**843,582**

All amounts expressed in thousands of RSD, unless otherwise stated.

5. FEE AND COMMISSION INCOME AND EXPENSES (Continued)

b) Fee and Commission Expenses

	Year Ended December 31, 2019	2018
Fee and commission expenses in RSD		
Banks and other financial institutions	29,423	29,093
Corporate customers	51,138	45,705
Entrepreneurs	45	43
Public sector	622	438
Other customers	16,752	15,992
	97,980	91,271
Fee and commission expenses in foreign currencies:		
Banks and other financial institutions	39,749	34,244
Corporate customers	-	1,861
Public sector	-	445
Non-residents	20,884	17,209
	60,633	53,759
TOTAL	**158,613**	**145,030**

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

	Year Ended December 31, 2019	2018
Losses on the changes in the fair value of financial assets measured at FVtPL	(1,770)	(1,039)
Gains/(losses) on the changes in the fair value of financial liabilities measured at FVtPL	2,501	(727)
(Losses)/gains on the changes in the fair value of other derivatives	(7,799)	5,808
TOTAL	**(7,068)**	**4,042**

7. NET GAINS ON DERECOGNITION OF THE FINANCIAL ASSETS MEASURED AT FAIR VALUE

	Year Ended December 31, 2019	2018
Gains on derecognition of financial assets measured at FVtOCI	20	7,910
TOTAL	**20**	**7,910**

8. NET FOREIGN EXCHANGE GAINS AND POSITIVE CURRENCY CLAUSE EFFECTS

	Year Ended December 31, 2019	2018
Foreign exchange gains	1,277,331	1,475,369
Positive currency clause effects	319,868	636,368
TOTAL:	1,597,199	2,111,737
Foreign exchange losses	(1,139,453)	(1,426,594)
Negative currency clause effects	(449,726)	(683,229)
TOTAL:	(1,589,179)	(2,109,823)
Net foreign exchange gains	**8,020**	**1,914**

The share of foreign currency items in the total Bank's balance sheet assets was 54.47% (2018: 56.56%), while the share of foreign currency items in the total balance sheet liabilities was 52.44% (2018: 53.92%).

All amounts expressed in thousands of RSD, unless otherwise stated.

9. OTHER OPERATING INCOME

	Year Ended December 31, 2019	2018
Other income from operations	14,243	4,216
Dividend income and profit sharing	2,152	886
TOTAL	**16,395**	**5,102**

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

a) Credited/(Charged) to the Profit or Loss

	Year Ended December 31, 2019	2018
Impairment allowance of financial assets measured at AC	(739,165)	(831,502)
Reversal of impairment allowance of financial assets measured at AC (Note 10b)	474,817	721,004
Net losses	(264,348)	(110,498)
Provisions for off-balance sheet items (Note 23)	(4,650)	(4,476)
Reversal of provisions for off-balance sheet items (Note 23)	4,229	5,019
Net (losses)/gains	(421)	543
Impairment allowance of financial assets measured at FVtOCI	(14,724)	(7,342)
Reversal of impairment allowance of financial assets measured at FVtOCI	3,839	5,158
Net losses	(10,885)	(2,184)
Write-off of irrecoverable receivables	(1,994)	(2,612)
Recovery of receivables previously written off	65,616	39,624
Net gains	63,622	37,012
Losses on the modification of financial instruments	(2,800)	-
Net losses	(2,800)	-
TOTAL	**(214,832)**	**(75,127)**

All amounts expressed in thousands of RSD, unless otherwise stated.

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

b) Movements on impairment allowance accounts

	Cash and balances with the central bank (Note 14)	Loans and receivables due from banks (Note 17)	Loans and receivables due from customers (Note 18)	Securities (Note 16)	Other assets (Note 20)	Total
Balance at January 1, 2019	**894**	**1,922**	**1,429,818**	**-**	**12,688**	**1,445,322**
Impairment losses on balance sheet items	1,154	-	641,663	-	19,499	**662,316**
Reversal of impairment of balance sheet items (Note 10a)	(920)	(3,453)	(465,214)	-	(5,230)	**(474,817)**
Foreign exchange effects	33	2,193	(34)	-	-	**2,192**
Impairment allowance translation due to currency clause	-	-	(4,438)	-	-	**(4,438)**
Accounting write-off, aligned with NBS	-	-	(515,243)	-	(3,397)	**(518,640)**
Definite write-off	-	-	(1,543)	-	(3,730)	**(5,273)**
Balance at December 31, 2019	**1,161**	**662**	**1,085,009**	**-**	**19,830**	**1,106,662**

	Cash and balances with the central bank (Note 14)	Loans and receivables due from banks (Note 17)	Loans and receivables due from customers (Note 18)	Securities (Note 16)	Other assets (Note 20)	Total
Balance at January 1, 2018	**-**	**79**	**2,678,820**	**166**	**12,978**	**2,692,043**
Effects of IFRS 9 first-time adoption	543	300	124,073	12,083	5,459	**142,458**
Effects of IFRS 9 first-time adoption recorded within equity (FVtOCI)	-	-	-	(11,994)	-	**(11,994)**
Impairment losses on balance sheet items	350	1,585	770,275	-	99	**772,309**
Reversal of impairment of balance sheet items (Note 10a)	-	(42)	(714,858)	(255)	(5,849)	**(721,004)**
Foreign exchange effects	1	-	(22)	-	-	**(21)**
Impairment allowance translation due to currency clause	-	-	(5,120)	-	1	**(5,119)**
Accounting write-off, aligned with NBS	-	-	(1,324,444)	-	-	**(1,324,444)**
Definite write-off	-	-	(98,906)	-	-	**(98,906)**
Balance at December 31, 2018	**894**	**1,922**	**1,429,818**	**-**	**12,688**	**1,445,322**

Total impairment allowance of other assets presented in Note 20 totaling RSD 46,148 thousand (2018: RSD 39,041 thousand) includes impairment allowance of other both financial and non-financial assets, while Note 10b) presents only impairment allowance of other assets in the amount RSD 19,830 thousand (2018: RSD 12,688 thousand).

All amounts expressed in thousands of RSD, unless otherwise stated.

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

For the year ended December 31, 2019, the Bank recognized interest income on impaired loans using the effective interest rate on the amortized cost of loans, i.e., their net carrying values along with adjustment of the income recorded in the income statement and with the calculated impairment allowance of receivables in this respect, and recorded losses on impairment of financial assets measured at amortized cost within the line item of the net gains/losses from impairment of financial assets not measured at fair value through profit or loss and credit-risk off-balance sheet items, without adjustment to the impairment allowance account in this respect. The impairment allowance made in this respect was recorded in the amount of RSD 76,849 thousand (2018: RSD 59,193 thousand).

Due to the foregoing, losses on impairment assets recorded in the income statement (Note 10a) exceeded by the same amount losses on impairment presented in the table of movements on impairment allowance accounts (Note 10b).

11. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

	Year Ended December 31, 2019	2018
Salaries and salary compensations	603,752	533,183
Taxes on salaries and salary compensations	74,343	65,970
Contributions on salaries and salary compensation	153,748	138,702
Other personal expenses	13,605	13,474
Provisions for retirement and other employee benefits (Note 22)	62,793	51,496
Reversal of provisions for retirement and other employee benefits (Note 22)	(2,412)	-
Considerations payable to temporary and seasonal staff members	484	50
TOTAL	**906,313**	**802,875**

Within the line item of salaries and salary compensations, the amount of RSD 32,889 thousand (2018: RSD 29,963 thousand) refers to the remunerations to the Executive Board members, while the Supervisory Board members' remunerations are presented within the line item of other personal expenses in the amount RSD 11,979 thousand (2018: RSD 11,879 thousand).

12. OTHER INCOME AND EXPENSES

	Year Ended December 31, 2019	2018
Other income		
Gains on the sale of property, plant, equipment and intangible assets	321	3,009
Surpluses	360	283
Other income	14,876	7,986
Income from the reversal of unused provisions for liabilities	31	-
Total	**15,588**	**11,278**
Operating expenses		
Cost of materials	(68,024)	(61,363)
Costs of production services	(246,958)	(438,215)
Non-material expenses	(467,789)	(442,501)
Taxes payable	(9,026)	(11,121)
Contributions payable	(135,646)	(127,904)
Other expenses	(1,812)	(2,659)
Provisions for liabilities	(20,830)	(6,752)
Other expenses		
Losses on the retirement and disposal of property, equipment and intangible assets	(107)	-
Other expenses	(1,428)	(924)
Losses from the sale of fixed assets and intangible assets	(60)	-
Shortages and damages	(1)	-
Total	**(951,681)**	**(1,091,439)**

Translation of the Bank's Financial Statements and Notes to the Financial Statements issued in the Serbian language, prepared by the Bank's management (In case of any discrepancy between the Serbian and English versions, the Serbian version shall prevail.)

All amounts expressed in thousands of RSD, unless otherwise stated.

12. OTHER INCOME AND EXPENSES (Continued)

Within the line item non-material expenses the most significant amount refers to paid insurance premiums of RSD 206,695 thousand (2018: RSD 162,232 thousand), of which the largest portion is the insurance premium paid for retail deposits in the amount of RSD 170,962 thousand (2018: RSD 129,148 thousand) and insurance premium paid for cash loans for pensioners in the amount of RSD 35,733 thousand (2018: RSD 33,084 thousand).

Within the line item of cost of production services, the largest amount relates to rental costs of RSD 70,400 thousand (2018: RSD 237,303 thousand). More detailed explanation of the reduction in rental costs is given in Notes 19e and 24.

The lease expenses not accounted for under IFRS 16 amounted to RSD 70,400 thousand in 2019 (low-value business premises and VAT for all business premises of RSD 54,668 thousand, vehicles of RSD 5,609 thousand and ATMs of RSD 10,123 thousand).

The total expenses of the lease of business premises that did not qualify for accounting under IFRS 16 in 2019 amounted to RSD 361 thousand. Within the remaining amount of the expenses per business premises lease, the major portion consists of servicing costs for the Bank’s head office building (RSD 19,761 thousand) and the relating taxes (value added tax for legal entities and personal income tax for individuals) payable on the net amount of business premises rental borne by the lessee (the Bank).

Expenses of the vehicle lease relate to the value added tax borne by the lessee (the Bank).

ATM lease contracts do not qualify for accounting under IFRS 16 because of the low value of the contracts, the indefinite expiration date and the fact that the asset is not identifiable.

13. INCOME TAXES

a) Income tax components

The Bank's current income tax expense as well as both deferred tax gains and losses (from created and/or decreased deferred tax assets/liabilities) were zero for both 2019 and 2018.

The Bank can create additional deferred tax assets in accordance with the projected profits based on the adopted five-year Bank’s Business Strategy. However, a conservative approach was applied in the calculation of deferred tax assets, i.e., the projections were not changed in both 2019 and 2018.

b) Income tax reconciliation with prescribed tax rates

	Year Ended December 31, 2019	2018
Profit before taxes	472,836	361,725
Income tax at the statutory rate of 15%	70,925	54,259
Tax effects of expenses not recognized for tax purposes and other expense adjustments	5,013	(2,398)
Tax effects of income from debt securities and other income adjustments	(51,055)	(40,405)
Adjustments in respect of transfer pricing	-	-
Capital gains	-	103
Utilization of capital gains	-	(103)
Other	-	(109)
Tax losses carried forward	-	-
Utilization of tax loss carryforwards	(24,883)	(11,347)
Income tax stated in the tax statement	-	-
Effective tax rate	**0%**	**0%**

All amounts expressed in thousands of RSD, unless otherwise stated.

13. INCOME TAXES (Continued)

c) Components of deferred tax assets

	Year Ended December 31, 2019	2018
Tax effects of temporary differences on property, plant and equipment	2,544	20,362
Tax credit per tax losses carried forward	51,929	34,413
Impairment of securities held for trading (at FVtPL)	7,920	7,618
Deferred tax assets	**62,393**	**62,393**

d) Breakdown of tax credits:

	Remaining tax credit amount	Non-recognized deferred tax assets	Recognized deferred tax assets	Year of expiry
Tax credit for capital expenditures				
	4,387	(4,387)	-	2020
	8,348	(8,348)	-	2023
	12,735	(12,735)	-	
Tax credit per tax losses carried forward				
	29,098	(28,259)	839	2020
	14,115	(14,115)	-	2021
	2,651	(2,651)	-	2022
	12,822	(12,822)	-	2022 (FTA of IFRS 9)
	58,686	(57,847)	839	

The Bank is planning to recognize the loss incurred on the negative opening balance adjustment as of January 1, 2018 due to IFRS 9 first-time adoption as expenses within the tax statement in equal amounts over 5 tax periods form the period in which the adjustment was made in the total amount of RSD 142,258 thousand.

14. CASH AND BALANCES HELD WITH THE CENTRAL BANK

	December 31, 2019.	December 31, 2018.
Gyro account	2,998,091	2,264,934
Cash in hand in RSD	655,713	696,393
Liquidity surpluses	2,000,000	1,300,000
Receivables for accrued interest, fees and commissions related to cash and balances held with the central bank	1,754	2,346
Cash in hand in foreign currencies	1,174,232	680,357
Mandatory foreign currency reserve held with NBS	3,184,934	2,699,981
Other cash funds	1	-
Less: Imapirment allowance of the cash and balances held with the central bank	(1,161)	(894)
TOTAL	**10,013,564**	**7,643,117**

Mandatory RSD reserve represents the minimum average balance of RSD funds that the Bank has to allocate to its gyro account in accordance with the National Bank of Serbia’s Decision on Banks’ Required Reserves with the National Bank of Serbia (Official Gazette of the Republic of Serbia nos. 72/2003, 55/2004, 85/2005 – the other law, 44/2010, 76/2012, 106/2012, 14/2015, 40/2015 – CC decision, 44/2018, and 76/2018).

In accordance with Article 6 of this Decision, the Bank is obligated to calculate and allocate the RSD mandatory reserve by applying a rate of 5% on the average daily balance of RSD deposits, borrowings and other liabilities with contractual maturity up to two years during one calendar month, while for deposits, borrowings and other liabilities with contractual maturity over two years the allocation rate is 0%.

All amounts expressed in thousands of RSD, unless otherwise stated.

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

Mandatory reserve is calculated once a month. In 2019, NBS calculated and paid interest on the amount of the calculated mandatory RSD reserve at the rates ranging from the maximum of 1.25% per annum to the current rate of 0.75% per annum.

As of December 31, 2019, RSD mandatory reserve was calculated in the amount of RSD 2,715,582 thousand (2018: RSD 2,119,765 thousand).

The portion of the calculated foreign currency mandatory reserve allocated in dinars amounts to 38% and refers to deposits, borrowings and other liabilities with contractual maturity of up to two years and 30% refers to deposits, borrowings and other liabilities with contractual maturity of over two years. NBS does not calculate and pay interest on the funds of the foreign currency mandatory reserve.

The mandatory foreign currency reserve represents the minimum average balance of foreign currency assets which the Bank is obligated to allocate to its account held with NBS, in accordance with the Decision on Banks' Required Reserves with the National Bank of Serbia (Official Gazette of the Republic of Serbia nos. 72/2003, 55/2004, 85/2005 – the other law, 44/2010, 76/2012, 106/2012, 14/2015, 40/2015 – CC decision, 44/2018, and 76/2018). The Bank is obligated to calculate and allocate the foreign currency reserve to the amount of the average daily balance of foreign currency deposits, borrowings and other liabilities during one calendar month at a rate of 20% for those with contractual maturity of up to two years, 13% for those with contractual maturity of over two years and 100% for the average balance of the foreign currency clause-indexed RSD liabilities. NBS does not pay any interest on the mandatory foreign currency reserve funds on the Bank's account held with NBS.

As at December 31, 2019, the Bank's mandatory foreign currency reserve amounted to RSD 3,123,334 thousand (2018: RSD 2,629,655 thousand).

The Bank's mandatory foreign currency reserve was comprised of 62% of the foreign currency reserve calculated per the Bank's liabilities with maturities of up to two years and 70% of the foreign currency reserve calculated per the Bank's liabilities with maturities of over two years.

For the purposes of preparation of the cash flow statement, the Bank includes in the cash and cash equivalents cash funds held on the gyro account, cash in hand in both RSD and foreign currencies, and cash funds on the accounts held with foreign banks. The item of cash and balances held with the central bank was reconciled with the items of the statement of cash flows at the end of the reporting period as follows:

	December 31, 2019	December 31, 2018
Cash and balances held with the central bank	10,013,564	7,643,117
Mandatory foreign currency reserve held with NBS	(3,184,934)	(2,699,981)
Foreign currency accounts held with foreign banks	803,624	1,503,471
Liquidity surpluses	(2,000,000)	(1,300,000)
Receivables for accrued interest, fees and commissions related to cash and balances held with the central bank	(1,754)	(2,346)
Less: Imapirment allowance of the cash and balances held with the central bank	1,161	894
TOTAL	**5,631,661**	**5,145,155**

15. LIABILITIES/(RECEIVABLES) UNDER DERIVATIVE FINANCIAL INSTRUMENTS

	December 31, 2019	December 31, 2018
(Liabilities)/receivables from financial derivatives	(1,563)	6,278
TOTAL	**(1,563)**	**6,278**

All amounts expressed in thousands of RSD, unless otherwise stated.

16. SECURITIES

	December 31, 2019	December 31, 2018
a) Pledged financial assets		
Bonds issued by the Republic of Serbia in RSD	2,260,870	-
	2,260,870	**-**
b) Securities measured at FVtPL		
Banks shares	826	1,239
Corporate shares	20,330	22,009
	21,156	**23,248**
c) Securities measured at FVtOCI		
Municipal bonds		
- City of Šabac	15,284	23,193
- Municipality of Stara Pazova	2,992	9,095
Bonds issued by the Republic of Serbia in RSD	8,049,075	6,336,076
Bonds issued by the Republic of Serbia in foreign currencies	257,973	322,255
	8,325,324	**6,690,619**
TOTAL	**10,607,350**	**6,713,867**

Allowance for impairment of securities carried at fair value through other comprehensive income is recorded as part of the revaluation reserve in equity, under line item of the reserves from changes in the value of debt instruments (Note 25) in the amount of RSD 25,059 thousand (2018: RSD 14,177 thousand).

As of December 31, 2019, the securities and investments traded by the Bank in the Belgrade Stock Exchange comprised bank and corporate shares.

The rates of return on the government securities in RSD purchased during 2019 ranged from 3.40% to 4.57% annually, while the rates of return on the Bank's overall portfolio of securities ranged from 3.40% to 5.98% for RSD securities and from 2.59% to 4.20% for foreign currency securities, annually.

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

	December 31, 2019	December 31, 2018
Receivables for accrued interest on loans, deposits and other investments:		
- in RSD	15	16
- in foreign currencies	-	-
Foreign currency accounts	803,624	1,503,471
Loans in RSD	1,082	1,073
Other investments:		
- in RSD	-	118,250
- in foreign currencies	329,624	228,429
Deposits:		
- in RSD	-	236,000
- in foreign currencies	319,460	190,828
Accrued receivables for interest on loans, deposits and other investments:		
- in RSD	-	5,059
- in foreign currencies	-	50
Deferred income from receivables carried at amortized cost using the effective interest rate	(9)	(3)
Gross loans and receivables due from banks and other financial institutions	**1,453,796**	**2,283,173**
Less: Imapirment allowance (Note 10b)	(662)	(1,922)
TOTAL	**1,453,134**	**2,281,251**

All amounts expressed in thousands of RSD, unless otherwise stated.

17. LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS (Continued)

During 2019, in repo transactions with the National Bank of Serbia, the Bank realized interest at annual rates ranging from 1.78% to 2.38% (2018: from 2.35% to 2.56%).

As of December 2019, the Bank had no liquidity loans per repo transactions.

Foreign currency assets held with the Central Securities Depository and foreign currency assets on transaction accounts held with domestic and foreign banks as of December 31, 2019 amounted to RSD 803,624 thousand (2018: RSD 1,503,471 thousand) and are presented within the line item of foreign currency accounts.

The item of other investments in foreign currencies mostly relates to receivables for contracted purchase and sale of foreign currency monetary assets:

- from domestic banks – UniCredit Bank a.d., Beograd in the amount of RSD 117,593 thousand, Banca Intesa a.d., Beograd in the amount of RSD 117,593 thousand and NLB Bank a.d., Beograd in the amount of RSD 12 thousand (2018: UniCredit Bank in the amount of RSD 59,097 thousand); and
- from foreign banks – Commerzbank AG, Frankfurt in the amount of RSD 94,427 thousand (2018: Commerzbank AG, Frankfurt in the amount of RSD 127,210 thousand and Turkiye Vakiflar in the amount of RSD 42,109 thousand).

18. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

	December 31, 2019	December 31, 2018
Receivables for accrued interest on loans, deposits and other investments in RSD	115,229	114,613
Receivables for accrued fees on loans, deposits and other investments in RSD	3,220	3,556
Receivables for accrued interest on loans, deposits and other investments in foreign currencies	114	1,765
Loans in RSD and loans indexed to EUR	43,981,660	38,724,724
Other investments in RSD	54,551	43,930
Loans and receivables in foreign currencies	2,736,909	1,351,315
Deposits placed in foreign currencies	85,403	81,678
Accrued receivables for interest on loans, deposits and other investments in RSD	22,527	18,356
Accrued receivables for interest on loans, deposits and other investments in foreign currencies	34,645	13,045
Deferred income for receivables carried at amortized cost using the effective interest rate	(144,853)	(158,037)
Gross loans and receivables due from customers	**46,889,405**	**40,194,945**
Less: Imapirment allowance (Note 10b)	(1,085,009)	(1,429,818)
TOTAL	**45,804,396**	**38,765,127**

Short-term loans were extended to corporate customers and entrepreneurs for the improvement of production, trade of goods, provision of services, import, export, maintenance of current liquidity and other purposes. Short-term loans were approved for repayment periods of up to 12 months, in RSD, RSD equivalents of foreign currency amounts and in foreign currencies.

In 2019 RSD short-term loans were approved from the Bank's own resources at annual interest rates equal to 6-month BELIBOR + 0.30% p.a. to 9.0% p.a. for loans with variable interest rate and from 1% to 13% p.a. for loans with fixed interest rate, while short-term RSD loans with currency clause index and foreign currency loans were approved at annual interest rates equal to 6-month EURIBOR + 1.95% to 9.0% p.a. - variable interest rate, and from 1.3% to 9% per annum - fixed interest rate.

Long-term loans were extended in RSD with and without foreign currency clause and in foreign currencies at fixed and variable interest rates.

All amounts expressed in thousands of RSD, unless otherwise stated.

18. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

- Gross loans and receivables due from customers – Corporate

As of December 31, 2019, the Bank's gross amount of loans and receivables due from corporate customers (excluding interest, fees and commissions and deferred fees and commissions) totaled RSD 33,576,769 thousand (2018: RSD 28,455,074 thousand) and are broken down as follows:

Loan type	December 31, 2019	December 31, 2018	% Variance
Loans from Bank's resources	26,526,365	23,838,508	11.28%
Loans from credit lines obtained from the International Financial Institutions	7,050,404	4,616,566	52.74%
Total	**33,576,769**	**28,455,074**	**18.00%**

- Gross loans and receivables due from customers – Retail

As of December 31, 2019, the Bank's gross amount of loans and receivables due from retail customers without interest and fees yet including NPLs totaled RSD 13,281,754 thousand (2018: RSD 11,751,582 thousand) and are broken down as follows:

Loan type	December 31, 2019	December 31, 2018	% Variance
Cash loans	7,258,433	6,632,890	9.43%
Housing loans	4,910,910	4,275,124	14.87%
Consumer loans – other purposes	401,754	234,770	71.13%
Consumer loans – energy efficiency	269,968	263,960	2.28%
Matured loan receivables	155,579	75,017	107.39%
Consumer loans – purchase of vehicle	129,695	96,905	33.84%
Authorized current account overdrafts	126,217	138,541	-8.90%
Unauthorized current account overdrafts	28,935	32,377	-10.63%
Receivables per DinaCard credit cards	263	1,998	-86.84%
Total	**13,281,754**	**11,751,582**	**13.02%**

All amounts expressed in thousands of RSD, unless otherwise stated.

18. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

Movements on the impairment allowance accounts in 2019

						2019.
	Cash and balances held with the central bank (Note 14)	**Loans and receivables due from banks (Note 17)**	**Loans and receivables due from customers (Note 18)**	**Financial assets measured at FVtOCI (Note 16)**	**Other financial assets (Note 20)**	**Total**
Balance, beginning of year	**894**	**1,922**	**1,429,818**	**-**	**12,688**	**1,445,322**
Stage 1	894	1,922	88,701	-	1	91,518
Stage 2	-	-	70,675	-	1	70,676
Stage 3	-	-	1,270,442	-	12,686	1,283,128
Imapirment allowance (Note 10)	**267**	**-**	**210,483**	**-**	**8,702**	**219,452**
Stage 1	267	-	11,540	-	406	12,213
Stage 2	-	-	19,594	-	22	19,616
Stage 3	-	-	179,349	-	8,274	187,623
Reversal of imapirment allowances (Note 10)	**-**	-	**(550,150)**	**-**	**(1,560)**	**(551,710)**
Stage 1	-	-	(4,540)	-	-	(4,540)
Stage 2	-	-	(52,759)	-	-	(52,759)
Stage 3		-	(492,851)	-	(1,560)	(494,411)
Foreign exchange effects	**-**	-	**(5,142)**	**-**	**-**	**(5,142)**
Stage 1	-	-	(2,862)	-	-	(2,862)
Stage 2	-	-	-	-	-	-
Stage 3	-	-	(2,280)	-	-	(2,280)
Write-offs	**-**	**(1,260)**	**(555,292)**	**-**	**(1,174)**	**(557,726)**
Stage 1	-	(1,260)	(39,572)	-	(7)	(40,839)
Stage 2	-	-	(23,464)	-	-	(23,464)
Stage 3	-	-	(492,256)	-	(1,167)	(493,423)
Balance, end of year	**1,161**	**662**	**1,085,009**	**-**	**19,830**	**1,106,662**
Stage 1	1,161	662	92,839	**-**	407	95,069
Stage 2	**-**	**-**	37,510	**-**	23	37,533
Stage 3	**-**	**-**	954,660	**-**	19,400	974,060

All amounts expressed in thousands of RSD, unless otherwise stated.

18. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

Movements on the impairment allowance accounts in 2018

	Cash and balances held with the central bank (Note 14)	Loans and receivables due from banks (Note 17)	Loans and receivables due from customers (Note 18)	Financial assets measured at FVtOCI (Note 16)	Other financial assets (Note 20)	2018 Total
Balance, beginning of year	**-**	**79**	**2,678,820**	**166**	**12,978**	**2,692,043**
Stage 1	-	79	49,331	166	3,719	53,295
Stage 2	-	-	17,167	-	1	17,168
Stage 3	-	-	2,612,322	-	9,258	2,621,580
Effects of IFRS 9 first-time adoption	**543**	**300**	**124,073**	**12,083**	**5,459**	**142,458**
Stage 1	543	290	21,859	12,034	(3,715)	31,011
Stage 2	-	-	5,092	-	-	5,092
Stage 3	-	10	97,122	49	9,174	106,355
Effects of IFRS 9 first-time adoption recorded within equity for securities at FVtOCI	**-**	**-**	**-**	**(11,994)**	**-**	**(11,994)**
Stage 1	-	-	-	(11,994)	-	(11,994)
Imapirment allowance (Note 10)	**350**	**1,585**	**770,275**	**-**	**99**	**772,309**
Stage 1	350	1,585	94,947	-	-	96,882
Stage 2	-	-	67,300	-	-	67,300
Stage 3	-	-	608,028	-	99	608,127
Reversal of imapirment allowances (Note 10)	**-**	**(42)**	**(714,858)**	**(255)**	**(5,849)**	**(721,004)**
Stage 1	-	(32)	(74,574)	(206)	(4)	(74,816)
Stage 2	-	-	(16,604)	-	-	(16,604)
Stage 3		(10)	(623,680)	(49)	(5,845)	(629,584)
Foreign exchange effects	**1**	**-**	**(5,142)**	**-**	**1**	**(5,140)**
Stage 1	1	-	(2,862)	-	1	(2,860)
Stage 2	-	-	(2,280)	-	-	(2,280)
Write-offs	**-**	**-**	**(1,423,350)**	**-**	**-**	**(1,423,350)**
Stage 3	-	-	(1,423,350)	-	-	(1,423,350)
Balance, end of year	**894**	**1,922**	**1,429,818**	**-**	**12,688**	**1,445,322**
Stage 1	894	1,922	88,701	-	1	91,518
Stage 2	-	-	70,675	-	1	70,676
Stage 3	-	-	1,270,442	-	12,686	1,283,128

19. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY

a) Intangible Assets

	December 31, 2019	December 31, 2018
Cost		
Balance as of January 1	462,104	258,369
Additions	48,160	203,735
Balance as of December 31	510,264	462,104
Accumulated amortization		
Balance as of January 1	188,966	159,422
Charge for the year	50,572	29,544
Balance as of December 31	239,538	188,966
Net book value as of December 31	**270,726**	**273,138**

The most significant amount of additions, i.e., capital expenditures, made in 2019 relates to the purchase of MasterCard licenses in the amount of RSD 14,191 thousand, improvement of the existing system - Tesla Project in the amount of RSD 13,000 thousand, procurement of ALM module in the amount of RSD 10,600 thousand, procurement of security software tools in the amount of RSD 6,900 thousand and other software required for operations of the Bank's system in the amount of RSD 3,469 thousand.

All amounts expressed in thousands of RSD, unless otherwise stated.

19. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

b) Property - Buildings

	December 31, 2019	December 31, 2018
Cost		
Balance as of January 1	695,621	705,640
Additions	1,529	23
Revaluation	804	3,620
Reclassification	(27,653)	(13,662)
Balance as of December 31	670,301	695,621
Accumulated depreciation		
Balance as of January 1	247,296	230,477
Charge for the year	17,775	17,722
Revaluation	281	1,053
Reclassification	(9,681)	(1,956)
Balance as of December 31	255,671	247,296
Net book value as of December 31	**414,630**	**448,325**

As of December 31, 2019, the Bank had proper title deeds of the property in its possession with no encumbrances registered over the assets, except for four properties whose net present value as of December 31, 2019 amounted to RSD 1,255 thousand (2018: RSD 1,307 thousand).

In accordance with its adopted accounting policies, the Bank used internally comparable data to review the market values of the buildings in its possession as of December 31, 2019, while it used external valuations by certified appraisers only for the assets acquired in lieu of debt collection (Note 28.3).

If the Bank were to apply the cost model less accumulated depreciation for measurement of its own buildings, the aggregate carrying value of its buildings would have amounted to RSD 349,357 thousand (2018: RSD 324,243 thousand).

Fair value of the Bank's buildings as of December 31, 2019 is presented as follows:

	Level 1	Level 2	Level 3	Total
Buildings	-	-	414,630	414,630
Total	**-**	**-**	**414,630**	**414,630**

Fair value of the Bank's buildings as of December 31, 2018 is presented as follows:

	Level 1	Level 2	Level 3	Total
Buildings	-	-	448,325	448,325
Total	**-**	**-**	**448,325**	**448,325**

In accordance with the Bank's accounting policies, revaluation of building properties is performed every three years. The Bank engaged a certified appraiser to carry out the revaluation of all buildings owned by the Bank as of November 30, 2018. Upon valuation the comparative market method and income approach were used. In the appraisal report submitted to the Bank, the appraiser stated that the carrying amounts of buildings owned by the Bank did not depart significantly from their market values so that the total increase in their vale amounted to RSD 2,567 thousand. The effects of the revaluation performed were recognized in the amount of the certified appraiser's assessment within equity.

In 2019, the Bank reclassified a commercial building in Užice from property, plant and equipment to investment property for the purpose of renting office space and recognized the revaluation effects in accordance with the appraisal reports within equity in the amount of RSD 804 thousand.

All amounts expressed in thousands of RSD, unless otherwise stated.

19. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

The table below presents valuation techniques and significant unobservable inputs used in valuation of building properties:

Valuation technique	Significant unobservable inputs	Relationship between the key unobservable inputs and the fair value
Market Approach - is based on the method of comparable transactions, i.e., on the comparison of the assessed property to the identical or similar properties for which there is available information on the purchase/sale transactions realized and prices achieved.	Prices of properties in the local real estate market were observed and building properties comparable to the Bank's buildings were found. As of December 31, 2019, the comparable market prices at locations in Belgrade ranged from EUR 600 to EUR 4,000 per square meter, from EUR 100 to EUR 1,990 per square meter at locations in Čačak, Gornji Milanovac and Jagodina, from EUR 470 to EUR 1,000 per square meter in Kraljevo and from EUR 500 to EUR 1,600 per square meter in Kruševac.	The assessed fair value would increase/(decrease) if the prices of comparable properties in the local real estate market increased/(decreased).

The property revaluation process

The property revaluation is performed once every three years based on the appraisal reports prepared by qualified independent appraisers hired by the Bank, while the Bank internally reviews and reassess the market values of the building properties on an annual basis. The most recent appraisal performed by independent appraisers was made in December 2018.

In accordance with its adopted accounting policies, the Bank used internally comparable data to review the market values of the buildings in its possession as of December 31, 2019, while it used external valuations by certified appraisers only for the assets acquired in lieu of debt collection.

The appraisal reports are prepared based on:

- the information obtained from the Bank on the current rent amounts, lease contract terms, utility service prices, amounts of capital expenditures made by the Bank, etc.; such information is taken from the Bank's systems for finance management, property and collateral management and is subject to the general controls within the control environment;
- the assumptions and models used by the appraisers for revaluation of the Bank's property are usually market-bases, such as comparable prices, and depend on the professional estimates and judgments made by the appraisers, as well as on their observation of the market.

Information and data the Bank provides to the independent appraisers as well as the assumptions and models applied by the appraisers are subject to review of the Collateral Management Department and the Director of the Finance Management and Planning Division. Such a review entails analyses of changes in the fair values of the property items over the year. If the Director of the Finance Management and Planning Division finds the appraisal report adequate, the report is submitted to the Bank's Executive Board. The Executive Board considers and discusses the appraisal report as part of its regular activities.

c) Equipment

	December 31, 2019	December 31, 2018
Cost		
Balance as of January 1	1,095,654	956,677
Additions	94,965	159,072
Sales	(79,944)	(10,728)
Retirement and disposal	(22,848)	(9,367)
Balance as of December 31	1,087,827	1,095,654
Accumulated depreciation		
Balance as of January 1	692,938	613,998
Charge for the year	114,908	99,033
Sales	(79,370)	(10,726)
Retirement and disposal	(22,740)	(9,367)
Balance as of December 31	705,736	692,938
Net book value as of December 31	**382,091**	**402,716**

All amounts expressed in thousands of RSD, unless otherwise stated.

19. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

c) Equipment (Continued)

The largest portion of additions to the Bank's equipment made in 2019 relates to the purchases of IT equipment (computer and telephone equipment in the amount of RSD 26,600 thousand, and other IT equipment in the amount of RSD 6,500 thousand), and refurbishment of branches in the amount of RSD 34,000 thousand and other equipment.

The largest portion of sales relates to IT equipment: data storage devices in the amount of RSD 18,213 thousand, printers in the amount of RSD 14,500 thousand, computer equipment and telephones in the amount of RSD 17,534 thousand, etc.

The Bank retired and disposed of equipment as secondary raw materials and donations.

d) Investment Property

	December 31, 2019	December 31, 2018
Cost		
Balance as of January 1	152,814	152,813
Additions	17,971	1
Balance as of December 31	170,785	152,814
Accumulated depreciation		
Balance as of January 1	28,931	25,086
Charge for the year	4,009	3,845
Balance as of December 31	32,940	28,931
Net book value as of December 31	**137,845**	**123,883**

The Bank's rental income – from the lease of investment property – amounted to RSD 1,957 thousand in 2019 (2018: RSD 1,476 thousand). Receivables per costs associated with the leases and incurred in earning the rental income and re-invoiced to the lessees amounted to RSD 467 thousand in 2019 (2018: RSD 446 thousand).

Fair value of the Bank's investment property as of December 31, 2019 is presented as follows:

	Level 1	Level 2	Level 3	Total
Investment property	-	-	137,845	137,845
Total	**-**	**-**	**137,845**	**137,845**

Fair value of the Bank's investment property as of December 31, 2018 is presented as follows:

	Level 1	Level 2	Level 3	Total
Investment property	-	-	123,883	123,883
Total	**-**	**-**	**123,883**	**123,883**

The appraised value of investment property according to the certified appraiser's report as at November 30, 2018 amounted to RSD 126,280 thousand. It was concluded that the fair value of investment property as of the reporting date did not depart from the carrying amount thereof.

In 2019, the Bank reclassified the building in Uzice from property, plant and equipment to investment property for the purpose of renting office space.

All amounts expressed in thousands of RSD, unless otherwise stated.

19. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

Valuation technique	Significant unobservable inputs	Relationship between the key unobservable inputs and the fair value
Market Approach - is based on the method of comparable transactions, i.e., on the comparison of the assessed property to the identical or similar properties for which there is available information on the purchase/sale transactions realized and prices achieved.	Prices of properties in the local real estate market were observed and building properties comparable to the Bank's investment property buildings were found. At December 31, 2019, the comparable market prices at locations in Belgrade ranged from EUR 1,800 to EUR 3,000 per square meter, and from EUR 200 to EUR 1,200 per square meter in Čačak and Uzice.	The assessed fair value would increase/(decrease) if the prices of comparable properties in the local real estate market increased/(decreased).

As of December 31, 2019, the Bank had proper title deeds of the investment properties in its possession with no encumbrances registered over the assets, except for two properties whose net present value as of December 31, 2019 amounted to RSD 75,874 thousand (2018: RSD 78,295 thousand).

The investment property revaluation process

The property revaluation is performed once every three years based on the appraisal reports prepared by qualified independent appraisers hired by the Bank, while the Bank internally reviews and reassess the market values of the building properties on an annual basis. The most recent appraisal performed by independent appraisers was made in December 2018.

The appraisal reports are prepared based on:

- the information obtained from the Bank on the current rent amounts, lease contract terms, utility service prices, amounts of capital expenditures made by the Bank, etc.; such information is taken from the Bank's systems for finance management, property and collateral management and is subject to the general controls within the control environment;
- the assumptions and models used by the appraisers for revaluation of the Bank's property are usually market-bases, such as comparable prices, and depend on the professional estimates and judgments made by the appraisers, as well as on their observation of the market.

Information and data the Bank provides to the independent appraisers as well as the assumptions and models applied by the appraisers are subject to review of the Collateral Management Department and the Director of the Finance Management and Planning Division. Such a review entails analyses of changes in the fair values of the property items over the year. If the Director of the Finance Management and Planning Division finds the appraisal report adequate, the report is submitted to the Bank's Executive Board. The Executive Board considers and discusses the appraisal report as part of its regular activities.

e) Leasing

In accordance with IFRS 16 – "Leases" effective as from January 1, 2019, after the reporting date, the Bank amended its accounting policies in order to regulate the accounting treatment of leases.

A lease is a contract or a part of contract whereby the lessor (the legal owner of an asset) conveys to the lessee (the user of the asset) the right to use an asset for an agreed period of time in exchange for a consideration.

For each lease contract, the Bank assesses whether the contract contains elements of a lease. The Bank assesses whether the contract identifies the asset and whether the Bank has the right to control the use of identified assets for a specified period of time.

Under IFRS 16, the Bank accounts for:
- business premises and
- vehicles.

All amounts expressed in thousands of RSD, unless otherwise stated.

19. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)

e) Leasing (Continued)

The interest rate used by the Bank in measurement of the lease liabilities/right-of-use assets is its incremental borrowing rate. It is the rate of interest that Bank (the lessee) would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

For calculation of the incremental borrowing rate for the lease of business premises, the Bank uses the average cost of sources of funds (term deposits and credit lines).

In order to ensure inclusion of the market factors, the Bank projected the price taking into account the rates of return on the secondary market of securities of the Republic of Serbia. In this way, the calculation covers both the country risk and the Bank-specific risk.

The Bank acquires vehicles under lease arrangements with maturities of up to four years. Accordingly, and taking into account that these are permanent working capital assets, the total amount of the right-of-use (ROU) assets for all the vehicles, which is significantly below the amount of ROU assets for business premises, these assets would not have been financed from credit line funds.

Additionally, since these are highly marketable assets, the Bank measures these contracts by calculating the average price of interest on total demand deposits and term deposits plus the insurance premium, i.e., the Bank uses the average interest rate on deposits (term deposits and demand deposits), adjusted (increased) for the cost of deposit insurance.

The Bank does not apply the requirements of IFRS 16:
- to the lease contracts with lease terms shorter than 12 months and those that do not contain the purchase option, and/or
- lease contracts with low-value underlying assets..

The leased assets are capitalized in the Bank's books as the lessee, together with the corresponding lease payment liability. The adoption of IFRS 16 has also changed the presentation of the income statement. Instead of the rental costs, which had been reported as operating expenses, the Bank recognizes depreciation expenses related to the recognized ROU assets, as well as interest expenses on the lease liability.

Upon transition to IFRS 16, the Bank elected to use the modified retrospective (cumulative catch-up) approach whereby IFRS 16 has been retrospectively applied with the cumulative catch-up effect recognized as an opening balance adjustment as of January 1, 2019, without adjustment or restatement of the comparative figures.

As permitted by the standard, the Bank did not apply the provisions of IFRS 16 to the previous financial reporting periods.

As of the date of recognition of the ROU assets, i.e., as of January 1, 2019, the following were accounted for under IFRS 16:
- 27 business premises and
- 56 vehicles.

Property/premises leased

Right-of use assets – assets leased as of January 1, 2019	**599,340**
Additions	38,846
Depreciation charge	(149,316)
Right-of use assets – assets leased as of December 31, 2019	**488,870**

Vehicles leased

Right-of use assets – assets leased as of January 1, 2019	**58,452**
Depreciation charge	(26,351)
Right-of use assets – assets leased as of December 31, 2019	**32,101**

All amounts expressed in thousands of RSD, unless otherwise stated.

20. OTHER ASSETS

	December 31, 2019	December 31, 2018
Receivables for accrued fees and commissions relating to other assets	8,142	9,968
Trade receivables	4,959	2,751
Other receivables from regular operating activities	25,942	26,068
Receivables for accrued interest related to other assets	10	10
Other receivables in RSD	71,852	56,701
Other receivables in foreign currencies	170,817	43,070
Other investments	3,349	3,349
Other deferred expenses	15,784	13,038
Accrued receivables	-	-
Deferred interest expenses in foreign currencies	15,617	13,182
Other prepayments in foreign currencies	862	611
Inventories of materials, tools, spare parts and other inventories	55,257	55,288
	372,591	224,036
Less: Impairment allowance of other assets (Note 10)	(46,148)	(39,041)
TOTAL	**326,443**	**184,995**

The line item of other receivables in RSD mostly relates to receivables per VISA cards from OTP banka a.d. Novi Sad in the amount of RSD 20,591 thousand (2018: RSD 15,670 thousand), and advances paid to suppliers.

The line item of other receivables in foreign currencies pertains for the most part to the advances paid to the lessors to securitize liabilities and on receivables from Turkiye Halk Bankasi A.S. for transfer of funds (RSD 129,352 thousand).

The total impairment allowance for other assets presented in Note 20 in the total amount of RSD 46,148 thousand (2018: RSD 39,041 thousand) includes the allowance for both financial and non-financial other assets, while Note 10 b) presents the impairment allowance for other financial assets only in the amount of RSD 19,830 thousand (2018: RSD 12,688 thousand).

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

	December 31, 2019	December 31, 2018
Deposits due to banks		
Transaction deposits	224,075	15,633
Earmarked deposits	819,829	543,408
Other deposits	5,065,598	3,165,352
Other financial liabilities due to banks	331,111	381,325
Interest and fee liabilities due to banks	1,617	606
Accrued liabilities for accrued interest on deposits and other financial liabilities due to banks	12,941	13,488
Total deposits and other liabilities due to banks and other financial institutions	**6,455,171**	**4,119,812**
Borrowings due to banks		
Borrowings due to banks	1,981,291	2,068,406
Liabilities for accrued interest on borrowings due to banks	12,684	5,974
Deferred expenses for liabilities measured at amortized cost using the effective interest rate	(10,461)	(13,500)
Total borrowings due to banks	**1,983,514**	**2,060,880**
Total: deposits, borrowings and other liabilities due to banks, other financial institutions and the central bank	**8,438,685**	**6,180,692**

All amounts expressed in thousands of RSD, unless otherwise stated.

21. DEPOSITS AND OTHER LIABILITIES DUE TO BANKS, OTHER FINANCIAL INSTITUTIONS AND THE CENTRAL BANK (Continued)

The line item of other deposits refers to short-term RSD deposits of insurance companies and other financial institutions in the amount of RSD 1,773,000 thousand and to foreign currency deposits of insurance companies and other financial institutions in the amount of RSD 529,168 thousand, deposits of domestic banks in foreign currency in the amount of RSD 411,574 thousand dinars, as well as foreign banks - Turkiye Halk Bankasi A.S. Head Office in the amount of RSD 2,351,856 thousand (2018: RSD 2,363,892 thousand).

Short-term RSD deposits placed by banks and other financial institutions for periods of up to 7 days mostly accrued interest at rates from 1.9% to 2.5%, while deposits placed for a period of up to a year accrued interest at rates from 2.5% to 3.5% p.a.

Long-term deposits from banks and other financial organizations were placed at rates ranging from 3.7% to 4% p.a. Foreign currency deposits of domestic banks and other financial institutions with maturities of up to 7 days accrued interest at rates from 0.0% to 0.1% p.a., and those placed for periods of up to 1 year accrued interest at the rates from 0.7% to 1.2% p.a. Long-term deposits from banks and other financial institutions in foreign currency were placed at interest rates from 1.6% to 2% p.a. The Parent Bank's deposits were mostly placed for periods of up to 7 days at an interest rate of 0.25% p.a.

The line item of other financial liabilities due to banks mostly relates to:

- RSD financial liabilities due to domestic banks: UniCredit Bank Srbija A.D. Beograd for contracted purchase and sale of foreign currency cash in the amount of RSD 117,570 thousand and Banca Intesa A.D. Beograd in the amount of RSD 117,570 thousand;
- Foreign currency financial liabilities relate to liabilities for contracted purchase and sale of foreign currency cash to Commerzbank AG, Frankfurt in the amount of RSD 94,523 thousand.

The item of borrowings due to banks in the amount of RSD 1,981,291 thousand in 2019 (2018: RSD 2,068,406 thousand) refers to the following credit lines: Demir-Halk Bank (Netherlands) NV, European Fund for Southeast Europe (EFSE) and Green for Growth Fund (GGF) credit line. The borrowings were obtained at interest rates ranging from 2.10% plus 6-month EURIBOR to 2.90% plus 6-month EURIBOR.

Maturities of borrowings due to banks:

Creditors	in EUR '000 Balance at December 31, 2019	in RSD '000 Balance at December 31, 2019	in EUR '000 Maturing in 2020	in RSD '000 Maturing after 2020
Demir-Halk Bank (Netherlands)	5,000	587,964	1,500	3,500
Green for Growth Fund (GGF)	4,706	553,378	588	4,118
European Fund for Southeast Europe	7,143	839,949	2,857	4,286
TOTAL	**16,849**	**1,981,291**	**4,945**	**11,904**

Creditors	in EUR '000 Balance at December 31, 2018	in RSD '000 Balance at December 31, 2018	in EUR '000 Matures in 2019	in RSD '000 Matures after 2019
Demir-Halk Bank (Netherlands)	2,500	295,487	2,500	-
Green for Growth Fund (GGF)	5,000	590,973	294	4,706
European Fund for Southeast Europe	10,000	1,181,946	2,857	7,143
TOTAL	**17,500**	**2,068,406**	**5,651**	**11,849**

All amounts expressed in thousands of RSD, unless otherwise stated.

22. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

	December 31, 2019	December 31, 2018
Deposits due to customers		
Transaction deposits	15,471,872	14,215,085
Savings deposits	13,018,235	10,451,981
Deposits securitizing loans	2,023,252	2,001,368
Earmarked deposits	2,039,014	505,130
Other deposits	8,818,110	5,066,022
Other financial liabilities due to customers	172,798	69,371
Interest and fee liabilities due to customers	1,926	2,320
Accrued liabilities for interest payable on deposits and other financial liabilities to customers	100,300	87,141
Total deposits and other liabilities due to customers	**41,645,507**	**32,398,418**
Borrowings due to customers		
Borrowings due to customers	6,839,932	6,765,419
Liabilities for accrued interest on borrowings	1,341	2,320
Deferred expenses for liabilities measured at amortized cost using the effective interest rate	(4)	(158)
Total borrowings due to customers	**6,841,269**	**6,767,581**
Total deposits, borrowings and other liabilities due to customers	**48,486,776**	**39,165,999**

RSD and foreign currency demand deposits and current accounts of retail customers are non-interest bearing, i.e., they were deposited at the annual interest rate of 0.0%.Short-term retail deposits were deposited at annual interest rates ranging from 2.0% to 4.0% for RSD funds, and from 0.10% to 1.40% for foreign currency funds. Long-term retail deposits in foreign currencies were deposited at annual interest rates ranging from 0.70% do 1.70%.

By ongoing monitoring of market trends, individual and proactive approach to the customers, the Bank increased the amount of corporate customer deposits by 30.23%. With its offer of several types of deposit products, the Bank provided its clients with adequate funds management, resulting in an increase of deposits of individuals by 27.55% with the Bank's market share reaching 1.88%.

Deposits of corporate clients denominated in RSD were placed at interest rates ranging from 0.25% p.a. to 3.80% p.a., while deposits denominated in foreign currencies were placed at interest rates ranging from 0.10% to 1.60% p.a.

Borrowings refer to long-term loans approved to the Bank by the European Investment Bank with the mediation of NBS in the amount of EUR 50.6 million, and the European Agency for Reconstruction in the amount of EUR 7.2 million. In addition, the Bank obtained borrowings from the Government of the Republic of Italy in the amount of EUR 0.4 million.

In accordance with the loan agreements concluded with the International Financial Institutions, European Fund for Southeast Europe (EFSE) and the Green for Growth Fund (GGF), the Bank is required maintain certain financial indicators at the defined levels until the final repayment of the borrowings.

As at December 31, 2019, the Bank was in full compliance with the defined covenants:

In accordance with the loan agreements concluded with the said International Financial Institutions, the Bank reports on a regular basis on the achievement of its performance indicators and provides detailed explanations for each covenant breach, if any.

Maturities of borrowings due to customers

Creditors	EUR '000 Balance at December 51, 2019	RSD '000 Balance at December 31, 2019	EUR '000 Maturing in 2020	Maturing in 2021	Maturing in 2022	Maturing after 2022
EIB	50,606	5,950,863	8,436	7,344	5,662	29,164
RCF	7,155	841,385	3,086	2,360	1,209	500
Republic of Italy Government	406	47,684	146	130	130	-
TOTAL	**58,167**	**6,839,932**	**11,668**	**9,834**	**7,001**	**29,664**

All amounts expressed in thousands of RSD, unless otherwise stated.

22. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (CONTINUED)

Maturities of borrowings due to customers

Creditors	EUR '000 Balance at December 51, 2018	RSD '000 Balance at December 31, 2018	EUR '000 Maturing in 2019	Maturing in 2020	Maturing in 2021	Maturing in 2022	Maturing after 2022
EIB	48,441	5,725,497	6,898	8,455	6,482	4,801	21,805
KFW	909	107,450	909	-	-	-	-
RCF	7,323	865,516	3,456	2,106	1,242	450	69
Republic of Italy Government	567	66,956	161	146	130	130	-
TOTAL	**57,240**	**6,765,419**	**11,424**	**10,707**	**7,854**	**5,381**	**21,874**

Borrowings due to customers were approved to the Bank at the following annual interest rates:

- from 0.85 to 1.50% - fixed annual interest rates;
- 0.75% plus 3-month LIBOR for EUR loans;
- from 0.32% to 0.97% p.a. + 3-month EURIBOR; and
- from 0.36% to 0.45% p.a. + 6-month EURIBOR.

23. PROVISIONS

	December 31, 2019	December 31, 2018
a) Movements on provisions for probable losses on off-balance sheet items		
Balance as of January 1	4,312	5,055
Reversal of provisions due to IFRS 9 first-time adoption effects	-	(200)
Charge for the year (Note 10a)	4,650	4,476
Reversal of provisions (Note 10a)	(4,229)	(5,019)
Balance as of December 31	**4,733**	**4,312**
b) Movements on provisions for retirement benefits		
Balance as of January 1	79,465	27,139
Charge for the year (Note 11)	62,793	51,497
Reversal of provisions (Note 11)	(2,412)	-
Release of provisions	(46,378)	-
Actuarial losses	773	829
Balance as of December 31	**94,241**	**79,465**
c) Movements on the provisions for litigations		
Balance as of January 1	13,900	7,149
Charge for the year	4,716	6,751
Balance as of December 31	**18,616**	**13,900**
TOTAL	**117,590**	**97,677**

Provisions for potential losses in the amount of RSD 4,733 thousand (2018: RSD 4,312 thousand) were made for guarantees and other off-balance sheet items.

New provisions for employee benefits mainly relate to short-term provisions for employee bonuses.

In respect of the lawsuits filed against Bank and the relating claims, according to the status of the cases as of December 31, 2019, the Bank made a provision of RSD 18,616 thousand (2018: RSD 13,900 thousand).

All amounts expressed in thousands of RSD, unless otherwise stated.

24. OTHER LIABILITIES

	December 31, 2019	December 31, 2018
Trade payables	22,582	57,395
Advances received	127,593	60,073
Lease liabilities	530,602	-
Liabilities from consignment operations	167	167
Other operating liabilities	50,992	100,677
Liabilities in settlement	28,182	16,237
Temporary and suspense accounts	276	476
VAT liabilities	3,109	7,589
Liabilities for other taxes and contributions payable	1,992	1,689
Accrued liabilities	36,790	27,557
Deferred other income	41,808	30,588
Other accruals – subsidized interest	4,585	5,305
Other liabilities	1,532	1,284
TOTAL	**850,210**	**309,037**

Lease liabilities as at December 31, 2019:

The liability maturity period - contract maturity	
0-1 year	15,413
1-3 years	283,073
3-5 years	79,590
5-10 years	152,526
Total	**530,602**

Liabilities for lease of business premises as at December 31, 2019:

The liability maturity period - contract maturity	
0-1 year	6,089
1-3 years	260,328
3-5 years	79,590
5-10 years	152,526
Total	**498,533**

Liabilities for lease of vehicles as at December 31, 2019:

The liability maturity period – contract maturity	
0-1 year	9,324
1-3 years	22,745
Total	**32,069**

Incremental borrowing rates used for vehicle leases:

Type of leased vehicle	Maturities of the lease liability (in years)	Incremental borrowing rate	RSD '000
Automobiles	0-1 year	1.37%	9,324
Automobiles	1-3 years	1.37%	22,745
Total			**32,069**

Incremental borrowing rates used for business premises leases:

Maturities of the lease liability (in years)	Incremental borrowing rate	RSD '000
0-1 year	1.37%	6,089
1-3 years	1.37 - 1.47%	260,328
3-5 years	1.33 - 1.47%	79,590
5-10 years	2.29 - 5.03%	152,526
Total		**498,533**

All amounts expressed in thousands of RSD, unless otherwise stated.

24. OTHER LIABILITIES (Continued)

Lease liabilities as at December 31, 2019 (Continued):

Maturities of undiscounted lease liabilities – lease of business premises (years)	RSD '000
0-1 year	159,960
1-3 years	236,654
3-5 years	60,189
5-10 years	74,535
Total:	**531,338**

Maturities of undiscounted lease liabilities – lease of vehicles (years)	RSD '000
0-1 year	22,692
1-3 years	10,434
Total:	**33,126**

Total outflows per lase liabilities in 2019 amounted to RSD 176,479 thousand for principal and are presented in the statement of cash flows within the outflows from financing activities, while the outflows per interest expenses amounted to RSD 10,538 thousand and are presented as outflows from operating activities.

According to the current information, the Bank's future lease payments (for 2020) approximate RSD 182,652 thousand.

Trade payables in the amount of RSD 22,582 thousand relating to the Bank's regular business activities were paid in January 2020.

Liabilities for advances received refer to customer payments of borrowing repayment liabilities not yet matured in the amount of RSD 122,815 thousand.

The lease liability item refers to the liabilities the Bank has to its lessors based on the discounted lease payments for business premises and vehicles leased.

Other operating liabilities are mostly related to liabilities for licenses to Banksoft (RSD 46,096 thousand).

The accrued liability item refers to expenses that were incurred in the reporting period for which the Bank did not receive invoices and other relevant documents required for posting until the reporting date, so they were accrued.

25. EQUITY

Equity and the Bank's Share Capital

In accordance with the Articles of Association and the Statute, the Bank's equity consists of:
- share capital
- share premium
- profit and
- reserves.

The Bank is managed by its founders commensurately to their holdings of the Bank's ordinary shares, in accordance with the Bank's Articles of Association and the Statute.

All amounts expressed in thousands of RSD, unless otherwise stated.

25. EQUITY (Continued)

Equity and the Bank's Share Capital (Continued)

Breakdown of the Bank's equity as at December 31, 2019 and 2018 is provided in the following table:

	December 31, 2019	December 31, 2018
Share capital – ordinary shares	5,658,940	5,658,940
Share capital – preference shares	601,340	601,340
Share premium	2,712,323	2,712,323
Revaluation reserves	926,753	452,553
Reserves from profit	1,726,527	1,312,431
Prior years' retained earnings	-	52,373
Current year's profit	472,836	361,725
TOTAL	**12,098,719**	**11,151,685**

The Bank's share capital consists of 565,894 ordinary (common stock) shares and 60,134 preference shares with the par value of RSD 10,000 per share. The total equity of the Bank consists of share capital in the amount of RSD 6,260,280 thousand (2018: RSD 6,260,280 thousand), share premium in the amount of RSD 2,712,323 thousand (2018: RSD 2,712,323 thousand), reserves from profit in the amount of RSD 1,726,527 thousand (2018: RSD 1,312,431 thousand), and revaluation reserves in the amount of RSD 926,753 thousand (2018: RSD 452,553 thousand). In 2019 the Bank realized and reported profit of RSD 472,836 thousand (2018: RSD 361,725 thousand).

The Bank is required to maintain the minimum capital adequacy ratio of 8% as prescribed by the National Bank of Serbia. The Bank's capital adequacy ratio as at December 31, 2019 was 24.22% (2018: 27.82%), which is well above the minimum prescribed by the National Bank of Serbia.

Breakdown of Reserves

	December 31, 2019	December 31, 2018
Revaluation reserves		
Reserves from changes in the value of fixed assets	305,796	305,273
Reserves from changes in the value of RSD debt instruments	591,371	111,902
Reserves from changes in the value of foreign currency debt instruments	27,015	32,035
Actuarial gains	2,571	3,343
Total revaluation reserves	926,753	452,553
Reserves from profit	1,726,527	1,312,431
TOTAL	**2,653,280**	**1,764,984**

Reserves arising from revaluation of property, plant and equipment relate to the effects of appraisal of the Bank's buildings from previous years and 2019. Reserves from changes in the value of securities (debt instruments) relate to the effects of fair value adjustments of securities measured at fair value through the other comprehensive income (FVtOCI) as of December 31, 2019. The actuarial gains relate to the effects of changes in the value of employee retirement benefits determined by the actuarial assessment. Reserves from profit relate to cumulative effects of profit distribution and loss absorption from previous years.

Basic Earnings per Share

	December 31, 2019	December 31, 2018
Net profit for the year	472,836	361,725
Weighted average number of shares outstanding	565,894	565,894
Earnings per share in RSD	**836**	**639**

All amounts expressed in thousands of RSD, unless otherwise stated.

25. EQUITY (Continued)

The Bank's Shareholders as of December 31, 2019

Shareholder	RSD '000 Ordinary Shares	Cumulative preference shares	Other preference shares	TOTAL	Shareholding (%) Ordinary Shares	Cumulative preference shares	Other preference shares	TOTAL
Turkiye Halk Bankasi a.s.	5,658,940	1,340	600,000	6,260,280	100.00	100.00	100.00	100.00
TOTAL	**5,658,940**	**1,340**	**600,000**	**6,260,280**	**100.00**	**100.00**	**100.00**	**100.00**

The Bank's Shareholders as of December 31, 2018

Shareholder	RSD '000 Ordinary Shares	Cumulative preference shares	Other preference shares	TOTAL	Shareholding (%) Ordinary Shares	Cumulative preference shares	Other preference shares	TOTAL
Turkiye Halk Bankasi a.s.	5,658,940	1,340	600,000	6,260,280	100.00	100.00	100.00	100.00
TOTAL	**5,658,940**	**1,340**	**600,000**	**6,260,280**	**100.00**	**100.00**	**100.00**	**100.00**

As of December 31, 2019, Turkiye Halk Bankasi AS was the sole (100%) of the Bank's shares.

December 31, 2019	Total Shares	Turkiye Halkbankasi	% Turkiye Halkbankasi	December 31, 2018	Total Shares	Turkiye Halkbankasi	% Turkiye Halkbankasi
Ordinary shares	565,894	565,894	100.00%	Ordinary shares	565,894	565,894	100.00%
Preference shares	60,134	60,134	100.00%	Preference shares	60,134	60,134	100.00%
Total	**626,028**	**626,028**	**100.00%**	**Total**	**626,028**	**626,028**	**100.00%**

26. OFF-BALANCE SHEET ITEMS

	December 31, 2019	December 31, 2018
a) Managed funds	**265,345**	**271,833**
b) Guarantees, sureties and irrevocable commitments		
Guarantees in RSD	9,609,607	6,128,796
Guarantees in foreign currencies	2,308,600	1,750,597
Total guarantees	11,918,207	7,879,393
Irrevocable commitments for undrawn loans in RSD	1,574,212	1,813,172
Irrevocable commitments for undrawn loans in foreign currencies	-	-
Total irrevocable commitments for undrawn loans	1,574,212	1,813,172
Total guarantees and irrevocable commitments	**13,492,419**	**9,692,565**
c) Financial assets pledged as collateral	**2,260,870**	**-**
d) Derivatives held for trading at the agreed value	**943,938**	**1,579,341**
e) Other off-balance sheet items		
Calculated suspended interest	4,969,015	4,713,469
Commitments for framework loans and facilities	8,687,283	6,197,659
Other off-balance sheet items	49,416,986	36,637,792
Total other off-balance sheet items	**63,073,284**	**47,548,920**
TOTAL	**80,035,856**	**59,092,659**

All amounts expressed in thousands of RSD, unless otherwise stated.

26. OFF-BALANCE SHEET ITEMS (Continued)

The line item of irrevocable commitments for undrawn (undisbursed) loans in RSD at December 31, 2019 relates to the approved yet unused corporate loans in the amount of RSD 1,389,861 thousand (2018: RSD 1,626,133 thousand), unused retail loans the amount of RSD 169,999 thousand (2018: RSD 166,453 thousand) and unused loans approved to entrepreneurs in the amount of RSD 14,352 thousand (2018: RSD 20,587 thousand).

The line item of other off-balance sheet items includes all tangible and intangible assets the Bank obtained as collateral securitizing repayment of loans totaling RSD 42,918,164 thousand at December 31, 2019 (2018: RSD 31,985,851 thousand).

In addition, as of December 31, 2019 other off-balance items included:

- receivables for suspended (broken period) interest in the amount of RSD 4,969,015 thousand (2018: RSD 4,713,469 thousand);
- bonds of the Republic of Serbia for prior deposited foreign currency savings in the amount of RSD 740,671 thousand (2018: RSD 755,411 thousand);
- assumed commitments per framework loans in the amount of RSD 8,687,283 thousand (2018: RSD 6,197,659 thousand); and
- other off-balance sheet items in the amount of RSD 5,758,151 thousand (2018: RSD 3,896,530 thousand).

As of December 31, 2019, within other off-balance sheet items the amount of RSD 3,665,876 thousand (2018: RSD 3,208,517 thousand) refers to the direct write-offs of receivables made under the relevant decisions of the Supervisory Board and the accounting write-off in accordance with Decision on the Accounting Write-Off of Bank Balance Sheet Assets of the National Bank of Serbia, effective as from September 30, 2017. Within the meaning of this Decision, the accounting write-off is a write-off of a non-performing loan when the amount of the impairment of that loan calculated by the Bank and credited to allowance for impairment equals 100% of its gross carrying amount. The Bank does not give up recovery of its receivables subject to the accounting write-off but simply transfers such receivables to the off-balance sheet items.

27. RELATED PARTY DISCLOSURES

The Bank enters into transactions with its related parties. All balances of receivables and payables at the reporting date, as well as income and expenses realized/ incurred during the year, are the result of usual regular business activities. The Bank charges and pays interest on its receivables and liabilities arising from the related party transactions, calculated by applying the usual interest rates.

The following table presents the total exposure to related parties that may have an impact on the Bank's performance:

	December 31, 2019	December 31, 2018
a) Loans, deposits and other receivables		
The parent and entities under the joint control of the parent		
Turkiye Halk Bankasi AS	516,520	1,078,895
Other related parties		
RVM d.o.o.	45,134	76,552
Company TGK d.o.o. Čačak	30,025	28,447
Tax Free d.o.o. Beograd	6,169	8,174
DOO Duomos Novi Pazar	3,542	3,912
Inceptus d.o.o. Čačak	3,278	5,182
Animals d.o.o. Aranđelovac	6,095	3,098
Halkbank a.d. Skopje	2,644	69,750
Agrohemija d.o.o. Čačak	1,219	2,237
Profesional 2000 d.o.o. Gornji Milanovac	-	1,328
Other entities	7,033	3,175
Individuals	387,343	346,786
TOTAL:	**1,009,002**	**1,627,536**

All amounts expressed in thousands of RSD, unless otherwise stated.

27. RELATED PARTY DISCLOSURES (Continued)

	December 31, 2019	December 31, 2018
b) Borrowings, deposits and other liabilities		
The parent and entities under the joint control of the parent		
Turkiye Halk Bankasi AS	2,351,872	2,363,974
Other related parties		
Demir Halkbank Netherlands	593,932	295,867
Profesional 2000 d.o.o. Gornji Milanovac	-	4
Company TGK d.o.o. Čačak	3	2
Other entities	324	2
Individuals	332	195
TOTAL:	**2,946,463**	**2,660,042**
c) Off-balance sheet items		
The parent and entities under the joint control of the parent		
Turkiye Halk Bankasi AS	435,135	15,072
Halkbank a.d. Skopje	117,593	118,195
Other related parties		
RVM d.o.o.	120,589	17,702
Ninex d.o.o. Čačak – in bankruptcy	66,680	67,049
Agrohemija d.o.o. Čačak	6,027	4,046
Company TGK d.o.o. Čačak	4,228	4,246
Profesional 2000 d.o.o. Gornji Milanovac	1,700	1,345
Company Silver d.o.o. Čačak	550	2,238
Other entities	2,083	1,541
Individuals	19,406	22,300
TOTAL:	**773,991**	**253,734**

Borrowings and deposits approved and received from the parent entity and entities under the joint control and/or significant influence of the Bank's parent were extended to and placed with the Bank at the prevailing market interest rates disclosed in Notes 17, 18, 21 and 22 to the accompanying financial statements.

	December 31, 2019	December 31, 2018
d) Interest, fee and commission income		
The parent and entities under the joint control of the parent		
Turkiye Halk Bankasi AS	185	2,828
Other related parties		
RVM d.o.o.	2,345	2,115
Company TGK d.o.o. Čačak	776	770
Animals d.o.o. Aranđelovac	470	513
Tax Free d.o.o. Beograd	391	20
Inceptus d.o.o. Čačak	308	179
Agrohemija d.o.o. Čačak	286	244
Ivex Drink d.o.o. Ivanjica	186	67
DOO Duomos Novi Pazar	144	44
Profesional 2000 d.o.o. Gornji Milanovac	104	101
Jelena Mijailović PR	94	24
Ena Ugljanin PR	58	15
Company Interprogres Čačak	46	65
TIBO Kompanija doo Beograd Mladenovac	25	29
Company Silver doo Čačak	23	87
ST-KR Dekoratex	13	15
Transport Grujičić Milovan PR	5	8
Big Win d.o.o.	-	18
Other entities	145	162
Individuals	22,724	19,284
TOTAL:	**28,328**	**26,588**

All amounts expressed in thousands of RSD, unless otherwise stated.

27. RELATED PARTY DISCLOSURES (Continued)

	December 31, 2019.	December 31, 2018.
e) Interest, fee and commission expenses		
The parent and entities under the joint control of the parent		
Turkiye Halk Bankasi AS	5,778	4,813
Entities under the significant influence of the parent		
Demir Halkbank Netherlands	10,902	15,101
Other related parties		
Individuals	791	653
TOTAL:	**17,471**	**20,567**

Gross remunerations to the Chairmen and members of the Bank's Supervisory Board and Executive Board in 2019 amounted to RSD 61,987 thousand (2018: RSD 51,804 thousand). Net remunerations to the Chairmen and members of the Supervisory Board and Executive Board in 2019 amounted to RSD 44,868 thousand (2018: RSD 41,842 thousand).

28. RISK MANAGEMENT

Introduction

In accordance with the effective Law on Banks (Official Gazette of RS nos. 107/2005, 91/2010 and 14/2015), NBS Decision on Risk Management by Banks (Official Gazette of RS nos. 45/2011, 94/2011, 119/2012, 123/2012, 23/2013 – the other decision, 43/2013, 92/2013, 33/2015, 61/2015, 61/2016, 103/2016, 119/2017, 76/2018,57/2019, and 88/2019), NBS Decision on Bank Liquidity Risk Management (Official Gazette of RS nos. 103/2016), and the Bank's internally adopted policies, methodologies and procedures, Halkbank a.d. Beograd (the " Bank") has identified the following risks it is exposed to in its operations:

- Liquidity risk;
- Credit risk, which includes the residual risk, downgrade risk, settlement/free delivery risk, counterparty risk, credit-interest rate risk, credit-foreign exchange risk and concentration risk;
- Risk of incurring losses due to the external factors;
- Interest rate risk;
- Market risks, which include foreign exchange risk, price risks and commodity risk;
- Risk of outsourcing;
- Risk of money laundering and terrorism financing;
- Risk relating to the introduction of new products/services;
- Investments risks relating to investments in other entities and own fixed assets;
- Country risk relating to the country of origin of the counterparty;
- Operational risk, including legal risk;
- Reputation risk;
- Strategic risk;
- Regulatory compliance risk, which includes the risk of sanctions by the regulator, risk of financial loss and reputation risk; and
- Environmental risk.

The Bank's objectives in risk management, defined within the risk management system, are minimization of the adverse effects of the Bank's exposure to the above listed risks on the Bank's performance and capital with simultaneous adherence to the defined limits of the acceptable risk levels and maintenance of the required capital adequacy ratio. During 2019 the Bank did not amend the objectives of risk management as specified above, but it significantly improved the risk management framework and adequate articulation of the overall risk management objectives by introducing new strategies, policies, procedures, methodologies and instructions.

In 2019, the Bank improved the risk management processes by alignment of and improvement to the existing strategies, policies, procedures, methodologies and instructions relating to the risk identification, measurement, assessment, mitigation and management and capital management.

28. RISK MANAGEMENT (Continued)

Introduction (Continued)

The Bank's risk management system in place consists of:
- Risk management strategies and policies as well as the procedures and instructions for risk identification, measurement, assessment and management;
- Risk aptitude – the Bank's intention to assume risks in order to implement its strategies and policies (the risk structure) and definition of the acceptable levels of the assumed risks (risk tolerance);
- Risk profile – the Bank's estimate of the structure and levels of all the risks it is or may be exposed to in the course of its operations;
- Risk appetite framework (RAF) – the overall approach, including strategies, policies, procedures, processes, controls and systems for establishing, communicating and reviewing the roles and responsibilities of the Bank's organizational units in charge of supervising RAF implementation and monitoring. RAF considers risks material to the Bank, as well as to the high esteem and reputation of the Bank among its customers, depositors, creditors and in the market in general. RAF is aligned with the Bank's business strategy;
- Risk appetite statement (RAS) – represents an aggregate risk level the Bank is ready and willing to accept, or avoid, in order to achieve its business goals; it includes qualitative descriptions, and quantitative measures expressed as relative to the income, capital, risk measurement, liquidity and other relevant indicators. In addition, RAS enables quantification of the risk levels that are difficult to measure, such as the reputation risk, compliance risk and risks of money laundering and terrorism financing;
- Internal organization, i.e., organizational structure that ensures functional and organizational separation of the risk management activities from the risk assumption activities, with clearly defined segregation of duties for employees, which prevents conflicts of interests;
- Effective and efficient risk management process entailing mitigation, monitoring and control of the risks the Bank is or may be exposed to;
- Internal control system as a set of processes and procedures in place intended to ensure adequate risk control, operational effectiveness and efficiency monitoring, financial and other data reliability and compliance with the effective legislation and the Bank's internal bylaws with a view to achieve safe and stable banking operations;
- Adequate information system.

The Bank's Supervisory Board is responsible for establishment of a uniform risk management system throughout the Bank and for supervision of that system. The Supervisory Board must ensure that the Bank's Executive Board will identify the risks the Bank is exposed to and control such risks in accordance with the bank's adopted policies and procedures.

The Bank's Executive Board implements the risk management strategies and polices adopted by the Supervisory Board, defines procedures, instructions and guidelines for risk identification, measurement, assessment and management, analyzes their efficiency and reports back to the Supervisory Board on these activities.

The Audit Committee is in charge of an ongoing oversight of implementation of the risk management policies and procedures and performance of the internal control system.

The Asset and Liability Management Committee ("ALCO") is in charge of monitoring the Bank's exposure to the risks arising from the structure of the Bank's receivables and liabilities and off-balance sheet items, and proposes measures for risk management. The Audit Committee assists the Supervisory Board o in overseeing the work of the Executive Board and the Bank's employees.

The Competent Credit Committee decides on loan approval and origination of other receivables as well as on the amendments to the contracted terms of such loans and receivables. It decides in the loan recovery matters, including rescheduling and restructuring of loans and on all other issues related to the potentially non-performing, non-performing loans and receivable and bad and doubtful exposures.

28.1 Credit Risk

28.1.1. Credit Risk Management

Credit risk is a risk of possible adverse effects on the Bank's financial performance and capital arising from the customers failing to meet their obligations toward the Bank. The effects of this risk are measured by the amount of the Bank's expenses incurred due to the customer default.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

28.1.1. Credit Risk Management (Continued)

The following organizational units of the Bank are responsible for credit risk management:
- The Supervisory Board , which defines the risk management strategy and credit risk management policy;
- The Executive Board, which implements the adopted strategy and policy and defines procedures and instructions for risk management;
- ALCO, which monitors the Bank's exposure to the credit risk and proposes adequate measures for credit risk management;
- The Bank's Credit Committees, which approve loans and make decision on all the matters of collection of potential NPLs, NPLs and doubtful receivables;
- Credit Monitoring Department, which assess the customer credit risk; and
- Risk Management Department, which monitors the loan portfolio quality.

Assessment of the credit risk exposure is carried out within the Crediting Division and Risk Management Department. Within the Credit Division credit risk exposure is assessed upon analysis of the customer loan requests. Within the Credit Division credit risk is identified, controlled and monitored at the individual borrower level, through the assessment of the borrower credit-worthiness and collateral quality.

Credit risk identification, control and monitoring on portfolio basis are performed by the Risk Management Department through preparation and analysis of the Bank's portfolio, control over classification of the balance sheet assets and off-balance sheet items, calculation of impairment allowances and provisions and control of the quality of the balance sheet assets and off-balance sheet items.

28.1.2 Analysis of the Financial Assets, Financial Liabilities and Off-Balance Sheet Items

The following tables provide the breakdowns of the Bank's financial assets and financial liabilities as of December 31, 2019 and December 31, 2018 as per:

- Items of the statement of the financial position, in the net amounts,
- Credit risk exposure, in the gross amounts,
- Impairment, in the gross and net amounts,
- Internal categories in accordance with IFRS 9, in the gross and net amounts,
- Fair value of collaterals, in the gross amounts,
- LTV ratio for financial assets securitized with mortgages,
- Past-due intervals, in the gross and net amounts,
- Industry, in the gross and net amounts,
- Geographic region, in the net amounts,
- Fair value,
- Assets acquired in lieu of debt collection,
- Write-off of receivables, and
- Breakdown of restructured financial assets.

Structure of the Net Financial Assets, Financial Liabilities and Off-Balance Sheet Items

The Bank's financial assets, financial liabilities and off-balance sheet items are presented in the following tables in the net amounts. Loans and receivables due from banks and other financial institutions as well as loans and receivables due from customers are presented net of the collected but not credited to income loan processing fees, which are included in the effective interest rate calculation upon loan approval, and subsequently recognized within interest income using the effective interest rate and net of impairment allowances. As for off-balance sheet items, the Bank has no deferred fees for processing costs (the effective interest method) but defers the fees on a straight-line basis. Therefore, the off-balance sheet items are also presented in the net amounts, i.e., their gross amounts are decreased by the provisions for losses.

As of December 31, 2019, the Bank's cash, cash equivalents and balances held with the central bank increased by RSD 2,370,447 thousand compared to December 31, 2018 and comprised 14.70% of the Bank's total financial assets. Pledged securities have increased by RSD 2,260,870 thousands, financial assets available recorded an increase by RSD 1,632,613 thousand, and loans and receivables due form customers were by RSD 7,039,269 thousand higher, comprising 67.26% of the Bank's total financial assets.

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

28.1.2 Analysis of the Financial Assets, Financial Liabilities and Off-Balance Sheet Items (Continued)

Structure of the Net Financial Assets, Financial Liabilities and Off-Balance Sheet Items (Continued)

As of December 31 ,2019 the Bank's deposits and other liabilities due to customers increased by RSD 9,320,777 thousand compared to December 31, 2018, thus comprising 83.92% of the Bank's total financial liabilities.

At December 31, 2019, off-balance sheet items increased by RSD 6,289,047 thousand compared to December 31, 2018. Guarantees and letters of credit increased by RSD 4,037,854 thousand and accounted for 53.74% of total off-balance sheet items. Unused liabilities increased by 2,251,193 and accounted for 46.26% of total off-balance sheet items.

Financial assets and financial liabilities (on-balance sheet exposure), net

The following table presents the Bank's financial assets classified in accordance with IFRS 9:

	December 31, 2019	December 31, 2018
Financial assets	**68,105,201**	**55,488,326**
Cash and balances held with the central bank	10,013,564	7,643,117
Pledged financial assets	2,260,870	-
Receivables under financial derivatives	-	6,278
Securities	8,346,480	6,713,867
Loans and receivables due from banks and other financial institutions	1,453,134	2,281,251
Loans and receivables due from customers	45,804,396	38,765,127
Other assets	226,757	78,686
Financial liabilities	**57,500,966**	**45,614,578**
Liabilities under derivatives	1,563	-
Deposits and other liabilities due to banks, other financial institutions and the central bank	8,438,685	6,180,692
Deposits and other liabilities due to customers	48,486,776	39,165,999
Other liabilities	573,942	267,887

Off-balance credit risk exposure, net

	December 31, 2019	December 31, 2018
Off-balance sheet items, net	**22,174,959**	**15,885,912**
Guarantees and letters of credit	**11,916,380**	**7,878,526**
Large corporate customers	1,282,287	693,640
SMEs, micro-sized entities and entrepreneurs	9,406,080	6,770,974
Retail customers	6,684	708
Other customers	1,221,328	413,204
Commitments per undrawn loans	**10,258,579**	**8,007,386**
Large corporate customers	949,842	516,977
SMEs, micro-sized entities and entrepreneurs	9,131,823	7,251,205
Retail customers	176,148	238,776
Other customers	765	428

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Gross Credit Risk Exposure

Gross credit risk exposure per loans and receivables due from customers increased by RSD 6,694,460 thousand. Exposure to SMEs, micro business and entrepreneurs rose by RSD 4,106,539 thousand, to large corporate entities by RSD 998,197 thousand, while exposure to retail customers – individuals rose by RSD 1,547,949 thousand, and to the public sector RSD 84,987. On the other hand, exposure to other customers – non-profit entities, entities involved in social activities and entities in bankruptcy – decreased by RSD 43,212 thousand.

In the structure of gross loans and receivables due from customers, the largest increase was in the public sector - by 132.82%, followed by large corporate entities - by 76.07%, then medium-sized, small, micro clients and entrepreneurs - by 15.23% and households - by 13.24%, while for other customers it decreased by 27.23%.

Credit risk – gross exposure

	December 31, 2019	December 31, 2018
Financial assets	**69,211,863**	**56,933,648**
Cash and balances held with the central bank	**10,014,725**	**7,644,011**
Pledged financial assets	**2,260,870**	**0**
Receivables under derivative financial instruments	**0**	**6,278**
Securities	**8,346,480**	**6,713,867**
Loans and receivables from banks and other financial institutions	**1,453,796**	**2,283,173**
Loans and receivables due from customers	**46,889,405**	**40,194,945**
Of which:		
Public sector	148,974	63,987
Large corporate customers	2,310,431	1,312,234
SMEs, micro-sized entities and entrepreneurs	31,072,380	26,965,841
Retail customers - individuals	13,242,145	11,694,196
Other customers	115,475	158,687
Other assets	**246,587**	**91,374**

Gross credit risk exposure per off-balance sheet items increased by RSD 6,289,468 thousand or by 39.58% as of December 31,2019 compared to December 31, 2018. Gross exposure under guarantees and letters of credit to large legal entities increased by RSD 588,645 thousand, to medium, small and micro companies and entrepreneurs by RSD 2,634,311 thousand, to other clients by RSD 809,882 thousand and to households by RSD 5,975 thousand.

Commitments per undrawn loans increased by RSD 2,250,655 thousand, or 28.10% as of December 31,2019 compared to December 31, 2018. Gross exposure per unused loan and other commitments to large legal entities increased by RSD 432,923 thousand, to medium, small and micro companies and entrepreneurs by RSD 1,880,071 thousand, to other clients by RSD 335 thousand (non-profit companies, socially-owned companies and companies in bankruptcy), while it decreased to households by RSD 62,674 thousand.

Gross credit risk exposure per off-balance sheet items

	December 31, 2019	December 31, 2018
Off-balance sheet items	**22,179,692**	**15,890,223**
Guarantees and letter of credit	**11,918,207**	**7,879,393**
Large corporate customers	1,282,291	693,645
SMEs, micro-sized entities and entrepreneurs	9,406,118	6,771,807
Retail customers	6,684	709
Other customers	1,223,114	413,232
Commitments per undrawn loans	**10,261,485**	**8,010,830**
Large corporate customers	949,950	517,027
SMEs, micro-sized entities and entrepreneurs	9,134,586	7,254,515
Retail customers - individuals	176,184	238,858
Other customers	765	430

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Financial Assets – Impairment

In accordance with the requirements of IFRS 9, the Bank adopted the methodology for assessing the impairment allowance of the financial assets (Methodology for Calculation of Impairment Allowance under IFRS9). This methodology is applied to all financial instruments measured at amortized cost (AC) and at fair value through other comprehensive income (FVtOCI), except for:

- Investments in subsidiaries, associates and joint ventures accounted for in accordance with IFRS 10 “Consolidated Financial Statements”, IAS 27 “Separate Financial Statements” or IAS 28 “Investments in Associates and Joint Ventures” (save for the instances when IFRS 10, IAS 10, IAS 27 or IAS 28 allow the reporting entity to account for investments in subsidiaries, associates or joint ventures in accordance with some or all of the requirements of IFRS 9);
- Employer rights and obligations per employee benefit plans, within the scope of IAS 19 “Employee Benefits”;
- Rights and obligations within the scope of IFRS 15 “Revenue from Contracts with Customers” that are financial instruments other than those to be accounted for under this standard.

A financial instrument is defined by IAS 32 as a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Therefore, financial assets for the purposes of imapirment requirements are:

- Cash and
- Contractual rights entailing receipts of cash or another financial asset from another entity or exchange of financial assets or financial liabilities with another entity under potentially favorable conditions.

Recognition and Modification of Financial Assets

The Bank recognizes a financial asset in its financial statements when it has become a party to the contractual terms of the instrument. Upon initial recognition, the Bank measures a financial asset at fair value increased or decreased by transaction costs that can be directly attributable to the acquisition or issuance of the financial asset.

In some circumstances, renegotiation or modification of the contractual cash flows of a financial asset may lead to derecognition of the existing financial asset in accordance with IFRS 9. When modification of financial assets results in derecognition of the existing assets and subsequent recognition of modified assets, the modified assets will be deemed a “new” financial asset for the purposes of IFRS 9.

In such instances, the Bank performs both qualitative and quantitative assessments to determine whether there is a significant difference between the cash flows of the original financial asset and the cash flows of the modified asset. If there is a significant difference, the contractual rights to the original financial assets will be deemed expired and the new asset, issued under new terms is to be recognized. A significant difference between the cash flows of the two assets means a change in the present value of the cash flows of above 10% (the so-called quantitative test).

A financial asset may modified or replaced as part of a transaction with the same counterparty. For example, when the Bank’s customer (borrower) is experiencing financial difficulties, restructuring of some or all of the borrower’s liabilities may be negotiated in order to enable adequate debt repayment capacity, in part or in full. Such circumstances are commonly referred to as “forbearance” in the banking practice.

Modifications resulting in derecognition of the existing assets and initial recognition of the new assets, driven by deteriorated credit rating and repayment capacity of the borrowers and if at the same time the following two conditions are met:

1. that it is a significant modification (the difference in cash flows is greater than 10% and
2. exposure exceeds EUR 200,000,

all leading to initial recognition of the financial assets defined by IFRS 9 as purchased or originated credit-impaired assets (“POCI assets”), i.e., assets impaired at the time of initial recognition.

In instances of significant modification of a financial instrument, IFRS 9 prescribes derecognition of the original financial asset and recognition of the new asset at fair value as of the recognition date. Derecognition of the gives rise to a permanent gain or loss, which must be recognized within profit or loss, in the amount equal to the difference between the amortized cost of the original financial assets and the fair value of the new financial assets net of the expected credit losses recognized as the impairment allowance of the financial assets.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Expected Credit Losses (ECL)

IFRS 9 introduces a concept of expected credit losses (ECL) the Bank is to identify and recognize for all financial assets within the scope of the standard. The Bank calculates and recognizes impairment allowance in accordance with its methodology for financial instruments recognized at AC and all the financial assets measured at FVtOCI.

Impairment allowance for financial assets at FVtOCI and at AC is included in expenses within the income statement. However, the accumulated impairment allowance in the financial statements is not deducted from the fair value of assets but from the cumulative change in the fair value recorded within the other comprehensive income.

The calculated expected credit losses represent probability-weighted estimates of credit losses (the present value of all the differences between the contractual cash flows and the cash flows he Bank expects to receive) during the expected life of a financial instrument. Therefore, for financial assets, the credit loss is the present value of the difference between:
- the contractual cash flows belonging to the Bank under the relevant contract and
- the cash flows the Bank expects to receive,

while for commitments per undrawn loans, credit loss is the present value of the difference between:
- the contractual cash flows belonging to the Bank if the user draws down the loan funds and
- the cash flows the Bank expects to receive if the loan is drawn down.

For exposures on documentary business such as guarantees or letters of credit loss is the present value of the difference between:
- the contractual cash flows if the beneficiary demands the payment by the Bank and
- the cash flows the Bank expects to receive from its client.

The Bank classifies all financial assets measured at AC into the following three stages depending on the risk level, i.e., the expected credit loss, as follows:
- Stage 1 includes all new financial assets upon initial recognition except for purchased or originated credit-impaired (POCI) assets, and instruments without a significant increase in credit risk since initial recognition and low-risk financial assets;
- Stage 2 includes financial assets with a significant increase in credit risk since initial recognition, but without objective evidence of impairment based on the credit losses;
- Stage 3 includes financial assets with objective evidence of impairment at the reporting date and
- POCI assets that include all purchased or originated credit impaired assets (POCI) as impaired upon initial recognition.

Modifications that cause derecognition of a financial asset and initial recognition of a new asset, motivated by a decline in creditworthiness and repayment capacity, lead to the initial recognition of financial assets that the standard defines as “POCI”, i.e. assets that were impaired at the time of initial recognition.

For the purposes of the analysis, the Bank identified a series of criteria used in the assessment for comparison to the status at initial recognition of financial instruments under IFRS 9. Identification of one or more of the listed triggers may indicate that three has been a significant increase in the credit risk, which will cause allocation of the asset to Stage 2, as follows:
- Corporate customer segment
    1) 30 days past due in continuity at the date of assessment;
    2) Account blockade of over 30 consecutive days;
    3) FBE PE status;
    4) Gearing ratio: total debt (long-term liabilities + short-term liabilities)/equity >1 and at the same time changes in the sales, i.e., decrease in revenue of over 30%;
    5) Gearing ratio: total debt (long-term liabilities + short-term liabilities)/equity >1 and at the same maturity mismatch (current assets – current liabilities) < 1 and inadequate cash flows (cash flows from operating activities – short-term financial liabilities) <1;

Criteria 4 and 5 are not considered for newly founded entities.
- Retail customer segment
    1) 30 days past due in continuity at the date of assessment;
    2) FBE PE status.
    3) Deceased clients

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

FBE PE status is related to forborne performing loans/receivables where contractual terms of the loans have been changed but not due to the deterioration of the borrower's financial situation.

For allocation to Stage 3, the Bank identified a list of triggers which need to be monitored for identification of the default status, based on the general (regulatory) default indicators (days past due, bank account blockade, bankruptcy, FBE NPE status) as well as on the quantitative indicator within the borrower's financial statements, determined based on the history of the Bank's portfolio movements, as follows:

- Corporate customer segment
    1) 90 days past due in continuity at the date of assessment;
    2) Account blockade of over 90 consecutive days;
    3) FBE NPE status;
    4) Instigated bankruptcy or liquidation procedures or lawsuits filed against the client and suspension of interest;
    5) Loss exceeding equity, ad the same time, inadequate cash flows (cash flows from operating activities – short-term financial liabilities) <1 and at the same time decrease in revenue of over 50% according to the official financial statements for the past two years;
    6) POCI

Criterion 5 is not considered for newly founded entities.

- Retail customer segment
    1) 90 days past due in continuity at the date of assessment;
    2) Claimed in lawsuit;
    3) Instruments for which suspension of interest were made
    4) FBE NPE;
    5) POCI.

FBE NPE status is related to forborne non-performing loans/receivables where contractual terms of the loans have been changed due to the deterioration of the borrower's financial situation.

Days past due criterion includes material arrears defined as arrears per at least 1% of an individual receivable but not below RSD 1,000 thousand for retail and not below RSD 10,000 for corporate customers.

Accordingly, at each reporting date, the Bank calculates impairment allowance in the amount of lifetime expected credit losses if the credit risk of an instrument has increased significantly since initial recognition or there is identified objective evidence of impairment (assets in Stage 2 and Stage 3), or in the amount equal to 12-month expected credit losses for all financial instruments without a significant increase in credit risk since initial recognition (assets in Stage 1). Lifetime ECL calculated in this manner represent losses recognized by the Bank for the purposes of imapirment allowance of assets in Stage 2, while the12-month ECL portion calculated in this way represents expected credit losses recognized for financial assets in Stage 1.

Lifetime expected credit losses calculated in this manner represent losses the Bank recognizes for the purposes of Stage 2 and Stage 3 impairment allowances whereas 12-month ECL as the portion of the lifetime ECL is recognized for Stage 1 financial instruments.

The Bank calculates lifetime expected credit losses using the following formula:

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

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

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

EAD parameter
EAD, exposure at default is an estimate of the carrying amount of the Bank's receivables under IFRs 9 at the time of default, taking into account the profile of the contractual cash flows and possible additional drawdowns from the approved lines of credit before the time of default. For the financial instruments with no contractually defined cash flows or maturities, the Bank determines those based on the historical experience.

Accordingly, the Bank calculates credit conversion factors (CCF) separately for:
- Payment and performance guarantees and letters of credit;
- Undrawn amounts (up to defined limits) of the approved credit lines (separately for revocable and irrevocable commitments per credit lines);
- Credit cards;
- Approved current overdrafts per segment.

PD parameter
Probability of default (PD), i.e., the probability that a borrower will default on the loan repayment liabilities to the Bank some time during the lifetime of the financial instrument, represents one of the basic parameters used in calculation of the impairment allowance under IFRS 9. As such, this parameter has undergone significant changes compared to the PD calculation previously used for impairment allowance calculation under IAS 39.

Migration matrices, as the basis for PD calculation, are calculated by the Bank separately for each sub-segment by observing the annual borrower migrations form internal rating categories 1, 2, 3 and 4 to internal category 5 (default category) over the period from June 30, 2014 to December 31, 2019.

Within the context of multiannual – through the cycle (TTC) PDs, it is very important that several types of PDS are appropriately distinguished. Therefore, the Bank consistently applies the terminology defined within the Methodology. All of the below described PD types are available at both the individual financial instrument level and the internal rating level within each of the sub-segments:
- Marginal PD refers to the (unconditional) PD that will occur exactly at the moment (point in time) t.
- Forward PD (as conditional PD) refers to PD that will occur during the period t assuming that no default has happened between the moment *t0* and the beginning of the period t.
- Cumulative PD refers to PD that will occur at the end of the period *t*. The probability of default before or at the maturity T corresponds to the lifetime PD, i.e., PD over the entire lifetime of the financial instrument.
- Forward lifetime PD refers to the conditional probability that default will occur within the interval (t,) assuming that no default has happened between the moment *t0* and the beginning of the period t.

In the process of developing PD parameters used for impairment allowance calculation in accordance with the Methodology, for alignment with the requirements of IFRS 9, the Bank applied the following adjustments:
- the point-in-time (PiT) adjustment;
- consideration of the forward-looking information on the macroeconomic conditions, whereby the Bank does not investigate the relations between the actually realized default rates and the following factors identified as material: internally assessed PD rate per segment at the given point in time, GDP movements, unemployment rate, inflation rate, M3 monetary aggregate and movements in RSD/EUR exchange rate.

Forward-Looking Information (FLI)
Impact of the macroeconomic variables, their movements and trends, on the default rate movements is examined by separately for the retail and corporate segments(yet summarily for all the sub-segments within the two) in order to determine regularities and patterns and the relation that existed between the realized quarterly default rate and the independent variables during the observed period.

Here the Bank examines the relations (correlations) between the default rates (as the dependent variable) and the movements in macroeconomic factors identified as having material effects on the default rates (as independent variables).

The Bank uses linear regression model to assess the relation between the observed parameters at the beginning of the calendar year and, on an annual basis, updates the model components and reassesses the linear regression itself so that the parameters used apply to the following reporting period observed. To this end, and for reliability validation, care is taken that the linear regression meets the statistical significance criteria.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

LGD parameter
Loss given default represents an estimate of a loss on and individual financial instruments assuming that default has occurred/will have occurred. LGD is one of the key components in calculation of the risk parameters for expected credit loss (ECL) calculation.

In its estimation of the losses measured in accordance with its Methodology under IFRS 9, the Bank wishes to reflect the possibilities of collection of receivables from both the borrower's regular operating cash flows and from the collateral foreclosure cash flows, directly relating to the financial instruments. Therefore, the Bank applies the concept of LGD split to LGDsecured and LGDunsecured components, depending on the securitization of each individual exposure.

For calculation of LGDsecured, i.e., expected loss rate after collateral foreclosure, the Bank takes into account all internally available collaterals with assessment of collectability. In the process, the Bank relies on the historical experience in collateral realization.

For calculation of LGDunsecured, the Bank monitors collection of defaulting loans and identifies the sources of collection. For this purpose, the Bank considers each migration to the default status separately and chronologically identifies all collections of payments in respect thereof.

Approach to the segment of exposures to the governments and financial institutions
In the absence of relevant historical data on this segment, the Bank uses LGD in accordance with Basel regulations for calculation of the impairment allowance in line with its Methodology.

Stage 3 and Expected Credit Losses
Introduction
In accordance with the Bank's Methodology, impairment allowance assessment is made for all Stage 3 exposures that:

- have identified default status; and
- meet the criteria of POCI definition in accordance with IFRS 9.

For the aforesaid financial instruments, impairment allowance is calculated as the difference between the gross carrying value of the asset and the present value of the estimated future cash flows discounted using the original effective interest rate of the financial asset.

In the event of POCI assets, as the original or initial effective interest rate, the credit-adjusted effective interest rate is calculated. Such an effective interest rate is the internal rate of return that discounts the present value of the expected cash flows of a POCI asset to the fair value of the POCI asset at the time of its initial recognition. It is believed that the effective interest rate arrived at in this manner already included the expected credit losses.

Individual Impairment Assessment
Since, under IFRS 9, expected credit losses (ECL) represent probability-weighted estimates of credit losses, the Bank considers several possible scenarios of collection in estimating the future cash flows. The scenarios considered are:

- collateral foreclosure,
- loan rescheduling or restructuring (forbearance),
- instigation of bankruptcy proceedings over the borrower,
- sale of the receivable,
- settlement, and
- other scenarios deemed as relevant.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Stage 3 and Expected Credit Losses (Continued)

Individual Impairment Assessment (Continued)

The Bank assesses sources of collection from the borrower's expected future operating cash flows (the borrower continues operating as a going concern), or expects to collect its receivables from activation of collaterals (the borrower ceases to operate as a going concern and becomes gone concern) based on the following criteria:

1) Corporate customers – at the moment of being assigned FBE NPE status, all borrowers are automatically considered gone-concern borrowers and the assessment of impairment is made based on the expected collection from collateral foreclosure, while the defined period of monitoring and probation covers 6 months or 3 consecutive payments (of either both the principal and interest or interest), with no days past due identified of over 90 days. Following the defined monitoring and probation period, the borrower may return to the going-concern status and the impairment may be assessed based on the estimated collection from the borrower's future operating cash flows.
2) Retail customers – at the moment of being assigned FBE NPE status, all borrowers with proven credit repayment capacity (a. from regular salary paid by the employer and/or b. other regular income that can be documented, such as rental income, fees received under service contracts, closed-end employment contract, income from farming business, services rendered or temporary and seasonal work), may be treated as going-concern borrowers and impairment allowance may be made based on the expected future operating cash flows. Otherwise, they are treated as gone-concern borrowers, up to the fulfillment of the aforesaid condition of credit repayment capacity, and the impairment allowance will be made based on the assessed collection form the collateral foreclosure.

Upon determining the probabilities of certain scenarios (expressed as percentages), the Bank relies on the historical collection of NPLs but considers the specificities of individual financial instruments as well, and assigns the scenarios appropriate weights accordingly, which must add up to 100% in the sum of all the scenarios considered. If the borrower meets the going-concern criteria, the Bank may define at least one scenario of collection form the expected operating future cash flows. Otherwise, the scenarios are defined under the gone-concern assumption, with collection expected from collateral activation and foreclosure. In this manner, the ultimately calculated credit losses meet the definition form IFRS 9 – they represent probability-weighted estimates of credit losses.

The Bank applies collateral haircuts and realization periods as prescribed by the Collateral Management, Valuation and Insurance Procedure. In the above described manner, the Bank estimates ECL for all financial instruments in Stage 3 that exceed the respective materiality levels of RSD 1.2 million at the retail loan facility level and RSD 3 million at the corporate borrower level. Upon defining the materiality levels, the Bank observed the materiality levels existing within its internal loan approval procedures, and the materiality level to the overall portfolio ratio, taking into account the operating capability to calculate an adequate number of facilities based on the case-by-case assessments.

Collective Impairment Assessment

The Bank applies the group (portfolio) or collective approach to all other exposures, which entails grouping of the financial instruments remaining within Stage 3 into the sub-segments, as follows:

- retail customers,
- corporate customers (including banks and other financial institutions without an external credit rating), and
- exposures to the governments and other government institutions (state authorities, local governance units, other government agencies, banks and financial institutions).

The retail customer segment is further classified into groups per product:

- housing loans,
- cash and consumer loans,
- loans to farmers/entrepreneurs,
- credit cards and current account overdrafts, and
- receivables for fees stemming from payment operations for farmers/entrepreneurs/legal entities.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Stage 3 and Expected Credit Losses (Continued)

Collective Impairment Assessment (Continued)

The corporate customer segment is viewed on the whole.

Guarantees where the debtor is a private individual are classified into the corporate customer segment.

Within each of the subsegements, borrowers are further distributed into groups per days past due, i.e., into the following internal rating categories:

Internal rating category	Days past due
1	0
2	1 to 30
3	31 to 60
4	61 to 90
5	Over 90

Borrowers in group 5 are default status borrowers.

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Stage 3 and Expected Credit Losses (Continued)

Collective Impairment Assessment (Continued)

The table below shows movements of the impairment allowance following the period of IFRS 9 first-time adoption as of December 31,2019

	Stage 1			Stage 2			Stage 3		
	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes
Cash and balances held with the central bank	234	-	33	-	-	-	-	-	-
Securities	-	-	-	-	-	-	-	-	-
Loans and receivables due from banks and other financial institutions	(3,453)	-	2,193	-	-	-	-	-	-
Loans and receivables due from customers	4,337	-	(199)	(33,041)	-	(124)	(311,633)	-	(4,149)
Other assets	406	-	-	22	-	-	6,714	-	-
Total	1,524	-	2,027	(33,019)	-	(124)	(304,919)	-	(4,149)

The table below shows movements of the impairment allowance following the period of IFRS 9 first-time adoption as of December 31,2018

	Stage 1			Stage 2			Stage 3		
	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes	Changes to the parameters (PD, LGD, EAD)	Change to methodology	FX effects and other changes
Cash and balances held with the central bank	350	-	1	-	-	-	-	-	-
Securities	(206)	-	(11,994)	-	-	-	(49)	-	-
Loans and receivables due from banks and other financial institutions	1,553	-	-	-	-	-	(10)	-	-
Loans and receivables due from customers	20.373	-	(2,862)	50.696	-	(2.280)	(1,439,002)	-	-
Other assets	(3)	-	-	-	-	-	(5,747)	-	1
Total	22,067	-	(14,855)	(50,696)	-	(2,280)	(1,444,808)	-	1

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Stage 3 and Expected Credit Losses (Continued)

Collective Impairment Assessment (Continued)

The table below presents movements of the gross credit risk exposures per Stage over the period from IFRS 9 first-time adoption up to December 31, 2019:

Movements in the credit risk exposure from IFRS 9 FTA to December 31, 2019

	Opening balance at January 1, 2019	Stage 1	Stage 2	Stage 3
Cash and balances held with the central bank	Opening balance at January 1, 2019.	7,644,011	-	-
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	2,370,714	-	-
	Decreases through repayment, write-off and transfer to off-balance sheet items	-	-	-
	Closing balance at December 31, 2019	10,014,725	-	-
Receivables under derivative financial instruments	Opening balance at January 1, 2019.	6,278	-	-
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	-	-	-
	Decreases through repayment, write-off and transfer to off-balance sheet items	(6,278)	-	-
	Closing balance at December 31, 2019	0	-	-
Securities	Opening balance at January 1, 2019.	6,713,546	274	47
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	5,637,342	-	-
	Decreases through repayment, write-off and transfer to off-balance sheet items	(1,743,538)	(274)	(47)
	Closing balance at December 31, 2019	10,607,350	-	-
Loans and receivables due from banks and other financial institutions	Opening balance at January 1, 2019.	2,283,169	-	4
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	315,467	-	-
	Decreases through repayment, write-off and transfer to off-balance sheet items	(1,144,840)	-	(4)
	Closing balance at December 31, 2019	1,453,796	-	-
Loans and receivables due from customers	Opening balance at January 1, 2019.	32,684,200	4,804,704	2,706,041
	Transfer to Stage 1	2,055,342	(2,043,609)	(11,733)
	Transfer to Stage 2	(1,381,945)	1,390,738	(8,793)
	Transfer to Stage 3	(248,731)	(74,898)	323,629
	Increases through origination	20,888,696	2,264,406	31,333
	Decreases through repayment, write-off and transfer to off-balance sheet items	(13,709,459)	(2,024,356)	(756,161)
	Closing balance at December 31, 2019	40,288,103	4,316,986	2,284,316
Other assets	Opening balance at January 1, 2019.	49,995	773	40,606
	Transfer to Stage 1	469	(57)	(412)
	Transfer to Stage 2	(135)	171	(36)
	Transfer to Stage 3	(6,752)	-	6,752
	Increases through origination	156,418	-	9,934
	Decreases through repayment, write-off and transfer to off-balance sheet items	(8,275)	(521)	(2,342)
	Closing balance at December 31, 2019	191,720	365	54,502
Total	**Closing balance at December 31, 2019**	**62,555,694**	**4,317,351**	**2,338,818**

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Stage 3 and Expected Credit Losses (Continued)

Collective Impairment Assessment (Continued)

The table below presents movements of the impairment allowance per Stage over the period from IFRS 9 first-time adoption up to December 31, 2018:

	Movements in the credit risk exposure from IFRS 9 FTA to December 31, 2018			
	Opening balance at January 1, 2018	**Stage 1**	**Stage 2**	**Stage 3**
	Opening balance at January 1, 2018	4,839,851	-	-
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	2,804,160	-	-
	Decreases through repayment, write-off and transfer to off-balance sheet items	-	-	-
Cash and balances held with the central bank	Closing balance at December 31, 2018	7,644,011	-	-
	Opening balance at January 1, 2018	470	-	-
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	5,808	-	-
	Decreases through repayment, write-off and transfer to off-balance sheet items	-	-	-
Receivables under derivative financial instruments	Closing balance at December 31, 2018	6,278	-	-
	Opening balance at January 1, 2018	4,857,084	52	60
	Transfer to Stage 1	274	(274)	-
	Transfer to Stage 2	-	47	(47)
	Transfer to Stage 3	(22)	-	22
	Increases through origination	2,631,931	449	12
	Decreases through repayment, write-off and transfer to off-balance sheet items	(775,721)		
Securities	Closing balance at December 31, 2018	6,713,546	274	47
	Opening balance at January 1, 2018	1,524,680	-	12
	Transfer to Stage 1	4	-	(4)
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	(12)	-	12
	Increases through origination	758,497	-	-
	Decreases through repayment, write-off and transfer to off-balance sheet items	-	-	(16)
Loans and receivables due from banks and other financial institutions	Closing balance at December 31, 2018	2,283,169	-	4
	Opening balance at January 1, 2018	23,693,709	2,934,096	4,945,921
	Transfer to Stage 1	638,796	(609,169)	(29,627)
	Transfer to Stage 2	(1,031,140)	1,043,956	(12,816)
	Transfer to Stage 3	(39,865)	(58,650)	98,515
	Increases through origination	21,315,584	2,988,450	16,485
	Decreases through repayment, write-off and transfer to off-balance sheet items	(11,892,884)	(1,493,979)	(2,312,437)
Loans and receivables due from customers	Closing balance at December 31, 2018	32,684,200	4,804,704	2,706,041
	Opening balance at January 1, 2018	99,466	388	55,626
	Transfer to Stage 1	782	(59)	(723)
	Transfer to Stage 2	(113)	292	(179)
	Transfer to Stage 3	(1,756)	(47)	1,803
	Increases through origination	15,981	586	532
	Decreases through repayment, write-off and transfer to off-balance sheet items	(64,365)	(387)	(16,453)
Other assets	Closing balance at December 31, 2018	49,995	773	40,606
Total	**Closing balance at December 31, 2018**	**49,381,199**	**4,805,751**	**2,746,698**

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Stage 3 and Expected Credit Losses (Continued)

Collective Impairment Assessment (Continued)

The table below presents movements of the impairment allowance per Stage over the period from IFRS 9 first-time adoption up to December 31, 2019:

Movements of impairment allowances from IFRS 9 FTA to December 31, 2019

	Opening balance at January 1,2019	Stage 1	Stage 2	Stage 3
Cash and balances held with the central bank	Opening balance at January 1,2019	894	-	-
	Transfer to stage 1	-	-	-
	Transfer to stage 2	-	-	-
	Transfer to stage 3	-	-	-
	Increases through origination	267	-	-
	Decreases through repayment, write-off and transfer to off-balance sheet items	-	-	-
	Closing balance at December 31, 2019	1,161	-	-
Securities	Opening balance at January 1,2019	-	-	-
	Transfer to stage 1	-	-	-
	Transfer to stage 2	-	-	-
	Transfer to stage 3	-	-	-
	Decreases through repayment, write-off and transfer to off-balance sheet items	-	-	-
	Closing balance at December 31, 2019	-	-	-
Loans and receivables due from banks and other financial institutions	Opening balance at January 1,2019	1,922	-	-
	Transfer to stage 1	-	-	-
	Transfer to stage 2	-	-	-
	Transfer to stage 3	-	-	-
	Increases through origination	11	-	-
	Decreases through repayment, write-off and transfer to off-balance sheet items	(1,271)	-	-
	Closing balance at December 31, 2019	662	-	-
Loans and receivables due from customers	Opening balance at January 1,2019	88,701	70,675	1,270,442
	Transfer to stage 1	39,571	(34,883)	(4,688)
	Transfer to stage 2	(6,716)	10,586	(3,870)
	Transfer to stage 3	(685)	(4,998)	5,683
	Increases through origination	11,540	19,594	179,349
	Decreases through repayment, write-off and transfer to off-balance sheet items	(39,572)	(23,464)	(492,256)
	Closing balance at December 31, 2019	92,839	37,510	954,660
Other assets	Opening balance at January 1,2019	1	1	12,686
	Transfer to stage 1	397	(1)	(396)
	Transfer to stage 2	(1)	1	-
	Transfer to stage 3	(3)	-	3
	Increases through origination	20	22	8,274
	Decreases through repayment, write-off and transfer to off-balance sheet items	(7)	-	(1,167)
	Closing balance at December 31, 2019	407	23	19,400
Total	Closing balance at December 31, 2019	**95,069**	**37,533**	**974,060**

Expected credit losses are also calculated for securities that are measured at fair value through other comprehensive income. However, the expected credit losses in this case are not accounted for as the balance sheet asset impairment allowance but on the accounts of group 82 - Revaluation reserves and unrealized gains / losses. Therefore, the expected credit loss on securities is not shown in the table above, where impairment allowances of other financial assets are presented. The expected credit losses on securities that are measured at fair value through other comprehensive income amounted to RSD 25,059 thousand as at December 31, 2019 (December 31, 2018: RSD 14,147 thousand). All securities held by the Bank in its portfolio that are measured at fair value through OCI were classified in Stage 1 at December 31, 2019 and December 31, 2018.

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Stage 3 and Expected Credit Losses (Continued)

Collective Impairment Assessment (Continued)

The table below presents movements of the impairment allowance per Stage over the period from IFRS 9 first-time adoption up to December 31, 2018:

	Movements in the impairment allowance from IFRS 9 FTA to December 31, 2018			
	Opening balance at January 1, 2018	**Stage 1**	**Stage 2**	**Stage 3**
	Opening balance at January 1, 2018	543	-	-
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	351	-	-
Cash and balances held	Decreases through repayment, write-off and transfer to off-balance sheet items	-	-	-
with the central bank	Closing balance at December 31, 2018	894	-	-
	Opening balance at January 1, 2018.	12,200	-	49
	Transfer to Stage 1	-	-	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Effects of IFRS 9 first-time adoption recorded within equity per securities at FVtOCI	(11,994)	-	-
	Decreases through repayment, write-off and transfer to off-balance sheet items	(206)	-	(49)
Securities	Closing balance at December 31, 2018	-	-	-
	Opening balance at January 1, 2018	369	-	10
	Transfer to Stage 1	16	(16)	-
	Transfer to Stage 2	-	-	-
	Transfer to Stage 3	-	-	-
	Increases through origination	1,537	16	-
Loans and receivables due from banks and other	Decreases through repayment, write-off and transfer to off-balance sheet items	-	-	(10)
financial institutions	Closing balance at December 31, 2018	1,922	-	-
	Opening balance at January 1, 2018	71,190	22,259	2,709,444
	Transfer to Stage 1	2,275	(2,191)	(84)
	Transfer to Stage 2	(14,931)	15,409	(478)
	Transfer to Stage 3	(22,864)	(8,577)	31,441
	Increases through origination	63,389	44,735	7,470
Loans and receivables due	Decreases through repayment, write-off and transfer to off-balance sheet items	(10,358)	(960)	(1,477,351)
from customers	Closing balance at December 31, 2018	88,701	70,675	1,270,442
	Opening balance at January 1, 2018	4	1	18,432
	Transfer to Stage 1	539	(1)	(538)
	Transfer to Stage 2	-	97	(97)
	Transfer to Stage 3	(44)	-	44
	Increases through origination	4	1	270
	Decreases through repayment, write-off and transfer to off-balance sheet items	(502)	(97)	(5,425)
Other assets	Closing balance at December 31, 2018	1	1	12,686
Total	**Closing balance at December 31, 2018**	**91,518**	**70,676**	**1,283,128**

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Breakdown of Financial Assets per Impairment Stages

The Bank's aggregate impairment allowance totaling RSD 1,106,662 thousand as of December 31, 2019 (December 31,2018: RSD 1,445,322 thousand) decreased by RSD 338,660 thousand or 23.43% compared to December 31, 2018, primarily as a result of the improved portfolio quality due to collection of NPLs and write-off of fully impaired receivables.

The table below presents the breakdown of the Bank's financial assets per impairment Stage in accordance with IFRS 9.

	December 31,2019	December 31,2018
Cash and balances held with the central bank	**10,014,725**	**7,644,011**
Stage 1	10,014,725	7,644,011
Receivables under derivative financial instruments	**0**	**6,278**
Stage 1	0	6,278
Securities	**10,607,350**	**6,713,867**
Stage 1	10,607,350	6,713,546
Stage 2	-	274
Stage 3	-	47
Loans and receivables due from banks and financial institutions	**1,453,796**	**2,283,173**
Stage 1	1,453,796	2,283,169
Stage 3	-	4
Loans and receivables due from customers	**46,889,405**	**40,194,945**
Stage 1	40,288,103	32,684,200
Stage 2	4,316,986	4,804,703
Stage 3	2,284,316	2,706,041
Other assets	**246,587**	**91,374**
Stage 1	191,720	49,995
Stage 2	365	773
Stage 3	54,502	40,606
Total gross carrying value	**69,211,863**	**56,933,648**
Stage 1 total impairment allowance (Note 18)	95,069	91,518
Stage 2 total impairment allowance (Note 18)	37,533	70,676
Stage 3 total impairment allowance (Note 18)	974,060	1,283,128
Total impairment allowance	**1,106,662**	**1,445,322**
Total net carrying value	**68,105,201**	**55,488,326**

Financial Assets per Stage and Internal Rating Category

The following breakdown shows the Bank's financial asset per Stage used for impairment allowance calculation as follows:

- Assets not classified into Stages under IFRS 9;
- Assets classified into Stage 1 under IFRS 9;
- Assets classified into Stage 2 under IFRS 9;
- Assets classified into Stage 3 under IFRS 9.

The shares of the gross and net financial assets within Stages in the total financial assets as of December 31, 2019 and 2018 are presented in the tables on the following pages.

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Financial Assets per Stage and Internal Rating Category (Continued)

Breakdown of the Bank's financial assets per Stage and internal rating category in accordance with the Impairment Allowance Methodology under IFRS 9:

	December 31, 2019		December 31, 2018	
Category	**Gross exposure**	**Net exposure**	**Gross exposure**	**Net exposure**
Cash and balances held with the central bank	**10,014,725**	**10,013,564**	**7,644,011**	**7,643,117**
Stage 1, of which:	**10,014,725**	**10,013,564**	**7,644,011**	**7,643,117**
Internal rating category 1	4,828,037	4,828,037	3,641,686	3,641,686
Government, state and other institutions with external ratings	5,186,688	5,185,527	4,002,325	4,001,431
Receivables under derivative financial instruments	**-**	**-**	**6,278**	**6,278**
Stage 1, of which:	**-**	**-**	**6,278**	**6,278**
Internal rating category 1	-	-	6,278	6,278
Securities	**10,607,350**	**10,607,350**	**6,713,867**	**6,713,867**
Stage 1, of which:	**10,607,327**	**10,607,327**	**6,713,546**	**6,713,546**
Internal rating category 1	39,410	39,410	55,215	55,215
Government, state and other institutions with external ratings	10,567,917	10,567,917	6,658,331	6,658,331
Stage 2, of which:	**-**	**-**	**274**	**274**
Internal rating category 1	-	-	274	274
Stage 3, of which:	**23**	**23**	**47**	**47**
Internal rating category 1	23	23	47	47
Loans and receivables due from banks and other financial institutions	**1,453,796**	**1,453,134**	**2,283,173**	**2,281,251**
Stage 1, of which:	**1,453,790**	**1,453,132**	**2,283,169**	**2,281,247**
Internal rating category 1	578,271	578,146	441,637	440,107
Internal rating category 2	-	-	-	-
Government, state and other institutions with external ratings	875,519	874,986	1,841,532	1,841,140
Stage 3, of which:	**6**	**2**	**4**	**4**
Internal rating category 1	-	-	-	-
Internal rating category 5	6	2	4	4
Loans and receivables due from customers	**46,889,405**	**45,804,396**	**40,194,945**	**38,765,127**
Stage 1, of which:	**40,288,103**	**40,195,264**	**32,684,200**	**32,599,461**
Internal rating category 1	35,279,369	35,230,300	29,126,918	29,075,104
Internal rating category 2	5,008,708	4,964,938	3,557,282	3,524,339
Internal rating category 5	26	26	-	-
Government, state and other institutions with external ratings	-	-	-	18
Stage 2, of which:	**4,316,986**	**4,279,476**	**4,804,703**	**4,734,049**
Internal rating category 1	2,874,204	2,866,023	3,859,229	3,814,354
Internal rating category 2	1,278,338	1,264,582	775,072	761,331
Internal rating category 3	100,032	92,125	114,464	108,829
Internal rating category 4	54,377	47,441	55,938	49,517
Internal rating category 5	10,035	9,305	-	-
Government, state and other institutions with external ratings	-	-	-	18
Stage 3, of which:	**2,284,316**	**1,329,656**	**2,706,042**	**1,431,617**
Internal rating category 1	33,591	29,637	246,780	193,587
Internal rating category 2	22,120	16,233	50,257	44,448
Internal rating category 3	3,555	698	1,225	238
Internal rating category 4	39,639	37,783	27,169	23,726
Internal rating category 5	2,185,411	1,245,305	2,380,611	1,169,600
Government, state and other institutions with external ratings	-	-	0	18
Other assets	**246,587**	**226,757**	**91,374**	**78,686**
Stage 1, of which:	**191,720**	**191,313**	**49,995**	**45,981**
Internal rating category 1	35,129	34,018	48,199	44,186
Internal rating category 2	283	278	1,796	1,795
Government, state and other institutions with external ratings	23,189	24,126	-	-
Others	133,119	132,891	-	-
Stage 2, of which:	**365**	**342**	**773**	**770**
Internal rating category 1	206	197	185	184
Internal rating category 2	41	37	33	32
Internal rating category 3	91	84	48	47
Internal rating category 4	27	24	507	507
Government, state and other institutions with external ratings	-	-	-	-
Stage 3, of which:	**54,502**	**35,102**	**40,606**	**31,935**
Internal rating category 1	3,506	65	806	397
Internal rating category 2	16	7	9	2
Internal rating category 3	5	1	11	2
Internal rating category 4	14	-	15	1
Internal rating category 5	50,961	35,029	13,394	7,262
Government, state and other institutions with external ratings	-	-	26,371	24,271

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Fair Value of Collaterals

The Bank's collateral management system entails a set of activities and prescribed measured and rules implemented for ongoing recording, allocation and valuation of collaterals

In order to mitigate its credit risk exposure, the Bank obtains collaterals from the borrowers to securitize loan repayment. Security instruments (collaterals) the Bank accepts may be in the form of:
- Financial assets (guarantee deposits);
- Guarantees issued by other banks on behalf of the borrowers;
- Mortgage liens instituted over immovable assets, i.e., property (residential and commercial real estate);
- Pledge liens instituted over movable assets (machinery, equipment and vehicles); and
- Other collaterals

The Bank does not approve loans to customers based on the collateral value but on the positive assessment of the customer's financial situation and repayment capacity. The collaterals are therefore used exclusively to reduce or mitigate the credit risk exposure.

Collateral types and fair values at the time of issue of the financial instruments securitized are aligned with the loan type, maturity and borrower type.

Collaterals are recorded within the relevant registers that are publicly available to all the concerned parties.

The Bank may activate and/or foreclose collaterals only after the default status has been declared and the after the contract with the borrower is terminated. The manner of collection from the collateral depends on the collateral type. The aggregate fair value (collected value) of the collaterals the Bank activated in 2019 totaled RSD 114,898 thousand (2018: RSD 494,144 thousand).

For the purposes of assessing the additional credit risk arising from possible difficulties or problems in collateral activation and the time lapse between the borrower's default and the Bank's ability to foreclose the collateral, the market value of the collateral underlying the security instrument (lien) in favor of the Bank is reduced (using haircuts) to arrive at the value that the Bank would achieve in case of possible sale of the of the asset for collection of the receivables securitized by the asset.

The fair values of collaterals are presented in the following breakdown per appraised market value but only to the amount of the respective receivables securitized with mortgage and pledge lines, deposits and guarantees received from borrowers.

Coverage of the total financial assets by collaterals valued as described above equaled 34.12% as of December 31, 2019. The total collateral coverage ratio for Stage 1 equaled 30.41%, while the mortgage collateral coverage ratio was 20.80%. The total collateral coverage ratio for Stage 2 equaled 59.44%, while the mortgage collateral coverage ratio was 40.09%. The total collateral coverage ratio for Stage 3 equaled 86.70%, while the mortgage collateral coverage ratio was 86.38%.

Assessment of the collateral fair value per financial asset as of December 31, 2019

	Gross assets	Mortgages	Pledges	Deposits	Other
Financial assets	**69,211,863**	**16,762,701**	**2,694,599**	**1,449,009**	**2,709,855**
Stage 1	62,555,676	13,011,791	2,336,349	1,155,815	2,518,243
Stage 2	4,317,351	1,730,694	351,359	292,586	191,564
Stage 3	2,338,836	2,020,215	6,891	608	48

Assessment of the collateral fair value per financial asset as of December 31, 2018

	Gross assets	Mortgages	Pledges	Deposits	Other
Financial assets	**56,933,648**	**14,024,512**	**2,448,601**	**1,379,344**	**875,462**
Stage 1	49,381,200	9,675,750	2,003,935	1,272,512	179,246
Stage 2	4,805,751	1,855,545	413,243	106,212	696,216
Stage 3	2,746,698	2,493,217	31,423	619	-

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Fair Value of Collaterals (Continued)

The calculated ECL may be zero if the financial instrument at hand is fully securitized with collaterals. However, as there is a certain risk of difficulty in collateral activation/foreclosure, the Bank's practice is not to present impairment allowance amounts equal to 0. In such cases, the impairment allowance is calculated using the average ECL for the particular sub-segment and quality level.

LTV ratio

The LTV ratio is calculated as the ratio between the gross value of the financial asset and the estimated market value of the property over which the mortgage lien is established in favor of the Bank.

As of December 31, 2019, assets secured with mortgages with LTV ratio below 50% had the largest share of 33.88%, assets secured with mortgages with LTV ratio from 51% to 70% had a share of 28.66%, assets secured with mortgages with LTV ranging from 71% to 90% had a share of 22.76%, assets with LTV ratio over 100% had a share of 7.62%, and financial assets secured with mortgages with LTV ratio in the range from 91% to 100% had a share of 7.08%.

LTV ratio balances as of December 31, 2019

	Below 50%	51%-70%	71%-90%	91%-100%	Above 100%
Financial assets secured with mortgages	**5,890,768**	**4,983,739**	**3,957,459**	**1,231,141**	**1,325,550**
Stage 1	3,863,321	4,481,308	3,029,861	1,028,637	1,104,431
Stage 2	872,394	470,908	101,364	202,503	212,309
Stage 3	1,155,053	31,523	826,234	-	8,810

LTV ratio balances as of December 31, 2018

	Below 50%	51%-70%	71%-90%	91%-100%	Above 100%
Financial assets secured with mortgages	**4,626,332**	**2,879,893**	**3,408,919**	**1,341,528**	**1,767,839**
Stage 1	2,965,126	2,605,800	2,461,549	580,547	1,062,728
Stage 2	801,124	101,778	454,557	103,337	394,748
Stage 3	860,082	172,315	492,813	657,644	310,363

Financial Assets per Days Past Due

As of December 31, 2019, the financial assets without days past due had a share of 92.62% in the total financial assets, gross, those from 1 to 30 days past due had a share of 4.30%, assets from 31 to 90 days past due had a share of 0.26%, assets from 91 to 180 and from 181 to 365 days past due had respective shares of 0.08% and 0.21%, while the share of assets with a number of days past due of over 365 days was 2.53%.

Breakdown of financial assets per past-due interval

	December 31,2019		December 31,2018	
	Gross exposure	Net exposure	Gross exposure	Net exposure
Without delays, no days past due	64,102,554	63,943,657	49,890,806	49,699,540
From 1 to 30 days past due	2,974,261	2,939,386	3,267,054	3,231,597
From 31 to 90 days past due	183,406	153,629	195,171	179,885
From 91 to 180 days past due	54,160	24,711	2,583,339	1,892,554
From 181 to 365 days past due	142,244	81,460	52,000	28,763
Over 365 days past due	1,755,239	962,357	945,278	455,987
Total	**69,211,863**	**68,105,201**	**56,933,648**	**55,488,326**

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Financial Assets per Industry

Financial assets are presented per industry in the gross and net amounts in the following tables.

As of December 31, 2019, the largest share in the total gross financial assets was that of the retail customers – of 19.32%, followed by the processing industry – 18.14%.

Concentration of the financial assets per industry

	December 31,2019		December 31,2018	
	Gross exposure	Net exposure	Gross exposure	Net exposure
Agriculture, forestry and fisheries	1,363,577	1,359,457	734,719	731,584
Mining and quarrying	72,497	71,992	82,773	81,552
Manufacturing and processing industry	12,558,144	11,987,169	11,053,575	10,087,980
Electricity, gas, steam and air conditioning supply	453,356	451,566	416,728	414,435
Construction industry	4,356,022	4,082,861	2,320,018	2,038,009
Wholesale and retail trade and repair of motor vehicles and motorcycles	6,935,398	6,874,958	7,613,711	7,548,899
Transport and storage, hotel and restaurant services, information and communications	4,664,560	4,625,761	3,010,431	2,974,879
Real estate, professional, scientific and technical activities, arts, entertainment and leisure	1,985,032	1,978,089	1,484,816	1,479,580
Banks, financial institutions and insurance companies	11,445,731	11,436,728	8,429,329	8,421,139
Private individuals	13,368,773	13,234,367	11,821,701	11,755,980
Other	12,008,774	12,002,252	9,965,846	9,954,288
Total	**69,211,863**	**68,105,201**	**56,933,648**	**55,488,326**

Exposures to the customers within the other (business activities):

- Non-residents, including foreign banks without defined and registered business activity in line with the Regulation on the Classification of Business Activities of the Government of the Republic of Serbia;
- Government agencies, state authorities;
- Administrative, ancillary services;
- Travel agencies, education;
- Health care and welfare; and
- Art and leisure industry.

Concentration of the off-balance sheet items per industry

	December 31,2019		December 31,2018	
	Gross exposure	Net exposure	Gross exposure	Net exposure
Agriculture, forestry and fisheries	82,690	82,679	25,918	25,895
Mining and quarrying	51,121	51,120	21,730	21,728
Manufacturing and processing industry	5,789,482	5,788,843	3,777,173	3,775,528
Electricity, gas, steam and air conditioning supply	81,624	81,595	76,573	76,553
Construction industry	7,334,202	7,333,521	4,091,116	4,090,754
Wholesale and retail trade and repair of motor vehicles and motorcycles	3,137,061	3,136,227	3,246,558	3,246,035
Transport and storage, hotel and restaurant services, information and communications	2,615,033	2,614,622	1,238,615	1,238,368
Real estate, professional, scientific and technical activities	1,144,414	1,144,184	2,312,250	2,310,896
Arts, entertainment and leisure activities	-	-	-	-
Banks, financial institutions and insurance companies	132,476	132,476	118,231	118,230
Private individuals	182,868	182,832	239,567	239,483
Other	1,628,721	1,626,860	742,492	742,442
Total	**22,179,692**	**22,174,959**	**15,890,223**	**15,885,912**

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Financial Assets per Geographic Region

The table below shows financial assets per exposure to certain geographic regions. As of December 31, 2019, the predominant share was the share of exposure to customers in Serbia (94.43%). The share of the exposure to the European Union borrowers was 2.91%, USA and Canada's share was 0.12%, and the share of borrowers from other regions equaled 2.54%.

Concentration of the financial assets per region, net exposures

	December 31, 2019	December 31, 2018
Serbia	64,314,034	52,350,446
European Union	1,985,071	653,564
USA and Canada	85,096	81,679
Other	1,721,000	2,402,637
Total	**68,105,201**	**55,488,326**

Financial Assets per Serbian Region

The table below shows financial assets per exposure to certain geographic regions in Serbia. As of December 31, 2019, the predominant share was the share of exposure to customers in Belgrade (53.69%), followed by the share of exposure to borrowers in Western Serbia (27.69%). while Vojvodina, Southern Serbia and Eastern Serbia had shares of 7.39%, 6.75% and 4.48%, respectively.

Concentration of the financial assets per Serbian region, net exposures

	December 31, 2019	December 31, 2018
Belgrade	34,528,860	26,236,062
Vojvodina	4,749,951	3,951,576
Southern Serbia	4,339,326	3,600,519
Eastern Serbia	2,890,435	1,955,817
Western Serbia	17,805,462	16,606,473
Total	**64,314,034**	**52,350,447**

Write-Off of Receivables

The Bank will adequately conduct and manage activities for collection of NPLs as long as it assesses that collection activities are economically justified, i.e., as long as there are possibilities of collection. The Bank holds that it is no longer economically justified to attempt collection in the following instances:

- Severe difficulties in collection including death of the borrower or pledge debtor;
- Lack of assets for execution/enforcement procedure;
- Prolonged periods without collection and no prospects of further collection; and
- Debt amount is low and does not justify the use of the Bank's effort and resources for collection.

If the Bank assesses that a loan will not (cannot) be collected, the Bank performs the so-called debt relief. If the Bank permanently waives collection of receivables due from the borrowers, based on the settlement executed with the borrower/co-guarantors, final court ruling, final document of execution writ (adjudication or decision), relevant decision of the Bank's competent body or assignment of receivables giving rise to cessation of entitlement to further collection, the Bank may conduct such debt relief. In such a case, all the Bank's receivables are derecognized from the Bank's on-balance and off-balance sheet items. The relief of a loan and/or receivable may but need not be preceded by the direct write-off of the loan and/or receivable. On the other end, the Bank performs the so-called accounting write-off of on-balance sheet assets with low recoverability. The accounting write-off entails transfer of the on-balance sheet assets to the off-balance sheet items of the Bank. The on-balance sheet assets here relate to NPLs and other bad receivables. The accounting write-off does not mean the Bank's waiver of its legal and contractual rights, or of the collection. It simply entails an accounting write-off, with such loans and receivables further carried within the off-balance sheet items and the Bank continues the commenced collection activities.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Write-Off of Receivables (Continued)

The Bank performs the accounting write-off of its on-balance sheet assets with low recoverability in the event that the calculated impairment allowance of such receivables recorded on the impairment allowance account amounts to 100% (full) of the gross carrying value of the receivables, i.e., if the receivables are fully impaired. The accounting write-off is performed at least quarterly. In 2019, the Bank performed the accounting write-off of NPLs in the aggregate amount of RSD 518,640 thousand.

Receivables collected within the bankruptcy procedures

The Bank registers claims against the bankruptcy estates in the bankruptcy proceedings by submitting the claim registration in writing to the competent court. The Bank is required to register the claims in the currency of the original receivables claimed in accordance with the Bankruptcy Law. At the date of the bankruptcy procedure instigation, the creditors‘ claims from the bankruptcy debtor not yet matured are considered matured and past due. Foreign currency claims are calculated in RSD equivalent at the official middle exchange rate of NBS at the bankruptcy instigation date, and are further recorded in RSD in the books of account. Functional currency (RSD) receivables and receivables per currency clause-indexed loans are carried in RSD after bankruptcy instigation. After the Bankruptcy Administrator has determined the ultimate list of the claims recognized, the amount of the receivable claimed is adjusted in the Bank’s books to the amount stated in the list of the claims recognized and any difference is transferred to the Bank’s off-balance sheet items.

In respect of the Guidelines for Disclosure of Bank Data and Information Related to the Quality of Assets (the “Guidelines”), the required qualitative and quantitative information will be disclosed within data prepared and presented in accordance with the Decision on Disclosure of Data and Information by Banks (Official Gazette of RS nos. 125/2014. 4/2015 and 103/2016).

Loan Rescheduling and Restructuring

In 2019, the Bank rescheduled, i.e., extended, loan repayment periods in accordance with NBS Decision on Classification of Balance Sheet Assets and Off-Balance Sheet Items (Official Gazette of RS nos. 4/2011, 57/2012, 123/2012, 43/2013, 113/2013, 135/2014, 25/2015, 38/2015, 61/2016, 69/2016, 91/2016, 101/2017 114/2017,103/2018, and 8/2019).

In accordance with the amended NBS Decision on Classification of Balance Sheet Assets and Off-Balance Sheet Items dated June 29, 2016, days past due in collection of receivables are calculated from the last contractual defined maturity date for materially significant amount of receivables.

Restructuring entails approval of concessions on repayment of individual loans and receivables due to borrower’s financial difficulties, which would not otherwise be allowed, regardless of the maturity, impairment or default status of the receivables in accordance with the decision governing capital adequacy of banks, in at least one of the following ways:

- modification of the original terms of the loan and/or receivable, particularly if the subsequently agreed terms of repayment are more favorable than the original terms (reduction of the interest rate, write-off of a portion pf the principal outstanding, entailing derecognition of that portion in the balance sheet assets, write-off of a portion of the accrued interest, release of a portion of the amount due, extension of the maturity of the principal and/or interest, etc.) or than the terms that would be approved to another borrower with the same or similar risk level at the time of the modification of terms;
- refinancing of the loan where a new receivable is originated from a loan approved to settle a portion of or the entire amount of the borrower’s liability to the Bank or another entity to which the receivable due from the borrower has been assigned.

Restructured receivables due from corporate customers are:

- receivables restructured at the Bank level, where the Bank defines the restructuring terms;
- receivables restructured in collaboration with other creditors, either under interbank agreement on equal terms of restructuring or under the Law on Consensual Financial Restructuring of Companies with participation of an institutional mediator;
- receivables due from debtors where, in the pre-bankruptcy procedure, a pre-packed reorganization plan has been proposed and adopted; and
- receivables due from debtors where, in the bankruptcy procedure, a bankruptcy debtor reorganization plan has been proposed and adopted.

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Loan Rescheduling and Restructuring (Continued)

Restructured receivables from retail customers are receivables due from borrowers that the Bank assessed, based on the credit repayment capacity, as able to settle the loan repayment liabilities to the Bank in a timely manner in the forthcoming period if certain repayment concessions are granted by the Bank.

Upon undertaking restructuring measures, the Bank is required to estimate whether the loan restructuring approved to a debtor is sustainable and economically justified for both the Bank and the debtor and to determine the restructuring schedule and regularly monitor its implementation and effects.

On a regular basis, at least semi-annually, the Bank monitors implementation of the loan restructuring schedule and reports thereon in the Report on the Rescheduled Receivables at the Client Level.

The Bank may cease to treat a loan and/or receivable as restructured if at the end of the trial period the following criteria are met:

- the restructured loan/receivable is not classified as NPL;
- the borrower has repaid through regular payments of principal and/or interest amounts materially significant portion of the debt during at least half of the trial period; and
- the borrower is not over 30 days past due in any liability settlement toward the Bank.

The probation period of at least 2 years starts from the moment the restructured receivable is classified ad performing.

A material part of the total amount of debt is the amount of at least 6% of the principal of the receivables with changed terms of repayment on the home loan or receivables refinancing the bank's receivable under that loan, or 8% of the principal of the receivables in the case of other receivables.

The table below presents balance of restructured loans as of December 31, 2019, number of borrowers and number of loans – 37 loans for 32 borrowers were reconstructed in 2019.

Balance as of December 31,2019	Number of borrowers	Number of restructured loans
66,696	32	37

The table below presents balance of restructured loans as of December 31, 2018, number of borrowers and number of loans. During 2018 a total of 22 loans for 18 borrowers was restructured.

Balance as of December 31,2018	Number of borrowers	Number of restructured loans
450,178	18	22

The gross balance of all the restructured impaired loans as of December 31, 2019 amounted to RSD 1,836,404 thousand and the net balance amounted to RSD 1,141,587 thousand.

Breakdown of the total restructured and impaired loans as of December 31, 2019

Category	December 31, 2019			
	Gross exposure	Net exposure	Number of borrowers	Number of loan facilities
Stage 1	-	-	-	-
Stage 2	28,307	28,171	16	16
Stage 3	1,808,097	1,113,416	56	80
Total	**1,836,404**	**1,141,587**	**72**	**96**

Breakdown of the total restructured and impaired loans as of December 31, 2018

Category	December 31, 2018			
	Gross exposure	Net exposure	Number of borrowers	Number of loan facilities
Stage 1	-	-	-	-
Stage 2	240,334	235,639	8	8
Stage 3	2,362,174	1,282,928	65	92
Total	**2,602,508**	**1,518,567**	**73**	**100**

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Fair Value of Assets and Liabilities

The fair value stated in the financial statements is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Fair value is calculated using the market information available as of the reporting date.

Whenever possible, the Bank measures the fair vale using the market prices available in an active market for a specific instrument. A market is deemed active if the quoted prices are easily and regularly available and reflect actual common market transactions performed at arms' length.

The fair value of a current liquid instrument presented at its nominal value approximates its carrying value. This applies to cash as well as receivables and liabilities without determined maturity or without a fixed interest rate. For the other receivables and liabilities, the expected future cash flows are discounted to their net present values using the market prevailing effective rates.

Quoted market prices are used to determine the fair values of trading securities. The fair value is calculated as the net present value of the expected future cash flows using the interest rates applied to similar securities.

In determining the fair value of municipal bonds issued by the local governance units in the Republic of Serbia, the applicable discount rate is increased by the issuer risk/premium at the time of the municipal bond issue or at a more recent date if such an input is available. The Bank applies an approach based on the initially assessed value of the risk premium to the calculated credit spread, which is determined as the cost of risk.

Given that there is no sufficiently developed secondary market for loans where the fair value of these financial instruments could be determined, it is necessary to use inputs of the level lower than Levels 1 and 2, i.e., Level 3 inputs. The unit for fair value assessment is a single loan, i.e., loan facility, and the approach used is the income approach and discounted cash flow method.

Disbursement of new loans to the retail and corporate customers in 2019 was in line with the market conditions (departures per months in certain product categories, taking into account maturity, currency and loan type were within the range of +/-1 p.p.). Given the foregoing, the fair values determined for loans disbursed in 2019 are equal to their carrying values.

Loans disbursed before 2019 are assessed in two separate groups - loans at variable interest rates and loans at fixed interest rates.

Since the Bank performed only semi-annual interest rate adjustments, (repricing based on the variable portion of the interest rate) all loans in the group of loans at variable interest rates have fair values equal to their carrying values.

Loans at fixed interest rates disbursed before 2019 were subject to discounting using the interest rates available at the website of the National Bank of Serbia, in the Report on interest rates of banks applied to the loans approved to retail and non-FSI customers per type, maturity and purpose – newly approved loans, The Bank used inputs for December 2019.

Fair values of deposits and other liabilities due to customers were calculated by discounting the value of non-interest-bearing earmarked deposits at the market interest rate of 0.7%, i.e., at the interest rate obtained as the average weighted interest rate on EUR term deposits of the corporate and retail customers, which were in the Bank's deposit portfolio as at December 31, 2019.

Valuation of Financial Instruments

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical asset or a liability accessible to the market participants as of the fair value measurement date;
- Level 2: Valuation techniques based on observable inputs other than Level 1 quoted prices, either directly (i.e. as prices) or indirectly (i.e. derived from prices, interest rates, correlations, etc.). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data;
- Level 3: Valuation techniques using significant unobservable inputs.

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Fair Value of Assets and Liabilities (Continued)

Valuation of Financial Instruments (Continued)

Financial assets measured at fair value

December 31, 2019	Level 1	Level 2	Level 3	Total
Securities				10,607,350
• Financial assets measured at fair value through profit or loss (FVtPL)	21,156	-	-	21,156
• Securities at fair value through other comprehensive income (FVtOCI)	-	10,586,194	-	10,586,194

December 31, 2018	Level 1	Level 2	Level 3	Total
Securities				6,713,867
• Financial assets at fair value through profit or loss, held for trading (including pledged assets)	23,248	-	-	23,248
• Financial assets available for sale (including pledged assets)	-	6,690,619	-	6,690,619

Financial assets and liabilities measured at other than fair value

December 31, 2019	Level 1	Level 2	Level 3	Total
Financial assets				
Cash and balances held with the central bank	-	10,013,564	-	10,013,564
Receivables under derivative financial instruments	-	-	-	-
Loans and receivables due from banks and other financial institutions	-	-	1,453,134	1,453,134
Loans and receivables due from customers	-	-	46,887,818	46,887,818
Other assets	-	-	226,757	226,757
Financial liabilities				
Deposits and other liabilities due to banks, other financial institutions and the central bank,	-	-	8,438,685	8,438,685
Deposits and other liabilities due to customers	-	-	48,471,158	48,471,158
Other liabilities	-	-	573,942	573,942
December 31, 2018				
Financial assets				
Cash and balances held with the central bank	-	7,643,117	-	7,643,117
Receivables under derivative financial instruments	-	-	6,278	6,278
Loans and receivables due from banks and other financial institutions	-	-	2,281,251	2,281,251
Loans and receivables due from customers	-	-	39,855,685	39,855,685
Other assets	-	-	78,686	78,686
Financial liabilities				
Deposits and other liabilities due to banks, other financial institutions and the central bank,	-	-	6,180,692	6,180,692
Deposits and other liabilities due to customers	-	-	39,152,821	39,152,821
Other liabilities	-	-	267,887	267,887

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.1 Credit Risk (Continued)

Fair Value of Assets and Liabilities (Continued)

Breakdown of financial assets and liabilities at fair value – comparison of their carrying and fair values calculated for the purpose of disclosure in the Notes to the Financial Statements:

December 31, 2019	FVtPL	FVtOCI	Other – AC	Total carrying value	Total fair value
Financial assets					
Cash and balances held with the central bank	-	-	10,013,564	10,013,564	10,013,564
Receivables under derivative financial instruments	-	-	-	-	-
Securities	21,156	10,586,194	-	10,607,350	10,607,350
Loans and receivables due from banks and other financial institutions	-	-	1,453,134	1,453,134	1,453,134
Loans and receivables due from customers	-	-	45,804,396	45,804,396	46,887,818
Other assets	-	-	226,757	226,757	226,757
Financial liabilities					
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	8,438,685	8,438,685	8,438,685
Deposits and other liabilities due to customers	-	-	48,486,776	48,486,776	48,471,158
Other liabilities	-	-	573,942	573,942	573,942

December 31, 2018	FVtPL	FVtOCI	Other – AC	Total carrying value	Total fair value
Financial assets					
Cash and balances held with the central bank	-	-	7,643,117	7,643,117	7,643,117
Receivables under derivative financial instruments	-	-	6,278	6,278	6,278
Securities	23,248	6,690,619	-	6,713,867	6,713,867
Loans and receivables due from banks and other financial institutions	-	-	2,281,251	2,281,251	2,281,251
Loans and receivables due from customers	-	-	38,765,127	38,765,127	39,855,685
Other assets	-	-	78,686	78,686	78,686
Financial liabilities					
Deposits and other liabilities due to banks, other financial institutions and the central bank	-	-	6,180,692	6,180,692	6,180,692
Deposits and other liabilities due to customers	-	-	39,165,999	39,165,999	39,152,821
Other liabilities	-	-	267,887	267,887	267,887

28. RISK MANAGEMENT (Continued)

28.2 Capital and Capital Adequacy

The Bank manages capital and capital adequacy ratios in order to maintain the required level of capital to support the development of the Bank and its business activities.

The capital adequacy ratio represents the Bank’s capital relative to its risk-weighted assets. The Bank’s risk weighted assets equal the sum of its credit-risk weighted assets and the capital requirements for the foreign exchange and operational risks multiplied by the reciprocal value of the capital adequacy ratio.

The Bank’s capital is comprised of the core capital and supplementary capital less the sum of deductible items. The Bank is thereby required to maintain the minimum amount of capital of no less that EUR 10,000,000 in RSD equivalent at all times.

The Bank calculates the capital requirement for credit risk using the standardized approach, by multiplying the total credit risk-weighted assets by 8%. The Bank’s credit risk-weighted assets comprise the sum of the gross carrying values of the Bank’s balance sheet assets less impairment allowances and the reserve for estimated losses and the gross carrying values of the Bank’s off-balance sheet items less provisions and the required reserve for estimated losses, multiplied by the credit conversion factors.

The Bank calculates the capital requirement for foreign exchange risk by multiplying the sum of the total net open foreign currency position and absolute value of the net open position in gold by 8%. The total net open foreign currency position represents the absolute value of the higher of the total long and total short foreign currency positions.

The Bank calculates the capital requirement for operational risk by applying the basic indicator approach equal to the three-year average exposure indicator multiplied by the capital requirement rate of 15%.

Since the Bank has not reached the prescribed limits, it is not required to calculate, in addition to the above said capital requirements for credit, foreign exchange and operational risks, and ensure coverage for capital requirements for other market risks arising from the items in the Bank’s trading book.

As of December 31, 2019, the Bank’s capital and capital adequacy were calculated under the relevant decisions of NBS, which are aligned with Basel III Standard.

As of December 31, 2019, the Bank achieved the following capital adequacy ratios:

- the Bank’s total capital adequacy ratio (CAR) was 24.22%
- the Bank’s core capital adequacy ratio (T1 ratio) was 24.22%, and
- Bank’s common equity Tier 1 capital ratio (CET 1 ratio) was 21.63%,

which were well above the minimum values for those ratios defined by the Decision on Capital Adequacy of Banks:

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

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.2 Capital and Capital Adequacy (Continued)

Item no.	Item	December 31, 2019	December 31, 2018
1	**CAPITAL**	**11,214,051**	**10,380,711**
1.1	**CORE CAPITAL**	**11,212,711**	**10,379,371**
1.1.1	**Common equity Tier 1 capital**	**10,012,711**	**9,179,371**
1.1.1.1	**Common equity Tier 1 instruments and relevant share premium**	**7,771,263**	**7,771,263**
1.1.1.1.1	Paid in common equity Tier 1 instruments	5,658,940	5,658,940
1.1.1.1.2	Relevant share premium with the common equity Tier 1 instruments	2,112,323	2,112,323
1.1.1.2	(-) Loss	**-**	**-**
1.1.1.3	Revaluation reserves and other unrealized gains/losses	**901,695**	**438,377**
1.1.1.4	Reserves from profit, other reserves and reserves for general banking risks	**1,726,527**	**1,312,431**
1.1.1.5	(+/-) Regulatory adjustment of the common equity Tier 1 capital	**(11,024)**	**(7,169)**
1.1.1.6	(-) Goodwill decreased by the related deferred tax liabilities	**-**	**-**
1.1.1.7	(-) Other intangible assets decreased by related deferred tax assets	**(270,726)**	**(273,138)**
1.1.1.8	(-) Deferred tax assets dependable on the Bank's future profitability, except for those arising from the temporary differences less related deferred tax liabilities	**(62,393)**	**(62,393)**
1.1.1.9	(-) Amount of the required reserve for estimated losses on the Bank's balance sheet assets and off-balance sheet items	**-**	**-**
1.1.1.10	(-) Gross amount of receivables from a debtor - private individual whose level of credit indebtedness is higher than the percentage determined in accordance with the decision of the NBS	**(34,258)**	**-**
1.1.1.11	(-) Gross amount of receivables from the debtor – private individual that, based on the contractual maturity criteria, qualifies for applying the deductible item from the share capital	**(8,373)**	**-**
1.1.2	**Additional Tier 1 capital**	**1,200,000**	**1,200,000**
1.1.2.1	**Common additional Tier 1 capital instruments and relevant share premium**	1,200,000	1,200,000
1.1.2.1.1	Paid in additional Tier 1 capital instruments	600,000	600,000
1.1.2.1.2	Relevant share premium with the additional Tier 1 capital instruments	600,000	600,000
1.2	**SUPPLEMENTARY CAPITAL**	**1,340**	**1,340**
1.2.1	Supplementary capital instruments, subordinated liabilities and he relevant share premium	1,340	1,340
1.2.1.1	Paid in supplementary capital instruments	1,340	1,340
1.2.1.2	Relevant share premium with the supplementary capital instruments	**-**	**-**
2.	**TOTAL RISK-WEIGHTED ASSETS:**	**46,299,704**	**37,317,799**
2.1	Risk-weighted credit risk exposures	41,751,261	33,594,005
2.2	Risk-weighted foreign exchange risk exposures	375,790	-
2.3	Risk-weighted operational risk exposures	4,172,653	3,723,794
3.	**CAPITAL ADEQUACY RATIOS**		
3.1	Total capital adequacy ratio	**24.22%**	**27.82%**
3.2	Tier 1 capital ratio (T1 ratio)	**24.22%**	**27.81%**
3.3	Common Equity Tier 1 capital ratio (CET 1 ratio)	**21.63%**	**24.60%**

In accordance with the Amendments to the NBS Decision on Classification of Balance Sheet assets and Off-Balance Sheet Items of Banks, banks in Serbia are no longer required to calculate the required/shortfall reserves for estimated losses as from January 1, 2019. Given that as of December 31, 2018, the Bank's NPL ratio was below 10%, the Bank was not under obligation to calculate the required/shortfall reserves for estimated losses as capital deductible items.

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.3 Assets Acquired in Lieu of Debt Collection

The Bank is actively involved in sales of assets acquired in lieu of debt collection and may retain the foreclosed assets for a certain time only in the event that prompt sale would result in the Bank's significant losses.

Assets acquired in lieu of debt collection as of December 31, 2019 and 2018:

No.	Acquired asset	Area (m^2)	Acquisition date	Execution debtor	Net book value December 31, 2019	Net book value December 31, 2018
1.	Business premises, counter room, cadastral lot no. 3120/1 CM Šume	48	26/12/2014	Mercury internacional a.d. Ivanjica	1,415	1,415
2.	Outlet 45/i Kraljevo at no. 45, Cara Dušana St., Kraljevo	27	24/04/2017	Trgomen Nekretnine d.o.o. Ratina	1,831	1,831
3.	Outlet 45/j Kraljevo at no. 45, Cara Dušana St., Kraljevo	43	24/04/2017	Trgomen Nekretnine d.o.o. Ratina	2,814	2,814
4.	Outlet 45/k Kraljevo at no. 45, Cara Dušana St., Kraljevo	34	24/04/2017	Trgomen Nekretnine d.o.o. Ratina	2,168	2,168
5.	Apartment at no. 29, Tomislava Andrića-Džigija St., Kraljevo	140	16/06/2017	Zoran Milašinović	10,477	10,477
6.	Weekend housebr.1, Kamenjar 117, K.O. Veternik	77	19/02/2018	Aleksandra Kozomora	1,857	1,857
7.	Business premises, CM Ćuprija	82	20/12 2018	Interhem-him	4,619	4,619
8.	Business premises, CM Ćuprija	89	20/12/2018	Interhem-him	4,485	4,485
	Total				**29,666**	**29,666**

28.4 Liquidity Risk

Liquidity risk is a risk of adverse effects on the Bank's financial performance and capital due to its inability to discharge its liabilities when these fall due. Hence, the aim of liquidity risk management is to maintain the Bank's liquid assets at the level that ensures the Bank's timely settlement of its liabilities.

The Bank manages its assets and liabilities in the manner that enables settlement of its liabilities matured at any time (liquidity) and permanent settlement of all its liabilities (solvency).

Liquidity risk is a risk of adverse effects on the Bank's financial performance and capital due to its inability to discharge its liabilities when these fall due. Hence, the aim of liquidity risk management is to maintain the Bank's liquid assets at the level that ensures the Bank's timely settlement of its liabilities.

The Bank manages its assets and liabilities in the manner that enables settlement of its liabilities matured at any time (liquidity) and permanent settlement of all its liabilities (solvency).

The following organizational units of the Bank are responsible for liquidity risk management:

- The Supervisory Board, which defines the liquidity risk management policy and the contingency business plan (liquidity crisis plan);
- The Executive Board, which implements the adopted policy and defines procedures and instructions for liquidity risk management;
- ALCO, which monitors the Bank's exposure to the liquidity risk and proposes adequate measures for liquidity risk management; and
- Risk Management Department and Treasury, which monitor and maintain liquidity on a daily basis.

Liquidity risk is measured by the Risk Management Department by means of calculation of the liquidity ratio, quick ratio and liquidity coverage ratio as well as additional internal liquidity ratios, deposit concentration ratio, GAP analyses and stress testing.

The Bank's exposure to the liquidity risk is measured by monitoring the liquidity ratio, rigid or quick ratio and liquidity coverage ratio as prescribed by NBS Decision on Liquidity Risk Management by Banks and the Bank's Liquidity Risk Management Procedure.

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.4 Liquidity Risk (Continued)

The liquidity ratio is the sum of the level 1 and level 2 liquid receivables relative to the sum of liabilities payable on demand or without contractually defined maturity and liabilities falling due within a month from the ratio calculation date. The rigid or quick liquidity ratio is the sum of level 1 liquid receivables relative to the sum of liabilities payable on demand or without contractually defined maturity and liabilities falling due within a month from the ratio calculation date. The liquidity coverage ratio represents the Bank's liquidity buffer relative to the net liquid asset outflows over an assumed 30-day stress period.

Liquidity ratios and quick ratios achieved by the Bank

	Liquidity ratio	
	2019	**2018**
At December 31	2.12	1.69
Average	1.77	1.53
Maximum	2.12	2.02
Minimum	1.56	1.28
	Quick ratio	
	2019	**2018**
At December 31	1.87	1.42
Average	1.50	1.27
Maximum	1.87	1.70
Minimum	1.24	1.02

The Bank's liquidity was also monitored via its liquid asset ratio, which represents liquid assets relative to the total assets.

Liquid asset ratios achieved by the Bank

	2019	**2018**
At December 31	27.79%	28.51%
Average	27.51%	26.42%
Maximum	30.29%	29.26%
Minimum	24.43%	23.04%

During 2019, the Bank monitored its liquidity levels based on the movements of its additional liquidity ratios, defined by its internal Liquidity Risk Management Procedure, as well as based on the covenants stipulated by the loan/line of credit agreements that the bank executed with the international financial institutions. Values of the ratios and covenants were within limits prescribed by the said Procedure and the relevant agreements with the international financial institutions.

The critical element of liquidity risk monitoring and management is monitoring of asset and liability maturity matching. Maturity match and controlled mismatch of the asset and liability maturities are critical to the Bank's management. It is uncommon for banks to achieve complete maturity matching of their assets and liabilities since transactions are often performed for indefinite periods and are different in nature and type. Mismatched position may increase profitability but at the same time it increases a risk of a financial loss.

The negative liquidity presented in the following table in the bucket of up to a month does not require the Bank to take any extraordinary measures as it is a result of deposits without contractually defined maturities being included in this bucket. Such deposits are not expected to be fully withdrawn within a month, as is presented in the following table. Instead, only partial withdrawals are expected (ranging from 10% to 20%, based on the historical data).

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.4 Liquidity Risk (Continued)

The table below presents the Bank's assets and liabilities grouped in maturity buckets as per their remaining maturities – from the reporting date to their respective contractually defined maturity dates.

December 31, 2019	Up to 30 days	30 to 90 days	90 to 365 days	1 to 5 years	Over 5 years	Total
Cash and balances held with the central bank	10,013,564	-	-	-	-	**10,013,564**
Pledged financial assets	-	-	-	481,610	1,779,260	**2,260,870**
Securities	1,366,164	-	1,340,000	1,634,390	4,005,926	**8,346,480**
Loans and receivables due from banks and other financial institutions	1,452,055	-	1,079	-	-	**1,453,134**
Loans and receivables due from customers	1,628,320	2,797,705	11,265,098	19,755,808	10,357,465	**45,804,396**
Other assets	224,041	-	-	-	2,716	**226,757**
Total financial assets	**14,684,144**	**2,797,705**	**12,606,177**	**21,871,808**	**16,145,367**	**68,105,201**
Liabilities under derivative financial instruments erivatives	1,563	-	-	-	-	**1,563**
Deposits and other liabilities due to banks, other financial institutions and the central bank,	4,439,194	753,389	1,108,210	1,983,493	154,399	**8,438,685**
Deposits and other liabilities due to customers	21,244,345	5,221,384	10,344,874	9,106,074	2,570,099	**48,486,776**
Other liabilities	43,340	-	-	-	530,602	**573,942**
Total financial liabilities	**25,728,442**	**5,974,773**	**11,453,084**	**11,089,567**	**3,255,100**	**57,500,966**
Maturity match/mismatch (gap)	**(11,044,298)**	**(3,177,068)**	**1,153,093**	**10,782,241**	**12,890,267**	**10,604,235**

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.4 Liquidity Risk (Continued)

December 31, 2018	Up to 30 days	30 to 90 days	90 to 365 days	1 to 5 years	Over 5 years	Total
Cash and balances held with the central bank	7,643,117	-	-	-	-	**7,643,117**
Receivables under derivative financial instruments	6,278	-	-	-	-	**6,278**
Securities	881,551	1,000,000	509,097	2,686,830	1,636,389	**6,713,867**
Loans and receivables due from banks and other financial institutions	2,003,185	41,940	235,340	786	-	**2,281,251**
Loans and receivables due from customers	838,422	971,574	5,657,351	18,383,269	12,914,511	**38,765,127**
Other assets	74,000	-	-	-	4,686	**78,686**
Total financial assets	**11,446,553**	**2,013,514**	**6,401,788**	**21,070,885**	**14,555,586**	**55,488,326**
Deposits and other liabilities due to banks, other financial institutions and the central bank,	3,213,034	255,848	938,891	1,181,946	590,973	**6,180,692**
Deposits and other liabilities due to customers	18,659,443	3,093,445	8,641,941	4,928,338	3,842,832	**39,165,999**
Other liabilities	267,887	-	-	-	-	**267,887**
Total financial liabilities	**22,140,364**	**3,349,293**	**9,580,832**	**6,110,284**	**4,433,805**	**45,614,578**
Maturity match/mismatch (gap)	**(10,693,811)**	**(1,335,779)**	**(3,179,044)**	**14,960,601**	**10,121,781**	**9,873,748**

28. RISK MANAGEMENT (Continued)

28.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk)

28.5.1 Interest Rate Risk

Interest rate risk is a risk of a possible adverse effects on the Bank's financial performance and capital due to changes in interest rates. The Bank is exposed to the interest rate risk per items recorded in its banking book.

The objective of the Bank's interest rate risk management is to minimize the adverse effects that may arise from the changes in the market interest rates.

The following organizational units of the Bank are responsible for interest rate risk management:

- The Supervisory Board, which defines the interest rate risk management policy;
- The Executive Board, which implements the adopted policy and defines procedures and instructions for interest rate risk management;
- ALCO, which monitors the Bank's exposure to the interest rate risk and proposes adequate measures for interest rate risk management;
- Risk Management Department, which implements the risk management policy and procedure and reports to the Bank's management on this risk exposure and Marketing Division, which monitors market interest rates on a daily basis and proposes interest rates for the Bank's products.

Interest rate risk is measured by the Risk Management Department by means of repricing risk measurement, basis risk, yield curve risk and optionality risk measurements.

The following tables provide breakdowns of the interest bearing assets and liabilities grouped into maturity buckets for items at fixed interest rates and repricing periods for instruments at variable interest rates.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019
All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

28.5.1 Interest Rate Risk (Continued)

December 31, 2019	Up to 30 days	30 to 90 days	90 to 365 days	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances held with the central bank	4,715,146	-	-	-	-	5,298,418	10,013,564
Pledged financial assets	-	-	-	-	-	2,260,870	2,260,870
Securities	-	-	1,340,000	1,634,390	4,005,926	1,366,164	8,346,480
Loans and receivables due from banks and other financial institutions	314,746	-	1,079	-	-	1,137,309	1,453,134
Loans and receivables due from customers	13,824,188	3,018,680	9,374,893	13,540,850	3,938,398	2,107,387	45,804,396
Other assets	-	-	-	-	-	226,757	226,757
Total financial assets	**18,854,080**	**3,018,680**	**10,715,972**	**15,175,240**	**7,944,324**	**12,396,905**	**68,105,201**
Liabilities under derivative financial instruments	-	-	-	-	-	1,563	1,563
Deposits and other liabilities due to banks, other financial institutions and the central bank,	3,477,925	1,272,181	2,157,913	584,297	-	946,369	8,438,685
Deposits and other liabilities due to customers	3,119,497	5,896,565	13,037,846	7,403,123	-	19,029,745	48,486,776
Other liabilities	-	-	-	-	-	573,942	573,942
Total financial liabilities	**6,597,422**	**7,168,746**	**15,195,759**	**7,987,420**	**-**	**20,551,619**	**57,500,966**

December 31, 2018	Up to 30 days	30 to 90 days	90 to 365 days	1 to 5 years	Over 5 years	Non-interest bearing	Total
Cash and balances held with the central bank	3,419,765	-	-	-	-	4,223,352	7,643,117
Receivables under derivative financial instruments	-	-	-	-	-	6,278	6,278
Securities	300,001	1,000,000	509,097	2,686,830	1,636,389	581,550	6,713,867
Loans and receivables due from banks and other financial institutions	186,133	41,940	235,340	786	-	1,817,052	2,281,251
Loans and receivables due from customers	14,567,640	2,708,403	8,298,588	9,965,175	1,913,356	1,311,965	38,765,127
Other assets	-	-	-	-	-	78,686	78,686
Total financial assets	**18,473,539**	**3,750,343**	**9,043,025**	**12,652,791**	**3,549,745**	**8,018,883**	**55,488,326**
Deposits and other liabilities due to banks, other financial institutions and the central bank,	2,806,299	255,848	2,711,810	-	-	406,735	6,180,692
Deposits and other liabilities due to customers	1,709,265	3,093,442	8,641,944	4,928,338	3,842,832	16,950,178	39,165,999
Other liabilities	-	-	-	-	-	267,887	267,887
Total financial liabilities	**4,515,564**	**3,349,290**	**11,353,754**	**4,928,338**	**3,842,832**	**17,624,800**	**45,614,578**

**within the line item of loans and receivables due from customers, the amount of NPLs is presented as non-interest bearing (net)*

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

28.5.1 Interest Rate Risk (Continued)

The following table presents the Bank's sensitivity to changes in interest rates. The sensitivity is measured against the impact of the parallel shift of the yield curve by 200 basis points on the Bank's capital and income.

	2019		2018	
	Impact on capital	Impact on income	Impact on capital	Impact on income
At December 31	(128,826)	87,812	105,379	89,913
Average	21,554	89,332	55,434	71,655
Maximum	204,376	93,693	137,396	89,913
Minimum	(128,826)	86,329	(59,284)	49,955

28.5.2 Foreign Exchange Risk

Foreign exchange risk is a risk of adverse effects on the Bank's financial performance and capital due to fluctuations in the foreign exchange rates. The Bank is exposed to the foreign exchange risk per items maintained in both the banking book and the trading book.

The Bank manages foreign exchange risk to minimize losses arising from changes in foreign exchange rates.

The following organizational units of the Bank are responsible for foreign exchange risk management:
- The Supervisory Board, which defines the market risk management policy;
- The Executive Board, which implements the adopted policy and defines procedures and instructions for foreign exchange risk management;
- ALCO, which monitors the Bank's exposure to the foreign exchange risk and proposes adequate measures for foreign exchange risk management;
- Risk Management Department and Treasury, which monitor and manage the currency structure of sources of assets on a daily basis.

The foreign exchange risk is measured by the Risk Management Department based on the foreign exchange ratio as the net open foreign currency position and the Bank's capital, in accordance with NBS Decision on Capital Adequacy of Banks and Decision on Reporting Requirements for Banks and the Bank's Procedure for Foreign Exchange Risk Management.

Foreign exchange risk ratios achieved by the Bank

	2019	2018
At December 31	3.35%	0.63%
Average	1.99%	1.37%
Maximum	6.98%	5.68%
Minimum	0.13%	0.18%

In the course of 2018, the Bank's foreign exchange risk, measured by the foreign exchange risk ratio, was mostly in the low risk range. The average value of the ratio for the year equaled 1.99%.

The following tables present the breakdown of the open net foreign currency positions per currency as of December 31, 2019 and 2018.

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

28.5.2 Foreign Exchange Risk (Continued)

Breakdown of assets and liabilities per currency

December 31, 2019	EUR	USD	CHF	Other currencies	Total FX	RSD	Total
Cash and balances held with the central bank	4,087,230	52,988	189,537	28,686	4,358,441	5,655,123	**10,013,564**
Pledged financial assets	-	-	-	-	-	2,260,870	**2,260,870**
Securities	276,250	-	-	-	276,250	8,070,230	**8,346,480**
Loans and receivables due from banks and other financial institutions	686,662	589,660	89,211	86,519	1,452,052	1,082	**1,453,134**
Loans and receivables due from customers	31,810,837	85,092			31,895,929	13,908,467	**45,804,396**
Other assets	139,908	331	11	43	140,293	86,464	**226,757**
Total financial assets	**37,000,887**	**728,071**	**278,759**	**115,248**	**38,122,965**	**29,982,236**	**68,105,201**
Liabilities under derivative financial instruments	-	-	-	-	-	1,563	**1,563**
Deposits and other liabilities due to banks, other financial institutions and the central bank,	5,395,604	-	-	-	5,395,604	3,043,081	**8,438,685**
Deposits and other liabilities due to customers	29,711,801	737,476	280,136	91,476	30,820,889	17,665,887	**48,486,776**
Other liabilities	491,461	4	-	-	491,465	82,477	**573,942**
Total financial liabilities	**35,598,866**	**737,480**	**280,136**	**91,476**	**36,707,958**	**20,793,008**	**57,500,966**
Net foreign currency position	**1,402,021**	**(9,409)**	**(1,377)**	**23,772**	**1,415,007**	**9,189,228**	**10,604,235**

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

28.5.2 Foreign Exchange Risk (Continued)

Breakdown of assets and liabilities per currency

December 31, 2018	EUR	USD	CHF	Other currencies	Total FX	RSD	Total
Cash and balances held with the central bank	3,189,671	42,878	129,176	18,011	3,379,736	4,263,381	**7,643,117**
Receivables under derivative financial instruments	-	-	-	-	-	6,278	**6,278**
Securities	353,162	-	-	-	353,162	6,360,705	**6,713,867**
Loans and receivables due from banks and other financial institutions	1,373,711	280,806	117,871	149,438	1,921,826	359,425	**2,281,251**
Loans and receivables due from customers	26,442,442	82,097	-	-	26,524,539	12,240,588	**38,765,127**
Other assets	7,689	377	11	37	8,114	70,572	**78,686**
Total financial assets	**31,366,675**	**406,158**	**247,058**	**167,486**	**32,187,377**	**23,300,949**	**55,488,326**
Deposits and other liabilities due to banks, other financial institutions and the central bank,	5,023,295	10,476	20	71,053	5,104,844	1,075,848	6,180,692
Deposits and other liabilities due to customers	24,765,708	395,858	260,457	83,284	25,505,307	13,660,692	39,165,999
Other liabilities	67,935	2,385	4	17	70,341	197,546	267,887
Total financial liabilities	**29,856,938**	**408,719**	**260,481**	**154,354**	**30,680,492**	**14,934,086**	**45,614,578**
Net foreign currency position	**1,509,737**	**(2,561)**	**(13,423)**	**13,132**	**1,506,885**	**8,366,863**	**9,873,748**

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

28.5.2 Foreign Exchange Risk (Continued)

The tables below present the impact of the change in the RSD to foreign currency exchange rates by 15% on the Bank's net foreign currency position as of December 31, 2019 and 2018. RSD items with currency clause index are presented within the FX items (EUR and USD) of the currency to which they are indexed.

December 31, 2019	EUR	EUR 15%	EUR -15%	USD	USD 15%	USD -15%	CHF	CHF 15%	CHF -15%
Financial assets	37,000,887	42,551,020	31,450,754	728,071	837,282	618,860	278,759	320,573	236,945
Financial liabilities	35,598,866	40,938,696	30,259,036	737,480	848,102	626,858	280,136	322,156	238,116
Net currency position	**1,402,021**	**1,612,324**	**1,191,718**	**(9,409)**	**(10,820)**	**(7,998)**	**(1,377)**	**(1,584)**	**(1,170)**

December 31, 2018	EUR	EUR +15%	EUR -15%	USD	USD +15%	USD -15%	CHF	CHF +15%	CHF -15%
Financial assets	31,366,675	36,071,676	26,661,674	406,158	467,082	345,234	247,058	284,117	209,999
Financial liabilities	29,856,938	34,335,479	25,378,397	408,719	470,027	347,411	260,481	299,553	221,409
Net currency position	**1,509,737**	**1,736,198**	**1,283,276**	**(2,561)**	**(2,945)**	**(2,177)**	**(13,423)**	**(15,436)**	**(11,410)**

28.5.3 Security Price Risk

Security price risk is a risk of adverse effects on the Bank's financial performance and capital due to changes in prices of securities within the Bank's portfolio.

The Bank manages the risk of changes in prices of securities to minimize the adverse effects of changes in prices of securities in the Bank's portfolio.

The following organizational units of the Bank are responsible for security price risk management:
- The Supervisory Board, which defines the security portfolio management policy and market risk management policy;
- The Executive Board, which implements the adopted policies;
- ALCO, which monitors the Bank's exposure to the security price risk and proposes adequate measures for this risk management;
- Treasury, which manages the portfolio of securities on a daily basis and the Risk Management Department, which monitor the values of the trading book items and reports to the Bank's management.

Based on the relevant sources of market information, the Risk Management Department actively monitors the values of securities in the Bank's possession and controls their compliance with the internally prescribed limits.

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)

28.5.3 Security Price Risk (Continued)

Value of the Bank's portfolio

	Market value at December 31,	
	2019	2018
Securities at fair value through profit or loss (FVtPL)	**21,156**	**23,248**
Securities at fair value through profit or loss, held for trading	**-**	**-**
Bank shares	826	1,239
Corporate shares	20,330	22,009
Receivables under derivatives held for trading	-	-
	10,586,194	**6,690,619**
Securities at fair value through other comprehensive income (FVtOCI)	-	-
Financial assets available for sale		
Municipal bonds:	15,284	23,193
City of Šabac	2,993	9,095
Municipality of Stara Pazova	257,973	322,255
Bonds issued by the Republic of Serbia in foreign currencies	10,309,944	6,336,076
Bonds issued by the Republic of Serbia in RSD	-	-
Impairment allowance of the municipal bonds		
	-	-
Securities at fair value through other comprehensive income (FVtOCI)		
Financial assets held to maturity	**-**	**-**
In RSD	-	-
Bonds issued by the Republic of Serbia	**-**	**-**
In foreign currencies	-	-
Bonds issued by the Republic of Serbia		

28.6 Operational Risk

Operational risk is the risk of the adverse effects on the Bank's financial result and capital due to failures in the employees performance, inadequate internal procedures and processes, inadequate management of the information and other systems in the Bank or due to unforeseen external events. Operational risk includes legal risk, but not the reputation and strategic risks.

The following organizational units of the Bank are responsible for operational risk management:

- The Supervisory Board, which defines the operational risk management policy;
- The Executive Board, which implements the adopted policy and defines the operational risk management procedure;
- ALCO, which monitors the Bank's exposure to the operational risk and proposes adequate measures for this risk management;
- Risk Management Department, which on a daily basis monitors the risk, collects information on the operational risk events, and reports to the management on the Bank's exposure to the operational risk.
- Operational risk exposure is measured by the Risk Management Department through identification of the operational risks, creation, maintenance and analysis of the database on the operational risk events in accordance with the bank's relevant procedure.

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.6. Operational Risk (Continued)

The Bank's exposure to the operational risk is in fact measured by monitoring the number of events of the same type during the calendar year and the financial effect of each such event:

	2019	2018
Number of events	176	129
Gross loss (EUR)	5,279,435	340,085
Net loss (EUR)	10,372	55,045

In 2019, 176 operational risk events were recorded, 47 more than in the previous year. The largest number of events relate to the cashier shortages or surpluses and those were successfully resolved (51 events of cashier shortages and 20 events of cashier surpluses). The remaining 105 events pertained to instances of external frauds, disruptions in operations and system failures, technical problems, power failure, failure to comply fully with Bank Procedures for loan approval, incorrect bank account numbers upon payment, accounting errors, operational errors, etc.

The Bank assesses the risk of activity outsourcing. Outsourcing is performed under the relevant contracts where rights and obligations of the contracting parties are clearly defined.

The Bank also identifies and assesses operational risks upon each introduction of new products, processes and systems or new business activities.

28.7 Risk of Inadequate Information System Management

The goal of managing the risk of inadequate management of an information system is to minimize the negative effects which may result from exposure of the Bank's information system to public malicious internal networks attacks, hardware failures, sabotage and maintaining these exposures within prescribed limits. According with the Decision of the National Bank of Serbia on minimum standards for managing the financial information system institutions (Official Gazette of RS, No. 23/2013, 113/2013 and 2/2017) The Bank has undertaken a number of activities aimed at full compliance with the said Decision.

In this regard, the Strategy of Information System Development was adopted, the Business Continuity Assurance Strategy, exit strategies for activities entrusted to third parties and Information System Security Policy. It is also adopted and a whole series of new procedures and guidelines of the quality system, all in accordance with the NBS Decision on the Minimum Standards for Financial Institution Information System Management.

The Bank completed the PCI DSS certification process, which provided an additional layer of data protection, primarily for the needs of an advanced card business whose establishment is also ongoing. The process Compliance with the requirements of the PCI DSS standard initiated not only procedural improvements, but also improvements protection of the information system, which will consequently provide a higher level of protection for both the card business and the Bank's business processes more broadly.

The Bank's information system has functionalities to support business processes and ensure timely, accurate and complete information relevant to business decision making and risk management.

The Bank is continuously working on improving its information system. In this regard, it regularly updates the remaining ones Information system development strategy. With a view to quality management of the information system, the Bank plans to hold meetings of the Information Commission in the future technology to discuss work on current and upcoming projects.

The information system management framework consists of the adopted project management methodology as well as reporting on the functioning and security of the information system.

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.7. Risk of Inadequate Information System Management (Continued)

The following are responsible for managing the risk of inadequate management of the information system in the Bank:

- The Supervisory Board, which has adopted the Information System Development Strategy, the Security Policy information system and business continuity strategy;
- The Executive Board, which implements the strategies and policies adopted and establishes procedures and guidelines;
- The Information Technology Commission, which monitors the work and development of the information system and makes appropriate decisions and propose appropriate measures to the Bank's Executive Board;
- The Information Technology Division, which plans, proposes and executes all information related activities the Bank's system and reports to the Commission on Information Technology.

The Information Security Manager conducts an assessment of the security risk of the Bank's information system and it shall submit a report thereon to the Information Technology Commission.

28.8 Exposure Risk

The Bank manages the exposure risk in order to minimize the negative effects that may arise from the concentration of the Bank's exposure to a single entity or a group of related entities and entities/persons related to the Bank and to maintain such exposures within prescribed limits.

The following organizational units of the Bank are responsible for exposure risk management:

- The Supervisory Board, which decides on the Bank's exposures to a single entity or a group of related entities in excess of 10% of the Bank's capital and on exposures to the entities related to the Bank;
- The Executive Board, which defines the Exposure risk management procedure, decides on the Bank's exposures to a single entity or a group of related entities up to 10% of the Bank's capital and on exposures to the entities related to the Bank in accordance with the Supervisory Board Decision on Authorizing the Bank's Executive Board to Execute Legal Transactions with a Related Party;
- ALCO, which monitors the Bank's exposures to a single entity, a group of related entities and entities/persons related to the Bank and proposes adequate measures for exposure risk management;
- - Risk Management Department, which reports to the management on the Bank's exposures to a single entity, a group of related entities and entities/persons related to the Bank.

Exposure risks are measured by the Risk Management Department through preparation of the reports prescribed by the relevant NBS decision and the Bank's procedures.

Net exposures to the Bank's related parties and large exposures

	2019		2018	
	Exposure amount	Share in capital	Exposure amount	Share in capital
Bank's related parties	1,642,292	14.64%	1,730,939	16.67%
Large exposures	1,681,221	14.99%	1,281,466	12.34%

In 2019 the Bank's exposures to a single entity/a group of related entities and entities/persons related to the Bank were within the prescribed limits. For all exposures within the medium exposure risk level range, above 10% from Bank capital, prior approval of the Supervisory Board was obtained.

The Bank monitors its concentration ratio for 20 largest gross exposures. The concentration ratio for 20 gross largest exposures represents the Bank's balance sheet assets and off-balance sheet items subject to classification for 20 largest business groups other than banks, relative to the total classifying assets less assets representing exposures to the other banks. The Bank's goal is to maintain this ratio at the levels below 300%.

As of December 31, 2019, the Bank's balance sheet assets and off-balance sheet items subject to classification for 20 largest business groups other than banks amounted to RSD 13,442,508 thousand. As of December 31, 2018, the Bank's concentration ratio for 20 largest gross exposures equaled 119.87%, whereas the Bank's concentration ratio for 20 largest gross exposures equaled 89.69% as of December 31, 2018, having decreased by 30.18 p.p. as a result of the capital increase.

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.9 Investment Risks – Investments in Non- FSI Entities and Own Fixed Assets

Investments in other entities are investments whereby the Bank acquires equity interests or share in entities that do not belong to the financial services industry. Such investments are not associated with acquisition of shares for further sales within six months from their acquisition date.

The following organizational units of the Bank are responsible for investment risk management:

- The Supervisory Board, which decides on the individual investments to be made in the Bank's own fixed assets in excess of EUR 250 thousand in RSD equivalent;
- The Executive Board, which defines the investment risk procedure and decides on the investments to be made in the Bank's own fixed assets up to EUR 250 thousand in RSD equivalent;
- ALCO, which monitors the bank's investments risks and proposes adequate measures for the investment risk management;
- IT Division, General and technical Affairs Unit and Information Security Unit, which are in charge of acquisition of fixed assets.

The Bank's investment risks are measured by the Risk Management Department and Financial Management and budgeting Department.

Investments in non- FSI entities and own fixed assets relative to the Bank's capital

	December 31, 2019	December 31, 2018
Investments in non-FSI entities	0.00%	0.00%
Total investments in non-FSI entities and Bank's own fixed assets	12.98%	9.39%

During 2019, the Bank's investment were within the low risk level range.

28.10 Country Risk

Country risk is the risk relating to the country of origin of the entities/persons the Bank is exposed to, i.e., a risk of negative effects on the Bank's financial performance and capital due to the Bank's inability to collect receivables due from non-residents for reasons resulting from political, economic and social circumstances prevailing in the country of origin of such entities/persons.

The following organizational units of the Bank are responsible for country risk management:

- The Supervisory Board, which defines the country risk management policy;
- The Executive Board, which implements the adopted policy and defines the country risk management procedure;
- ALCO, which monitors the Bank's exposure to the country risk and proposes adequate measures for this risk management;
- Payment Operations Department, which is involved in account opening and closing and money transfers with correspondent banks.

Country risk is measured by the Risk Management Department, where the monthly identification of the country risk is made upon preparation of the monthly report on the Bank's risk exposure.

The Bank has a system in place for classification of countries per country risk level based on the risk categories assigned to countries by the largest international credit rating agencies (Moody's, Standard &Poors and Fitch).

In 2019 the Bank had exposure toward clients operating in the countries, which, according to the rating of the international credit rating agencies and in line with the Bank's relevant procedure, were classified as low-risk and medium-risk countries.

The Bank's exposure to the low-risk countries is not limited. As of December 31, 2019, such countries were Germany, Austria and United States of America. As of December 31, 2019 the medium-risk countries were Turkey, Romania, Bosnia, Macedonia and Croatia. The Bank's exposure to these medium-risk countries was significantly lower that the internally prescribed limits during December 2019.

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.10 Country Risk (Continued)

List of countries to which the Bank was exposed as of December 31, 2019

Country	Risk level	Limit	Share in the Bank's capital*
Germany	Low	No limit	2.58%
Austria	Low	No limit	1.81%
United States of America	Low	No limit	0.76%
Turkey	Medium	100% of the regulatory capital	20.79%
Romania	Medium	20% of the regulatory capital	13.28%
Bosnia	Medium	40% of the regulatory capital	3.15%
Macedonia	Medium	100% of the regulatory capital	2.38%
Croatia	Medium	10% of the regulatory capital	0.03%
Albania	Medium	25% of the regulatory capital	0.00%

28.11 Compliance Risk and Risk Management Activities Relating to Prevention of Money Laundering and Financing of Terrorism

Compliance entails performance of banking operations in accordance with the legislation, regulations, standards, procedures, business policies and other internal bylaws. Compliance risk occurs as a result of failure to align banking operations with the said regulations and enactments.

The Bank manages the compliance risk in order to avoid sanctions of the regulatory authority, financial losses, compromise to the Bank's reputation and clients' trust.

The following organizational units of the Bank are responsible for compliance risk management:

- The Supervisory Board, which defines the compliance risk management policy;
- The Executive Board, which implements the adopted policy and defines the Compliance Risk Management Procedure;
- Compliance and AML Department, which identifies, assesses and monitors the compliance risk.

In 2018, the Compliance and AML Department identified and assessed compliance risk by implementing adequate control activities and conducting inspections in line with the Annual Operating Plan as prescribed by the Compliance Risk Management Procedure.

28.11 Environmental Risks

The Bank manages the environmental risks in order to identify, assess and control risks that may cause jeopardy to the natural and social environment in accordance with the Environmental Risk Management Policy and Procedure.

The following organizational units of the Bank are responsible for environmental risk management:

- The Supervisory Board, which defines and at least annually reviews the environmental risk policy and assesses the need to amend this policy;
- The Executive Board, which implements the adopted policy and defines procedures for environmental risk management;
- Credit Committees, which decide on the loan approval in accordance with the available information and opinion of the Credit Division on the risk of impact on the natural and social environment;
- The Bank's Crediting Department, which assesses the impact of the borrower's business activities and financed assets/purposes during the assessment of the borrower credit quality; and
- Risk Management Department, which monitors the loans at the portfolio level per categories of environmental risk through preparation and analysis of the risk reports.

Upon processing an individual client's loan request, the first step is to classify the environmental risk per the client's core business activity and the activity that is to be financed.

All amounts expressed in thousands of RSD, unless otherwise stated.

28. RISK MANAGEMENT (Continued)

28.11 Environmental Risks (Continued)

Environmental risk categories are:
- High – exclusion list;
- High – category A;
- High;
- Medium; and
- Low.

If the activity subject to financing is included in the exclusion list, the client's loan request is denied. If it is classified into high risk category A, the client is required to provide the Assessment of the Impact on the Environment and the impact on the environment is further considered before a decision is made on loan approval by the competent Credit Committee.

Upon checkup of the loan request analysis with the proposed decision to the competent Credit Committee, the Crediting Department checks the classification of the activity that is to be financed according to the environmental risk level, checks the information on the impact of the client and the client's activity subject to financing on the natural and social environment.

The Bank's loan and other contracts contain provisions and clauses regarding the protection of the natural and social environment to be observed by both the clients and the Bank.

The Bank monitors the balances of loans and receivables per client industry, business activity and environmental risk category through preparation and analysis of the relevant risk reports.

Breakdown of corporate loans per environmental risk category

	Number of customers		Loan and receivable amounts (on and off balance)		
Risk category	**December 31, 2019**	**December 31, 2018**	**December 31, 2019**	**December 31, 2018**	**Increase / decrease**
High – exclusion list	-	2	-	238,534	-238,534
High – category A	10	8	465,438	72,576	392,862
High	342	292	11,807,138	7,895,397	3,911,741
Medium	1,948	1,359	21,023,659	16,655,673	4,367,986
Low	2,296	2,287	22,443,645	19,560,691	2,882,954
Total	**4,596**	**3,948**	**55,739,880**	**44,422,871**	**11,317,009**

In the structure of exposures (balance sheet and off-balance sheet exposures) to corporate clients, legal entities and entrepreneurs, as of December 31, 2019, the largest share was that of the clients involved in business activities with low environmental and social impact, 40.26%, the second largest share, of 37.72%, was that of exposures to clients performing activities classified as the medium impact category, those classified in the high-impact category had a share of 21.18% and activities with high risk category A had a share of 0.84%.

All amounts expressed in thousands of RSD, unless otherwise stated.

29. COMPLIANCE WITH NBS REGULATIONS

Performance/adequacy ratio	Values prescribed by NBS	Values achieved at December 31, 2019	Values achieved at December 31, 2018
Amount of the Bank's capital	Min 10,000,000 €	EUR 95,363,415	EUR 87,827,288
Total capital adequacy ratio	min 8%	24.22%	27.82%
Tier 1 capital ratio (T1 ratio)	Minimum 6%	24.22%	27.81%
Common equity tier 1 capital ratio (CET 1 ratio)	Minimum 4.5%	21.63%	24.60%
Foreign exchange risk ratio	max 20%	3.35%	0.63%
Liquidity ratio	Min 1	2.12%	1.69%
Rigid (cash) liquidity ratio	Min 0.7	1.87%	1.42%
Concentration ratio per the Bank's exposure to certain types of products*	Max 30%	16.05%	-
Total exposure to the entities related to the Bank	-	14.64%	16.67%
Exposure to a single entity/a group of related entities	max 25%	13.28%	12.34%
Sum of all large Bank's exposures	max 400%	14.99%	12.34%
Investments in non-FSI entities	max 10%	0.00%	0.00%
Total investments in non-FSI entities and the Bank's fixed assets	max 60%	12.98%	9.39%

* The obligation to calculate concentration ratio for the Bank's exposure to certain types of products regulated by the NBS Decision became effective as of January 1, 2019.

30. RECONCILIATION OF OUTSTANDING BALANCES RECEIVABLE AND PAYABLE WITH COUNTERPARTIES

In accordance with Article 18 of the Law on Accounting (Official Gazette of RS no. 62/13 and 30/2018), the Bank reconciled the balances of receivables and payables with its legal entity customers and creditors as of December 31, 2019. The aggregate balance of receivables and payables for which balance confirmations were requested amounted to RSD 98,251,742 thousand. The amount of reconciled receivables represents over 90% of the total amount of receivables for which the balance confirmation requests were responded to by the clients. The total amount of unreconciled receivables amounts to RSD 3,559,890 thousand. All of the Bank's liabilities were reconciled with counterparties.

31. EVENTS AFTER THE REPORTING PERIOD

The rapid spread of the COVID-19 virus and its social and economic effects globally and in the territory of the Republic of Serbia may result in assumptions and estimates that will require revision. This may result in material adjustments to the carrying amount of assets and liabilities over the next business year. At this stage, the management is not able to reliably assess the impact as new developments occur day by day.

In addition to the foregoing, at the extraordinary session of its Executive Board held on March 17, 2020, the National Bank of Serbia enacted Decision on Provisional Measures for Preservation of the Financial System Stability (the "Decision") prescribing a standstill in debt repayment (moratorium). The moratorium is prescribed for all debtors that wish to exercise it (private individuals, agricultural producers, entrepreneurs and business companies) entailing a standstill in debt repayment that may not last less than 90 days, i.e., cannot be shorter than the duration of the state of emergency, introduced due to the current pandemic. Management is unable to estimate possible effects of the Decision on the Bank's financial statements.

The longer term impact may also affect loan volumes, cash flows and profitability. Nevertheless, at the date of these financial statements, the Bank continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation of the financial statements.

Other than the foregoing, there have been no events after the reporting period that would require adjustments to or additional disclosure in the Bank's financial statements for the year ended December 31, 2019.

All amounts expressed in thousands of RSD, unless otherwise stated.

32. LITIGATION

As of December 31, 2019, there were 529 lawsuits filed against the Bank (2018: 156 lawsuits), with claims totaling RSD 50,036 thousand (2018: RSD 41,933 thousand). The Bank expects partially adverse outcomes in 152 of these cases. Accordingly, provisions were made in this respect in the amount of RSD 18,616 thousand.

33. EXCHANGE RATES

The official middle exchange rates for certain major currencies determined in the interbank foreign exchange market, and used for translation of the statement of financial position components denominated in foreign currencies into RSD were as follows:

In RSD

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

Belgrade
February 27, 2020

Vesna Petrović	Dušica Erić	Kenan Bozkurt
Head of the Financial Management and Planning Division	Member of the Executive Board	Chairman of the Executive Board

Translation of the Bank's Financial Statements and Notes to the Financial Statements issued in the Serbian language, prepared by the Bank's management (In case of any discrepancy between the Serbian and English versions, the Serbian version shall prevail.)

ANNUAL OPERATING REPORT FOR 2019

Belgrade, February 2020

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I DEVELOPMENT, ORGANISATIONAL STRUCTURE AND BUSINESS ACTIVITIES

1. ESTABLISHMENT

HALKBANK a.d. Beograd has been operating in the Republic of Serbia since 2015 when Turkiye Halk Bankasi A.S. became the major owner of Cacanska banka (operating since 1956).

The Bank was registered with the Serbian Business Registers Agency under Decision no. BD 54244 dated 13 September 2005.

The Bank has been operating under the name of Halkbank a.d. Beograd since 22 October 2015 when the change of its legal name was registered with the Serbian Business Registers Agency under Decision no. BD 89155/2015.

2. ORGANISATION OF OPERATIONS

HALKBANK a.d. Beograd is a universal bank which offers all types of banking products and services to corporate clients, entrepreneurs and retail clients. The Bank encourages and finances growth and development of the domestic economy, but is also a safe place for savings deposits of all clients. The Bank's primary goal is to create products that will completely satisfy all customers' expectations.

The Bank is registered in the Republic of Serbia for performance of payment operations and credit and deposit operations in the country and abroad, and it operates in compliance with the Law on Banks.

HALKBANK a.d. Beograd has successfully expanded its business network and client base. Today the Bank offers services and products through a network of 25 branches, 9 sub-branches and 4 cash desks. As at 31 December 2019 the Bank was comprised of 8 branches in Belgrade, 2 branches in Čačak and branches located in the towns of Smederevo, Jagodina, Gornji Milanovac, Kraljevo, Užice, Kragujevac, Kruševac, Aranđelovac, Valjevo, Šabac, Niš, Novi Sad, Pančevo, Novi Pazar and Subotica and 9 sub-branches in Paraćin, Požega, Topola, Ivanjica, Vrnjačka Banja, Leskovac, Mladenovac, Tutin and Čačak.

3. BASIC PERFORMANCE RATIOS

(in RSD thousand)

Income Statement	31/12/2018	31/12/2019	Plan 2019	Plan realization
Net interest income	1,752,511	2,104,276	2,192,053	96%
Net fee and commission income	698,552	771,359	895,677	86%
Net gains/(losses) on impairment of financial assets not measured at fair value through profit or loss	-75,127	-214,832	-223,919	96%
Operating expenses	2,044,457	2,220,922	2,362,939	94%
Net profit before tax	361,725	472,836	530,335	89%

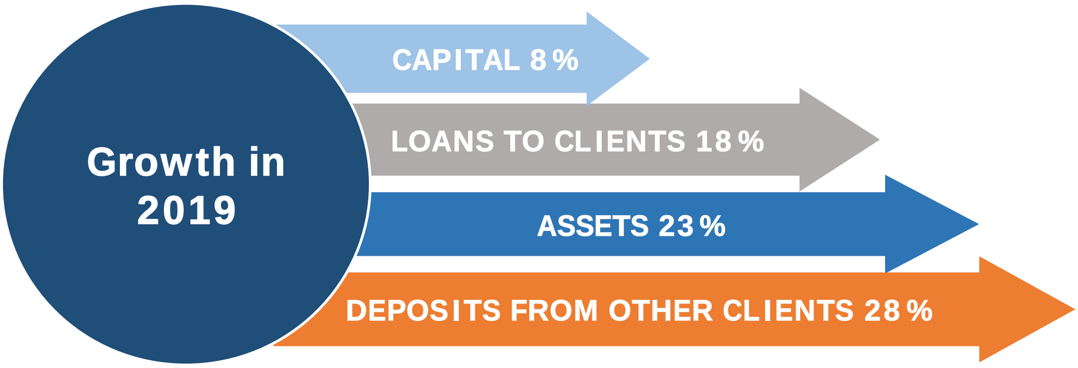
Balance Sheet	31/12/2018	31/12/2019	Plan 2019	Planned growth realization
Loans to clients*	38,786,695	45,786,729	45,720,081	101%
Deposits from other clients*	32,239,586	41,370,483	37,982,474	159%
Equity	11,151,685	12,098,719	11,624,048	200%
Total assets	56,905,090	69,993,543	64,676,040	168%

Key Performance Indicators (KPI)	31/12/2018	31/12/2019	Plan 2019
Costs to Income Ratio (CIR)**	82.58%	75.67%	76.09%
Non-interest income to Operating costs Ratio	35.09%	36.51%	38.65%
Capital Adequacy Ratio (CAR)	27.82%	24.22%	24.30%
ROA	0.74%	0.75%	0.87%
ROE	3.93%	4.10%	4.66%
NIM	4.56%	4.33%	4.58%

All financial projections for 2019 were prepared in EUR and realization of goals is followed in EUR. The budgeted (planned) amounts in this report are translated to RSD using the middle RSD/EUR exchange rate effective at 31 December 2019 for the balance sheet positions and the average annual exchange rate for 2019 was used for the income statement positions.

*The difference between the line items "Loans to clients" and "Deposits from other clients" and the corresponding line items in the Bank's official balance sheet form are explained in sections 3.1 and 3.2

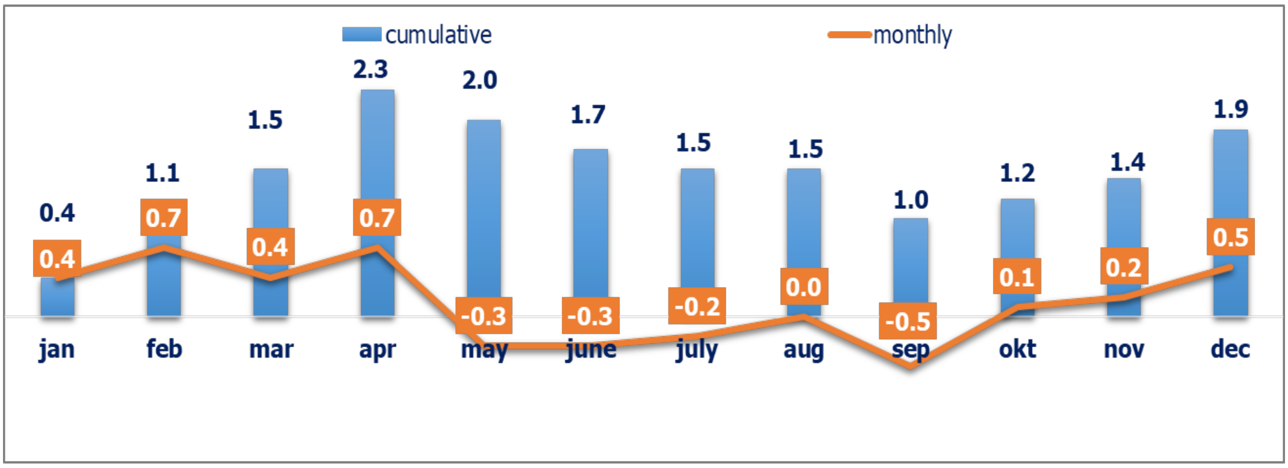
**In order to calculate the cost-to-income ratio, cost of provisions for liabilities was excluded from the 'Other expenses' position in the statutory statement. Income from the 'Other income' position, with the exception of Reversal of provisions for liabilities, was included within revenues along with net interest and fee income.



II FINANCIAL POSITION AND OPERATING RESULTS

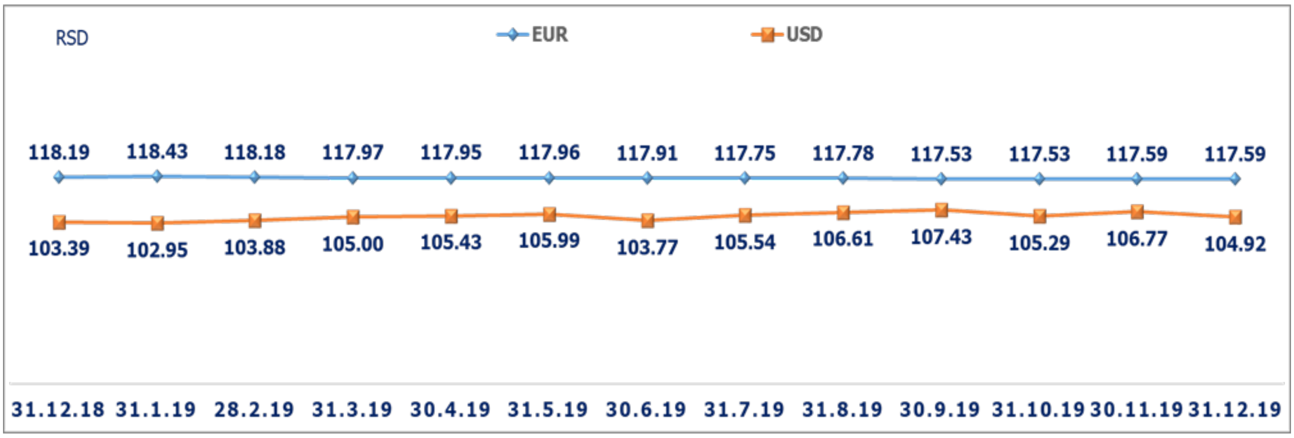
1. MACROECONOMIC ENVIRONMENT

Consumer prices trends in Serbia during 2019



In 2019, consumer prices recorded cumulative growth of 1.9%. The highest monthly increase was achieved in February and April, when it was 0.7%.

FX trend during 2019

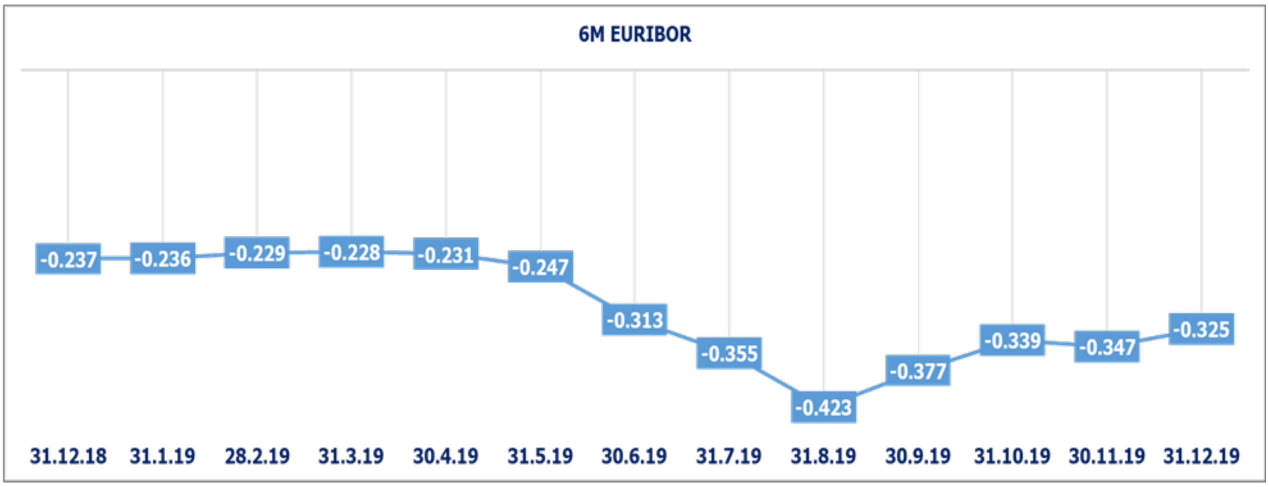


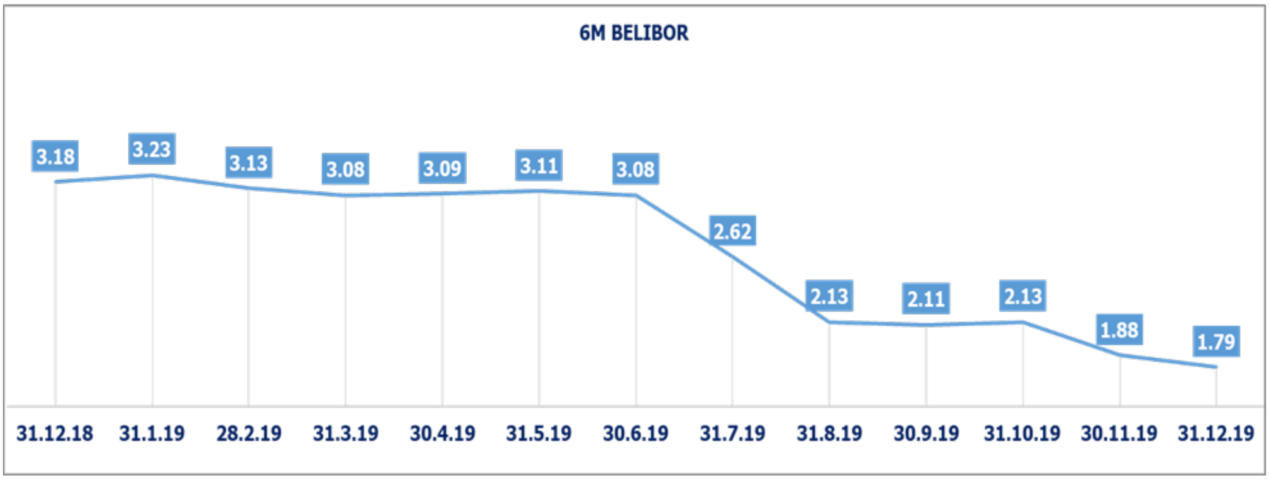
In 2019, Serbian dinar (RSD) strengthened against the Euro (EUR) by 0.51% but depreciated by 1.48% against the United States Dollar (USD).

Fluctuations of the National Bank Key Policy Rate

In 2019, the National Bank of Serbia reduced the key policy rate on three occasions, in July, August and November 2019, by 75 basis points in total, from 3.0% to 2.25%.

Fluctuation of the interest rates on the financial markets





2. ACHIEVEMENT OF BASIC OPERATING TARGETS

The targets set out in the Operating Policy for 2019 were implemented through the following activities:

1. The Bank planned expansion of the branch network by opening 4 new branches, in the region of Belgrade and regions where it had not been present so far, and intended to relocate 4 existing ones. In 2019, the Bank relocated a branch in Novi Sad to a better and more appropriate location and opened a new branch in Smederevo. Additionally, at the end of the year the Bank started the process of opening a new sub-branch in Zrenjanin.

2. The realized values of the average liquidity ratios and the targets are shown in the following table:

Indicators	2019	Plan 2019 (minimum)
The average liquidity ratio	1.77	1.2
The average quick liquidity ratio	1.50	0.9
The average ratio of liquid assets	27.51%	20%

2. During 2019 the Bank achieved a positive financial result in the amount of RSD 472,836 thousand. The realized values regarding this goal are shown in the following table:

(in RSD thousand)

Indicators	31/12/2019	Plan 2019	Realization of the plan
Net interest and fee income	2,875,635	3,087,730	93.13%
Operating costs	2,220,922	2,362,939	93.99%
Profit	472,836	530,335	89.16%

4. The Bank has initiated implementation of a new core banking system. The Bank is expecting to start technical implementation during 2020. During 2019, workshops were held with the vendors that submitted their requests for information (RFI) and the Bank sent requests for proposals (RFP) to a small number of vendors.

5. In the field of implementation of an in-house solution for processing and printing of payment cards, the focus was on compliance with PCI DSS standards. In addition, plans and preparations for the final phase of the project were made, which involved the final harmonization of individual products and compilation of instructions and documentation. An extensive staff training was performed, in order to better prepare them for migration to the new system. The plan is to implement this project in Q1 2020.

3. BALANCE SHEET

3.1. Assets

As of 31 December 2019 the Bank's total assets amounted to RSD 69,993,543 thousand and recorded a 23% increase compared to the end of 2018.

The main driver of this growth was a positive development in lending to corporate and retail clients, where the growth in the observed period amounted to RSD 7 billion (18.05%). This was achieved through continuous improvement of loan products so that the Bank can properly respond to the needs of its clients and offer them complete solutions for their financial requirements and further strengthen their trust. Another significant factor of the increase relates to the item of Cash, cash equivalents and assets held with the central bank and the item of Financial assets (government bonds of the Republic of Serbia), as a consequence of the Bank's activities in the area of deposit collection, which provides a good basis for the continuation of quality and profitable investment in credit operations in the upcoming period.

(in RSD thousand)

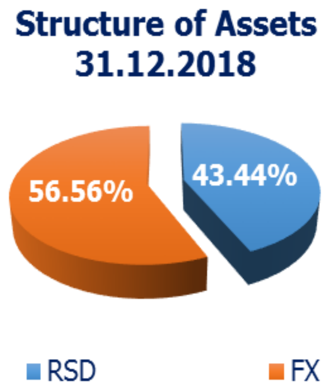
ASSETS	31/12/2018	31/12/2019	Plan 2019	% of change
Cash, cash equivalents and assets held with the central bank	7,643,117	10,013,564	6,643,993	31.01%
Financial assets*	6,720,145	10,607,350	6,820,382	57.84%
Loans to banks and other financial organizations**	2,276,152	1,453,132	2,351,856	-36.16%
Loans to clients*	38,786,695	45,786,729	45,720,081	18.05%
Intangible assets, property, plant and equipment and investment property	1,248,062	1,726,263	2,909,246	38.32%
Other assets***	230,919	406,505	230,482	76.04%
Total assets	**56,905,090**	**69,993,543**	**64,676,040**	**23.00%**

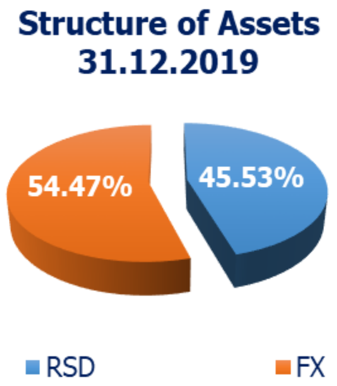
* The position "Financial assets" consists of pledged financial assets, receivables under derivatives and securities as the items of the official Balance sheet form.

** The items of "Loans to clients" and "Loans to banks and other financial organizations" differ from the line items "Loans and receivables due from customers" and "Loans and receivables due from banks and other financial Institution" presented in the official Balance sheet form for the amount of receivables for accrued interest, fee and accrued interest receivable and accrued income for EIR compensation, shown within the line item of "Other assets" and "Other assets" include the item of "Deferred tax assets" from the official Balance sheet form..

*** The position "Other assets" includes position "Deferred tax assets" from official Balance sheet form.

The following graphs present the currency structure of assets as at 31 December 2018 and 31 December 2019:





3.1.1 Loans to clients

Since its arrival to the Serbian market, the focus of Halkbank a.d. Beograd has been on the maximum satisfaction of clients, development of innovative products and services, and on the improvement and digitization of the processes in order to strengthen the efficiency of operations.

The structure of position loans to clients as of 31 December 2018 and 31 December 2019 is shown in the following table:

(in RSD thousand)

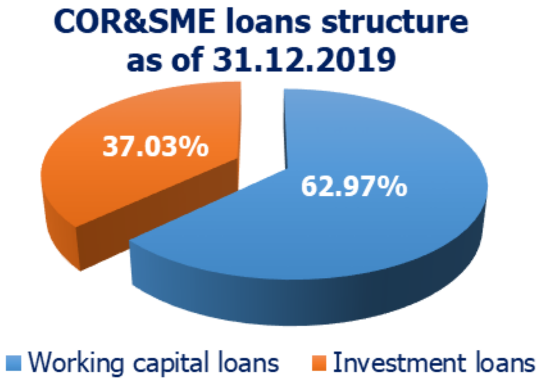
	31/12/2018	31/12/2019	Plan 2019	% of change
Loans to clients - net	**38,786,695**	**45,786,729**	**45,720,081**	**18.05%**
Corporate clients without NPL	25,850,569	31,502,109	29,633,386	21.86%
Retail clients without NPL	11,614,258	13,051,055	15,051,878	12.37%
NPL (net)	1,321,868	1,233,565	1,034,817	-6.68%

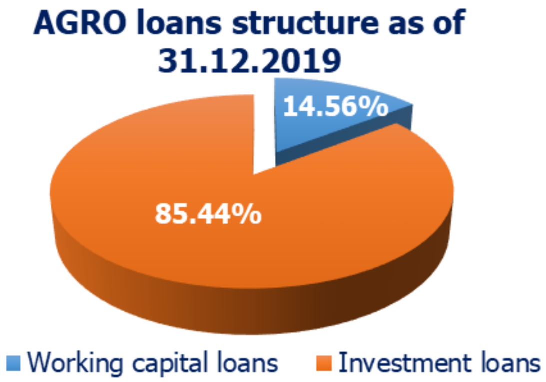
**NPL position reffers to net receivables from non-performing customers, without interest and fee receivables*

The Bank's net loan portfolio increased during the 2019 by 18.05%, or by RSD 7 billion.

Gross loans - Corporate

Gross corporate loans, including gross NPL, as of 31 December 2019 amounted to RSD 33,576,769 thousand with a growth of 18% comparing to the end of 2018. In the following graphs the structure of these loans is presented:





The most important activities of the Corporate and SME Marketing Division in 2019 were as follows:

- The Bank disbursed the total of RSD 23,342 million (through 4,474 loans) to the Corporate and SME segment clients in the course of its regular business activities, as well as through certain programs and actions described below.

- Once again, the Bank took an active role in the program of the Government of the Republic of Serbia – “Program for Supporting Small Enterprises in the Purchase of Equipment in 2019”. Six banks and two leasing companies took part in this Program. The Bank disbursed RSD 1,364 million through 215 investment loans. Halkbank ranked first in the number of the loans approved and second in the total loan amount disbursed according to the report created by the Ministry of Economics.

- In November 2017, the Bank signed the Intermediary Finance Agreement for realization of APEX loan for SME and other priorities with the European Investment Bank. A portion of these funds is dedicated to financing SME project for employing young people, under age of 30. Loans disbursed from this credit line totaled RSD 2,105 million in 2019.

- In 2019, the Bank’s focus was also on the Micro Loan Campaign, in which working capital loans in the amounts of EUR 10, 20 and 30 thousand and with currency clause index were offered to customers. By the end of Q3 2019, the total of RSD 1,117 million was disbursed through 514 working capital loans.

- The Bank commenced crediting Agro business clients in Q2 2018. In 2019, RSD 776 million was disbursed through 569 loan facilities to the Agro segment customers.

Gross loans - Retail

As of 31 December 2019, gross retail loans amounted to RSD 13,281,754 thousand and had the following structure:

(in RSD thousand)

Loan type	31/12/2018	31/12/2019	% change
Cash loans	6,632,890	7,258,433	9.43%
Housing loans	4,275,124	4,910,910	14.87%
Consumer loans	595,635	801,417	34.55%
Authorized account overdraft	138,541	126,217	-8.90%
Other	109,392	184,777	68.91%
Total	**11,751,582**	**13,281,754**	**13.02%**

The Retail Marketing and ADC Division realized numerous activities during 2019 in order to improve products and services available to retail clients, with a focus on optimization and improvements of loan approval process in accordance with the effective regulations:

- At the beginning of the year, the Bank successfully implemented procedures and technical solutions for adjusting the retail customer loan approval process in line with the regulatory requirements. The changes in regulations primarily refer to the cash loans as the prevalent type of retail loans in the Serbian market and their maximum maturity (95 months), as well as to the maximum client indebtedness (60% of the salary).

- The cash and refinancing loan campaign “Halk Break” was completed, supported by commercials on national TVs. In late August a new cash and refinancing campaign was launched and until the year-end RSD 2,187 million of cash loans and RSD 917 million of other loans were disbursed. The Bank’s retail portfolio increased by RSD 1,399 million during this period.

- The DigitalEgde project was launched as one of the Bank's priorities, which is an enhanced Bank’s service to its retail customers. The improvement is reflected in a more modern and functional payment method through e-banking and m-banking applications. An additional benefit of DigitalEdge is a web and mobile solution, for both Android and iOS users, allowing clients to open an account at Halkbank via PC, mobile phone or tablet without going to the Bank. In addition to opening an account, the DigitalEdge platform also enables customers to be informed about the Bank’s other services, while the next step will be to improve the service related to digital loan application filing or deposit placement. The plan is to implement this project during April 2020.

- As described in the Basic Operating Targets section of the Report, significant activities were carried out in the implementation of the project of in-house solution for processing and printing of payment cards, as well as activities on preparation of final testing environment and migration of old payment cards to the new system.

3.2. Liabilities

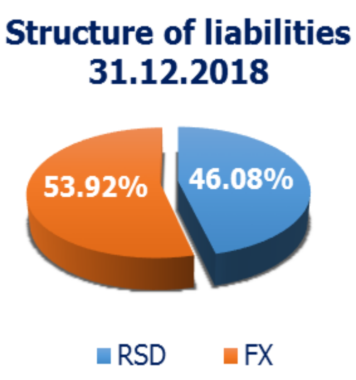
Total liabilities as of December 31st 2019 amounted to RSD 69,993,543 thousand with the following structure:

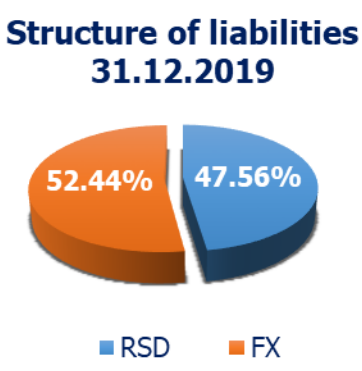
(in RSD thousand)

Liabilities	31/12/2018	31/12/2019	Plan 2019	% of change
Deposits from banks and other financial organizations*	3,724,393	6,109,502	5,291,676	64.04%
Deposits from other clients*	32,239,586	41,370,483	37,982,474	28.32%
Funds borrowed**	8,833,825	8,821,223	8,701,867	-0.14%
Other liabilities***	955,601	1,593,616	1,075,974	66.77%
Total liabilities	**45,753,405**	**57,894,824**	**53,051,992**	**26.54%**
Share capital	8,972,603	8,972,603	8,926,940	0.00%
Current year's profit	361,725	472,836	529,168	30.72%
Retained earnings from previous years	52,373	-	-	-
Reserves	1,764,984	2,653,280	2,167,941	50.33%
Total equity	**11,151,685**	**12,098,719**	**11,624,048**	**8.49%**
Total liabilities and equity	**56,905,090**	**69,993,543**	**64,676,040**	**23.00%**

*The positions "Deposits from other clients" and "Deposits from banks and other financial organizations" differ from positions "Deposits and other liabilities from other clients" and "Deposits and other liabilities from banks, other financial institutions and central bank" presented in the official Balance sheet form for the amount of liabilities based on interest, fees, accrued liabilities for accrued interest and other financial obligations towards clients, shown in the „Other liabilities" position. Position "Other liabilities" includes position "Provisions" from the official Balance sheet form.
** The position "Funds borrowed" is presented without accrued interest liabilities which are presented in "Other liabilities" in this table.
*** The position "Other liabilities" includes position "Provisions" from the official Balance sheet form.

The following graphs present the currency structure of liabilities as at 31 December 2018 and 31 December 2019:





3.2.1 Deposits from banks, other financial organizations and the central bank

The structure of deposits from banks, other financial organizations and central bank and comparative analysis as of December 31st 2018 and December 31st 2019 is presented in the following table:

(in RSD thousand)

Deposits from banks and other financial organizations	31/12/2018	31/12/2019	% of change
Transaction deposits	15,633	224,075	1333.35%
Other deposits	3,708,760	5,885,427	58.69%
Total	**3,724,393**	**6,109,502**	**64.04%**

The other deposits include deposits of insurance companies and "money market" deposits of domestic and foreign banks.

3.2.2 Deposits from other clients

The structure of deposits from other clients and comparative analysis by segments as of 31 December 2018 and 31 December 2019 is presented in the following tables and graphs:

(in RSD thousand)

Deposits from other clients	31/12/2018	31/12/2019	Plan 2019	% of change
Transaction deposits	14,215,085	15,471,872	15,287,064	8.84%
Other deposits	18,024,501	25,898,611	22,695,410	43.69%
Total	**32,239,586**	**41,370,483**	**37,982,474**	**28.32%**

Total increase of deposits from other clients in 2019 amounted to 28.32%.

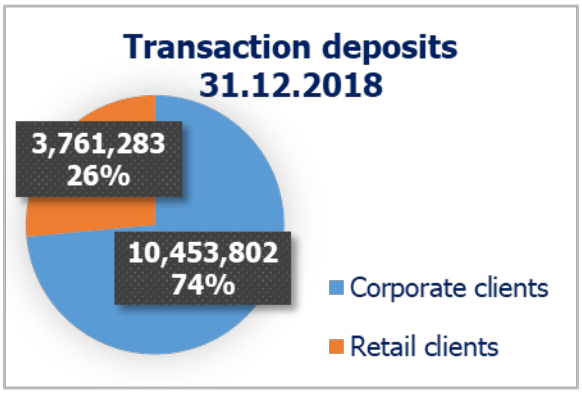
(in RSD thousand)

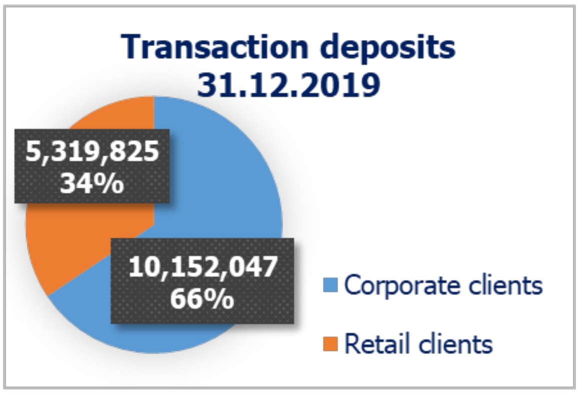
Deposits from other clients	31/12/2018	31/12/2019	Plan 2019	% of change
Corporate clients	16,792,417	21,781,545	18,579,662	29.71%
Retail clients	15,447,169	19,588,938	19,402,812	26.81%
Total	**32,239,586**	**41,370,483**	**37,982,474**	**28.32%**

By constant monitoring of the market trends, individual and proactive approach to clients, the Bank increased the level of deposits from corporate clients by 29.71%, and the level of deposits from retail clients by 26.81%.

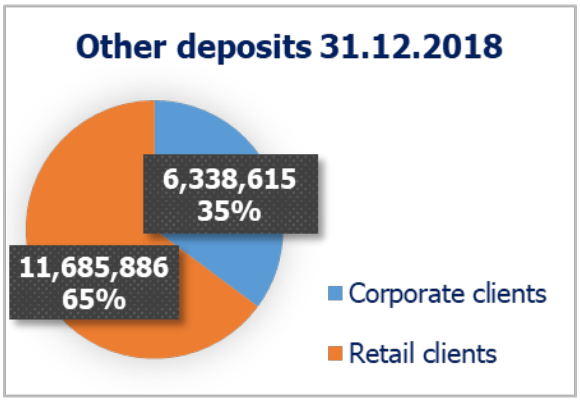
The structure of deposits from other clients is presented in the following graphs:

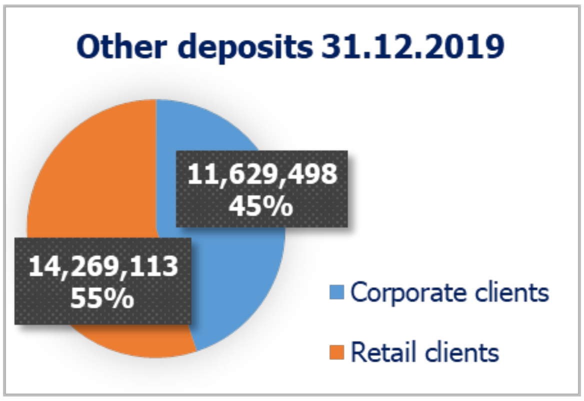
(in RSD thousand)





(in RSD thousand)





2.3 Funds borrowed

(in RSD thousand)

Borrowings in foreign currencies	31/12/2018	31/12/2019	% of change
- EIB	5,725,497	5,950,863	3.94%
- Revolving Credit Fund (RCF - EAR)	865,516	841,385	-2.79%
- European Fund for Southeast Europe	1,181,946	839,949	-28.94%
- Demir-Halk Bank (Nederland) N.V.	295,487	587,964	98.98%
- GGF	590,973	553,378	-6.36%
- Government of the Republic of Italy	66,956	47,684	-28.78%
- KfW	107,450	-	-100.00%
Total	**8,833,825**	**8,821,223**	**-0.14%**

In 2019, the Bank made regular and timely repayment of the long-term loan principal amounts to IFIs in the aggregate amount of EUR 17,969 thousand. In the same period, the Bank withdrew EUR 18,244 thousand of IFI's funds.

3.2.3 Equity

As of 31 December 2019 the Bank's equity amounted to RSD 12,098,719 thousand and comprised the following:

(in RSD thousand)

Equity	31/12/2018	31/12/2019	% of change
Share capital – ordinary shares	5,658,940	5,658,940	0.00%
Share capital – preference cumulative shares	1,340	1,340	0.00%
Share capital - preference non-cumulative shares	600,000	600,000	0.00%
Share premium	2,712,323	2,712,323	0.00%
Revaluation reserves	452,553	926,753	104.78%
Reserves from profit	1,312,431	1,726,527	31.55%
Retained earnings from previous years	52,373	-	-
Profit for the current year	361,725	472,836	30.72%
Total	**11,151,685**	**12,098,719**	**8.49%**

Under the decision of the Bank's Shareholders Assembly dated 30 April 2019, the Bank's profit from 2018, as well as the remaining undistributed profit from 2017, was allocated to the reserves from profit.

The information about the number of shareholders and the basic information on shares is presented in the following table:

Information on shares	31/12/2018	31/12/2019
Number of shareholders	1	1
Number of shares	626,028	626,028
Nominal value per share in RSD	10,000	10,000
Net book value per share in RSD	17,813.40	19,326.16

4. OFF-BALANCE SHEET ITEMS

During 2019, the Bank issued performance and payment guarantees and letters of credit for its customers. The structure of off-balance sheet items as of 31 December 2018 and 31 December 2019 is presented in the following table:

(in RSD thousand)

Off-balance sheet items	31/12/2018	31/12/2019	% of change
Contingent liabilities (guarantees, acceptances and irrevocable commitments)	9,692,565	13,492,419	39.20%
Managed funds	271,833	265,345	-2.39%
Derivatives (SWAP)	1,579,341	943,938	-40.23%
Other off-balance sheet items	47,548,920	65,334,154	37.40%
Total	**59,092,659**	**80,035,856**	**35.44%**

The following table compares the structure of the item of guarantees, acceptances and irrevocable commitments as of 31 December 2018 and 31 December 2019:

(in RSD thousand)

Contingent liabilities (guarantees, acceptances and irrevocable commitments)	31/12/2018	31/12/2019	% of change
Performance guarantees	5,337,428	8,411,994	57.60%
Payment guarantees	2,116,315	2,854,307	34.87%
Irrevocable commitments	1,813,172	1,574,212	-13.18%
Issued foreign currency letters of credit with Banks' confirmation	384,132	617,362	60.72%
Issued unsecured letters of credit	41,518	34,544	-16.80%
Total	**9,692,565**	**13,492,419**	**39.20%**

5. STATEMENT OF PROFIT AND LOSS FOR THE PERIOD

The Income Statement for the period from 1 January to 31 December 2019 is presented in compliance with the Law on Accounting, IFRS and NBS regulations.

The Bank ended FY 2019 with a profit of RSD 472,836 thousand.

(in RSD thousand)

Income Statement	31/12/2018	31/12/2019	Plan 2019	% of change
Interest income	2,068,379	2,528,261	2,663,462	22.23%
Interest expense	315,868	423,985	471,409	34.23%
Net interest income	**1,752,511**	**2,104,276**	**2,192,053**	**20.07%**
Fee and commission income	843,582	929,972	1,084,241	10.24%
Fee and commission expenses	145,030	158,613	188,564	9.37%
Net fee and commission income	**698,552**	**771,359**	**895,677**	**10.42%**
Net gains on changes in the fair value of financial instruments, derecognition of financial instruments at fair value and foreign exchange gains and currency clause positive effects	13,866	972	11,785	-92.99%
Other operating income	16,380	31,983	17,678	95.26%
Net gains/(losses) on impairment of financial assets not measured at fair value through profit or loss	-75,127	-214,832	-223,919	185.96%
Total net operating income	**2,406,182**	**2,693,758**	**2,893,274**	**11.95%**
Salaries, salary compensation and other personal expenses	802,875	906,313	907,463	12.88%
Depreciation costs	150,143	362,928	418,376	141.72%
Other expenses	1,091,439	951,681	1,037,100	-12.80%
Total operating expenses	**2,044,457**	**2,220,922**	**2,362,939**	**8.63%**
NET PROFIT BEFORE TAX	**361,725**	**472,836**	**530,335**	**30.72%**

*The item "Other operating income" includes "Other operating income" and "Other income" from the official Income Statement form.

In 2019, the Bank increased its net interest income by 20.07%, or by RSD 351,765 thousand, comparing to the same period last year, while the net income from fees and commission rose by 10.42% over the observed period, or by RSD 72,807 thousand. Total operating expenses were higher by 8.63%, or by RSD 176,465 thousand comparing to same period in 2018. The increase in depreciation costs was primarily caused by the new method of accounting for lease contracts in accordance with the new standard on leases, IFRS 16, which accounts for an increase of RSD 175,667 thousand.

The structure of interest income is presented in the following table:

(in RSD thousand)

Interest income	31/12/2018	31/12/2019	% of change
Corporate clients	992,011	1,221,065	23.09%
Retail clients	771,937	906,912	17.49%
Securities	268,481	338,215	25.97%
Other	35,949	62,069	72.66%
Total	**2,068,379**	**2,528,261**	**22.23%**

The structure of fee and commission income is presented in the following table:

(in RSD thousand)

Fee and commission income	31/12/2018	31/12/2019	% of change
Fees from payment operations	483,145	532,061	10.12%
Fees from guarantees	111,321	146,193	31.33%
Fees from FX changes	103,389	110,150	6.54%
Fees from cheques and payment cards	63,446	59,944	-5.52%
Fees from loan processing	45,041	48,415	7.49%
Fees from SWAP	25,611	23,848	-6.88%
Other fees	11,629	9,361	-19.50%
Total	**843,582**	**929,972**	**10.24%**

The structure of interest expenses is presented in the following table:

(in RSD thousand)

Interest expenses	31/12/2018	31/12/2019	% of change
Deposits – corporate	91,757	161,119	75.59%
Deposits – retail	85,349	112,612	31.94%
Borrowings FI's	102,116	87,005	-14.80%
Banks deposits	36,646	52,711	43.84%
IFRS 16	91,757	10,538	-
Total	**315,868**	**423,985**	**34.23%**

The structure of fee and commission expenses is presented in the following table:

(in RSD thousand)

Fee and commission expenses	31/12/2018	31/12/2019	% of change
Payment operations	86,295	97,328	12.79%
VisaCard and MasterCard	43,740	46,350	5.97%
Credit Bureau	13,862	14,935	7.74%
Credit lines	1,133	-	-100.00%
Total	**145,030**	**158,613**	**9.37%**

6. CASH FLOWS

Cash flows from operating activities during 2018 and 2019 are presented in the table below:

(in RSD thousand)

Cash inflows from operating activities	I - XII 2018	I - XII 2019	Change
Interest	2,018,094	2,406,095	388,001
Fees	858,916	943,344	84,428
Other operating income	3,849	12,055	8,206
Dividend and share in profit	886	2,152	1,266
Total cash inflows	**2,881,745**	**3,363,646**	**481,901**
Cash outflows from operating activities			
Interest	291,577	394,245	102,668
Fees	141,536	155,653	14,117
Salaries	751,379	892,133	140,754
Tax and contribution	185,280	184,911	-369
Other operating expenses	926,684	774,999	-151,685
Total cash outflows	**2,296,456**	**2,401,941**	**105,485**
Net cash inflows from operating activities before increase / decrease in financial assets or financial liabilities	**585,289**	**961,705**	**376,416**

Cash inflows from operating activities before increase/decrease in financial assets or financial liabilities in 2019 increased for RSD 481,901 thousand comparing to 2018.

Cash outflows from operating activities before increase/decrease in financial assets or financial liabilities increased for RSD 105,485 thousand comparing to 2018.

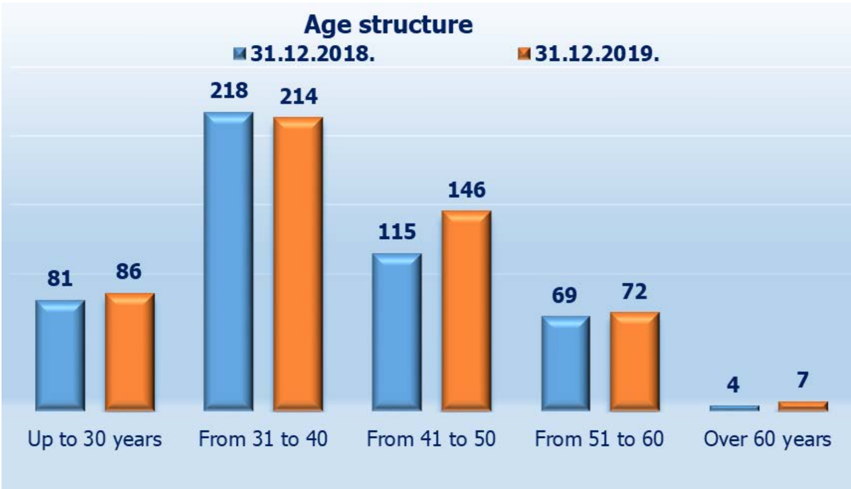
Net cash inflows from operating activities before increase/decrease in financial assets or financial liabilities in 2019 amounted to RSD 961,705 thousand, recording an increase of RSD 376,416 thousand in comparison to 2018.

7. HUMAN RESOURCES

Employees represent one of the most important resources on which the Bank's overall activities are based. At the end of 2019 the Bank had 525 employees with the following structure:

Number of employees	31/12/2018	31/12/2019	Plan 2019
Headquarters	203	219	223
Branches	284	306	330
Total	**487**	**525**	**553**

The following graphs show the qualification and age structures of employees as of 31 December 2018 and 31 December 2019:



In the qualification structure of employees at the end of 2019, the share of employees with higher education was 70%, while regarding the age structure, the share of those younger than 40 years was 57%. The Bank intensively invests in improving the skills and knowledge of employees through external and internal trainings and participation in educational panels. Particular attention is paid to the Bank's internal communication to all employees so that they are familiar with the strategic goals and results, and the most important challenges and activities.

Expenses for salaries, salary compensations and other personal expenses in 2019 amounted to RSD 906,313 thousand and accounted for 99.87% of planned budget for 2019.

8. INVESTMENT PLAN

During 2019 the total investments in property, equipment, investment property and intangible assets amounted to RSD 859,783 thousand.

Movements on these balance sheet items are presented in the following table:

(in RSD thousand)

Investments	Buildings	Equipment	Investment property	Intangible assets	ROU assets / leases in scope of IFRS 16	Total	Plan for 2019
Balance 31/12/2018	**448,325**	**402,716**	**123,883**	**273,138**	**-**	**1,248,062**	**1,248,062**
Total increase:	**2,052**	**94,965**	**17,971**	**48,160**	**696,638**	**859,783**	**1,321,688**
IT	-	39,230	-	48,160	-	87,390	568,624
Adaption of business premises	1,529	33,572	-	-	-	35,099	695,561
Other	-	22,163	-	-	-	22,163	57,503
IFRS 16 – leases (property and vehicles)	-	-	-	-	696,638	696,638	763,295
Revaluation	523	-	-	-	-	523	-
Reclassification*	-	-	17,970	-	-	17,970	-
Total decrease:	**35,747**	**115,590**	**4,009**	**50,572**	**175,667**	**381,582**	**418,358**
Depreciation charge	17,775	114,908	4,009	50,572	-	187,261	235,687
Depreciation – IFRS 16	-	-	-	-	175,667	175,667	182,671
Sales	-	574	-	-	-	576	-
Disposal and retirement	-	108	-	-	-	108	-
Reclassification*	17,972	-	-	-	-	17,970	-
FX effects	-	-	-	-	-	-	-757,854
Balance 31/12/2019	**414,630**	**382,091**	**137,845**	**270,726**	**520,971**	**1,726,263**	**2,909,246**

**Preented in the net amount in contrast to the presentation in Notes to the financial statements*

The Bank's investments in 2019 were made in accordance with the planned activities, such as the Novi Sad branch relocation to a better and more appropriate location, opening of a new branch in Smederevo, renewal of security and IT user equipment, as well as additional investments in equipment and licences for completion of the TESLA Project.

Of the total increase in 2019, the amount of RSD 696,638 thousand refers to the effects of IFRS 16 application, where RSD 646,693 thousand pertains to the first-time adoption effects.

9. COMPLIANCE OF OPERATIONS WITH THE NBS REGULATIONS AND IFI AGREEMENTS

As of 31 December 2019 all the Bank's performance ratios were within the limits prescribed by the Law on Banks and NBS regulations.

Ratio	The values prescribed by the NBS regulations	Values as at December 31th 2019
Regulatory Capital	Min EUR 10,000,000	EUR 95,363,415
Capital adequacy ratio	min 8%	24.22%
Foreign exchange risk ratio	max 20%	3.35%
Liquidity ratio	Min 1	2.12
Rigid liquidity ratio	Min 0.7	1.87
Exposure to a single entity or a group of related entities	max 25%	13.28%
Sum of the Bank's large exposures	max 400%	14.99%
Capital expenditures and non-FSI entities	max 60%	12.98%

The Bank's Business Policy for 2019 as one of the main goals in the risk management process defines maintenance of the capital adequacy ratio above 22%. As of 31 December 2019 the capital adequacy ratio was above the set target (24.22%).

By the Decision on the Minimum Requirement for Capital and Eligible Liabilities of a Bank, the National Bank of Serbia defined the ratio of capital and eligible liabilities to total liabilities to be minimum 6.20%. As of 30 June 2019, the Bank's ratio of the capital and eligible liabilities to total liabilities of equaled 26.51%, which is significantly above the prescribed limit.

Compliance with the covenants from the agreements concluded with the international financial institutions (IFIs)

Pursuant to the stipulations of the loan agreements concluded with the international financial institutions (IFIs) – the German Development Bank (KfW), Green for Growth Fund (GGF), and the European Fund for Southeast Europe (EFSE), the Bank is required to comply with certain financial covenants until the final repayment of the loans. As of 31 December2019 the Bank was in full compliance with all the contractually defined covenants.

the line of credit obtained from the German Development Bank (KfW) was repaid at the end of the year 2019. During the year 2019 the Bank was in full compliance with all the covenant defined by the loan agreement concluded with KfW.

III INVESTMENT FOR THE PURPOSE OF ENVIRONMENTAL PROTECTION

The Bank is particularly cautious to invest only in the projects that do not cause any environmental and social harm. Environmental and social (E&S) protection includes, besides ecological aspects, the issues of a local community and employee protection.

The aim of managing E&S risk is identification, assessment and control of the risks that may cause E&S harm and it is carried out in accordance with the E&S Risk Management Policy and the E&S Risk Management Procedure.

The following bodies are responsible for managing the E&S risk in the Bank:

- Board of Directors that establishes and at least once a year reviews E&S Risk Management Policy and identifies the need for any amendments,
- Executive Board that establishes and implements the E&S Risk Management Procedure,
- Credit Committees that make decisions on loan disbursement on the basis of the E&S information available and the opinion of the Corporate and SME Marketing Division,
- Credit Division that assesses the impact of the activity and the project during the process of appraising customers' creditworthiness,
- The Risk Management Department that monitors loans at the portfolio level by categories of E&S risks through the preparing and analysis of reports.

When processing individual clients' applications, E&S risk is classified for the basic activity of the client and the activity which is subject to financing.
There are the following E&S risk categories:
- High – Exclusion List;
- High – Category A;
- High;
- Medium and
- Low

Environmental risk

Overview of the Bank's exposures by environmental and social risk categories

(in RSD thousand)

Risk category	Number of clients		Amount of placements (balance and off-balance)		Increase / decrease
	31/12/2018	31/12/2019	31/12/2018	31/12/2019	
High – Exclusion List	2	-	238,534	-	-238,534
High – Category A	8	10	72,576	465,438	392,862
High	292	342	7,895,397	11,807,138	3,911,741
Medium	1,359	1,948	16,655,673	21,023,659	4,367,986
Low	2,287	2,296	19,560,691	22,443,645	2,882,954
Total	**3,948**	**4,596**	**44,422,871**	**55,739,880**	**11,317,009**

*For the purpose of analysis of environmental risk, the Bank considers only the relevant portion of the portfolio.

In the structure of the on-balance and off-balance exposure to clients, legal entities and entrepreneurs, as of 31 December 2019, the largest share was that of the clients involved in activities with low environmental and social impact, 40.26%, followed by the those with medium impact with a share of 37.72%, while the high impact high risk category A had respective shares of 21.18% and 0.84%.

IV SIGNIFICANT EVENTS AFTER THE END OF BUSINESS YEAR

After the reporting period, there have been no events with a material impact on the financial statements of the Bank as of and for the year ended 31 December 2019.

V ANTICIPATED FUTURE DEVELOPMENT

The business policy and strategy for the period from 2018 to 2022 defined the basic business goals and main guidelines for the development of Halkbank a.d. Beograd in the Serbian market.

By increasing its share capital in 2018 by the amount of EUR 40 million, the Bank ensured an excellent base for rapid growth in order to achieve the assets size of EUR 1 billion by the end of 2022.

As one of the main goals, it is planned to expand the branch network to more than 50 branches, opening 4 to 5 new branches annually, with a high potential for raising market share in Belgrade and other regions where the Bank does not currently have branches. The Bank will be oriented towards SME clients, with a strong focus on the retail segment. Loans will grow above 20% on the annual basis, while client deposits will grow by 30% on the average annually.

All listed activities will lead to an increase in the Bank’s market share in the banking sector to 3%, based on the size of its total assets, along with sustainable growth, good liquidity and capital adequacy position.

VI RESEARCH AND DEVELOPMENT ACTIVITIES

The Bank carries out a regular financial market research, analyses customers' financial needs and investigates a degree of satisfaction of the users of financial services.

The Marketing Division constantly develops new products and services, and based on the information and conclusions that it obtains through market research activities and customers’ needs, strives to develop and offer modified existing products, as well as completely new products and services.

VII INFORMATION ON PURCHASE OF OWN SHARES

The Bank did not acquire its own shares during 2019.

VIII EXISTENCE OF AFFILIATES

HALKBANK a.d. Beograd has successfully expanded its business network and client base. Today the Bank offers services and products through a network of 25 branches, 9 sub-branches and 4 cash desks. As at 31 December 2019 the Bank was comprised of 8 branches in Belgrade, 2 branches in Čačak and branches located in the towns of Smederevo, Jagodina, Gornji Milanovac, Kraljevo, Užice, Kragujevac, Kruševac, Aranđelovac, Valjevo, Šabac, Niš, Novi Sad, Pančevo, Novi Pazar and Subotica and 9 sub-branches in Paraćin, Požega, Topola, Ivanjica, Vrnjačka Banja, Leskovac, Mladenovac, Tutin and Čačak.

IX RISK MANAGEMENT ADEQUACY

The Bank's targets in risk management are identification, measuring, mitigating and monitoring all types of risks and thus minimizing the Bank's exposure to such risks.

Credit Risk

The Bank measures and monitors the credit risk level through assessing the clients' solvency and controlling the loan portfolio through the calculation of loan loss reserves pursuant to the NBS regulations and impairment provisions pursuant to the IFRS rules.

Structure of gross risk-weighted assets per classification categories

(in RSD thousand)

<table>
<tr><th>Classification category</th><th>Classified amount as at 31.12.18</th><th>% of the share in gross risk-weighted assets</th><th></th><th>Classified amount as at 31.12.19</th><th>% of the share in gross risk-weighted assets</th><th></th></tr>
<tr><td>A</td><td>29,638,883</td><td>50.67%</td><td rowspan="2">85.00%</td><td>28,378,670</td><td>40.03%</td><td rowspan="2">70.67%</td></tr>
<tr><td>B</td><td>20,083,191</td><td>34.33%</td><td>21,716,803</td><td>30.64%</td></tr>
<tr><td>V</td><td>5,574,816</td><td>9.53%</td><td>9.53%</td><td>13,790,931</td><td>19.46%</td><td>19.46%</td></tr>
<tr><td>G</td><td>483,354</td><td>0.83%</td><td rowspan="2">5.47%</td><td>2,946,405</td><td>4.16%</td><td rowspan="2">9.87%</td></tr>
<tr><td>D</td><td>2,715,735</td><td>4.64%</td><td>4,049,661</td><td>5.71%</td></tr>
<tr><td>Total</td><td>58,495,979</td><td>100.00%</td><td></td><td>70,882,353</td><td>100.00%</td><td></td></tr>
</table>

The total classifying assets increased as of 31 December 2019 by 21.17% compared to the end of 2018.

Compared to the end of 2018, there was a certain deterioration and reclassifications in the structure of the Bank's portfolio, with an increase of G and D category receivables by 4.40 percentage points, an increase in category V receivables by 9.93 percentage points and a decrease of receivables classified in categories A and B by 14.33 percentage points.

At 31 December 2019, the Bank's portfolio quality was at the medium risk level, taking into account that less than 75% of assets were classified into categories A and B. Decrease in the share of exposures classified in A and B categories and their transfer to category V resulted from the amendments to the Bank's internal Procedure for classification of balance sheet assets and off-balance sheet items. The Bank introduced indebtedness buckets and set the minimum risk categories for classification of loans and receivables by taking into consideration the currency structure and matching of the clients' of monthly income and their monthly financial liabilities.

Collection and coverage of NPLs

NPL portfolio based on the methodology of reporting to the National Bank of Serbia is shown in the following table:

(in RSD thousand)

	31/12/2018	31/12/2019	Change
NPL portfolio	2,569,350	2,144,650	-424,700

As of 31 December 2019, the Bank's NPLs went down by RSD 424,700 thousand compared to 31 December 2018, as a result of NPL collection and accounting write-off conducted for the fully (100%) impaired non-performing receivables. During 2019, the Bank collected RSD 271,051 thousand of NPLs including recovery of written-off receivables, while the accounting write-off of the fully (100%) impaired non-performing receivables in the same period amounted to RSD 505,767 thousand. The accounting write-off of receivables and their transfer to the off-balance sheet items does not mean that the Bank waives its rights to the collection of non-performing exposures or legal rights arising from such loans.

On the other hand, new exposures that became NPL comparing the end of the year 2019 to the end of the year 2018 amounted to RSD 242,359 thousand.

Share of gross NPLs in the Bank's total gross loans

Ratio	31/12/2018	31/12/2019	Change
Share of NPLs in total loans	6.42%	4.59%	-1.83 p.p.

The credit risk management policy adopted on 27 December 2019 defined the limit for the level of non-performing loans (NPL ratio) as the gross NPLs relative to the total gross loans as equal to 7.5%. As of 31 December 2019 the Bank's NPL ratio was below the defined limit.

NPL coverage

Ratio	31/12/2018	31/12/2019
Ratio of NPL coverage with the total impairment provisions	54.54%	49.32%
Ratio of NPL coverage with NPL impairment provisions	47.97%	42.53%

In Credit Risk Management Policy adopted on 27 December 2019, the Bank defined the highest acceptable level of non-performing exposures (NPE) in relation to the total classifying balance sheet and off-balance sheet assets as less than 7.5%, as well as the NPL coverage ratio which is calculated as a ratio of non-performing loans (NPL) and NPL impairment provisions at the level above 35%. The share of non-performing exposures (NPE) as of 31 December 2019 in the total classified assets amounted to 3.24% and was significantly below the defined limit. The share of NPE decreased compared to 31 December 2018 for 1.45 p.p. due to a reduction of non-performing loans and a simultaneous increase of loan portfolio. As of 31 December 2019, the Bank's NPL coverage ratio equaled 42.53% and was above the defined limit.

Liquidity Risk

Liquidity Ratio and Rigid Liquidity Ratio prescribed by NBS in the period from 1 January to 31 December 2019

	Liquidity Ratio	Rigid Liquidity Ratio
Value as of December 31	2.12	1.87
Average	1.77	1.50
Maximum	2.12	1.87
Minimum	1.56	1.24
Daily NBS limit	Min 0.8	Min 0.5
NBS limit on monthly level	Min 1	Min 0.7

Liquidity ratios of the Bank during the period from 1 January to 31 December 2019 were in accordance with the prescribed limits by the Decision on Risk Management by Banks. In order to manage liquidity risk adequately, the Bank monitors internally established indicators of structural liquidity in addition to the limits prescribed by the NBS.

Additional liquidity ratios in the period from 01/01-31/12/2019 – internally established

	Min.	Max.	Average	Limit
Liquid assets ratio	24.43%	30.29%	27.51%	Min 20.00%
Net loans to total deposits ratio	96.43%	110.85%	103.77%	Max
Customers' deposits to total deposits	85.67%	93.48%	88.66%	Min 75.00%
Deposit concentration ratio	24.04%	28.07%	26.10%	Max 30.00%

The Bank was within internally prescribed liquidity limits during the period from 1 January to 31 December 2019.

Foreign exchange risk

FX Risk ratio in the period from 01.01 - 31.12.2019

Value as of December 31	3.35%
Average	1.99%
Maximum	6.98%
Minimum	0.13%
Limit NBS	Max 20%

Foreign currency risk measured by FX risk ratio was located in the low risk category during 2019.

Interest rate risk

The impact of changes in interest rates on the economic value of the Bank is monitored through the total net weighted position of the banking book.

Total net weighted position of the Bank as of 31 December of 2019

	(in RSD thousand)
Total net weighted position	-128,826
Equity	11,214,051
Total net weighted position and adequacy ratio	1.15%
Internally prescribed maximum	20%

Operational risk

In the period from 1 January to 31 December 2019, 176 operational risk-related events were reported through the Operational risks database. Seventy-one of all operational risk events reported referred to cashier shortages or surpluses and those were successfully resolved (51 events of cashier shortages and 20 events of cashier surpluses).

Number of events	176
Cashier shortages	51
Cashier surpluses	20
Other	105
Net loss in EUR	10,372

The Bank assesses the risk of activity outsourcing. Outsourcing is performed under the relevant contracts where rights and obligations of the contracting parties are clearly defined. The Bank also identifies and assesses operational risks upon each introduction of new products, processes and systems or new business activities.

Exposure risk

The Bank's exposure to entities/persons related to the Bank and its large exposures as of 31 December 2019

	(in RSD 000)	% of equity	Limit NBS
Entities/persons related to the Bank	1,642,301	14.64%	-
Large exposures	1,681,224	14.99%	Max 400%

Concentration risk

The Bank monitors the concentration risk through a concentration ratio that was defined as the ratio of the 20 largest gross exposures at the level of the client or the group of related parties and total regulatory capital.

The policy of credit risk management stipulates that the concentration ratio should be maintained at a level below 300%.

	31/12/2018	31/12/2019	Prescribed value
Concentration ratio of 20 largest clients/groups of related parties	89.69%	119.87%	Max 300% of the regulatory capital

As of 31 December 2019, the Bank's concentration ratio was within the internally defined limit.

Additionally, in order to manage the concentration risk, by the Procedure for the Credit Risk Management at the portfolio level, exposure limits (balance sheet assets and off-balance sheet items) are established to specific geographical areas and specific sectors / business activities, which provide diversification of the portfolio.

As of 31 December 2019, the Bank had the largest exposure to the mining and processing industry (24.55%) and to the retail segment (20.17%), which is significantly below the internally defined limit of 60% and 25%, respectively. The Bank's exposure per geographic areas is monitored through the shares of exposures to clients from individual geographic areas in the total classifying gross balance sheet assets and off-balance items. The Bank had the largest exposure to clients in the region of Central and Western Serbia (38.03%) and in the region of Belgrade (33.41%), which is significantly below the internally defined limits of 70% and 50%, respectively.

The Bank's exposures to certain products are monitored in accordance with the relevant NBS Decision on Concentration Risk Management. The Bank's exposures per retail loans with a contractual maturity of more than 2920 days may not exceed 30% of the Bank's capital determined in accordance with the decision regulating the Bank's capital adequacy increased by the amount of all Bank's liabilities in dinars with a remaining maturity of more than 1825 days. The calculation of the capital amount referred to above is not subject to the regulatory adjustments and capital deductibles prescribed by the NBS decision on the capital adequacy of banks, except for deductions for the loss for the current year and prior years' losses and for unrealized losses. As of 31 December 2019, the concentration risk ratio in retail segment calculated as described above equaled 16.10%, which is significantly below the defined limit.

Investment Risk

The Bank did not have investments in non-financial sector as of December 31st 2019.Total investments in entities that are not in financial sector and in fixed assets and investment property were in the category of low risk (below 45% of capital).

The Bank's investments into non-FSI entities and its own fixed assets as of 31 December 2019

	Investments into non-financial sectors	Investments into fixed assets	Total
Amount (RSD '000)	0	1,455,446	1,455,446
Share in equity	0%	12.98%	12.98%
Limit NBS	Max 10%	-	Max 60%

Country risk - the risk of the country of origin of the party the Bank is exposed to

The Bank establishes a system of country classification regarding the level of country risk and is committed to a system of risk classification by applying categories assigned by international rating agencies (Moody's, Standard&Poors and Fitch).

During 2019, the Bank had exposures to clients operating in countries that are classified as low-risk and medium-risk countries, according to the classification of official international credit rating agencies and the Bank's Procedure.

The Bank's exposure towards countries which are in the category of low risk is without limits. The countries in this category as of 31 December 2019 were Germany, Austria and USA. Countries in the category of medium risk were Turkey, Romania, Bosnia, Macedonia, Croatia and Albania. Exposure to the countries in the category of medium risk was significantly below the adopted internal limits during 2019.

List of the countries of clients whose exposure involved the country risk as of 31 December 2019

Country	Risk level	Limit	Share in the Bank's capital*
Germany	Low	No limit	2.58%
Austria	Low	No limit	1.81%
USA	Low	No limit	0.76%
Turkey	Medium	100% of the regulatory capital	20.79%
Romania	Medium	20% of the regulatory capital	13.28%
Bosnia	Medium	40% of the regulatory capital	3.15%
Macedonia	Medium	100% of the regulatory capital	2.38%
Croatia	Medium	10% of the regulatory capital	0.03%
Albania	Medium	25% of the regulatory capital	0.00%

X CORPORATE GOVERNANCE RULES

Corporate governance rules of Halkbank a.d. Beograd are regulated are governed and set forth by the following bylaws:

- Statute;
- Articles of Incorporation;
- Corporate Governance Code;
- Business Code of Supervisory Board Members;
- Code of Conduct and Ethical Principles;
- Anti-Corruption Policy and
- General Operating Conditions.

HALKBANK AD BEOGRAD

Head of Financial Management and Planning Division
Vesna Petrović

Member of Executive Board
Dušica Erić

AKCIONARSKO DRUŠTVO HALKBANK BEOGRAD

President of Executive Board
Kenan Bozkurt