

**HALKBANK A.D. BEOGRAD
Financial Statements
Year Ended December 31, 2020
And
Notes to the Financial Statements**

CONTENTS

| | Page |
|---|-------------|
| Financial Statements: | |
| Statement of the Financial Position | 4 |
| Income Statement | 5 |
| Statement of Other Comprehensive Income | 6 |
| Statement of Changes in Equity | 7 |
| Statement of Cash Flows | 8 |
| Notes to the Financial Statements | 9 - 108 |

STATEMENT OF FINANCIAL POSITION
As of December 31, 2020
(Thousands of RSD)

| | Note | December 31, 2020 | December 31, 2019 |
|--|--------------------|----------------------|----------------------|
| ASSETS | | | |
| Cash and balances held with the central bank | 3.8, 15 | 13,707,004 | 10,013,564 |
| Pledged financial assets | 17 | 1,200,000 | 2,260,870 |
| Securities | 3.7, 17 | 9,920,811 | 8,346,480 |
| Loans and receivables due from banks and other financial institutions | 3.9, 18 | 2,398,670 | 1,453,134 |
| Loans and receivables due from customers | 3.9, 19 | 55,520,331 | 45,804,396 |
| Intangible assets | 3.6, 20a | 321,182 | 270,726 |
| Property, plant and equipment | 3.4, 20b, 20c, 20e | 1,367,676 | 1,317,692 |
| Investment property | 3.5, 20d | 133,306 | 137,845 |
| Deferred tax assets | 3.10, 14b | 62,393 | 62,393 |
| Other assets | 21 | 384,524 | 326,443 |
| TOTAL ASSETS | | 85,015,897 | 69,993,543 |
| LIABILITIES AND EQUITY | | | |
| Liabilities under derivatives | 16 | 1,266 | 1,563 |
| Deposits and other liabilities due to banks, other financial institutions and the central bank | 3.7, 22 | 10,355,655 | 8,438,685 |
| Deposits and other liabilities due to customers | 3.7, 23 | 60,969,422 | 48,486,776 |
| Provisions | 2.6, 24 | 77,546 | 117,590 |
| Other liabilities | 25 | 1,123,462 | 850,210 |
| TOTAL LIABILITIES | | 72,527,351 | 57,894,824 |
| EQUITY | | | |
| Share capital | 3.11, 26 | 8,972,603 | 8,972,603 |
| Profit | 26 | 1,212,036 | 472,836 |
| Reserves | 3.11, 26 | 2,303,907 | 2,653,280 |
| TOTAL EQUITY | 26 | 12,488,546 | 12,098,719 |
| TOTAL LIABILITIES AND EQUITY | | 85,015,897 | 69,993,543 |

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 25, 2021.


 Aleksandar Mijailović
 Head of the Financial Management and Planning Division


 Dušica Erić
 Member of the Executive Board


 Kenan Bozkurt
 II Chairman of the Executive Board




INCOME STATEMENT
Year Ended December 31, 2020
(Thousands of RSD)

| | <u>Note</u> | <u>2020</u> | <u>2019</u> |
|--|-------------------|-------------------------|-------------------------|
| Interest income | 3.1, 4a | 2,714,093 | 2,528,261 |
| Interest expenses | 3.1, 4b | <u>(521,547)</u> | <u>(423,985)</u> |
| Net interest income | | <u>2,192,546</u> | <u>2,104,276</u> |
| Fee and commission income | 3.2, 5a | 981,159 | 929,972 |
| Fee and commission expenses | 3.2, 5b | <u>(207,104)</u> | <u>(158,613)</u> |
| Net fee and commission income | | <u>774,055</u> | <u>771,359</u> |
| Net losses on changes in the fair value of financial instruments | 6 | (2,491) | (7,068) |
| Net gains on derecognition of the financial assets measured at fair value | 7 | 80,392 | 20 |
| Net foreign exchange gains and positive currency clause effects | 3.3, 9 | 17,260 | 8,020 |
| Net losses from impairment of financial assets not measured at fair value through profit or loss (FVtPL) | 11a | (294,510) | (214,832) |
| Net gain on derecognition of financial instruments measured at amortized cost | 8 | 252 | - |
| Other operating income | 10 | <u>11,184</u> | <u>16,395</u> |
| TOTAL OPERATING INCOME, NET | | <u>2,778,688</u> | <u>2,678,170</u> |
| Salaries, salary compensations and other personnel expenses | 12 | (958,415) | (906,313) |
| Depreciation and amortization charge | 3.4, 3.5, 3.6, 20 | (404,384) | (362,928) |
| Other income | 13 | 36,913 | 15,588 |
| Other expenses | 13 | <u>(923,096)</u> | <u>(951,681)</u> |
| PROFIT BEFORE TAXES | | <u>529,706</u> | <u>472,836</u> |
| Current income tax expense | 3.10, 14 | - | - |
| Deferred tax gains/(losses) | 3.10, 14 | <u>-</u> | <u>-</u> |
| PROFIT FOR THE YEAR | 26 | <u>529,706</u> | <u>472,836</u> |

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 25, 2021.




 Aleksandar Mijailović
 Head of the Financial Management and Planning Division



 Dušica Erić
 Member of the Executive Board



 Kenan Bozkurt
 II Chairman of the Executive Board




STATEMENT OF OTHER COMPREHENSIVE INCOME
Year Ended December 31, 2020
(Thousands of RSD)

| | <u>2020</u> | <u>2019</u> |
|--|------------------|----------------|
| PROFIT FOR THE YEAR | 529,706 | 472,836 |
| <i>Components of other comprehensive income that cannot be reclassified to the profit or loss:</i> | | |
| Increase in revaluation reserves arising from intangible assets and property, plant and equipment (Note 20b) | - | 523 |
| Actuarial losses (Note 24b) | (2,882) | (773) |
| <i>Components of other comprehensive income that can be reclassified to the profit or loss:</i> | | |
| Positive effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVtOCI) (Note 17) | 18,127 | 478,764 |
| Negative effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVtOCI) (Note 17) | (155,113) | (4,315) |
| Total (negative)/positive other comprehensive income for the year | (139,868) | 474,199 |
| TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE YEAR | 389,838 | 947,035 |

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 25, 2021.



 Aleksandar Mijailović
 Head of the Financial Management and Planning Division

 Dušica Erić Kenan Bozkurt
 Member of the Executive Board Chairman of the Executive Board

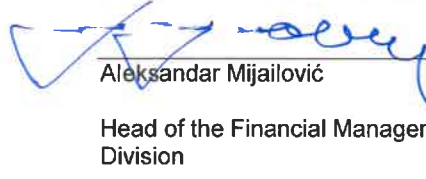


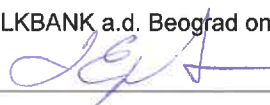
STATEMENT OF CHANGES IN EQUITY
Year Ended December 31, 2020
(Thousands of RSD)

| | Share and other capital | Share premium | Reserves from profit and other reserves | Revaluation reserves | Retained earnings | Total equity |
|--|-------------------------|------------------|---|----------------------|-------------------|-------------------|
| Opening balance at January 1, 2019 | 6,260,280 | 2,712,323 | 1,312,431 | 452,553 | 414,098 | 11,151,685 |
| Opening balance at January 1, 2019, restated | 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) |
| <i>Other comprehensive income</i> | | | | | | |
| 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 |
| Opening balance at January 1, 2020 | 6,260,280 | 2,712,323 | 1,726,528 | 926,752 | 472,836 | 12,098,719 |
| Actuarial losses, net | - | - | - | (2,882) | - | (2,882) |
| Profit for the year | - | - | - | - | 529,706 | 529,706 |
| Transfer from reserves to the retained earnings due to cancellation of reserves - increase | - | - | - | (209,494) | 209,494 | - |
| Other | - | - | (1) | (10) | - | (11) |
| <i>Other comprehensive income</i> | | | | | | |
| Negative effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVTOCI) | - | - | - | (136,986) | - | (136,986) |
| Balance at December 31, 2020 | 6,260,280 | 2,712,323 | 1,726,527 | 577,380 | 1,212,036 | 12,488,546 |

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 25, 2021.


 Aleksandar Mijailović
 Head of the Financial Management and Planning Division


 Dušica Erić
 Member of the Executive Board


 Kenan Bozkurt
 Chairman of the Executive Board



STATEMENT OF CASH FLOWS
Year Ended December 31, 2020
(Thousands of RSD)

| | 2020 | 2019 |
|--|---------------------|---------------------|
| Cash inflows from operating activities | 3,336,228 | 3,363,646 |
| Interest receipts | 2,336,690 | 2,406,095 |
| Fee and commission receipts | 986,193 | 943,344 |
| Receipts of other operating income | 13,345 | 12,055 |
| Dividend receipts and profit sharing | - | 2,152 |
| Cash outflows from operating activities | (2,612,465) | (2,401,941) |
| Interest payments | (461,902) | (394,245) |
| Fee and commission payments | (204,341) | (155,653) |
| Payments to, and on behalf of employees | (1,017,402) | (892,133) |
| Taxes, contributions and other duties paid | (205,930) | (184,911) |
| Payments for other operating expenses | (722,890) | (774,999) |
| Net cash generated by operating activities prior to increases/decreases in financial assets and financial liabilities | 723,763 | 961,705 |
| Decrease in financial assets and increase in financial liabilities | 14,422,256 | 11,364,052 |
| 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 | 14,422,256 | 11,363,730 |
| Increase in financial assets and decrease in financial liabilities | (11,660,016) | (8,113,395) |
| Increase in loans and receivables due from banks, other financial institutions, the central bank and customers | (11,660,016) | (8,113,395) |
| Net cash generated by/(used in) operating activities before income tax | 3,486,003 | 4,212,362 |
| Income tax paid | - | (103) |
| Net cash generated by operating activities | 3,486,003 | 4,212,259 |
| Cash inflows from investing activities | 2,228,958 | 1,823,071 |
| Proceeds from sales of investment securities | 2,145,491 | 1,822,115 |
| Proceeds from sales of intangible assets, property, plant and equipment | 83,467 | 956 |
| Cash outflows from investing activities | (3,258,361) | (5,395,521) |
| Cash used for investing in investments securities | (2,812,474) | (5,226,747) |
| Cash used for the purchases of intangible assets, property, plant and equipment | (445,887) | (168,774) |
| Net cash used in investing activities | (1,029,403) | (3,572,450) |
| Cash inflows from financing activities | 1,361,815 | 2,152,990 |
| Inflows from borrowings | 1,361,815 | 2,152,990 |
| Cash outflows from financing activities | (2,267,599) | (2,293,847) |
| Cash used in the repayment of borrowings | (2,022,973) | (2,117,368) |
| Other outflows from financing activities | (244,626) | (176,479) |
| Net cash used in financing activities | (905,784) | (140,857) |
| TOTAL CASH INFLOWS | 21,349,257 | 18,703,759 |
| TOTAL CASH OUTFLOWS | (19,798,441) | (18,204,807) |
| NET CASH INCREASE | 1,550,816 | 498,952 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 5,631,661 | 5,145,155 |
| FOREIGN EXCHANGE (LOSSES)/GAINS, NET | (20,856) | (12,446) |
| CASH AND CASH EQUIVALENTS, END OF YEAR | 7,161,621 | 5,631,661 |

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 25, 2021.

Aleksandar Mijailović

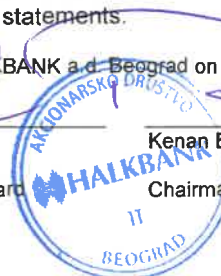
Head of the Financial Management and Planning Division

Dušica Erić

Member of the Executive Board

Kenan Bozkurt

Chairman of the Executive Board



NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***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, Türkiye Halk Bankasi AS, Istanbul/Turkey 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, Türkiye Halkbankasi AS, Istanbul/Turkey became its 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, 2020, the Bank's network consisted of 28 branches (2019: 25 branches), as follows: Belgrade (9 branches), Čačak (3 branches), Jagodina, Gornji Milanovac, Kraljevo, Užice, Kragujevac, Kruševac, Aranđelovac, Valjevo, Šabac, Niš, Leskovac, Novi Sad, Pančevo, Novi Pazar, Subotica and Smederevo. The Bank also had 7 sub-branches (2019: 9 sub-branches) in Paraćin, Požega, Topola, Ivanjica, Vrnjačka Banja, Zrenjanin and Tutin and 1 counter.

In 2020 the Bank opened a new sub-branch in Zrenjanin.

As of December 31, 2020, the Bank had 540 employees (December 31, 2019: 525 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**

The financial statements of the Bank (hereinafter "the financial statements") for 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the regulations of the National Bank of Serbia governing the financial reporting of banks.

In accordance with the Law on Accounting ("Official Gazette of RS", No. 62/2013, 30/2018 and 73/2019), the Bank, as a large legal entity, is obligated to apply the International Financial Reporting Standards ("IFRS"). In addition, in accordance with the Amendments to the Law on Banks ("Official Gazette of RS", No. 14/2015), banks in the Republic of Serbia are obliged to apply International Financial Reporting Standards, as well as subsequent amendments to standards and related interpretations, from the date determined by the competent international body as the date of their application.

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. 71/2014, 135/2014, 103/2018 and 93/2020).

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 Türkiye Halkbankasi AS, Istanbul/Turkey.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)****2.1. Basis of Preparation and Presentation of the Financial Statements (Continued)**

The accompanying financial statements pertain to the reporting period ended December 31, 2020. These financial statements were approved and adopted by the Bank's Executive Board on February 25, 2021.

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.

Published standards and interpretations that have become effective in the current period are disclosed in Note 2.2, while new standards and amendments to existing standards that have been issued but are not yet in force are disclosed in Note 2.3.

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

- **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 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures"** - Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020),
- **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 1 January 2020);

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

*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)**

- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

The adoption of these amendments to the existing standards has not led to any material changes in the Bank's financial statements.

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

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

- **IFRS 17 "Insurance Contracts"** including amendments to IFRS 17 (effective for annual periods beginning on or after 1 January 2023);
- **Amendments to IFRS 3 "Business Combinations"** - Reference to the Conceptual Framework with amendments to IFRS 3 (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IFRS 4 "Insurance Contracts"** – Extension of the Temporary Exemption from Applying IFRS 9 (the expiry date for the temporary exemption from IFRS 9 was extended to annual periods beginning on or after 1 January 2023);
- **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 IFRS 16 "Leases"** - Covid-19-Related Rent Concessions are effective for annual periods beginning on or after 1 June 2020 but earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020 (the amendment is also available for interim reports);
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Classification of Liabilities as Current or Non-Current (effective for annual periods beginning on or after 1 January 2023);
- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure of Accounting Policies (effective for annual periods beginning on or after 1 January 2023);
- **Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** - Definition of Accounting Estimates (effective for annual periods beginning on or after 1 January 2023);
- **Amendments to IAS 16 "Property, Plant and Equipment"** - Proceeds before Intended Use (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"** - Onerous Contracts — Cost of Fulfilling a Contract (effective for annual periods beginning on or after 1 January 2022);
- **Amendments to IFRS 9 "Financial Instruments", IAS 39 "Financial Instruments: Recognition and Measurement", IFRS 7 "Financial Instruments: Disclosures", IFRS 4 "Insurance Contracts" and IFRS 16 "Leases"** - Interest Rate Benchmark Reform — Phase 2 (effective for annual periods beginning on or after 1 January 2021);

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)****2.3. New Standards and Amendments to the Existing Standards in Issue not Yet Adopted (Continued)**

- **Amendments to various standards due to “Improvements to IFRSs (cycle 2018 -2020)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 9, IFRS 16 and IAS 41) primarily with a view to removing inconsistencies and clarifying wording (The amendments to IFRS 1, IFRS 9 and IAS 41 are effective for annual periods beginning on or after 1 January 2022. The amendment to IFRS 16 only regards an illustrative example, so no effective date is stated.).

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

2.4. Comparative Information

Comparative information in the accompanying financial statements comprise the data from the Bank's financial statements for 2019. The Bank's accounting policies and estimates relating to the recognition and measurement of assets and liabilities used upon preparation of the accompanying financial statements are consistent with the accounting policies and estimates used in the preparation of the Bank's financial statements for FY 2019.

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. 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.

*a) Impairment of Financial Assets**Policies applicable as from January 1, 2018*

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 29.1.

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 11b, 18 and 19).

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)****2.6. Key Accounting Estimates and Judgments (Continued)***b) Useful Lives of Intangible Assets, Property, Plant and Equipment*

The determination of the useful lives of intangible assets, property and equipment is based on historical experience with similar assets as well as on any anticipated technological development and changes influenced by wide range of economic or industry factors. Adequacy of the estimated useful lives is reviewed annually, or whenever there is an indication of significant changes in the underlying assumptions (Note 20).

c) 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 20).

d) 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 24).

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.

e) 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.

f) 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 3.10.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS AND ACCOUNTING CONVENTION (Continued)****2.6. Key Accounting Estimates and Judgments (Continued)***g) 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. As these plans are long-term, significant uncertainties influence the outcome of the estimations. Additional information in this respect is disclosed in Note 3.12.

h) Fair Value of Financial Instruments

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

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

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

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

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

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

Valuation methods, assumptions and techniques used in fair value assessment are explained in greater detail in Note 29.

i) The Bank's Related Parties

In accordance with the Law on Banks and in accordance with the internal Exposure Risk Management Procedure, the persons related to the Bank are:

- 1) members of the banking group in which the Bank is, HALKBANK;
- 2) members of the Management and Executive Board of the Bank, members of the Board of the Bank determined by the Law on Banks, members of the management and governing body of a member of the banking group in which the Bank is, as well as family members of these persons;
- 3) persons with participation in the bank and in persons who are members of the banking group in which the Bank is, as well as family members of these persons;
- 4) legal entities in which the persons referred to in item 2) and 3) of this paragraph have a controlling interest.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***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.

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 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 accrued regular interest, a suspended interest calculation is performed in order to reconcile receivables and liabilities with the debtor and the accrued interest is recorded by the Bank within the other off-balance sheet assets. After identifying objective evidence of impairment and recognizing an impairment loss, interest income on Level 3 placements is calculated and recognized in the income statement using the effective interest rate on a net basis (Unwinding).

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

All fees and commissions that are not an integral part of the effective interest rate of the financial instrument are accounted for in accordance with IFRS 15.

Revenue is recognized over time when or until the Bank fulfils its obligations when it transfers the promised services to its customers.

The Bank recognizes as contract liabilities consideration received for unfulfilled performance obligations and presents them as other liabilities in the statement for financial position. Similarly, if the Bank fulfils a performance obligation before it receives the consideration it recognizes in the statement of financial position either a contract asset or receivable depending on whether or not something other than a certain time to obtain the consideration is required.

Fees and commissions consist mainly of fees for Fees from payment operations, Fees from guarantees, Fees from FX changes, Fees from payment cards and these incomes are related to corporate and retail segment of customers, as disclosed in note 5.

In all cases the total transaction price for a certain contract is allocated between the various performance obligations based on the relatively separate sales prices of the separate products and services. The consideration which the Bank receives is determined in the various Bank's tariffs and does not include variable component. The transaction price under the contract excludes all amounts collected on behalf and at the expense of third parties. Fees and commissions income is recognized over time. Significant part of the fees and commissions income is recognized after the service is provided and the consideration is collected from the customer.

Commissions arising from foreign currency transactions are reported in the statement of profit or loss and other comprehensive income on their receipt. Fees and commissions for granting and management of loans when considered to be part of the effective income are amortized during the loan term and are recognized as current financial income during the period by applying the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.3 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.

3.4. Property, Plant and Equipment

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

Subsequent costs are included in the asset’s carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance 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”, 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 civil engineering).

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, less accumulated depreciation 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 part of an 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 2020 and were not changed compared to the rates used in 2019

| | |
|-------------------------------|-----------------|
| 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% |

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.5. 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.

Depreciation of investment property is calculated using the straight-line method over an estimated life of investment property, in accordance with the Bank's internal bylaws. Depreciation of investment property is carried out over the period of 40 years, using a depreciation rate of 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.

3.6. 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 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.

3.7. 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 7 “Financial Instruments: Disclosures” and 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
- b) Financial liabilities.

3.7.1 Financial Assets**3.7.1.1 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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.7. Financial Instruments (Continued)****3.7.1 Financial Assets (Continued)***3.7.1.2 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 be 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 instruments where the credit risk has not significantly increased since initial recognition (Stage 1 assets).

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.7. Financial Instruments (Continued)****3.7.1 Financial Assets (Continued)***3.7.1.2 Debt Instruments (Continued)*

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).

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 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 impairment 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.

Pledged financial assets are measured under the same principle. These are financial assets that are allocated separately for accounting purposes, because they are pledged with the NBS for REPO transactions with the National Bank of Serbia (they are stated separately at nominal value).

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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.7. Financial Instruments (Continued)****3.7.1 Financial Assets (Continued)***3.7.1.2 Debt Instruments (Continued)*

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.

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.

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 financial liability is recognized within the profit or loss statement.

Financial Assets – derecognition and reclassification

If the Bank has not substantially retained or transferred all the risks and rewards of the asset, then the bank must assess whether it has relinquished control of the asset or not. If the bank does not control the asset, then it may cease recognition of that asset, otherwise, if the Bank not transferred control of the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset.

Borrowings

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

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.8. 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 giro and current accounts, cash on hand 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.

3.9. 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.

3.10. 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 from 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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.10. Taxes and Contributions (Continued)***Deferred Taxes (Continued)*

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.

Transfer Prices

The Bank's tax statement for 2020 was not submitted to the Tax Administration until the preparation date of the Bank's Separate financial statements given that the tax return is submitted to the tax authorities within 180 days after expiry date of the financial year, i.e. until June 29/30 of the following year. The Bank has calculated tax effects based on the Corporate Income Tax Law of the Republic of Serbia but has not yet prepared the final report (study) of the transfer prices. However, the Bank's management believes that there will be no material effects on its financial statements for 2020 in this respect since so far there had been no adjustments in respect of the related party transactions and in 2020 the Bank had no significant changes in types of services exchanged with its related parties in comparison with the previous year.

3.11. 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 29.2.

3.12. Employee 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, 2020.

As of December 31, 2020, the Bank made provisions for retirement benefits and unused annual leaves based on the assessment carried out by a certified actuary.

Provisions were made based of the following assumptions:

| | |
|--|---------------|
| Average salary for October 2020 paid in Republic of Serbia | RSD 83,106.00 |
| Discount rate | 1.50% |
| Salary growth rate | 5.50% |
| Employee turnover rate | 6.00% |

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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.12. Employee Benefits (Continued)***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.

3.13. Going Concern

During 2020, the Bank realized a profit in the amount of RSD 529,706 thousand (2019: profit in the amount of RSD 472,836 thousand). The Bank achieved significant business results in the previous period, so the Bank's management expects stable revenues in the forthcoming period, as well as that the increase in costs will be less than the increase in revenues. In accordance with all the foregoing, 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.

3.13.1 Business of the Bank and COVID-19 Impact

From March 2020, the Bank worked intensively on undertaking all necessary activities in order to comply with the requirements of the NBS regarding the COVID-19 pandemic with the aim to minimize COVID-19 impact on all segments of its business.

During 2020, the National Bank of Serbia (NBS) made the following decisions regarding the moratoria and reliefs:

- Decision on Measures for Preserving the Financial System Stability, which entered into force on March 18, 2020; (hereinafter: "Moratorium I"). Moratorium I was in effect until June 30, 2020. Pursuant to the instructions of the NBS, during the state of emergency, the Bank did not charge default interest on overdue and unsettled receivables and did not initiate enforcement proceedings, or forced collection proceedings against the debtor. The duration of the moratorium could not be shorter than 90 days, i.e., than the duration of the state of emergency. After the termination of the Moratorium, the debtors will continue to repay their loans, so that the loan repayment periods will be extended by 3 months. In accordance with the instructions of the NBS, regular interest was calculated only on the outstanding debt, excluding loans granted to clients from the corporate sector, to which the Bank may charge regular interest and the amount of principal due during the moratorium at the agreed interest rate. The regular interest accrued during the moratorium was attributed to the principal debt and a new repayment schedules were drawn up.
- Decision on Temporary Measures for Banks to Mitigate the Consequences of the COVID-19 Pandemic in Order to Preserve the Stability of the Financial System, which entered into force on 27 July 2020; (hereinafter: "Moratorium II"). Moratorium II lasted from August 1, 2020 to September 30, 2020, including due receivables from July for clients who accepted the moratorium; according to the previous Decision. Accrued interest was evenly distributed over the period of repayment of loans and other bank products and was not attributed to the principal of the debt. In mid-September, the NBS issued a new instruction related to the Decision on Moratorium I, which stipulates that upon the termination of Moratorium II, the regular interest calculated during Moratorium I, be evenly distributed over the loan repayment period.
- Decision on Temporary Measures for Banks for Adequate Management of Credit Risk in the Context of the Covid-19 Pandemic, which entered into force on 14 December 2020; (hereinafter: the "Relief"). The reliefs provided by the decision refer to the reprogramming and refinancing of the loan, with the approval of a grace period of six months and a corresponding extension of the repayment period, so that the debtor's monthly liabilities are not higher than those from the repayment schedule before the relief was approved. During the grace period, the Bank calculates interest, whereby the debtor, in the request, decides whether to pay interest during the grace period or after its expiration.

After the period of Moratoria I and II, short-term negative consequences on the level of the portfolio, the most important ratio indicators and cash flows were potentially possible. On the other hand, in the conditions of the state of emergency and the inevitable slowdown in the lending activity, measures related to a standstill in repayment mitigated the reduction of the Bank's loan portfolio in the short term. The expected negative effects were not realized to a significant extent, i.e., the Bank achieved a growth of the loan portfolio in 2020, with satisfactory profitability.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.13.1 Business of the Bank and COVID-19 Impact (Continued)**

During Moratorium I, the Bank had a 23% loan portfolio in the segment of corporate clients that did not accept the moratorium, which therefore regularly continued to service their liabilities. To this should be added 45% of clients with which the Bank cooperates in the field of documentary business, and which regularly continued to service their liabilities. During Moratorium II, the Bank had 54% of its loan portfolio in the segment of corporate clients that did not accept the moratorium, which therefore regularly continued to service their liabilities. To this should be added 70% of clients with which the Bank cooperates in the field of documentary business, and which regularly continued to service their liabilities. Based on the above data on the acceptance of Moratoria I and II, we can conclude that these measures were justified, and that clients mostly managed to maintain their own business, to adapt to the crisis, with a positive trend in the second half of 2020.

Credit risk management under the influence of COVID - 19 crisis

The Bank has identified the following sectors / activities as those most affected by COVID-19:

- 1) Traffic and storage - Railway transport of passengers, long-distance and regional, urban and suburban land transport of passengers, maritime and coastal transport of passengers, transport of passengers by inland waterways, air transport of passengers;
- 2) Accommodation and catering services - Hotels and similar accommodation, resorts and similar facilities for short stays, camping, caravan and camping activities, other accommodation, restaurants and mobile food service activities, catering, other food service activities, beverage preparation and serving services;
- 3) Administrative and support service activities - Travel agency activities, tour operator activities, other reservation service and related activities, organization of meetings and fairs.

By reclassifying receivables from entities engaged in these activities, as well as receivables from individuals employed in companies involved in these business activities, from Stage 1 to Stage 2, as at 31 December 2020 the Bank had a negative effect on the income statement in the amount of RSD 31.4 million.

Liquidity risk management under the influence of COVID - 19 crisis

During 2020, the Bank adequately managed its liquidity position. Liquid assets are properly structured, and all conducted liquidity stress tests suggest that a significant liquidity buffer has been provided, so the Bank is ready to face the situation caused by the pandemic. In addition to liquidity activities, the Bank has been continuously active in the last few years and has developed swap, money market transactions, which created cash flow management mechanisms without affecting the Bank's liquidity position. All of the foregoing provided stability and security, as well as the possibility to further relax the Bank's position in stressful circumstances through the use of these instruments in transactions on the interbank market as well as with the National Bank of Serbia. In this way, an adequate combination of available instruments has provided the capacity for continuous and sustainable business in the conditions that may arise during the pandemic.

The Bank pursued an active deposit management policy, and in the same period a portion of deposits was released, which under the agreed term conditions was a load, and where due to significant amounts there was a risk of concentration. In addition, despite the crisis situation, the Bank managed to increase its deposit base by constantly deepening cooperation with the existing clients, finding new ones and concluding new contracts. The implementation of these activities resulted in a stable liquid position of the Bank and relaxation in a portion of interest expenses per deposits.

Impact of COVID - 19 crisis on the Bank 's earning capacity

Regarding the income from fees, both the corporate and in the retail customer segments, due to the reduced overall activity in the territory of Serbia, lower income in this respect was expected and realized, especially in the first months of the crisis. However, revenues grew during May and June and returned to the pre-crisis levels. Of course, the original plans for this year are such that constant and strong growth was expected, but due to the crisis, this did not happen in the last two quarters. The Bank has invested additional resources in the sale and promotion of transactional products (POS, cards), in order to be able to compensate for this decline / stagnation of revenues in relation to the planned values. The revised fee income plan is lower by EUR 2.1 million compared to the Business Policy for 2020. The reason for this decrease lies in the fact that revenues from payment fees did not reach the desired level, due to the overall decline in the volume of transaction activities, non-realization of the planned revenues from guarantees due to the suspension of tenders at the Republic level, etc.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.13.1 Business of the Bank and COVID-19 impact (Continued)***Impact of COVID - 19 crisis on the Bank 's earning capacity (continued)*

In line with revenue trends, the Bank also monitored the situation in terms of operating expenses. Regarding the direct effect of the pandemic, the Bank incurred additional costs in the procurement of disinfectants, procurement of the necessary equipment (medical masks, gloves, Plexiglas counters at cash registers, etc.) to protect the employees in the business network and customers. On the other hand, the Bank has taken measures to postpone certain activities, investments, as well as potentially significant cost reductions, such as planned TV commercials, rentals, etc., in order to reduce the negative effects on the Bank's profit in 2020. The revised plan for operating expenses is by EUR 2.3 million lower compared to the Business Policy for 2020.

Impact of COVID - 19 crisis on the expected collection of loans and receivables

The new measures of the National Bank of Serbia, according to the Decision that came into force on December 15, 2020, provided for the postponement of payments for clients affected by the health situation in order to improve their position, which led to the postponement of collection proceedings and reduced the inflow of lawsuits.

Regardless of the situation caused by the COVID-19 virus pandemic, the Bank collected NPLs in the previous year, in accordance with the plan in the amount of approximately EUR 5,097,000.

Modification of interest calculated during the moratoria

As a result of the introduction of the moratoria due to the COVID-19 pandemic, we assessed the impact of delayed loan repayment through the net present value of the relevant funds and estimated the resulting loss on modification in the amount of RSD 56,338 thousand. The Bank has recorded the effect in accordance with the accounting policies using all available information to form the assumption used in calculating the effect of the modification. The Bank has ensured that complete and accurate data are used in the calculation of the modification loss, adhering to the principles of IFRS 9.

During the period of both moratoria, interest in the amount of RSD 492,222 thousand was calculated (as of December 31, 2020). This amount was equally distributed over the repayment period of each loans after the end of the moratoria. In other words, in accordance with the regulations, it was not allowed to attribute the calculated interest to the principal (calculation of interest on interest). Total interest receivables accrued during the moratoria were discounted to the present value, applying the EIR that was valid for each loan before the modification of the financial assets and accordingly, for the amount of the difference between the accrued interest during the moratoria and its present value, the Bank recorded a financial asset modification effect (loss) in the amount of RSD 56,338 thousand as of December 31, 2020.

3.14. Leasing

As from January 1, 2019, the Bank applies International Financial Reporting Standard 16 (IFRS 16) for the coverage of leasing contracts.

A lease is a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for 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.

Incremental borrowing rate is the rate of interest that Bank (a 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.

The Bank does not apply the requirements of IFRS 16:

- to the lease contracts with terms shorter than 12 months and those not containing the purchase option, and/or
- lease contracts with low-value assets (RSD equivalent of USD 5,000 or less).

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****3.15. Acquired Assets**

Under assets acquired through collection of receivables, the Bank presents tangible assets received in lieu of debt collection (collection of receivables) until the moment of their sale or use for the Bank's own needs.

Real estate property acquired through the collection of receivables is recognized after the acquisition at the lower of their estimated market value and the price paid for their takeover. Until the moment of sale or change of purpose of the acquired real estate, the Bank provides once a year a revaluation of each individual real estate acquired through collection of receivables and if the revalued amount is lower than the net book value, it performs impairment in accordance with IAS 2.

3.16. Financial Guarantees

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

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

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

Financial guarantees are presented under contingent liabilities, within the Bank's off-balance sheet items (Note 27).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

4. INTEREST INCOME AND EXPENSES

a) INTEREST INCOME

Interest income includes

| | Year Ended December 31, | |
|---|--------------------------------|-------------------------|
| | 2020 | 2019 |
| RSD loans measured at AC, due from: | | |
| Banks | 237 | 591 |
| Public companies | 5,500 | 4,262 |
| Corporate customers | 931,562 | 846,643 |
| Entrepreneurs | 174,242 | 163,813 |
| Public sector | 25,891 | 12,386 |
| Individuals | 918,545 | 906,820 |
| Other customers | 119,516 | 77,310 |
| | <u>2,175,493</u> | <u>2,011,825</u> |
| Foreign currency loans measured at AC, due from: | | |
| Corporate customers | 17,535 | 18,834 |
| Entrepreneurs | 1 | - |
| Public sector | 1 | - |
| Individuals | 60 | 92 |
| Other customers | 108,219 | 97,226 |
| | <u>125,816</u> | <u>116,152</u> |
| RSD deposits measured at AC, due from: | | |
| Banks | 17,134 | 47,396 |
| | <u>17,134</u> | <u>47,396</u> |
| Foreign currency deposits measured AC, due from: | | |
| Banks | 1,850 | 488 |
| Non-residents | 416 | 12,897 |
| | <u>2,266</u> | <u>13,385</u> |
| Securities measured at FVtOCI: | | |
| In RSD | 392,452 | 327,914 |
| In foreign currencies | 743 | 10,301 |
| | <u>393,195</u> | <u>338,215</u> |
| Other receivables measured at AC: | | |
| In RSD | 54 | 318 |
| In foreign currencies | 135 | 970 |
| | <u>189</u> | <u>1,288</u> |
| TOTAL: | <u>2,714,093</u> | <u>2,528,261</u> |

Total interest income recognized on impaired loans for the year ended December 31, 2020 totaled RSD 58,540 thousand (2019: RSD 95,178 thousand).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

4. INTEREST INCOME AND EXPENSES (Continued)

b) INTEREST EXPENSES

| | Year Ended December 31, | |
|--|-------------------------|----------------|
| | 2020 | 2019 |
| RSD borrowings measured at AC, due to: | | |
| Banks | 137 | 1,503 |
| Other customers | 48 | - |
| | 185 | 1,503 |
| Foreign currency borrowings measured at AC, due to: | | |
| Public sector | 24,292 | 34,260 |
| Banks | 27,993 | 51,074 |
| Other customers | 30,786 | 168 |
| | 83,071 | 85,502 |
| RSD deposits measured at AC, due to: | | |
| Banks | 70,512 | 46,942 |
| Public companies | 4,263 | 3,836 |
| Corporate customers | 81,803 | 56,450 |
| Entrepreneurs | 873 | 734 |
| Public sector | 3,345 | 7,579 |
| Individuals | 39,854 | 36,260 |
| Other customers | 55,955 | 47,302 |
| | 256,605 | 199,103 |
| Foreign currency deposits measured AC, due to: | | |
| Banks | 19,696 | 5,769 |
| Corporate customers | 40,283 | 25,725 |
| Entrepreneurs | - | - |
| Individuals | 97,620 | 76,352 |
| Other customers | 11,747 | 19,493 |
| | 169,346 | 127,339 |
| Interest expense on other liabilities measured at amortized cost (IFRS 16): | | |
| In RSD | 3,912 | 1,336 |
| In foreign currency | 8,428 | 9,202 |
| | 12,340 | 10,538 |
| TOTAL: | 521,547 | 423,985 |

Interest expenses that refer to the lease of business premises for the year ended December 31, 2020 amounted to RSD 9,618 thousand (2019: 9,935 thousand), while interest expenses on vehicle leasing for the year ended December 31, 2020 amounted to RSD 652 thousand (2019: 603 thousand).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

5. FEE AND COMMISSION INCOME AND EXPENSES

a) FEE AND COMMISSION INCOME

| | Year Ended December 31, | |
|---|-------------------------|----------------|
| | 2020 | 2019 |
| Fee and commission income in RSD: | | |
| Banks and other financial institutions | 42,723 | 61,231 |
| Public companies | 2,619 | 1,859 |
| Corporate customers | 576,264 | 513,167 |
| Entrepreneurs | 103,710 | 112,565 |
| Public sector | 165 | 263 |
| Individuals | 196,576 | 188,640 |
| Non-residents | 2,594 | 3,087 |
| Other customers | 17,087 | 16,699 |
| TOTAL | 941,738 | 897,511 |
| Fee and commission income in foreign currencies: | | |
| Foreign banks | 26,248 | 27,023 |
| Western Union | 726 | 1,301 |
| MasterCard / VISA | 7,634 | - |
| Individuals | 3,457 | 2,773 |
| Corporate customers | 1 | - |
| Entrepreneurs | 1,355 | 1,364 |
| | 39,421 | 32,461 |
| TOTAL: | 981,159 | 929,972 |

b) FEE AND COMMISSION EXPENSES

| | Year Ended December 31, | |
|---|-------------------------|----------------|
| | 2020 | 2019 |
| Fee and commission expenses in RSD | | |
| Banks and other financial institutions | 44,165 | 29,423 |
| Corporate customers | 61,094 | 51,138 |
| Entrepreneurs | 34 | 45 |
| Public sector | 527 | 622 |
| Other customers | 14,674 | 16,752 |
| | 120,494 | 97,980 |
| Fee and commission expenses in foreign currencies: | | |
| Banks and other financial institutions | 10,521 | 39,749 |
| Corporate customers | - | - |
| Public sector | - | - |
| Non-residents | 76,089 | 20,884 |
| | 86,610 | 60,633 |
| TOTAL: | 207,104 | 158,613 |

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

| | Year Ended December 31, | |
|--|-------------------------|----------------|
| | 2020 | 2019 |
| Losses on the changes in the fair value of financial assets measured at FVtPL | (1,936) | (1,770) |
| (Losses)/gains on the changes in the fair value of financial liabilities measured at FVtPL | (852) | 2,501 |
| Losses on the changes in the fair value of other derivatives | (297) | (7,799) |
| TOTAL: | (2,491) | (7,068) |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

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

| | Year Ended December 31, 2020 | 2019 |
|---|---------------------------------|-----------|
| Gains on derecognition of financial assets measured at FVtOCI | 80,392 | 20 |
| TOTAL: | 80,392 | 20 |

Gains on derecognition of financial instruments measured at fair value through other comprehensive income in the amount of RSD 80,392 thousand relate to gains on the sale of bonds of the Government of the Republic of Serbia, which were sold on the secondary market in January and July 2020.

8. NET GAINS ON RECOGNITION OF FINANCIAL INSTRUMENTS MEASURED AT AMORTIZED COST

| | Year Ended December 31, 2020 | 2019 |
|---|---------------------------------|----------|
| Net gains/losses on recognition of financial instruments measured at amortized cost | 252 | - |
| TOTAL: | 252 | - |

9. NET FOREIGN EXCHANGE GAINS AND POSITIVE CURRENCY CLAUSE EFFECTS

| | Year Ended December 31, 2020 | 2019 |
|------------------------------------|---------------------------------|--------------------|
| Foreign exchange gains | 1,012,940 | 1,277,331 |
| Positive currency clause effects | 142,051 | 319,868 |
| TOTAL: | 1,154,991 | 1,597,199 |
| Foreign exchange losses | (1,002,649) | (1,139,453) |
| Negative currency clause | (135,082) | (449,726) |
| TOTAL: | (1,137,731) | (1,589,179) |
| Net foreign exchange gains: | 17,260 | 8,020 |

The share of foreign currency items in the total Bank's balance sheet assets was 48.11% (2019: 54.47%), while the share of foreign currency items in the total balance sheet liabilities was 47.64% (2019: 52.44%).

10. OTHER OPERATING INCOME

| | Year Ended December 31, 2020 | 2019 |
|------------------------------------|---------------------------------|---------------|
| Other income from operations | 11,184 | 14,243 |
| Dividend income and profit sharing | - | 2,152 |
| TOTAL: | 11,184 | 16,395 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

*All amounts expressed in thousands of RSD, unless otherwise stated.***11. 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, | |
|---|--------------------------------|-------------------------|
| | 2020 | 2019 |
| Impairment allowance of financial assets measured at AC | (515,692) | (739,165) |
| Reversal of impairment allowance of financial assets measured at AC (Note 11b) | 248,309 | 474,817 |
| Net losses | <u>(267,383)</u> | <u>(264,348)</u> |
| Provisions for off-balance sheet items (Note 24a) | (17,425) | (4,650) |
| Reversal of provisions for off-balance sheet items (Note 24a) | 3,731 | 4,229 |
| Net losses | <u>(13,694)</u> | <u>(421)</u> |
| Impairment allowance of financial assets measured at FVtOCI | (5,956) | (14,724) |
| Reversal of impairment allowance of financial assets measured at FVtOCI | 4,014 | 3,839 |
| Net losses | <u>(1,942)</u> | <u>(10,885)</u> |
| Write-off of irrecoverable receivables | (2,487) | (1,994) |
| Recovery of receivables previously written off | 47,334 | 65,616 |
| Net gains | <u>44,847</u> | <u>63,622</u> |
| Losses on the modification of financial instruments | (56,338) | (2,800) |
| Net losses | <u>(56,338)</u> | <u>(2,800)</u> |
| TOTAL: | <u>(294,510)</u> | <u>(214,832)</u> |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

11 . 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 15) | Loans and receivables due from banks (Note 18) | Loans and receivables due from customers (Note 19) | Securities (Note 17) | Other assets (Note 21) | Total |
|--|--|---|---|-------------------------|---------------------------|------------------|
| Balance at January 1, 2020 | 1,161 | 662 | 1,085,009 | - | 19,830 | 1,106,662 |
| Impairment losses on balance sheet items | 701 | 1,792 | 443,962 | - | 10,694 | 457,149 |
| Reversal of impairment of balance sheet items (Note 11a) | (4) | (874) | (242,824) | - | (4,607) | (248,309) |
| Foreign exchange effects | - | (2) | 3 | - | - | 1 |
| Impairment allowance translation due to currency clause | - | - | (10,051) | - | - | (10,051) |
| Accounting write-off, aligned with NBS | - | - | (103,462) | - | (137) | (103,599) |
| Definite write-off | - | - | (64,677) | - | (120) | (64,797) |
| Other | - | 311 | (675) | - | 364 | - |
| Balance at December 31, 2020 | 1,858 | 1,889 | 1,107,285 | - | 26,024 | 1,137,056 |

| | Cash and balances with the central bank (Note 15) | Loans and receivables due from banks (Note 18) | Loans and receivables due from customers (Note 19) | Securities (Note 17) | Other assets (Note 21) | 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 11a) | (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 |

Total impairment allowance of other assets presented in Note 21 totaling RSD 51,654 thousand (2019: RSD 46,148 thousand) includes impairment allowance of other both financial and non-financial assets, while Note 11b) presents only impairment allowance of other assets in the amount RSD 26,024 thousand (2019: RSD 19,830 thousand).

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***11. NET LOSSES FROM IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)**

For the year ended December 31, 2020, the Bank recognized interest income on impaired loans using the effective interest rate on the amortized cost of loans, i.e., their net 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.

The impairment allowance made in this respect was recorded in the amount of RSD 58,543 thousand (2019: RSD 76,849 thousand).

Due to the foregoing, losses on impairment assets recorded in the income statement (Note 11a) exceeded by the same amount losses on impairment presented in the table of movements on impairment allowance accounts (Note 11b).

12. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONNEL EXPENSES

| | Year Ended December 31, | |
|--|--------------------------------|----------------|
| | 2020 | 2019 |
| Salaries and salary compensations | 680,579 | 603,752 |
| Taxes on salaries and salary compensations | 83,636 | 74,343 |
| Contributions on salaries and salary compensation | 173,115 | 153,748 |
| Other personal expenses | 16,753 | 13,605 |
| Provisions for retirement and other employee benefits (Note 24b) | 3,897 | 62,793 |
| Reversal of provisions for retirement and other employee benefits (Note 24b) | - | (2,412) |
| Considerations payable to temporary and seasonal staff members | 435 | 484 |
| TOTAL: | 958,415 | 906,313 |

Within the line item of salaries and salary compensations, the amount of RSD 37,876 thousand (2019: RSD 32,889 thousand) refers to the remunerations to the Executive Board members remunerations, while the Supervisory Board members' remunerations are presented within the line item of other personal expenses in the amount RSD 11,808 thousand (2019: RSD 11,979 thousand).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

13. OTHER INCOME AND EXPENSES

| | Year Ended December 31, | |
|--|-------------------------|----------------|
| | 2020 | 2019 |
| Gains on the sale of property, plant, equipment and intangible assets | 20,325 | 321 |
| Income from reduction of liabilities (lease) | 3,136 | - |
| Surpluses | 1,040 | 360 |
| Other income | 12,233 | 14,876 |
| Income from the reversal of unused provisions for liabilities | 179 | 21 |
| TOTAL: | 36,913 | 15,588 |
| Operating expenses | | |
| Cost of materials | 73,587 | 68,024 |
| Costs of production services | 211,834 | 246,958 |
| Non-material expenses | 451,185 | 467,789 |
| Taxes payable | 21,749 | 9,026 |
| Contributions payable | 147,974 | 135,646 |
| Other expenses | 873 | 1,812 |
| Provisions for liabilities (Note 24c) | 11,197 | 20,830 |
| Other expenses | | |
| Losses on the retirement and disposal of property, equipment and intangible assets | 379 | 107 |
| Other expenses | 1,679 | 1,428 |
| Losses from the sale of fixed assets and intangible assets | 2,639 | 60 |
| Deficiencies and damages | - | 1 |
| TOTAL: | 923,096 | 951,681 |

Within the line item non-material expenses the most significant amount refers to paid insurance premiums of RSD 160,973 thousand (2019: RSD 206,695 thousand), of which the largest portion is the insurance premium paid for retail deposits in the amount of RSD 129,423 thousand (2019: RSD 170,962 thousand) and insurance premium paid for cash loans for pensioners in the amount of RSD 31,550 thousand (2019: RSD 35,733 thousand).

Also, non-material expenses refer to the costs of securing facilities and transporting money in the amount of RSD 54,946 thousand, costs of renting software in the amount of RSD 71,112 thousand and costs of telecommunication services in the amount of RSD 47,350 thousand.

Within the line item of costs of production services, the largest amount relates to rental costs of RSD 72,127 thousand (2019: RSD 70,400 thousand).

The expenses of real estate lease covered by IFRS 16 amount to RSD 54,787 thousand, of which the largest part is value added tax for all real estate leased from legal entities, personal income tax for individuals, as well as service costs of the Central Bank lease.

Vehicle rental costs covered by IFRS 16 relate to value added tax borne by the lessee (bank) and amount to RSD 7,291 thousand.

The costs of property leases, which due to their low value are not covered by the IFRS 16 standard, amounted to RSD 10,049 thousand in 2020 (real estate RSD 629 thousand and ATMs RSD 9,420 thousand). ATM lease agreements do not meet the requirements for posting under IFRS 16, due to the low value of the contract and the indefinite validity period.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

14. INCOME TAXES

a) Income tax reconciliation with prescribed tax rates

| | Year Ended December 31, 2020 | 2019 |
|--|---------------------------------|-----------|
| Profit before taxes | 529,706 | 472,836 |
| Income tax at the statutory rate of 15% | 79,456 | 70,925 |
| Tax effects of expenses not recognized for tax purposes and other expense adjustments | 3,099 | 5,013 |
| Tax effects of income from debt securities and other income adjustments | (67,116) | (51,055) |
| Other | 10,908 | - |
| Utilization of tax loss carryforwards | (26,346) | (24,883) |
| Income tax stated in the tax statement | - | - |
| Effective tax rate | 0% | 0% |

b) Components of deferred tax assets

| | Year Ended December 31, 2020 | 2019 |
|---|---------------------------------|---------------|
| Tax effects of temporary differences on property, plant and equipment | 12,924 | 2,544 |
| Tax credit per tax losses carried forward | 41,244 | 51,929 |
| Impairment of securities held for trading (at FVtPL) | 8,225 | 7,920 |
| Deferred tax assets | 62,393 | 62,393 |

The Bank recognized deferred tax assets in accordance with its projected results as per the adopted five-year business strategy. Given that as of December 31, 2020, there were no changes in the amount of deferred tax assets compared to the 2019 year-end, the Bank did not record any additional deferred tax benefits/expenses, although during 2020 there were changes within movements on individual deferred tax asset items, as presented in the table below.

c) 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 | 8,348 | (8,348) | - | 2023 |
| | <u>8,348</u> | <u>(8,348)</u> | <u>-</u> | |
| Tax credit per tax losses carried forward | 14,115 | (14,115) | - | 2021 |
| | 2,652 | (2,652) | - | 2022 |
| | <u>16,767</u> | <u>(16,767)</u> | <u>-</u> | |
| Effects of first - time adoption of IFRS 9 | 8,536 | (8,536) | - | 2022 |
| | <u>8,536</u> | <u>(8,536)</u> | <u>-</u> | |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

15. CASH AND BALANCES HELD WITH THE CENTRAL BANK

| | December 31, 2020 | December 31, 2019 |
|--|----------------------|----------------------|
| Gyro account | 4,201,071 | 2,998,091 |
| Cash in hand in RSD | 698,657 | 655,713 |
| Liquidity surpluses | 4,100,000 | 2,000,000 |
| Receivables for accrued interest, fees and commissions related to cash and balances held with the central bank | 132 | 1,754 |
| Cash in hand in foreign currencies | 792,194 | 1,174,232 |
| Mandatory foreign currency reserve held with NBS | 3,916,238 | 3,184,934 |
| Other funds | 570 | 1 |
| Less: Impairment allowance of the cash and balances held with the central bank | (1,858) | (1,161) |
| TOTAL: | 13,707,004 | 10,013,564 |

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. 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%. Mandatory reserve is calculated once a month. The NBS calculates and pays interest on the amount of calculated mandatory RSD reserve, which in 2020 ranged from a maximum rate of 0.75% annually up to the currently applicable 0.10% annually.

As of December 31, 2020, the mandatory RSD reserve was calculated in the amount of RSD 3,387,965 thousand (2019: RSD 2,715,582 thousand). The stated amount is included within the gyro account line item.

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. 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.

The line item "Reserve requirement with the NBS in foreign currency" represents the current balance on the foreign currency account with the NBS where the required reserve is allocated. The obligation of the Bank is that the average monthly balance of allocated funds be at the level of calculated required reserves in foreign currency. As this account is used for other purposes, individual days have a different balance. The table shows the balance on that account as of December 31, 2020.

As at December 31, 2020, the Bank's mandatory foreign currency reserve amounted to RSD 3,644,653 thousand (2019: RSD 3,123,334 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

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

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:

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|------------------------------|------------------------------|
| Cash and balances held with the central bank | 13,707,004 | 10,013,564 |
| Mandatory foreign currency reserve held with NBS | (3,916,238) | (3,184,934) |
| Foreign currency accounts held with foreign banks | 1,469,129 | 803,624 |
| Liquidity surpluses | (4,100,000) | (2,000,000) |
| Receivables for accrued interest, fees and commissions related to the cash and balances held with the central bank | (132) | (1,754) |
| Less: Impairment allowance of the cash and balances held with the central bank | 1,858 | 1,161 |
| TOTAL: | <u>7,161,621</u> | <u>5,631,661</u> |

16. RECEIVABLES UNDER DERIVATIVE FINANCIAL INSTRUMENTS

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|------------------------------|------------------------------|
| Receivables/(liabilities) from financial derivatives | (1,266) | (1,563) |
| TOTAL: | <u>(1,266)</u> | <u>(1,563)</u> |

The stated liability in the amount of RSD 1,266 thousand relates to the negative effects of adjusting the value of a currency swap (USD swap) to its fair value (USD 13,937.50 at the middle exchange rate effective on the date of fair value calculation). The maturity dates of all these swaps are in January 2021.

17. SECURITIES

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|--|------------------------------|------------------------------|
| a) Pledged financial assets | | |
| Bonds issued by the Republic of Serbia in RSD | 1,200,000 | 2,260,870 |
| | <u>1,200,000</u> | <u>2,260,870</u> |
| b) Securities measured at FVtPL | | |
| Banks shares | 590 | 826 |
| Corporate shares | 18,630 | 20,330 |
| | <u>19,220</u> | <u>21,156</u> |
| c) Securities measured at FVtOCI | | |
| Municipal bonds: | | |
| City of Šabac | 7,620 | 15,284 |
| Municipality of Stara Pazova | - | 2,992 |
| Bonds issued by the Republic of Serbia in RSD | 9,893,971 | 8,049,075 |
| Bonds issued by the Republic of Serbia in foreign currencies | - | 257,973 |
| | <u>9,901,591</u> | <u>8,325,324</u> |
| TOTAL: | <u>11,120,811</u> | <u>10,607,350</u> |

In 2020, a net negative effect in the amount of RSD 136,986 thousand was realized due to the sale of securities for which revaluation reserves were previously formed through fair valuation (the statement of other comprehensive income shows the negative effect of changes in the value of debt instruments in the amount of RSD 155,113 thousand, while the positive effect is RSD 18,127 thousand). The statement of changes in equity also presents the negative effects of changes in the value of debt instruments that are measured at fair value through other results within revaluation reserves in the amount of RSD 136,986 thousand.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

17. SECURITIES (Continued)

In 2019, a net positive effect in the amount of RSD 474,449 thousand was realized (the statement of other comprehensive income shows a positive effect of changes in the value of debt instruments in the amount of RSD 478,764 thousand, while the negative effect is RSD 4,315 thousand). The statement of changes in equity also presents the positive effects of changes in the value of debt instruments that are measured at fair value through other results within revaluation reserves in the amount of RSD 474,449 thousand.

As of December 31, 2020, 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 2020 ranged from 2.60% to 3.85% annually, while the rates of return on the Bank's overall portfolio of securities ranged from 2.60% to 5.98% for RSD securities and 4.20% for foreign currency securities, annually.

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

| | December 31, 2020 | December 31, 2019 |
|--|----------------------|----------------------|
| Receivables for accrued interest on loans, deposits and other investments: | | |
| - In RSD | 6 | 15 |
| - In foreign currencies | - | - |
| Foreign currency accounts | 1,469,129 | 803,624 |
| Loans in RSD | 1,875 | 1,082 |
| Other investments: | | |
| - In RSD | 587,910 | - |
| - In foreign currencies | 258,689 | 329,624 |
| Deposits: | | |
| - In RSD | - | - |
| - In foreign currencies | 82,948 | 319,460 |
| Accrued receivables for interest on loans, deposits and other investments: | | |
| - In RSD | 4 | - |
| - In foreign currencies | - | - |
| Deferred income from receivables carried at amortized cost using the effective interest rate | (2) | (9) |
| Gross loans and receivables due from banks and other financial institutions | 2,400,559 | 1,453,796 |
| Less: Impairment allowance (Note 11b) | (1,889) | (662) |
| TOTAL: | 2,398,670 | 1,453,134 |

As of December 2020, the Bank had no liquidity loans per repo transactions.

Foreign currency assets with the Central Securities Depository and foreign currency assets on transaction accounts held with domestic and foreign banks as of December 31, 2020 amounted to RSD 1,469,129 thousand (2019: RSD 803,624 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 – National Bank of Serbia in the amount of RSD 352,770 thousand, Vojvođanska bank in the amount of RSD 235,140 thousand and UniCredit Bank in the amount of RSD 235,160 thousand (2019: UniCredit Bank in the amount of RSD 117,593 thousand and Banca Intesa in the amount of 117,593 thousand); and
- from foreign banks – Commerzbank AG, Frankfurt in the amount of RSD 23,516 thousand (2019: Commerzbank AG, Frankfurt in the amount of RSD 94,427 thousand and Türkiye Vakıflar in the amount of RSD 42,109 thousand).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

19. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

| | December 31, 2020 | December 31, 2019 |
|---|----------------------|----------------------|
| Receivables for accrued interest on loans, deposits and other investments in RSD | 129,966 | 115,229 |
| Receivables for accrued fees on loans, deposits and other investments in RSD | 297 | 3,220 |
| Receivables for accrued interest on loans, deposits and other investments in foreign currencies | 142 | 114 |
| Loans in RSD and loans indexed to EUR | 52,208,724 | 43,981,660 |
| Other investments in RSD | 72,794 | 54,551 |
| Loans and receivables in foreign currencies | 3,906,950 | 2,736,909 |
| Deposits placed in foreign currencies | - | 85,403 |
| Accrued receivables for interest on loans, deposits and other investments in RSD | 428,438 | 22,527 |
| Accrued receivables for interest on loans, deposits and other investments in foreign currencies | 36,513 | 34,645 |
| Deferred income for receivables carried at amortized cost using the effective interest rate | (136,129) | (144,853) |
| Deferred income for receivables carried at amortized cost using the effective interest rate in foreign currencies | (20,079) | - |
| Gross loans and receivables due from customers | 56,627,616 | 46,889,405 |
| Less: Impairment allowance (Note 11b) | (1,107,285) | (1,085,009) |
| TOTAL: | 55,520,331 | 45,804,396 |

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 2020 RSD short-term loans were approved from the Bank's own resources at annual interest rates equal to 6-month BELIBOR + 0.75% p.a. to 9.0% p.a. with variable interest rate from 3.35% to 15.9% 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 + 2.15% to 9.00% p.a. with variable 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.

The largest part of long-term loans placed during 2020 referred to:

- The Bank has placed EUR 165.8 million to large clients, small and medium enterprises and agricultural clients, through the Guarantee Scheme for economic support, regular business activities, as well as certain programs and actions. The focus was on the Guarantee Scheme for Economic Support, and current were micro-working capital campaigns in which clients were offered loans with a currency clause, dinar working capital loan campaign that started in March 2020, FRK investment loan campaign in cooperation with the National Bank of Serbia, as well as placement in the segment of Agro clients. In the course of 2020, the Bank achieved participation in the Guarantee Scheme for Economic Support, within which it placed EUR 70.4 million through 874 loan lots. Namely, the Government of the Republic of Serbia has adopted a package of economic measures aimed at reducing the negative effects caused by the Covid-19 pandemic. One of the measures is the Guarantee Scheme for economic support in the conditions of the Covid-19 crisis for loans for maintaining liquidity and working capital through commercial banks operating in the Republic of Serbia. The total value of funds provided for this measure is EUR 2 billion on the State level. Participation in the implementation of this program should contribute to maintaining and expanding the portfolio of quality credit clients, with the placement of funds with first-class collateral and providing support to clients in maintaining liquidity with funds with a favorable interest rate.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

19. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

- Intensive work on undertaking all necessary activities in order to comply with the requirements of the NBS regarding the COVID-19 pandemic. The Bank prepared procedures for the implementation of the Moratorium by the Decision of the National Bank of Serbia, maintained the same approach in cooperation with clients and continued to contact clients from the Bank's portfolio, in order to assess the effects and consequences of the pandemic on clients' business. . Clients were informed about all measures of the state, as well as the announced financial incentives that will be realized through the banking sector. The branches were monitored intensified on a daily basis with clear instructions on the measures to be taken on the basis of the new regulations and ordinances of the state.

As of December 31, 2020, the Bank's gross amount of loans and receivables due from corporate customers (excluding interest, fees and commissions and accrued fees and commissions) totaled RSD 40,331,861 thousand (2019: RSD 33,576,769 thousand) and are broken down as follows:

| Loan type | December 31, 2020 | December 31, 2019 | % Variance |
|--|----------------------|----------------------|---------------|
| Loans from Bank's resources | 34,491,469 | 26,526,365 | 30.03% |
| Loans from credit lines obtained from the International Financial Institutions | 5,840,392 | 7,050,404 | (17.16%) |
| Total | 40,331,861 | 33,576,769 | 20.12% |

- Gross loans and receivables due from customers – Retail

As of December 31, 2020, the Bank's gross amount of loans and receivables due from retail customers without interest and fees yet including NPLs totaled 15,856,607 thousand (2019: RSD 13,281,754 thousand) and are broken down as follows:

| Loan Type | December 31, 2020 | December 31, 2019 | % Variance |
|---|----------------------|----------------------|---------------|
| Cash loans | 8,626,404 | 7,258,433 | 18.85% |
| Housing loans | 6,221,866 | 4,910,910 | 26.69% |
| Consumer loans – other purposes | 273,784 | 401,754 | -31.85% |
| Consumer loans – energy efficiency | 264,090 | 269,968 | -2.18% |
| Matured loan receivables | 174,220 | 155,579 | 11.98% |
| Consumer loans – purchase of vehicle | 142,047 | 129,695 | 9.52% |
| Authorized current account overdrafts | 127,962 | 126,217 | 1.38% |
| Unauthorized current account overdrafts | 21,541 | 28,935 | -25.55% |
| Receivables per credit cards | 4,693 | 263 | 1684.41% |
| Total | 15,856,607 | 13,281,754 | 19.39% |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

19. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

Movements on the impairment allowance accounts in 2020

| | 2020 | | | | |
|--|--|--|---|---|------------------|
| | Cash and balances held with the central bank (Note 15) | Loans and receivables due from banks (Note 16) | Loans and receivables due from customers (Note 19) | Other financial assets (Note 21) | Total |
| Balance, beginning 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 |
| Impairment allowance (Note 10) | 701 | 2,103 | 443,287 | 11,058 | 457,149 |
| Stage 1 | 701 | 2,103 | 14,015 | 6,395 | 23,214 |
| Stage 2 | - | - | 78,081 | 28 | 78,109 |
| Stage 3 | - | - | 351,191 | 4,635 | 355,826 |
| Reversal of impairment allowances (Note 10) | (4) | (874) | (242,824) | (4,607) | (248,309) |
| Stage 1 | (4) | (874) | (20,777) | (2,728) | (24,383) |
| Stage 2 | - | - | (8,395) | (12) | (8,407) |
| Stage 3 | - | - | (213,652) | (1,867) | (215,519) |
| Foreign exchange effects | - | (2) | (10,048) | - | (10,050) |
| Stage 1 | - | (2) | (931) | - | (933) |
| Stage 2 | - | - | (372) | - | (372) |
| Stage 3 | - | - | (8,745) | - | (8,745) |
| Write-offs | - | - | (168,139) | (257) | (168,396) |
| Stage 1 | - | - | - | - | - |
| Stage 2 | - | - | - | - | - |
| Stage 3 | - | - | (168,139) | (257) | (168,396) |
| Balance, end of year | 1,858 | 1,889 | 1,107,285 | 26,024 | 1,137,056 |
| Stage 1 | 1,858 | 1,889 | 85,146 | 4,074 | 92,967 |
| Stage 2 | - | - | 106,824 | 39 | 106,863 |
| Stage 3 | - | - | 915,315 | 21,911 | 937,226 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

19. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

Movements on the impairment allowance accounts in 2019

| | Cash and balances held with the central bank (Note 15) | Loans and receivables due from banks (Note 16) | Loans and receivables due from customers (Note 19) | Other financial assets (Note 21) | 2019 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 |
| Impairment allowance (Note 10) | 267 | - | 420,880 | 8,702 | 430,886 |
| Stage 1 | 267 | - | 81,574 | 406 | 82,247 |
| Stage 2 | - | - | 28,328 | 22 | 28,350 |
| Stage 3 | - | - | 310,178 | 10,111 | 320,289 |
| Reversal of impairment allowances (Note 10) | - | (1,260) | (248,295) | - | (249,555) |
| Stage 1 | - | (1,260) | (74,574) | - | (75,834) |
| Stage 2 | - | - | (61,493) | - | (61,493) |
| Stage 3 | - | - | (112,228) | - | (112,228) |
| Foreign exchange effects | - | - | (5,142) | - | (5,142) |
| Stage 1 | - | - | (2,862) | - | (2,862) |
| Stage 2 | - | - | - | - | - |
| Stage 3 | - | - | (2,280) | - | (2,280) |
| Write-offs | - | - | (511,452) | (3,397) | (514,849) |
| Stage 1 | - | - | - | - | - |
| Stage 2 | - | - | - | - | - |
| Stage 3 | - | - | (511,452) | (3,397) | (514,849) |
| 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 |

20. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY

a) INTANGIBLE ASSETS

| | December 31, 2020 | December 31, 2019 |
|---|----------------------|----------------------|
| Cost | | |
| Balance as of January 1 | 510,264 | 462,104 |
| Additions | 113,442 | 48,160 |
| Balance as of December 31 | 623,706 | 510,264 |
| Accumulated amortization | | |
| Balance as of January 1 | 239,538 | 188,966 |
| Charge for the year | 62,986 | 50,572 |
| Balance as of December 31 | 302,524 | 239,538 |
| Net book value as of December 31 | 321,182 | 270,726 |

The largest amount of additions to the intangible assets in 2020 relates to the purchase of licenses for new software at ATMs in the amount of RSD 30,904 thousand, investments in electronic banking in the amount of RSD 47,817 thousand, improvement of the existing Tesla project system in the amount of RSD 19,739 thousand and other application software required to operate in the Bank's system in the amount of RSD 14,982 thousand.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

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

b) PROPERTY - BUILDINGS

| | December 31, 2020 | December 31, 2019 |
|---|-----------------------|-----------------------|
| Cost | | |
| Balance as of January 1 | 670,301 | 695,621 |
| Additions | 562 | 1,529 |
| Revaluation | - | 804 |
| Reclassification | - | (27,653) |
| Sale / disposal | (318,539) | - |
| Balance as of December 31 | <u>352,324</u> | <u>670,301</u> |
| Accumulated depreciation | | |
| Balance as of January 1 | 255,671 | 247,296 |
| Charge for the year | 16,262 | 17,775 |
| Revaluation | - | 281 |
| Reclassification | - | (9,681) |
| Sale / disposal | (131,988) | - |
| Balance as of December 31 | <u>139,945</u> | <u>255,671</u> |
| Net book value as of December 31 | <u>212,379</u> | <u>414,630</u> |

The Bank has satisfactory evidence of ownership of all assets in its possession, except for four real estates on buildings with a total present value as at December 31, 2020 in the amount of RSD 1,203 thousand (RSD 1,255 thousand in 2019).

In accordance with the Bank's Accounting Policy, the Bank used internally comparable data to review the market value of owned buildings as of December 31, 2020, while it used external valuations by authorized appraisers only for acquired assets.

If the Bank applies the cost model less depreciation when calculating the value of buildings owned by the Bank, the carrying amount of buildings as at December 31, 2020 would be RSD 354,195 thousand (2019: RSD 349,357 thousand).

Fair value of the Bank's buildings as of December 31, 2020 is presented as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|--------------|----------|----------|----------------|----------------|
| Buildings | - | - | 212,371 | 212,371 |
| Total | <u>-</u> | <u>-</u> | <u>212,371</u> | <u>212,371</u> |

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 | <u>-</u> | <u>-</u> | <u>414,630</u> | <u>414,630</u> |

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 value 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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***20. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)****b) PROPERTY – BUILDINGS (Continued)**

During 2020, the Bank sold two real estates in its ownership in Čačak, in Pivarska Street and in Bulevar oslobođenja.

On October 30, 2020, the Agreement on Acquisition of Real Estate in Public Ownership was concluded with the City of Čačak. The real estate was sold at a price of RSD 197,167 thousand. Payment of the purchase price is made in 3 installments within 24 months from the date of conclusion of the Agreement.

On December 7, 2020, the Bank concluded an Agreement on the lease of business premises with the City of Čačak, for a part of the ground floor with a total area of 257.89 m² (the space in which the Bank's branch used to be). The Bank paid the rent in advance for the subject of the lease, for a period of 10 years and 1 month, in the amount equal to the amount of the first installment paid from the Agreement on Acquisition of Real Estate into Public Ownership (RSD 62,348 thousand).

In 2019, the Bank reclassified the office building in Užice for the purpose of renting business premises from construction facilities to investment property and on that occasion recognized the effects of the revaluation through capital by recording the estimates of an authorized appraiser in the amount of RSD 804 thousand.

The following table presents valuation techniques as well as significant non-determinable parameters used in estimating the fair value of buildings.

| 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, that is, on the comparison of assets that are valued with other comparable assets that are subject to buying / selling in the market. | Real estate prices in the local market are observed. Comparable real estate was found for the bank's buildings. Comparable market prices in Belgrade as of December 31, 2020 ranged from 1,400 to 4,000 EUR / m ² , and in Čačak, Gornji Milanovac and Jagodina from 750 to 1,600 EUR / m ² , in Kraljevo from 460 to 800 EUR / m ² , in Krusevac from 500 to 1400 EUR / m ² . | 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.

The appraisal reports are prepared based on:

- the information obtained from the Bank on the current rent amounts, lease of similar properties, 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

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

c) EQUIPMENT

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---|------------------------------|------------------------------|
| Cost | | |
| Balance as of January 1 | 1,087,827 | 1,095,654 |
| Additions | 334,674 | 94,965 |
| Sales | (32,556) | (79,944) |
| Disposals and write-offs | <u>(18,281)</u> | <u>(22,848)</u> |
| Balance as of December 31 | 1,371,664 | 1,087,827 |
| Accumulated depreciation | | |
| Balance as of January 1 | 705,736 | 692,936 |
| Charge for the year | 133,347 | 114,908 |
| Sales | (30,814) | (79,368) |
| Disposals and write-offs | <u>(17,902)</u> | <u>(22,740)</u> |
| Balance as of December 31 | <u>790,367</u> | <u>705,736</u> |
| Net book value as of December 31 | <u>581,297</u> | <u>382,091</u> |

The largest amount of investments in 2020 refers to the purchase of POS terminals and ATMs in the amount of RSD 225,225 thousand and IT equipment, computer equipment and supporting IT equipment in the amount of RSD 68,593 thousand.

The Bank mostly sold cars in its ownership in the amount of RSD 19,576 thousand, while it spent photocopiers and printing machines in the amount of RSD 16,104 thousand as donations.

d) INVESTMENT PROPERTY

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---|------------------------------|------------------------------|
| Cost | | |
| Balance as of January 1 | 170,785 | 152,814 |
| Additions | - | 17,971 |
| Balance as of December 31 | <u>170,785</u> | <u>170,785</u> |
| Accumulated depreciation | | |
| Balance as of January 1 | 32,940 | 28,931 |
| Charge for the year | 4,539 | 4,009 |
| Balance as of December 31 | <u>37,479</u> | <u>32,940</u> |
| Net book value as of December 31 | <u>133,306</u> | <u>137,845</u> |

Revenues from leasing facilities in 2020 amounted to RSD 4,374 thousand (2019: RSD 1,957 thousand). Receivables based on re-invoiced lease costs in 2020 amounted to RSD 1,475 thousand (2019: RSD 467 thousand).

Fair value of the Bank's investment property as of December 31, 2020 is presented as follows:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------|----------------|----------------|----------------|----------------|
| Investment property | - | - | 133,306 | 133,306 |
| Total | - | - | 133,306 | 133,306 |

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

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------|----------------|----------------|----------------|----------------|
| Investment property | - | - | 137,845 | 137,845 |
| Total | - | - | 137,845 | 137,845 |

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***20. INTANGIBLE ASSETS, PROPERTY, EQUIPMENT AND INVESTMENT PROPERTY (Continued)****d) INVESTMENT PROPERTY (Continued)**

The estimated value of investment property, according to the certified appraiser's report, as of December 31, 2020, amounted to RSD 139,982 thousand. The fair value of investment property does not deviate significantly from its carrying amount.

In 2019, the Bank reclassified an office building in Užice for the purpose of renting business premises from construction facilities for performing activities to investment real estate

| 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, that is, on the comparison of assets that are valued with other comparable assets that are subject to buying / selling in the market. | Real estate prices in the local market are observed. Comparable real estate was found for the bank's buildings. Comparable market prices in Belgrade on December 31, 2020 ranged from 1,800 to 2,850 EUR / m2, and in Čačak and Užice from 200 to 1500 EUR / m2 | The assessed fair value would increase/(decrease) if the prices of comparable properties in the local real estate market increased/(decreased). |

The Bank has satisfactory evidence of ownership of all assets in its possession, except for two real estates on investment property with a total present value as at December 31, 2020 in the amount of RSD 73,452 thousand (2019: RSD 75,874 thousand).

The investment property revaluation process

Real estate appraisal is performed every three years on the basis of appraisal reports prepared by qualified independent appraisers, while internally the market values of owned real estate are reviewed every year. The last assessment by independent assessors was performed on November 30, 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 accounting policies to regulate the accounting treatment of leases.

A lease is an agreement 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 return for a payment or series of payments.

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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

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

e) LEASING (Continued)

Within this standard, the Bank includes:

- business premises and
- vehicles.

The rate at which the Bank calculates the right of use is the incremental borrowing rate. Incremental borrowing rate is the rate of interest that a 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.

Bank for calculation of the incremental borrowing rate for business premises use the average cost of funds (term deposits and credit lines).

In order to ensure the participation of market factors, the projected price take into account the rates of return on the secondary market of securities of the Republic of Serbia. In this way, the calculation covers both country risk and bank risk.

The Bank leases cars with a maturity of up to four years. Accordingly, and taking into account that these are permanent working capital, the total amount of the right of use for all cars, which is significantly less than the right of use for business premises, the financing of these funds would not be done from credit lines.

Additionally, since these are extremely easily marketable assets, the Bank evaluates these contracts by calculating the average cost price on total demand deposits and term deposits plus the insurance premium, respectively, the Bank uses the average rate on deposits (time deposits and demand deposits), which it adjusts (increases) for the cost of insurance deposits.

The Bank does not apply the requirements of IFRS 16:

- to lease contracts with terms shorter than 12 months and those that do not contain the purchase option, and/or
- leases with small-value underlying assets (RSD equivalent of USD 5,000.00 or less).

The leased assets are capitalized in the Bank's books as the lessee, together with the liability for appropriate lease payments. Also, IFRS 16 has changed the presentation of the income statement. Instead of the lease cost, which has hitherto been reported as an operating expense, there was the depreciation expense related to the recognized asset, as well as the interest expenses on the lease liability.

In transition to IFRS 16, the Bank has chosen a cumulative approach whereby IFRS 16 has been retrospectively applied with a cumulative effect recognized as an adjustment on 1 January 2019, whereby comparative data are not being adjusted.

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

As of December 31, 2020 the standard was applied to the lease of:

- 28 business premises and;
- 72 vehicles.

| Right-of-use assets | December 31, 2020 | December 31, 2019 |
|----------------------------------|--------------------------|--------------------------|
| - Business premises | | |
| Balance as of January 1 | 488,870 | 599,340 |
| Increase during the year | 152,580 | 38,843 |
| Charge of the year | (157,693) | (149,313) |
| Balance as of December 31 | 483,757 | 488,870 |
| Right of-use assets | December 31, 2020 | December 31, 2019 |
| - Vehicles | | |
| Balance as of January 1 | 32,101 | 58,452 |
| Increase during the year | 87,699 | - |
| Charge of the year | (29,557) | (26,351) |
| Balance as of December 31 | 90,243 | 32,101 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

21. OTHER ASSETS

| | December 31, 2020 | December 31, 2019 |
|--|-----------------------|-----------------------|
| Receivables for calculated fees and commissions related to other assets | 17,178 | 8,142 |
| Trade receivables | 1,431 | 4,959 |
| Other receivables from regular operating activities | 26,036 | 25,942 |
| Receivables for accrued interest related to other assets | 10 | 10 |
| Other receivables in RSD | 118,814 | 71,852 |
| Other receivables in foreign currencies | 183,118 | 170,817 |
| Other investments | 3,349 | 3,349 |
| Other deferred expenses | 5,778 | 15,784 |
| Accrued receivables | - | - |
| Deferred interest expenses in foreign currencies | 14,882 | 15,617 |
| Other prepayments in foreign currencies | 821 | 862 |
| Inventories of materials, tools, spare parts and other inventories | 23,703 | 24,779 |
| Tangible assets acquired through collection of receivables (Note 29) | 41,058 | 30,478 |
| | <u>436,178</u> | <u>372,591</u> |
| Impairment of other assets | (50,840) | (45,336) |
| Impairment of tangible assets acquired through collection of receivables (Note 29) | (814) | (812) |
| Less: Impairment allowance of other assets (Note 11b) | (51,654) | (46,148) |
| TOTAL: | <u>384,524</u> | <u>326,443</u> |

The line item of other receivables in RSD refers mostly to receivables in the calculation based on cards (Visa, Dina, MasterCard) in the amount of RSD 51,094 thousand (2019: VISA card from OTP banka Srbija ad, Novi Sad in the amount of RSD 20,591 thousand) and advance payments to suppliers.

The line item of Other receivables in foreign currencies mostly refers to advances given to landlords as collateral on the basis of contracts in the amount of RSD 28,102 thousand and receivables from the City of Čacak for second and third installments under the Agreement on purchase and sale of a building in Pivarska in the amount of RSD 134,966 thousand.

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

| | December 31, 2020 | December 31, 2019 |
|--|--------------------------|-------------------------|
| DEPOSITS DUE TO BANKS | | |
| Transaction deposits | 123,155 | 224,075 |
| Earmarked deposits | 4 | 819,829 |
| Other deposits | 6,188,451 | 5,065,598 |
| Other financial liabilities due to banks | 852,415 | 331,111 |
| Interest and fee liabilities due to banks | 763 | 1,617 |
| Accrued liabilities for accrued interest on deposits and other financial liabilities due to banks | 22,805 | 12,941 |
| Total deposits and other liabilities due to banks and other financial institutions | <u>7,187,593</u> | <u>6,455,171</u> |
| BORROWINGS DUE TO BANKS | | |
| Borrowings due to banks | 3,163,501 | 1,981,291 |
| Liabilities for accrued interest on borrowings due to banks | 12,051 | 12,684 |
| Deferred expenses for liabilities measured at amortized cost using the effective interest rate | (7,490) | (10,461) |
| Total borrowings due to banks | <u>3,168,062</u> | <u>1,983,514</u> |
| Total: deposits, borrowings and other liabilities due to banks, other financial institutions and the central bank | <u>10,355,655</u> | <u>8,438,685</u> |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

22. 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 2,528,296 thousand (2019: RSD 1,773,000 thousand) and to foreign currency deposits of insurance companies and other financial institutions in the amount of RSD 497,248 thousand (2019: RSD 529,168 thousand), deposits of domestic banks in foreign currency in amount of RSD 223,402 thousand (2019: RSD 411,574 thousand) as well as foreign banks - Turkiye Halk Bankasi A.S. Head Office in the amount of RSD 2,939,505 thousand (2019: RSD 2,351,856 thousand).

Long-term deposits from banks and other financial organizations are termed at a rate 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 rate from 0.7% to 1.2% p.a. Long-term deposits from banks and other financial institutions in foreign currency are termed at interest rate 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.

Short-term RSD deposits of banks and other financial organizations were placed in 2020 at rates ranging from 0.26% to 0.92% p.a for maturities of up to 7 days, while deposits with a maturity of up to 1 year were time-matched in 2020 at rates ranging from 2.00% to 3.20% p.a. Long-term deposits of banks and other financial organizations were time-matched in 2020 at rates ranging from 2.50% to 3.00% p.a. Deposits of domestic banks and other financial organizations in foreign currency were term deposits in 2020 at rates ranging from 0.03% per annum to 0.05% p.a. for maturities of up to 7 days, while deposits with maturities of up to 1 year were term deposits in 2020 at rates ranging from 0.50% to 1.85% p.a, while long-term deposits of banks and other financial organizations in foreign currency were time-matched during 2020 at a rate of 1.80% p.a. Parent bank deposits are mostly term deposits of up to 7 days, with an annual interest rate of 0.25% per annum, while parent bank deposits are term deposits for a period of 3 months, with an annual interest rate of 0.50% 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 AD for contracted purchase and sale of foreign currency cash in the amount of RSD 235,140 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 23,384 thousand, National Bank of Serbia in the amount of RSD 352,741 thousand and Vojvođanska bank in the amount of RSD 235,161 thousand.

The item of borrowings due to banks in the amount of RSD 3,163,501 thousand in 2020 (2019: RSD 1,981,291 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 | in RSD '000 | in EUR '000 | in RSD '000 |
|---|---------------------------------|---------------------------------|------------------|---------------------|
| | Balance at December 31, 2020 | Balance at December 31, 2020 | Maturing in 2021 | Maturing after 2021 |
| Demir-Halk Bank (Netherlands) | 8,500 | 999,357 | 7,000 | 1,500 |
| Green for Growth Fund (GGF) | 4,118 | 484,195 | 588 | 3,530 |
| European Fund for Southeast Europe (EFSE) | 4,286 | 503,949 | 2,857 | 1,429 |
| Liabilities under Repo contracts | 10,002 | 1,176,000 | 10,002 | - |
| TOTAL | 26,906 | 3,163,501 | 20,447 | 6,459 |

| Creditors | in EUR '000 | in RSD '000 | in EUR '000 | in RSD '000 |
|---|---------------------------------|---------------------------------|------------------|---------------------|
| | Balance at December 31, 2019 | Balance at December 31, 2019 | Maturing in 2020 | 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 (EFSE) | 7,143 | 839,949 | 2,857 | 4,286 |
| TOTAL | 16,849 | 1,981,291 | 4,945 | 11,904 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

23. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS

| | <u>December 31, 2020</u> | <u>December 31, 2019</u> |
|---|------------------------------|------------------------------|
| DEPOSITS DUE TO CUSTOMERS | | |
| Transaction deposits | 24,653,761 | 15,471,872 |
| Savings deposits | 14,029,693 | 13,018,235 |
| Deposits securitizing loans | 2,619,080 | 2,023,252 |
| Earmarked deposits | 139,479 | 2,039,014 |
| Other deposits | 12,512,661 | 8,818,110 |
| Deposits and loans maturing within one day | 560,542 | - |
| Other financial liabilities due to customers | 127,740 | 172,798 |
| Interest and fee liabilities due to customers | 2,447 | 1,926 |
| Accrued liabilities for interest payable on deposits and other financial liabilities to customers | 152,144 | 100,300 |
| Total deposits and other liabilities due to customers | <u>54,797,547</u> | <u>41,645,507</u> |
| BORROWINGS DUE TO CUSTOMERS | | |
| Borrowings due to customers | 6,171,878 | 6,839,932 |
| Liabilities for accrued interest on borrowings | - | 1,341 |
| Deferred expenses for liabilities measured at amortized cost using the effective interest rate | (3) | (4) |
| Total borrowings due to customers | <u>6,171,875</u> | <u>6,841,269</u> |
| Total deposits, borrowings and other liabilities due to customers | <u>60,969,422</u> | <u>48,486,776</u> |

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 0.00%. Short-term retail deposits were deposited at annual interest rates ranging from 2.00% to 3.50% for RSD funds, and from 0.10% to 1.40% foreign currency funds. Long-term retail deposits in foreign currencies were deposited at annual interest rates ranging from 0.70% to 1.60%.

By ongoing monitoring of market trends, individual and proactive approach to the customers, the Bank increased the amount of corporate customer deposits by 44.21%. 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 17.98% with the Bank's market share of total customer deposits reached 2.16%.

Deposits of corporate clients denominated in RSD were placed at interest rates ranging from 0.25% p.a. to 3.15% p.a., while deposits denominated in foreign currency 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 45.1 million, and the European Agency for Reconstruction in the amount of EUR 7,1 million. In addition, the Bank obtained borrowings from the Government of the Republic of Italy in the amount of EUR 0,26 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, 2020, 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 performance of its operating indicators and provides detailed explanations for each covenant breached.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

23. DEPOSITS AND OTHER LIABILITIES DUE TO CUSTOMERS (Continued)

Maturities of borrowings due to customers in accordance with contracts

| Creditors | EUR '000 | RSD '000 | Matures in 2021 | Matures in 2022 | Matures in 2023 | EUR '000 |
|-------------------------------------|------------------------------|------------------------------|-----------------|-----------------|-----------------|--------------------|
| | Balance at December 31, 2020 | Balance at December 31, 2020 | | | | Matures after 2023 |
| EIB | 45,106 | 5,303,581 | 7,278 | 5,629 | 3,928 | 28,271 |
| FRK | 7,125 | 837,726 | 3,174 | 2,107 | 1,229 | 615 |
| Government of the Republic of Italy | 260 | 30,571 | 130 | 130 | - | - |
| TOTAL | 52,491 | 6,171,878 | 10,582 | 7,866 | 5,157 | 28,886 |

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

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

- from 0.35 to 1.00% - 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 0.72% p.a. + 6-month EURIBOR.

24. PROVISIONS

| | December 31, 2020 | December 31, 2019 |
|---|-------------------|-------------------|
| a) Movements on provisions for potential losses on off-balance sheet items | | |
| Balance as of January 1 | 4,733 | 4,312 |
| Charge for the year (Note 11a) | 17,425 | 4,650 |
| Reversal of provisions (Note 11a) | (3,731) | (4,229) |
| Other | (16) | - |
| Balance as of December 31 | 18,411 | 4,733 |
| b) Movements on provisions for retirement benefits | | |
| Balance as of January 1 | 94,241 | 79,465 |
| Charge for the year (Note 12) | 3,897 | 62,793 |
| Reversal of provisions (Note 12) | - | (2,412) |
| Release of provisions | (62,708) | (46,378) |
| Actuarial losses | 2,882 | 773 |
| Balance as of December 31 | 38,312 | 94,241 |
| c) Movements on the provisions for litigations | | |
| Balance as of January 1 | 18,616 | 13,900 |
| Charge for the year (Note 13) | 11,197 | 20,830 |
| Release of provisions | (8,990) | (16,114) |
| Balance as of December 31 | 20,823 | 18,616 |
| TOTAL | 77,546 | 117,590 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

24. PROVISIONS

Provisions for potential losses in the amount of RSD 18,411 thousand (2019: RSD 4,733 thousand) were created per guarantees and other off-balance sheet items.

In 2020, short-term provisions for employee bonuses formed in 2019 were paid.

In respect of the lawsuits filed against Bank and the relating claims, according to the status of the cases as of December 31, 2020, the Bank made a provision of RSD 20,823 thousand (2019: RSD 18,616 thousand).

As at December 31, 2020, 1,745 disputes are pending against the Bank (2019: 529 disputes) in which the Bank was sued in the total amount of RSD 65,161 thousand (2019: RSD 50,036 thousand). The Bank makes a reservation for disputes on a quarterly basis. The subject of the largest number of disputes where the Bank is a defendant is the loan processing fee, so for those lawsuits disputes the Bank makes provisions upon receipt of a negative first instance judgment against the Bank. For other disputes, the Bank makes a reservation when it estimates that the chances of success in the dispute are less than 50%. The reserved amount includes the principal interest debt and the expected costs of the proceedings.

25. OTHER LIABILITIES

| | December 31, 2020 | December 31, 2019 |
|---|------------------------------|------------------------------|
| Trade payables | 27,086 | 22,582 |
| Advances received | 198,874 | 127,593 |
| Lease liabilities | 528,007 | 530,602 |
| Liabilities from consignment operations | 167 | 167 |
| Other operating liabilities | 140,648 | 50,992 |
| Liabilities in settlement | 62,440 | 28,182 |
| Temporary and suspense accounts | 13,548 | 276 |
| VAT liabilities | 3,561 | 3,109 |
| Liabilities for other taxes and contributions payable | 2,676 | 1,992 |
| Accrued liabilities | 33,311 | 36,790 |
| Deferred other income | 53,108 | 41,808 |
| Other accruals – subsidized interest | 51,588 | 4,585 |
| Other liabilities | 792 | 1,532 |
| TOTAL | 1,115,806 | 850,210 |

Increase in the item of other accrued costs and deferred revenue - subsidized interest refers to agricultural loans approved during 2020 in cooperation with the Ministry of Agriculture, i.e. to the subsidized interest received by the Bank from the Ministry of Agriculture, which is accrued and earned in accordance with the approved loan maturity.

Lease Liabilities**The liability maturity period**

| – contract maturity | December 31, 2020 | December 31, 2019 |
|----------------------------|------------------------------|------------------------------|
| 0-1 year | 10,892 | 15,413 |
| 1-3 years | 173,994 | 283,073 |
| 3-5 years | 182,552 | 79,590 |
| 5-10 years | 160,569 | 152,526 |
| Total | 528,007 | 530,602 |

Liabilities for lease of business premises**The liability maturity period**

| – contract maturity | December 31, 2020 | December 31, 2019 |
|----------------------------|------------------------------|------------------------------|
| 0-1 year | 9,316 | 6,089 |
| 1-3 years | 165,924 | 260,328 |
| 3-5 years | 102,171 | 79,590 |
| 5-10 years | 160,569 | 152,526 |
| Total | 437,980 | 498,533 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

*All amounts expressed in thousands of RSD, unless otherwise stated.***25. OTHER LIABILITIES (Continued)****Lease Liabilities (Continued)****Liabilities for lease of vehicles****The liability maturity period**

| – contract maturity | December 31, 2020 | December 31, 2019 |
|----------------------------|------------------------------|------------------------------|
| 0-1 year | 1,576 | 9,324 |
| 1-3 years | 8,070 | 22,745 |
| 3-5 years | 80,381 | - |
| Total | 90,027 | 32,069 |

An overview of the incremental borrowing rates used for vehicle leases

| Type of leased vehicle | Leasing liabilities due – contract maturity (per years) | Incremental borrowing rate | RSD'000 |
|-------------------------------|--|-----------------------------------|----------------|
| Automobile | 0-1 year | 1.37% | 1,576 |
| Automobile | 1-3 years | 1.37% | 8,070 |
| Automobile | 3-5 years | 1.30% | 80,381 |
| Total | | | 90,027 |

An overview of the incremental borrowing rates used for leases of business premises

| Lease liabilities - business premises by maturity (per years) | Incremental borrowing rate | RSD '000 |
|--|-----------------------------------|-----------------|
| 0-1 year | 1.37% | 9,316 |
| 1-3 years | 1.37 - 1.47% | 165,924 |
| 3-5 years | 1.30 - 1.47% | 102,171 |
| 5-10 years | 2.20 - 5.03% | 160,569 |
| Total | | 437,980 |

Total outflows from leasing in 2020 amounted to RSD 244,626 thousand

The Bank duly settles its liabilities related to Leasing agreements

During 2020, the Bank concluded Annexes with 17 lessors which regulated the reduction of rent during the state of emergency. Thus, the Bank generated income from the reduction of leasing liabilities in the amount of RSD 3,136 thousand.

Obligations to suppliers in the amount of RSD 27,086 thousand relate to the Bank's regular business activities, which were paid in January 2021.

Liabilities arising from received advances refers to customer payments for outstanding loan commitments in the amount of RSD 198,874 thousand.

The lease liability position refers to the liabilities the bank has to its lessors based on the discounted leasing payments for business premises and car leases.

The position of Other liabilities from business relations mostly consists of the deposit of the legal entity "Jugoskandic" DD Belgrade in bankruptcy in the amount of RSD 99,945 thousand. After the expiration of the term deposit, a decision was made to transfer the amount from the regular deposit account to other liabilities until receiving instructions for the transfer of funds.

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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

26. 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.

Breakdown of the Bank's equity as at December 31, 2020 and 2019 is provided in the following table:

| | December 31, 2020. | December 31, 2019. |
|-----------------------------------|-------------------------------|-------------------------------|
| 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 | 577,380 | 926,753 |
| Reserves from profit | 1,726,527 | 1,726,527 |
| Prior years' retained earnings | 682,330 | - |
| Current year's profit | 529,706 | 472,836 |
| TOTAL | 12,488,546 | 12,098,719 |

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 (2019: RSD 6,260,280 thousand), share premium in the amount of RSD 2,712,323 thousand (2019: RSD 2,712,323 thousand), reserves from profit in the amount of RSD 1,726,527 thousand (2019: RSD 1,726,527 thousand), and revaluation reserves in the amount of RSD 577,380 thousand (2019: RSD 926,753 thousand). In 2020 the Bank realized and reported profit of RSD 529,706 thousand (2019: RSD 472,836 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, 2020 was 21.18% (2019: 24.22%), which is well above the minimum prescribed by the National Bank of Serbia.

Breakdown of Reserves

| | December 31, 2020 | December 31, 2019 |
|---|------------------------------|------------------------------|
| Revaluation reserves | | |
| Reserves from changes in the value of fixed assets | 96,292 | 305,796 |
| Reserves from changes in the value of RSD debt instruments | 481,399 | 591,371 |
| Reserves from changes in the value of foreign currency debt instruments | - | 27,015 |
| Actuarial gains | (311) | 2,571 |
| Total revaluation reserves | 577,380 | 926,753 |
| Reserves from profit | 1,726,527 | 1,726,527 |
| TOTAL | 2,303,907 | 2,653,280 |

Reserves arising from revaluation of property, plant and equipment relate to effects of appraisal of the Bank's buildings from previous years and 2020. 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, 2020. 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

26. EQUITY (Continued)

Basic Earnings per Share

| | December 31, 2020 | December 31, 2019 |
|---|----------------------|----------------------|
| Net profit for the year | 529,706 | 472,836 |
| Weighted average number of shares outstanding | 565,894 | 565,894 |
| Earnings per share in RSD | <u>936</u> | <u>836</u> |

The Bank's Shareholders as of December 31, 2020

| No. | Shareholder | RSD '000 | | | TOTAL | Ordinary Shares | Interest share (%) | | TOTAL |
|-----|------------------------------|--------------------|------------------------------------|-------------------------------|------------------|--------------------|------------------------------------|-------------------------------|---------------|
| | | Ordinary Shares | Cumulative preference shares | Other preference shares | | | Cumulative preference shares | Other preference shares | |
| 1. | 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, 2019

| No. | Shareholder | RSD '000 | | | TOTAL | Ordinary Shares | Interest share (%) | | TOTAL |
|-----|------------------------------|--------------------|------------------------------------|-------------------------------|------------------|--------------------|------------------------------------|-------------------------------|---------------|
| | | Ordinary Shares | Cumulative preference shares | Other preference shares | | | Cumulative preference shares | Other preference shares | |
| 1. | 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, 2020, Turkiye Halk Bankasi AS was the sole (100%) of the Bank's shares.

| | December 31, 2020 | | | December 31, 2019 | | |
|----------------------|----------------------|------------------------|--------------------------|----------------------|------------------------|--------------------------|
| | Total | Turkiye Halkbankasi | % Turkiye Halkbankasi | Total | Turkiye Halkbankasi | % Turkiye Halkbankasi |
| Ordinary shares | 565,894 | 565,894 | 100,00% | 565,894 | 565,894 | 100,00% |
| Preference shares | 60,134 | 60,134 | 100,00% | 60,134 | 60,134 | 100,00% |
| Total: | 626,028 | 626,028 | 100,00% | 626,028 | 626,028 | 100,00% |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

27. OFF-BALANCE SHEET ITEMS

| | December 31, 2020 | December 31, 2019 |
|---|----------------------|----------------------|
| a) Managed funds | 257,727 | 265,345 |
| b) Guarantees, sureties and irrevocable commitments | | |
| Guarantees in RSD | 13,509,390 | 9,609,607 |
| Guarantees in foreign currencies | 1,931,275 | 2,308,600 |
| Total guarantees | 15,440,665 | 11,918,207 |
| Irrevocable commitments for undrawn loans in RSD | 1,318,099 | 1,574,212 |
| Irrevocable commitments for undrawn loans in foreign currencies | 587,901 | - |
| Total irrevocable commitments for undrawn loans | 1,906,000 | 1,574,212 |
| Total guarantees and irrevocable commitments | 17,346,665 | 13,492,419 |
| c) Financial assets pledged as collateral | 1,200,000 | 2,260,870 |
| d) Derivatives held for trading at the agreed value | 470,321 | 943,938 |
| e) Other off-balance sheet items | | |
| Calculated suspended interest | 5,076,234 | 4,969,015 |
| Commitments for framework loans and facilities | 10,813,711 | 8,687,283 |
| Other off-balance sheet items | 62,702,671 | 49,416,986 |
| Total other off-balance sheet items | 78,592,616 | 63,073,284 |
| TOTAL | 97,867,329 | 80,035,856 |

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 57,519,403 thousand at December 31, 2020 (2019: RSD 42,918,164 thousand).

As of December 31, 2020, within other off-balance sheet items the amount of RSD 3,539,346 thousand (2019: RSD 3,665,876 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

28. 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 common 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, 2020. | December 31, 2019 |
|---|-----------------------|----------------------|
| a) Loans, deposits and other receivables | | |
| The parent and entities under the joint control of the parent | | |
| Turkiye Halk Bankasi AS | 1,092,561 | 516,520 |
| Other related parties | | |
| RVM d.o.o. | 27,424 | 45,134 |
| Company TGK d.o.o. Čačak | 31,867 | 30,014 |
| Tax Free d.o.o. Beograd | - | 6,162 |
| DOO Duomos Novi Pazar | - | 3,542 |
| Inceptus d.o.o. Čačak | 5,652 | 3,278 |
| Animals d.o.o. Aranđelovac | 447 | 3,036 |
| Halkbank a.d. Skopje | 11,186 | 2,644 |
| Agrohemija d.o.o. Čačak | - | 1,219 |
| Profesional 2000 d.o.o. Gornji Milanovac | 2,002 | - |
| Inter-Wood d.o.o. Niš | 1,999 | - |
| Other entities | 9,393 | 7,033 |
| Individuals | 419,402 | 364,038 |
| TOTAL | 1,601,933 | 982,620 |
| b) Borrowings, deposits and other liabilities | | |
| The parent and entities under the joint control of the parent | | |
| Turkiye Halk Bankasi AS | 2,939,505 | 2,351,856 |
| Other related parties | | |
| Demir Halkbank Netherlands | 1,007,673 | 593,932 |
| Company TGK d.o.o. Čačak | 5 | 3 |
| Amicum d.o.o. Ivanjica | 11 | - |
| Other entities | 1 | 324 |
| Individuals | 236 | 332 |
| TOTAL | 3,947,431 | 2,946,447 |
| c) Off-balance sheet items | | |
| The parent and entities under the joint control of the parent | | |
| Turkiye Halk Bankasi AS | 113,153 | 435,135 |
| Halkbank a.d. Skopje | 117,580 | 117,593 |
| Other related parties | | |
| RVM d.o.o. | 116,411 | 120,589 |
| Ninex d.o.o. Čačak – in bankruptcy | 66,357 | 66,680 |
| Agrohemija d.o.o. Čačak | 5,997 | 6,027 |
| Company TGK d.o.o. Čačak | 5,028 | 4,228 |
| Profesional 2000 d.o.o. Gornji Milanovac | - | 1,700 |
| Company Silver d.o.o. Čačak | 350 | 550 |
| Animalis d.o.o. Aranđelovac | 3,000 | - |
| DOO Duomos Novi Pazar | 3,000 | - |
| Other entities | 602 | 2,083 |
| Individuals | 23,611 | 19,406 |
| TOTAL: | 455,089 | 773,991 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

28. RELATED PARTY DISCLOSURES (Continued)

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 18, 19, 22 and 23 to the accompanying financial statements.

| | December 31, 2020 | December 31, 2019 |
|---|----------------------|----------------------|
| d) Interest, fee and commission income | | |
| The parent and entities under the joint control of the parent | | |
| Turkiye Halk Bankasi AS | 2,426 | 185 |
| Other related parties | | |
| RVM d.o.o. | 1,585 | 2,345 |
| Company TGK d.o.o. Čačak | 853 | 776 |
| Animals d.o.o. Aranđelovac | 313 | 470 |
| Tax Free d.o.o. Beograd | - | 391 |
| Inceptus d.o.o. Čačak | 174 | 308 |
| Agrohemija d.o.o. Čačak | 114 | 286 |
| Ivex Drink d.o.o. Ivanjica | 137 | 186 |
| DOO Duomos Novi Pazar | 130 | 144 |
| Profesional 2000 d.o.o. Gornji Milanovac | 67 | 104 |
| Jelena Mijailović PR | 77 | 94 |
| Ena Ugljanin PR | 116 | 58 |
| Company Interprogres Čačak | 56 | 46 |
| TIBO Kompanija doo Beograd Mladenovac | 30 | 25 |
| Company Silver doo Čačak | 30 | 23 |
| ST-KR Dekoratex | 14 | 13 |
| Prevoznik Grujičić Milovan PR | 5 | 5 |
| Big Win d.o.o. | | |
| Bdnn-Glišić doo Export-Import Brđani | 90 | - |
| Inter-Wood d.o.o. Niš | 34 | - |
| Vaga szi Marinović | 26 | - |
| Other entities | 97 | 145 |
| Individuals | 21,683 | 22,724 |
| TOTAL | 28,057 | 28,328 |
| e) Interest, fee and commission expenses | | |
| The parent and entities under the joint control of the parent | | |
| Turkiye Halk Bankasi AS | 9,190 | 5,778 |
| Entities under the significant influence of the parent | | |
| Demir Halkbank Netherlands | 27,993 | 10,902 |
| Other related parties | 66 | - |
| Individuals | 1,326 | 791 |
| TOTAL | 38,575 | 17,471 |

Gross remunerations to the Chairmen and members of the Bank's Supervisory Board and Executive Board in 2020 amounted to RSD 62,183 thousand (2019: RSD 61,987 thousand). Net remunerations to the Chairmen and members of the Supervisory Board and Executive Board in 2020 amounted to RSD 49,684 thousand (2019: RSD 44,868 thousand).

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***29. 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, 88/2019, 27/2020 I 67/2020 – other decisions), 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, risk of the portfolio currency structure, 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 2020 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 2020, 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.

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;

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****Introduction (Continued)**

- 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 policies 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 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.

29.1 Credit Risk**29.1.1. 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.

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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.1 Credit Risk (Continued)****29.1.2 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, 2020 and December 31, 2019 as per:

- Credit risk exposure, 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, 2020, the Bank's cash, cash equivalents and balances held with the central bank increased by RSD 3,693,440 thousand compared to December 31, 2019 and comprised 16,51% of the Bank's total financial assets. Pledged financial assets have increased by RSD 1,060,870 thousands, and position Securities recorded an increase by RSD 1,574,331 thousand. Loans and receivables due from customers increased by RSD 9,715,935 thousand, comprising 66,87% of the Bank's total financial assets.

As of December 31st, 2020, deposits and other liabilities due to customers increased by RSD 12,482,646 thousand compared to December 31st, 2019, and participates with 84.79% in total financial liabilities.

As of December 31, 2020, off-balance sheet items increased by RSD 5,967,005 compared to December 31, 2019. Guarantees and letters of credit increased by RSD 3,522,563 and are participating with 54.86% in total off-balance sheet items. Commitments per undrawn loans increased by 2,444,442 and participated with 45.14% in total off-balance sheet items

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

29.1.2 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)

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

| | December 31, 2020 | December 31, 2019 |
|--|------------------------------|------------------------------|
| Financial assets | 83,033,286 | 68,105,201 |
| Cash and balances held with the central bank | 13,707,004 | 10,031,564 |
| Pledged financial assets | 1,200,000 | 2,260,870 |
| Receivables under financial derivatives | - | - |
| Securities | 9,920,811 | 8,346,480 |
| Loans and receivables due from banks and other financial institutions | 2,398,670 | 1,453,134 |
| Loans and receivables due from customers | 55,520,331 | 45,804,396 |
| Other assets | 286,470 | 226,757 |
| Financial liabilities | 71,908,250 | 57,50,966 |
| Liabilities under derivatives | 1,266 | 1,563 |
| Deposits and other liabilities due to banks, other financial institutions and the central bank | 10,355,655 | 8,438,685 |
| Deposits and other liabilities due to customers | 60,969,422 | 48,486,776 |
| Other liabilities | 581,907 | 573,942 |
| Off-balance credit risk exposure, net | | |
| | December 31, 2020 | December 31, 2019 |
| Off-balance sheet items, net | 28,141,964 | 22,174,959 |
| Guarantees and letters of credit | 15,438,943 | 11,916,380 |
| Public sector | 144,934 | 90,310 |
| Large corporate customers | 2,087,677 | 1,282,287 |
| SMEs, micro-sized entities and entrepreneurs | 12,071,948 | 9,406,080 |
| Retail customers | 7,055 | 6,684 |
| Other customers | 1,127,329 | 1,221,328 |
| Commitments per undrawn loans | 12,703,021 | 10,258,579 |
| Public sector | 5,997 | 80,239 |
| Large corporate customers | 1,217,009 | 870,601 |
| SMEs, micro-sized entities and entrepreneurs | 11,189,457 | 9,130,826 |
| Retail customers | 289,804 | 176,148 |
| Other customers | 754 | 765 |

Gross Credit Risk Exposure

Gross credit risk exposure per loans and receivables due from customers as of December 31, 2020, increased by RSD 9,738,211 thousand compared to December 31, 2019. Exposure to SMEs, micro business and entrepreneurs increased by RSD 7,084,583 thousand and exposure to retail clients increased by RSD 2,765,102 thousand. Exposures to public sector decreased by RSD 49,912 thousand, by RSD 33,231 thousand to large corporate customers and by RSD 28,331 thousand to other customers – non-profit entities, entities involved in social activities and entities in bankruptcy.

In the structure of gross loans and receivables from clients, the percentage increase in exposure to SMEs, micro business and entrepreneurs is 22.80%, and exposure to the retail is 20.88%. Exposure to the public sector, large corporate customers and other clients decreased by 33.50%, 1.44% and 24.53%, respectively.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

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

Credit risk – gross exposure

| | December 31, 2020 | December 31, 2019 |
|---|----------------------|----------------------|
| Financial assets | 84,170,342 | 69,211,863 |
| Cash and balances held with the central bank | 13,708,862 | 10,014,725 |
| Pledged financial assets | 1,200,000 | 2,260,870 |
| Receivables under derivative financial instruments | - | - |
| Securities | 9,920,811 | 8,346,480 |
| Loans and receivables from banks and other financial institutions | 2,400,559 | 1,453,796 |
| Loans and receivables due from customers | 56,627,616 | 46,889,405 |
| <i>Of which:</i> | | |
| Public sector | 99,062 | 148,974 |
| Large corporate customers | 2,277,200 | 2,310,431 |
| SMEs, micro-sized entities and entrepreneurs | 38,156,963 | 31,072,380 |
| Retail customers - individuals | 16,007,247 | 13,242,145 |
| Other customers | 87,144 | 115,475 |
| Other assets | 312,494 | 246,587 |

Gross credit risk exposure per off-balance sheet items increased by RSD 5,980,684 thousand or by 26.96% as of December 31, 2020 compared to December 31, 2019. Gross exposure under guarantees and letters of credit to large legal entities increased by RSD 895,318 thousand, to medium, small and micro companies and entrepreneurs by RSD 2,667,015 thousand, to public sector by RSD 54,625 thousand, while exposure to other clients (non-profit entities, entities involved in social activities and entities in bankruptcy) decreased by RSD 94,871 thousand.

Commitments per undrawn loans increased by RSD 2,458,226 thousand, or 23.96% as of December 31, 2020 compared to December 31, 2019. Gross exposure under commitments per undrawn loans to large legal entities increased by RSD 346,347 thousand, to medium, small and micro companies and entrepreneurs by RSD 2,072,459 thousand, to retail clients by RSD 113,672 thousand, while it decreased to public sector by RSD 74,242 thousand.

Gross credit risk exposure per off-balance sheet items

| | December 31, 2020 | December 31, 2019 |
|--|----------------------|----------------------|
| Off-balance sheet items | 28,160,376 | 22,179,692 |
| Guarantees and letter of credit | 15,440,665 | 11,918,207 |
| Public sector | 144,935 | 90,310 |
| Large corporate customers | 2,087,690 | 1,192,372 |
| SMEs, micro-sized entities and entrepreneurs | 12,072,742 | 9,405,727 |
| Retail customers | 7,055 | 6,684 |
| Other customers | 1,128,243 | 1,223,114 |
| Commitments per undrawn loans | 12,719,711 | 10,261,485 |
| Public sector | 6,000 | 80,242 |
| Large corporate customers | 1,217,055 | 870,708 |
| SMEs, micro-sized entities and entrepreneurs | 11,206,045 | 9,133,586 |
| Retail customers - individuals | 289,856 | 176,184 |
| Other customers | 755 | 765 |

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.1 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 impairment 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 be 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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.1 Credit Risk (Continued)****Recognition and Modification of Financial Assets (Continued)**

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.

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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.1 Credit Risk (Continued)****Expected Credit Losses (ECL) (Continued)**

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 there 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

FBE PE status is related to forbore 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, at 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 forbore 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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.1 Credit Risk (Continued)****Expected Credit Losses (ECL) (Continued)**

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 impairment allowance of assets in Stage 2, while the 12-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:

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

ECL - Expected credit loss

EAD - Exposure at default

MPD - Marginal probability of default

LGD - Loss given default

DF - EIR based discount factor

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 movements of monthly migrations from internal rating categories 1, 2, 3 and 4 to internal category 5 (default category) for a minimum period of 5 years.

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 .

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.1 Credit Risk (Continued)****Expected Credit Losses (ECL) (Continued)**

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 investigate the relations between the actually realized default rates and the following macroeconomic factors identified as material: movement of GDP, unemployment rate, movement of consumer price index, monetary aggregate M3, exchange rate movement RSD/EUR, average net salary in the Republic of Serbia indexed in EUR and index of income movements of legal entities.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.1 Credit Risk (Continued)****Expected Credit Losses (ECL) (Continued)**

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.

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 from 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 from 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 from 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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.1 Credit Risk (Continued)****Expected Credit Losses (ECL) (Continued)*****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.

Within each of the subsegments, borrowers are further distributed into groups per days past due into the following internal categories:

| Internal 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

The table below shows movements of the impairment allowance during the period from January 1, 2020 to December 31, 2020:

| | 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 | 697 | - | - | - | - | - | - | - | - |
| Securities | - | - | - | - | - | - | - | - | - |
| Loans and receivables due from banks and other financial institutions | 1,227 | - | - | - | - | - | - | - | - |
| Loans and receivables due from customers | (7,688) | - | (5) | 69,316 | - | (2) | (39,298) | - | (47) |
| Other assets | 3,667 | - | - | 16 | - | - | 2,512 | - | (1) |
| Total | (2,097) | - | (5) | 69,332 | - | (2) | (36,786) | - | (48) |

The table below shows movements of the impairment allowance during the period from IFRS 9 first-time adoption up to 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) |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Collective Impairment Assessment (Continued)

The table below presents movements of the gross credit risk exposures per Stage over the period from January 1, 2020 to December 31, 2020.

| Movements in the credit risk exposure from January 01, 2020 to December 31, 2020 | | | | |
|---|--|-------------------|------------------|------------------|
| | Opening balance at January 1, 2020 | Stage 1 | Stage 2 | Stage 3 |
| | Opening balance at January 1, 2020. | 10,014,725 | - | - |
| | Transfer to Stage 1 | - | - | - |
| | Transfer to Stage 2 | - | - | - |
| | Transfer to Stage 3 | - | - | - |
| | Increases through origination | 3,694,137 | - | - |
| | 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, 2020 | 13,708,862 | - | - |
| | Opening balance at January 1, 2020. | - | - | - |
| | 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 | - | - | - |
| Receivables under derivative financial instruments | Closing balance at December 31, 2020 | - | - | - |
| | Opening balance at January 1, 2020. | 10,607,327 | - | 23 |
| | Transfer to Stage 1 | - | - | - |
| | Transfer to Stage 2 | - | - | - |
| | Transfer to Stage 3 | - | - | - |
| | Increases through origination | 2,812,089 | - | - |
| | Decreases through repayment, write-off and transfer to off-balance sheet items | (2,298,625) | - | (3) |
| Securities | Closing balance at December 31, 2020 | 11,120,791 | - | 20 |
| | Opening balance at January 1, 2020. | 1,453,796 | - | - |
| | Transfer to Stage 1 | - | - | - |
| | Transfer to Stage 2 | - | - | - |
| | Transfer to Stage 3 | - | - | - |
| | Increases through origination | 1,539,672 | - | - |
| | Decreases through repayment, write-off and transfer to off-balance sheet items | (592,909) | - | - |
| Loans and receivables due from banks and other financial institutions | Closing balance at December 31, 2020 | 2,400,559 | - | - |
| | Opening balance at January 1, 2020. | 40,288,103 | 4,316,986 | 2,284,316 |
| | Transfer to Stage 1 | 959,453 | (954,563) | (4,890) |
| | Transfer to Stage 2 | (3,097,342) | 3,113,252 | (15,910) |
| | Transfer to Stage 3 | (72,678) | (116,129) | 188,807 |
| | Increases through origination | 21,062,739 | 4,595,914 | 28,545 |
| | Decreases through repayment, write-off and transfer to off-balance sheet items | (13,395,009) | (1,849,005) | (704,973) |
| Loans and receivables due from customers | Closing balance at December 31, 2020 | 45,745,266 | 9,106,455 | 1,775,895 |
| | Opening balance at January 1, 2020. | 191,720 | 365 | 54,502 |
| | Transfer to Stage 1 | 3,464 | (97) | (3,367) |
| | Transfer to Stage 2 | (271) | 433 | (162) |
| | Transfer to Stage 3 | (1,326) | (1,093) | 2,419 |
| | Increases through origination | 211,641 | 1,419 | 8,276 |
| | Decreases through repayment, write-off and transfer to off-balance sheet items | (152,937) | (165) | (2,327) |
| Other assets | Closing balance at December 31, 2020 | 252,291 | 862 | 59,341 |
| Total | Closing balance at December 31, 2020 | 73,227,769 | 9,107,317 | 1,835,256 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Collective Impairment Assessment (Continued)

The table below presents movements of the gross credit risk exposures per Stage over the period from January 1, 2019 to December 31, 2019:

| | | Movements in the credit risk exposure from January 01, 2019 to December 31, 2019 | | | |
|---|--|---|------------------|------------------|----------------|
| | | Opening balance at January 1, 2019 | Stage 1 | Stage 2 | Stage 3 |
| | 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 | - | - | - | - |
| Cash and balances held with the central bank | Closing balance at December 31, 2019 | 10,014,725 | - | - | - |
| | 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) | - | - | - |
| Receivables under derivative financial instruments | Closing balance at December 31, 2019 | 0 | - | - | - |
| | 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 | (1,743,561) | (274) | (24) | |
| Securities | Closing balance at December 31, 2019 | 10,607,327 | - | 23 | |
| | 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) | |
| Loans and receivables due from banks and other financial institutions | Closing balance at December 31, 2019 | 1,453,796 | - | - | |
| | 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 | 2,264,46 | 31,333 | |
| | Decreases through repayment, write-off and transfer to off-balance sheet items | (13,709,459) | (2,024,356) | (756,161) | |
| Loans and receivables due from customers | Closing balance at December 31, 2019 | 40,288,103 | 4,316,986 | 2,284,316 | |
| | 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) | |
| Other assets | Closing balance at December 31, 2019 | 191,720 | 365 | 54,502 | |
| Total | Closing balance at December 31, 2019 | 62,555,671 | 4,317,351 | 2,338,841 | |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Collective Impairment Assessment (Continued)

The table below presents movements of the impairment allowance per Stage over the period from January 1st, 2020 to December 31, 2020:

| Movements of impairment allowances from January 31, 2020 to December 31, 2020 | | | | |
|--|--|----------------|----------------|----------------|
| | Opening balance at January 1,2020 | Stage 1 | Stage 2 | Stage 3 |
| | Opening balance at January 1, 2020 | 1,161 | - | - |
| | Transfer to stage 1 | - | - | - |
| | Transfer to stage 2 | - | - | - |
| | Transfer to stage 3 | - | - | - |
| | Increases through origination | 697 | - | - |
| | Decreases through repayment, write-off and transfer to off-balance sheet items | - | - | - |
| | Closing balance at December 31, 2020 | 1,858 | - | - |
| | Opening balance at January 1,2020 | - | - | - |
| | 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, 2020 | - | - | - |
| | Opening balance at January 1,2020 | 662 | - | 0 |
| | Transfer to stage 1 | - | - | - |
| | Transfer to stage 2 | - | - | - |
| | Transfer to stage 3 | - | - | - |
| | Increases through origination | 1,282 | - | - |
| | Decreases through repayment, write-off and transfer to off-balance sheet items | (55) | - | - |
| | Closing balance at December 31, 2020 | 1,889 | - | - |
| | Opening balance at January 1,2020 | 92,839 | 37,510 | 954,660 |
| | Transfer to stage 1 | 1,504 | (1,481) | (23) |
| | Transfer to stage 2 | (49,545) | 50,235 | (690) |
| | Transfer to stage 3 | (35,543) | (28,917) | 64,460 |
| | Increases through origination | 127,255 | 63,460 | 64,319 |
| | Decreases through repayment, write-off and transfer to off-balance sheet items | (51,364) | (13,983) | (167,411) |
| | Closing balance at December 31, 2020 | 85,146 | 106,824 | 915,315 |
| | Opening balance at January 1,2020 | 407 | 23 | 19,400 |
| | Transfer to stage 1 | 4,271 | (1) | (4,270) |
| | Transfer to stage 2 | (18) | 19 | (1) |
| | Transfer to stage 3 | (744) | (627) | 1,416 |
| | Increases through origination | 442 | 684 | 6,284 |
| | Decreases through repayment, write-off and transfer to off-balance sheet items | (284) | (14) | (918) |
| | Closing balance at December 31, 2020 | 4,074 | 39 | 21,911 |
| Total | Closing balance at December 31, 2020 | 92,967 | 106,863 | 937,226 |

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 27,000 thousand as at December 31, 2020 (December 31, 2019: RSD 25,059 thousand).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (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 in the impairment allowance from IFRS 9 FTA to December 31, 2019 | | | |
|---|--|---|----------------|----------------|----------------|
| | | Opening balance at January 1, 2019 | Stage 1 | Stage 2 | Stage 3 |
| | 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 | | - | - | - |
| Cash and balances held with the central bank | Closing balance at December 31, 2019 | | 1,161 | - | - |
| | 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 | | - | - | - |
| Securities | 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) | - | - |
| Loans and receivables due from banks and other financial institutions | Closing balance at December 31, 2019 | | 662 | - | - |
| | 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) |
| Loans and receivables due from customers | Closing balance at December 31, 2019 | | 92,839 | 37,510 | 954,660 |
| | 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) |
| Other assets | Closing balance at December 31, 2019 | | 407 | 23 | 19,400 |
| Total | Closing balance at December 31, 2019 | | 95,069 | 37,533 | 974,060 |

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.1 Credit Risk (Continued)****Expected Credit Losses (ECL) (Continued)****Collective Impairment Assessment (Continued)**

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).

Breakdown of Financial Assets per Impairment Stages

The Bank's total impairment for financial assets amounts to RSD 1,137,056 thousand as of December 31, 2020 (December 31, 2019: RSD 1,106,662 thousand) and it has increased by RSD 30,394 thousand or 2,75% compared to December 31st, 2019. The biggest impact on the movement of impairment had improvement the quality of the bank's portfolio due to the collection of problematic receivables and write-downs of receivables that are 100% covered by the impairment, as well as the reclassification of receivables from business entities dealing with activities listed below, as well as receivables from natural persons employed in these areas, from Stage 1 to Stage 2, due to the spread of the crisis caused by the Covid-19 pandemic.

The Bank recognized the following sectors/activities as the ones most affected by COVID-19:

- a) Traffic and storage - rail transport of passengers, remote and regional, city and suburban land transport of passengers, maritime and coastal transport of passengers, transport of passengers on internal waterways, air transport of passengers;
- b) Accommodation and nutrition services - hotels and similar accommodation, resorts and similar short stay facilities, camping activities, car camps and camps for tourist trailers, other accommodation, restaurant activities and movable catering facilities, catering, other food preparation and service services;
- c) Administrative and auxiliary service activities - activities of travel agencies, activities of tour operators, other booking services and activities associated with them, organizing meetings and trades.

Since the real effects of the crisis have not yet been realized, in order to adequately manage and timely recognize risks, i.e. mitigate potential adverse effects on operational and financial operations during 2021, Bank is with 31.12.2020 for certain activities, recognized as the most vulnerable due to the COVID 19 pandemic, reclassified the receivables from Stage 1 to Stage 2. For these areas, the Bank's Executive Board has decided on limiting lending in order to prevent a new NPL, due to the fact that these activities are recording a decline in business activity due to the negative effects of the pandemic.

By reclassifying receivables from business entities dealing with these activities, as well as receivables from natural persons employed in these areas, from Stage 1 to Stage 2, the Bank as of 31.12.2020. had a negative effect on the balance sheet of RSD 31.4 million, through the increase in the balance sheet asset impairment and probable losses on off-balance sheet items.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Breakdown of Financial Assets per Impairment Stages (Continued)

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

| | December 31,2020 | December 31,2019 |
|--|---------------------|---------------------|
| Cash and balances held with the central bank | 13,708,862 | 10,014,725 |
| Stage 1 | 13,708,862 | 10,014,725 |
| Receivables under derivative financial instruments | - | - |
| Stage 1 | - | - |
| Securities | 11,120,811 | 10,607,350 |
| Stage 1 | 11,120,791 | 10,607,327 |
| Stage 2 | - | - |
| Stage 3 | 20 | 23 |
| Loans and receivables due from banks and financial institutions | 2,400,559 | 1,453,796 |
| Stage 1 | 2,400,559 | 1,453,796 |
| Stage 3 | - | - |
| Loans and receivables due from customers | 56,627,616 | 46,889,405 |
| Stage 1 | 45,745,266 | 40,288,103 |
| Stage 2 | 9,106,455 | 4,316,986 |
| Stage 3 | 1,775,895 | 2,284,316 |
| Other assets | 312,495 | 246,587 |
| Stage 1 | 252,292 | 191,720 |
| Stage 2 | 862 | 365 |
| Stage 3 | 59,341 | 54,502 |
| Total gross carrying value | 84,170,343 | 69,211,863 |
| Stage 1 total impairment allowance (Note 18) | 92,967 | 95,069 |
| Stage 2 total impairment allowance (Note 18) | 106,863 | 37,533 |
| Stage 3 total impairment allowance (Note 18) | 937,226 | 974,060 |
| Total impairment allowance | 1,137,056 | 1,106,662 |
| Total net carrying value | 83,033,286 | 68,105,201 |

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, 2020 and 2019 are presented in the tables on the following pages.

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Expected Credit Losses (ECL) (Continued)

Financial Assets per Stage and Internal Rating Category (Continued)

| Category | December 31, 2019 | | December 31, 2018 | |
|--|-------------------|-------------------|-------------------|-------------------|
| | Gross exposure | Net exposure | Gross exposure | Net exposure |
| Cash and balances held with the central bank | 13,708,862 | 13,707,004 | 10,014,725 | 10,013,564 |
| Stage 1, of which: | 13,708,862 | 13,707,004 | 10,014,725 | 10,013,564 |
| Internal rating category 1 | 5,692,492 | 5,692,492 | 4,828,037 | 4,828,037 |
| Government, state and other institutions with external ratings | 8,016,370 | 8,014,512 | 5,186,688 | 5,185,527 |
| Securities | 11,120,811 | 11,120,811 | 10,607,350 | 10,607,350 |
| Stage 1, of which: | 11,120,791 | 11,120,791 | 10,607,327 | 10,607,327 |
| Internal rating category 1 | 26,820 | 26,820 | 39,410 | 39,410 |
| Government, state and other institutions with external ratings | 11,093,971 | 11,093,971 | 10,567,917 | 10,567,917 |
| Stage 3, of which: | 20 | 20 | 23 | 23 |
| Internal rating category 1 | 20 | 20 | 23 | 23 |
| Loans and receivables due from banks and other financial institutions | 2,400,559 | 2,398,670 | 1,453,796 | 1,453,134 |
| Stage 1, of which: | 2,400,559 | 2,398,670 | 1,453,790 | 1,453,132 |
| Internal rating category 1 | 584,743 | 584,454 | 578,271 | 578,146 |
| Government, state and other institutions with external ratings | 1,815,816 | 1,814,216 | 875,519 | 874,986 |
| Loans and receivables due from customers | 56,627,616 | 55,520,331 | 46,889,405 | 45,804,396 |
| Stage 1, of which: | 45,745,266 | 45,660,120 | 40,288,103 | 40,195,264 |
| Internal rating category 1 | 41,726,690 | 41,674,058 | 35,279,369 | 35,230,300 |
| Internal rating category 2 | 4,016,974 | 3,984,461 | 5,008,708 | 4,964,938 |
| Internal rating category 3 | 1,599 | 1,598 | - | - |
| Internal rating category 5 | 3 | 3 | 26 | 26 |
| Stage 2, of which: | 9,106,455 | 8,999,631 | 4,316,986 | 4,279,476 |
| Internal rating category 1 | 8,010,345 | 7,960,635 | 2,874,204 | 2,866,023 |
| Internal rating category 2 | 688,472 | 679,494 | 1,278,338 | 1,264,582 |
| Internal rating category 3 | 335,394 | 300,994 | 100,032 | 92,125 |
| Internal rating category 4 | 72,244 | 58,508 | 54,377 | 47,441 |
| Internal rating category 5 | - | - | 10,035 | 9,305 |
| Stage 3, of which: | 1,775,895 | 860,580 | 2,284,316 | 1,329,656 |
| Internal rating category 1 | 24,760 | 13,802 | 33,591 | 29,637 |
| Internal rating category 2 | 83,540 | 76,264 | 22,120 | 16,233 |
| Internal rating category 3 | 36,352 | 32,676 | 3,555 | 698 |
| Internal rating category 4 | 4,907 | 2,105 | 39,639 | 37,783 |
| Internal rating category 5 | 1,626,336 | 735,733 | 2,185,411 | 1,245,305 |
| Other assets | 312,494 | 286,470 | 246,587 | 226,757 |
| Stage 1, of which: | 252,291 | 248,217 | 191,720 | 191,313 |
| Internal rating category 1 | 251,793 | 247,921 | 35,129 | 34,018 |
| Internal rating category 2 | 287 | 286 | 283 | 278 |
| Internal rating category 5 | 10 | 10 | - | - |
| Government, state and other institutions with external ratings | 201 | - | 133,119 | 133,119 |
| Stage 2, of which: | 862 | 823 | 365 | 342 |
| Internal rating category 1 | 574 | 548 | 206 | 197 |
| Internal rating category 2 | 11 | 10 | 41 | 37 |
| Internal rating category 3 | 173 | 171 | 91 | 84 |
| Internal rating category 4 | 102 | 93 | 27 | 24 |
| Internal rating category 5 | 2 | 1 | - | - |
| Stage 3, of which: | 59,341 | 37,430 | 54,502 | 35,102 |
| Internal rating category 1 | 2,787 | 2,057 | 3,506 | 65 |
| Internal rating category 2 | 25 | 1 | 16 | 7 |
| Internal rating category 3 | 5 | - | 5 | 1 |
| Internal rating category 4 | 25 | 8 | 14 | - |
| Internal rating category 5 | 56,499 | 35,364 | 50,961 | 35,029 |

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.1 Credit Risk (Continued)****Expected Credit Losses (ECL) (Continued)*****Financial Assets per Stage and Internal Rating Category (Continued)***

The division of financial assets according to internal categories was carried out in accordance with the Methodology for calculating value correction in accordance with IFRS 9. The Bank divided all debtors into 5 internal categories, by per days past due:

| Internal 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.

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 2020 amounts to RSD 69,165 thousand (2019: RSD 114,898 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 33.75% as of December 31, 2020. The total collateral coverage ratio for Stage 1 equaled 29.13%, while the mortgage collateral coverage ratio was 17.16%. The total collateral coverage ratio for Stage 2 equaled 62.46%, while the mortgage collateral coverage ratio was 43.20%. The total collateral coverage ratio for Stage 3 equaled 75.50%, while the mortgage collateral coverage ratio was 74.51%.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Fair Value of Collaterals (Continued)

Assessment of the collateral fair value per financial asset as of December 31, 2020

| | Gross assets | Deposits | Guarantee of the Ministry of Finance- Guarantee Scheme | Mortgages | Pledges | Other |
|-------------------------|-------------------|------------------|---|-------------------|------------------|------------------|
| Financial assets | 84,170,342 | 1,739,757 | 1,918,517 | 17,864,111 | 2,662,298 | 4,222,737 |
| Stage 1 | 73,227,769 | 1,366,653 | 1,684,925 | 12,562,444 | 2,153,996 | 3,565,132 |
| Stage 2 | 9,107,317 | 372,557 | 229,948 | 3,934,217 | 495,849 | 656,050 |
| Stage 3 | 1,835,256 | 547 | 3,644 | 1,367,450 | 12,453 | 1,555 |

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

| | Gross assets | Deposits | Guarantee of the Ministry of Finance- Guarantee Scheme | Mortgages | Pledges | Other |
|-------------------------|-------------------|------------------|--|-------------------|------------------|------------------|
| Financial assets | 69,211,863 | 1,449,009 | - | 16,762,700 | 2,694,599 | 2,709,855 |
| Stage 1 | 62,555,671 | 1,155,815 | - | 13,011,791 | 2,336,349 | 2,518,243 |
| Stage 2 | 4,317,351 | 292,586 | - | 1,730,694 | 351,359 | 191,564 |
| Stage 3 | 2,338,841 | 608 | - | 2,020,215 | 6,891 | 48 |

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, 2020, assets secured with mortgages with LTV ratio below 50% had the largest share of 42.40%, assets secured with mortgages with LTV ratio from 50% to 70% had a share of 27.41%, assets secured with mortgages with LTV ranging from 70% to 90% had a share of 17.28%, assets with LTV ratio over 100% had a share of 8.69%, and financial assets secured with mortgages with LTV ratio in the range from 90% to 100% had a share of 4.22%.

LTV ratio balances as of December 31, 2020

| | Below 50% | 50%-70% | 70%-90% | 90%-100% | Above 100% |
|--|------------------|------------------|------------------|----------------|------------------|
| Financial assets secured with mortgages | 7,574,281 | 4,895,666 | 3,086,667 | 754,601 | 1,552,896 |
| Stage 1 | 4,570,776 | 3,923,907 | 2,392,327 | 411,161 | 1,264,273 |
| Stage 2 | 2,773,481 | 775,105 | 253,916 | 82,963 | 48,752 |
| Stage 3 | 230,024 | 196,654 | 440,424 | 260,477 | 239,871 |

LTV ratio balances as of December 31, 2019

| | Below 50% | 50%-70% | 70%-90% | 90%-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 | 1,028,638 | 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 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Financial Assets per Days Past Due

As of December 31, 2020, the financial assets without days past due had a share of 94.1% in the total gross financial assets, those from 1 to 30 days past due had a share of 3.55%, assets from 31 to 90 days past due had a share of 0.47%, assets from 91 to 180 and from 181 to 365 days past due had respective shares of 0.06% and 0.09%, while the share of assets with a number of days past due of over 365 days was 1.73%.

Breakdown of financial assets per past-due interval

| | December 31,2020 | | December 31,2019 | |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|
| | Gross exposure | Net exposure | Gross exposure | Net exposure |
| Without delays, no days past due | 79,199,067 | 79,039,256 | 64,102,554 | 63,943,657 |
| From 1 to 30 days past due | 2,988,011 | 2,954,312 | 2,974,260 | 2,939,387 |
| From 31 to 90 days past due | 399,723 | 343,382 | 183,406 | 153,629 |
| From 91 to 180 days past due | 53,600 | 23,257 | 54,160 | 24,711 |
| From 181 to 365 days past due | 71,614 | 27,585 | 142,244 | 81,460 |
| Over 365 days past due | 1,458,327 | 645,494 | 1,755,239 | 962,357 |
| Total | 84,170,342 | 83,033,286 | 69,211,863 | 68,105,201 |

Financial Assets per Industry

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

As of December 31, 2020, the largest share in the total gross financial assets was that of the retail customers – of 19.17% (2019: 19.32%) .

Concentration of the financial assets per industry

| | December 31,2020 | | December 31,2019 | |
|--|-------------------|-------------------|-------------------|-------------------|
| | Gross exposure | Net exposure | Gross exposure | Net exposure |
| Agriculture, forestry and fisheries | 2,174,221 | 2,158,896 | 1,363,577 | 1,359,457 |
| Mining and quarrying | 113,697 | 113,479 | 72,497 | 71,992 |
| Manufacturing and processing industry | 13,524,162 | 13,037,264 | 12,558,144 | 11,987,169 |
| Electricity, gas, steam and air conditioning supply | 461,812 | 460,126 | 453,356 | 451,566 |
| Construction industry | 6,913,013 | 6,624,146 | 4,356,022 | 4,082,861 |
| Wholesale and retail trade and repair of motor vehicles and motorcycles | 9,178,780 | 9,108,139 | 6,935,398 | 6,874,958 |
| Transport and storage, hotel and restaurant services, information and communications | 5,401,882 | 5,346,567 | 4,664,560 | 4,625,761 |
| Real estate, professional, scientific and technical activities | 1,682,313 | 1,672,044 | 1,985,032 | 1,978,089 |
| Arts, entertainment and leisure | - | - | - | - |
| Banks, financial institutions and insurance companies | 15,502,482 | 15,494,333 | 11,445,731 | 11,436,728 |
| Private individuals | 16,131,703 | 15,939,596 | 13,368,773 | 13,234,367 |
| Other | 13,086,277 | 13,078,696 | 12,008,773 | 12,002,253 |
| Total | 84,170,342 | 83,033,286 | 69,211,863 | 68,105,201 |

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, entertainment and leisure industry.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Financial Assets per Industry (Continued)

Concentration of the off-balance sheet items per industry

| | December 31, 2020 | | December 31, 2019 | |
|--|-------------------|-------------------|-------------------|-------------------|
| | Gross exposure | Net exposure | Gross exposure | Net exposure |
| Agriculture, forestry and fisheries | 43,114 | 43,101 | 82,690 | 82,679 |
| Mining and quarrying | 60,707 | 60,706 | 51,121 | 51,120 |
| Manufacturing and processing industry | 7,239,462 | 7,238,701 | 5,789,482 | 5,788,843 |
| Electricity, gas, steam and air conditioning supply | 78,034 | 78,007 | 81,624 | 81,595 |
| Construction industry | 10,884,026 | 10,870,900 | 7,334,202 | 7,333,521 |
| Wholesale and retail trade and repair of motor vehicles and motorcycles | 2,967,808 | 2,967,171 | 3,137,061 | 3,136,227 |
| Transport and storage, hotel and restaurant services, information and communications | 2,977,848 | 2,975,833 | 2,615,033 | 2,614,622 |
| Real estate, professional, scientific and technical activities | 1,637,960 | 1,637,197 | 1,144,414 | 1,144,184 |
| Arts, entertainment and leisure activities | - | - | - | - |
| Banks, financial institutions and insurance companies | 6,522 | 6,522 | 132,476 | 132,476 |
| Private individuals | 296,911 | 296,859 | 182,868 | 182,832 |
| Other | 1,967,984 | 1,966,967 | 1,628,721 | 1,626,860 |
| Total | 28,160,376 | 28,141,964 | 22,179,692 | 22,174,959 |

Concentration of the financial assets per industry is within the internal limits.

Financial Assets per Geographic Region

The table below shows financial assets per exposure to certain geographic regions. As of December 31, 2020, the predominant share was the share of exposure to customers in Serbia (93.46%). The share of the exposure to the European Union borrowers was 2.26%, USA and Canada's share was 0.09%, and the share of borrowers from other regions equaled 4.19%.

Concentration of the financial assets per region, net exposures

| | December 31, 2020 | December 31, 2019 |
|----------------|-------------------|-------------------|
| Serbia | 77,602,034 | 64,314,034 |
| European Union | 1,875,108 | 1,985,071 |
| USA and Canada | 78,075 | 85,096 |
| Other | 3,478,069 | 1,721,000 |
| Total | 83,033,286 | 68,105,201 |

Financial Assets per Serbian Region

The table below shows financial assets per exposure to certain geographic regions in Serbia. As of December 31, 2020, the predominant share was the share of exposure to customers in Belgrade (53.96%), followed by the share of exposure to borrowers in Western Serbia (26.32%). while Vojvodina, Southern Serbia and Eastern Serbia had shares of 9.39%, 6.45% and 3.88%, respectively.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

*All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.1 Credit Risk (Continued)****Financial Assets per Serbian Region (Continued)****Concentration of the financial assets per Serbian region, net exposures**

| | December 31, 2020 | December 31, 2019 |
|-----------------|------------------------------|------------------------------|
| Belgrade | 41,871,242 | 34,528,860 |
| Vojvodina | 7,287,943 | 4,749,951 |
| Southern Serbia | 5,004,206 | 4,339,326 |
| Eastern Serbia | 3,014,178 | 2,890,435 |
| Western Serbia | 20,424,465 | 17,805,462 |
| Total | 77,602,034 | 64,314,034 |

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.

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 2020, the Bank performed the accounting write-off of NPLs in the aggregate amount of RSD 40,365 thousand (2019: 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).

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.1 Credit Risk (Continued)****Write-Off of Receivables (Continued)****Loan Rescheduling and Restructuring**

In 2020, 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. 94/2011, 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 of 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.

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 as performing.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Write-Off of Receivables (Continued)

Loan Rescheduling and Restructuring (Continued)

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, 2020, :

| Balance as of December 31,2020 | Number of borrowers | Number of restructured loans |
|--------------------------------|---------------------|------------------------------|
| 95,773 | 28 | 34 |

The table below presents balance of restructured loans as of December 31, 2019:

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

Breakdown of the total restructured and impaired loans as of December 31, 2020

| Category | December 31, 2020 | | | |
|--------------|-------------------|----------------|---------------------|---------------------------|
| | Gross exposure | Net exposure | Number of borrowers | Number of loan facilities |
| Stage 1 | - | - | - | - |
| Stage 2 | 59,644 | 59,078 | 25 | 29 |
| Stage 3 | 1,270,636 | 629,365 | 63 | 77 |
| Total | 1,330,280 | 688,443 | 88 | 106 |

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 |

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 independent transaction.

Fair value is calculated using the market information available as of the reporting date.

Whenever possible, the Bank measures the fair value 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

*All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.1 Credit Risk (Continued)****Fair Value of Assets and Liabilities (Continued)**

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 2020 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 2020 are equal to their carrying values.

Loans disbursed before 2020 were subject to discounting using the interest rates available at the website of the National Bank of Serbia. These interest rates are taken from 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 2020.

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 0.74%, 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, 2020.

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.

Financial assets measured at fair value

| December 31, 2020 | Level 1 | Level 2 | Level 3 | Total |
|--|----------------|----------------|----------------|--------------|
| Securities | | | | 11,120,811 |
| • Financial assets measured at fair value through profit or loss (FVtPL) | 19,220 | - | - | 19,220 |
| • Securities at fair value through other comprehensive income (FVtOCI) | - | 11,101,591 | - | 11,101,591 |
| December 31, 2019 | Level 1 | Level 2 | Level 3 | Total |
| Securities | | | | 10,607,350 |
| • Financial assets at fair value through profit or loss, held for trading (including pledged assets) | 21,156 | - | - | 21,156 |
| • Financial assets available for sale (including pledged assets) | - | 10,586,194 | - | 10,586,194 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

29.1 Credit Risk (Continued)

Fair Value of Assets and Liabilities (Continued)

Financial assets and liabilities measured at other than fair value

| December 31, 2020 | Level 1 | Level 2 | Level 3 | Total |
|---|---------|------------|------------|------------|
| Financial assets | | | | |
| Cash and balances held with the central bank | - | 13,707,004 | - | 13,707,004 |
| Receivables under derivative financial instruments | - | - | - | - |
| Loans and receivables due from banks and other financial institutions | - | - | 2,398,670 | 2,398,670 |
| Loans and receivables due from customers | - | - | 55,714,179 | 55,714,179 |
| Other assets | - | - | 286,470 | 286,470 |
| Financial liabilities | | | | |
| Deposits and other liabilities due to banks, other financial institutions and the central bank, | - | - | 10,355,655 | 10,355,655 |
| Deposits and other liabilities due to customers | - | - | 60,954,698 | 60,954,698 |
| Other liabilities | - | - | 581,907 | 581,907 |
| December 31, 2019 | | | | |
| 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 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

29.1 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, 2020 | FVtPL | FVtOCI | Other – AC | Total carrying value | Total fair value |
|--|--------|------------|------------|----------------------|------------------|
| Financial assets | | | | | |
| Cash and balances held with the central bank | - | - | 13,707,004 | 13,707,004 | 13,707,004 |
| Receivables under derivative financial instruments | - | - | - | - | - |
| Securities | 19,220 | 11,101,591 | - | 11,120,811 | 11,120,811 |
| Loans and receivables due from banks and other financial institutions | - | - | 2,398,670 | 2,398,670 | 2,398,670 |
| Loans and receivables due from customers | - | - | 55,520,331 | 55,520,331 | 55,714,179 |
| Other assets | - | - | 286,470 | 286,470 | 286,470 |
| Financial liabilities | | | | | |
| Deposits and other liabilities due to banks, other financial institutions and the central bank | - | - | 10,355,655 | 10,355,655 | 10,355,655 |
| Deposits and other liabilities due to customers | - | - | 60,969,422 | 60,969,422 | 60,954,698 |
| Other liabilities | - | - | 581,907 | 581,907 | 581,907 |
| December 31, 2019 | | | | | |
| 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 | 45,804,396 |
| 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 |

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.2 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 than 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, 2020, 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, 2020, the Bank achieved the following capital adequacy ratios:

- the Bank's total capital adequacy ratio (CAR) was 21.18%
- the Bank's core capital adequacy ratio (T1 ratio) was 21.17%, and
- Bank's common equity Tier 1 capital ratio (CET 1 ratio) was 18.82%,

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%.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

29.2 Capital and Capital Adequacy (Continued)

| Item no. | Item | December 31, 2020 | December 31, 2019 |
|-----------------|--|----------------------|----------------------|
| 1 | CAPITAL | 10,801,186 | 11,214,051 |
| 1.1 | CORE CAPITAL | 10,799,846 | 11,212,711 |
| 1.1.1 | Common equity Tier 1 capital | 9,599,846 | 10,012,711 |
| 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 | 550,380 | 901,695 |
| 1.1.1.4 | Reserves from profit, other reserves and reserves for general banking risks | 1,726,527 | 1,726,527 |
| 1.1.1.5 | (+/-) Regulatory adjustment of the common equity Tier 1 capital | (11,332) | (11,024) |
| 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 | (321,182) | (270,726) |
| 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 | (53,417) | (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: | 51,007,768 | 46,299,704 |
| 2.1 | Risk-weighted credit risk exposures | 46,198,780 | 41,751,261 |
| 2.2 | Risk-weighted foreign exchange risk exposures | - | 375,790 |
| 2.3 | Risk-weighted operational risk exposures | 4,808,988 | 4,172,653 |
| 3. | CAPITAL ADEQUACY RATIOS | | |
| 3.1 | Total capital adequacy ratio | 21.18% | 24.22% |
| 3.2 | Tier 1 capital ratio (T1 ratio) | 21.17% | 24.22% |
| 3.3 | Common Equity Tier 1 capital ratio (CET 1 ratio) | 18.82% | 21.63% |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

29.3 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, 2020 and 2019:

| No. | Acquired asset | Area (m ²) | Acquisition date | Execution debtor | Net book value December 31, 2020 | Net book value December 31, 2019 |
|--------------|---|------------------------|------------------|---------------------------------------|--|--|
| 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 |
| 3. | Outlet 45/j Kraljevo at no. 45, Cara Dušana St., Kraljevo | 43 | 24/04/2017 | Trgomen Nekretnine d.o.o. Ratina | - | 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 |
| 5. | Apartment at no. 29, Tomislava Andrića-Džigija St., Kraljevo | 140 | 16/06/2017 | Zoran Milašinović Aleksandra Kozomora | 10,477 | 10,477 |
| 6. | Weekend housebr.1, Kamenjar 117, K.O. Veternik | 77 | 19/02/2018 | Kozomora | 1,854 | 1,857 |
| 7. | Business premises, CM Cuprija | 82 | 20/12 2018 | Interchem-him | 4,619 | 4,619 |
| 8. | Business premises, CM Cuprija | 89 | 20/12/2018 | Interchem-him | 4,485 | 4,485 |
| 9. | Residential building 1,Ko1 Voljavce-Jagodina | 321 | 31/08/2020 | Interchem-him | 6,810 | - |
| 10. | Two bedroom apartment-Kragujevac | 121 | 29/09/2020 | Interhcem-him | 10,584 | - |
| Total | | | | | 40,244 | 29,666 |

29.4 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

*All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.4 Liquidity Risk (Continued)**

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.

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 | |
|----------------|------------------------|-------------|
| | 2020 | 2019 |
| At December 31 | 1.89 | 2.12 |
| Average | 1.92 | 1.77 |
| Maximum | 2.56 | 2.12 |
| Minimum | 1.56 | 1.56 |
| | Quick ratio | |
| | 2020 | 2019 |
| At December 31 | 1.68 | 1.87 |
| Average | 1.71 | 1.50 |
| Maximum | 2.13 | 1.87 |
| Minimum | 1.42 | 1.24 |

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

| | 2020 | 2019 |
|----------------|-------------|-------------|
| At December 31 | 29.55% | 27.79% |
| Average | 28.23% | 27.51% |
| Maximum | 30.38% | 30.29% |
| Minimum | 25.15% | 24.43% |

During 2020, 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).

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

29.4 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, 2020 | 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 | 13,707,004 | - | - | - | - | 13,707,004 |
| Pledged financial assets | - | - | - | - | 1,200,000 | 1,200,000 |
| Securities | 1,254,811 | 100,000 | - | 2,216,000 | 6,350,000 | 9,920,811 |
| Loans and receivables due from banks and other financial institutions | 2,398,670 | - | - | - | - | 2,398,670 |
| Loans and receivables due from customers | 1,463,810 | 3,407,160 | 13,484,391 | 24,707,091 | 12,457,879 | 55,520,331 |
| Other assets | 284,737 | - | - | - | 1,733 | 286,470 |
| Total financial assets | 19,109,032 | 3,507,160 | 13,484,391 | 26,923,091 | 20,009,612 | 83,033,286 |
| Liabilities under derivative financial instruments derivatives | 1,266 | - | - | - | - | 1,266 |
| Deposits and other liabilities due to banks, other financial institutions and the central bank, | 4,526,637 | 2,624,904 | 1,951,426 | 1,187,254 | 65,434 | 10,355,655 |
| Deposits and other liabilities due to customers | 31,972,663 | 4,391,179 | 13,422,785 | 9,343,739 | 1,839,056 | 60,969,422 |
| Other liabilities | 53,900 | - | - | - | 528,007 | 581,907 |
| Total financial liabilities | 36,554,466 | 7,016,083 | 15,374,211 | 10,530,993 | 2,432,497 | 71,908,250 |
| Maturity match/mismatch (gap) | (17,445,434) | (3,508,923) | (1,889,820) | 16,392,098 | 17,577,115 | 11,125,036 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

29.4 Liquidity Risk (Continued)

| 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 derivatives | 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 |

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk)****29.5.1 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, 2020

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

29. RISK MANAGEMENT (Continued)

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

29.5.1 Interest Rate Risk (Continued)

| December 31, 2020 | 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 | 7,487,015 | - | - | - | - | 6,219,989 | 13,707,004 |
| Pledged financial assets | - | - | - | - | - | 1,200,000 | 1,200,000 |
| Securities | - | 100,000 | - | 2,216,000 | 6,350,000 | 1,254,811 | 9,920,811 |
| Loans and receivables due from banks and other financial institutions | 846,586 | - | - | - | - | 1,552,084 | 2,398,670 |
| Loans and receivables due from customers | 1,064,424 | 7,347,765 | 30,014,931 | 11,783,512 | 1,556,164 | 3,753,535 | 55,520,331 |
| Other assets | - | - | - | - | - | 286,470 | 286,470 |
| Total financial assets | 9,398,025 | 7,447,765 | 30,014,931 | 13,999,512 | 7,906,164 | 14,266,889 | 83,033,286 |
| Liabilities under derivative financial instruments | - | - | - | - | - | 1,266 | 1,266 |
| Deposits and other liabilities due to banks, other financial institutions and the central bank, | 4,361,908 | 3,662,375 | 1,673,285 | 497,088 | - | 160,999 | 10,355,655 |
| Deposits and other liabilities due to customers | 4,534,424 | 5,065,116 | 15,629,823 | 6,812,560 | - | 28,927,499 | 60,969,422 |
| Other liabilities | - | - | - | - | - | 581,907 | 581,907 |
| Total financial liabilities | 8,896,332 | 8,727,491 | 17,303,108 | 7,309,648 | - | 29,671,671 | 71,908,250 |
| 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 |

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

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

*All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.5 Market Risk (Interest Rate Risk, Foreign Exchange Risk and Security Price Risk) (Continued)****29.5.1 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.

| | 2020 | | 2019 | |
|------------------------------|-------------------|------------------|-------------------|------------------|
| | Impact on capital | Impact on income | Impact on capital | Impact on income |
| At December 31 st | (526,314) | 74,902 | (128,826) | 87,812 |
| Average | (272,504) | 76,181 | 21,554 | 89,332 |
| Maximum | (172,767) | 84,586 | 204,376 | 93,693 |
| Minimum | (526,314) | 72,786 | (128,826) | 86,329 |

29.5.2 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

| | 2020 | 2019 |
|----------------|-------|-------|
| At December 31 | 0.83% | 3.35% |
| Average | 1.24% | 1.99% |
| Maximum | 4.62% | 6.98% |
| Minimum | 0.07% | 0.13% |

In the course of 2020, the Bank's foreign exchange risk, measured by the foreign exchange risk ratio, was in the low risk range. The average value of the ratio for the year equaled 1.24%.

The following tables present the breakdown of the open net foreign currency positions per currency as of December 31, 2020 and 2019.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

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

29.5.2 Foreign Exchange Risk (Continued)

Breakdown of assets and liabilities per currency

| December 31, 2020 | EUR | USD | CHF | Other currencies | Total FX | RSD | Total |
|---|-------------------|------------------|----------------|------------------|-------------------|-------------------|-------------------|
| Cash and balances held with the central bank | 4,387,975 | 50,503 | 219,938 | 49,108 | 4,707,524 | 8,999,480 | 13,707,004 |
| Pledged financial assets | - | - | - | - | - | 1,200,000 | 1,200,000 |
| Securities | 7,620 | - | - | - | 7,620 | 9,913,191 | 9,920,811 |
| Loans and receivables due from banks and other financial institutions | 1,429,947 | 108,489 | 162,103 | 108,521 | 1,809,060 | 589,610 | 2,398,670 |
| Loans and receivables due from customers | 34,196,651 | - | - | - | 34,196,651 | 21,323,680 | 55,520,331 |
| Other assets | 181,988 | 533 | 8 | 241 | 182,770 | 103,700 | 286,470 |
| Total financial assets | 40,204,181 | 159,525 | 382,049 | 157,870 | 40,903,625 | 42,129,661 | 83,033,286 |
| Liabilities under derivative financial instruments | - | 1,266 | - | - | 1,266 | - | 1,266 |
| Deposits and other liabilities due to banks, other financial institutions and the central bank, | 6,274,983 | 794 | - | 23,549 | 6,299,326 | 4,056,329 | 10,355,655 |
| Deposits and other liabilities due to customers | 32,569,244 | 626,635 | 387,994 | 124,613 | 33,708,486 | 27,260,936 | 60,969,422 |
| Other liabilities | 492,108 | - | - | - | 492,108 | 89,799 | 581,907 |
| Total financial liabilities | 39,336,335 | 628,695 | 387,994 | 148,162 | 40,501,186 | 31,407,064 | 71,908,250 |
| Net foreign currency position | 867,846 | (469,170) | (5,945) | 9,708 | 402,439 | 10,722,597 | 11,125,036 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

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

29.5.2 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 |

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

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

29.5.2 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, 2020 and 2019. 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, 2020 | EUR | EUR | | USD | USD | | CHF | RSD '000 | |
|------------------------------|----------------|----------------|----------------|------------------|------------------|------------------|----------------|----------------|----------------|
| | | EUR 15% | EUR -15% | | USD 15% | USD -15% | | CHF 15% | CHF -15% |
| Financial assets | 40,204,181 | 46,234,808 | 34,173,554 | 159,525 | 183,454 | 135,596 | 382,049 | 439,356 | 324,742 |
| Financial liabilities | 39,336,335 | 45,236,785 | 33,435,885 | 628,695 | 722,999 | 534,391 | 387,994 | 446,193 | 329,795 |
| Net currency position | 867,846 | 998,023 | 737,669 | (469,170) | (539,545) | (398,795) | (5,945) | (6,837) | (5,053) |

| December 31, 2019 | EUR | EUR | | USD | USD | | CHF | RSD '000 | |
|------------------------------|------------------|------------------|------------------|----------------|-----------------|----------------|----------------|----------------|----------------|
| | | EUR +15% | EUR -15% | | USD +15% | USD -15% | | 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) |

29.5.3 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

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

29. RISK MANAGEMENT (Continued)

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

29.5.3 Security Price Risk (Continued)

Value of the Bank's portfolio

| | Market value at December 31, | |
|---|------------------------------|-------------------|
| | 2020 | 2019 |
| Securities at fair value through profit or loss (FVtPL) | 19,220 | 21,156 |
| Securities at fair value through profit or loss, held for trading | - | - |
| Bank shares | 590 | 826 |
| Corporate shares | 18,630 | 20,330 |
| Receivables under derivatives held for trading | - | - |
| | 11,101,591 | 10,586,194 |
| Securities at fair value through other comprehensive income (FVtOCI) | - | - |
| Financial assets available for sale | | |
| Municipal bonds: | | |
| City of Šabac | 7,620 | 15,284 |
| Municipality of Stara Pazova | - | 2,992 |
| Bonds issued by the Republic of Serbia in foreign currencies | - | 257,973 |
| Bonds issued by the Republic of Serbia in RSD | 11,093,971 | 10,309,945 |
| Impairment allowance of the municipal bonds | - | - |

29.6 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.

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:

| | 2020 | 2019 |
|------------------|-----------|-----------|
| Number of events | 162 | 176 |
| Gross loss (EUR) | 5,345,835 | 5,279,435 |
| Net loss (EUR) | 1,935 | 10,372 |

In 2020, 162 operational risk events were recorded, 14 less than in previous year. The largest number of events relate to the cashier shortages or surpluses and those were successfully resolved (45 events of cashier shortages and 36 events of cashier surpluses). The remaining 81 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 approval of placements, incorrect bank account numbers upon payment, accounting errors, operational errors, etc.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.6. Operational Risk (Continued)**

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 of new business activities.

29.7 Risk of inadequate information system management

The goal of risk management of inappropriate information system management is to minimize the negative effects that may occur due to the Bank's information system exposure to public networks, malicious internal attacks, hardware failures, sabotage and maintaining these exposures within the prescribed limits.

In accordance with the Decision of the National Bank of Serbia on Minimum Standards for Managing the Information System of a Financial Institution (Official Gazette of RS, No. 23/2013, 113/2013, 2/2017 and 88/2019), the Bank undertook a number of activities with the aim of full compliance with the said Decision. . In this regard, the Information System Development Strategy, the Business Continuity Strategy, the Exit Strategy for Activities Entrusted to Third Parties, the Information System Security Policy and the Information System Management Policy were adopted.

A number of new procedures and instructions of the quality system have also been adopted, mainly in the areas of information technology management and information security management, all in accordance with the NBS Decision on minimum standards for financial institution information system management.

The Bank has completed the PCI DSS certification process, which has provided an additional level of data protection, primarily for the needs of improved card business, the establishment of which is also underway. The process of harmonization with the requirements of the PCI DSS standard has initiated not only procedural improvements, but also improvements in the protection of the information system, which will consequently provide a higher level of protection, both card business and business processes of the Bank in a broader sense.

The Bank's information system has functionalities to support business processes and provides 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 existing Information System Development Strategy and Information System Management Policy.

In order to ensure quality management of the information system, the Bank regularly holds meetings of the Commission for Management of the Information System, which has the following roles and responsibilities:

- Analyzes and adopts the proposals of the Bank's Information System Development Strategy, the Bank's Information System Management Policy and the Bank's Information System Security Policy, which are submitted to the Bank's Board of Directors for consideration and adoption;
- Analyzes and adopts the proposals of the Bank's Business Continuity Plan, the Bank's Recovery Strategy and the Disaster Recovery Plan;
- Analyzes and supervises the implementation and adequate implementation of the adopted Strategy of the Bank's information system, the Bank's information system management policy and the Bank's information system security policy, as well as the implementation of related internal control systems;
- Analyzes and supervises the implementation and adequate implementation of the adopted Business Continuity Plan, the Bank's Recovery Strategy and the Disaster Recovery Plan;
- From the point of view of compliance with the realization of the Bank's business goals, analyzes and approves important projects related to the information system;
- Analyzes and approves the priorities of important activities related to the information system;
- Supervises the functionality and security of the information system as a whole;
- Coordinates, supervises and proposes for adoption the classification of data in the information system;
- Considers and proposes for adoption the risk reports of the information system;
- Considers dealing with high-level risks resulting from incidents or changes in the information system;
- At least quarterly reports to the Executive Board of the Bank on the state of the information system, identified irregularities and proposes the manner in which these irregularities will be eliminated, i.e. improve policies and procedures for information system management and implementation of internal control systems.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.7 Risk of inadequate information system management (Continued)**

Risk identification, measurement and risk assessment are performed continuously by the risk owner (owner of the affected business or technical process), information system risk coordinator and the Information System Risk Management Forum, according to the Bank's information system risk management procedure. The information system management framework consists of the adopted Information System Development Strategy and Information System Management Policy as well as information system incident management processes, information system change management, portfolio management, information system development projects and programs defined by appropriate procedures and other internal acts of the Bank.

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

- Management Board, which adopted the Information System Development Strategy, Information System Security Policy and Business Continuity Strategy;
- The Executive Board, which implements adopted strategies and policies and establishes procedures and guidelines;
- The Information System Management Commission that monitors the operation and development of the information system and makes appropriate decisions and proposes appropriate measures to the Executive Board of the Bank;
- IT Risk Management Forum that makes decisions on the management of further actions to mitigate the risks in question, monitors the implementation and effectiveness of measures and considers the risk quantification proposed by the SBI. The Forum reports to the Information System Management Commission, which further reports to the Executive Board on a quarterly basis on its work;
- Information Technology Sector, which plans, proposes and executes all activities related to the Bank's information system and reports to the Information Technology Commission;
- The Director of the IS Security Service conducts an assessment of the security risk of the information system in the Bank and submits a report to the IS Risk Management Forum.

29.8 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

| | 2020 | | 2019 | |
|------------------------|-----------------|------------------|-----------------|------------------|
| | Exposure amount | Share in capital | Exposure amount | Share in capital |
| Bank's related parties | 1,918,761 | 17.76% | 1,642,292 | 14.64% |
| Large exposures | 5,500,153 | 50.92% | 1,681,221 | 14.99% |

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.8 Exposure Risk (Continued)**

In 2020 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, 2020, 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 17,340,250 thousand (December 31, 2019: RSD 13,442,508 thousand). As of December 31, 2020, the Bank's concentration ratio for 20 largest gross exposures equaled 154.54% (December 31, 2019: 119.87%). The Bank's concentration ratio for 20 largest gross exposures has increased by 34.67 p.p. as a result of new exposures and the increase of already existing exposures toward entities in 20 largest groups.

29.9 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, 2020 | December 31, 2019 |
|---|------------------------------|------------------------------|
| Investments in non-FSI entities | 0.00% | 0.00% |
| Total investments in non-FSI entities and Bank's own fixed assets | <u>13.90%</u> | <u>12.98%</u> |

During 2020, the Bank's investment were within the low risk level range.

29.10 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.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.10 Country Risk (Continued)**

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 2020 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, 2020, such countries were Germany, Austria, United States of America and Czech Republic. As of December 31, 2020 the medium-risk countries were Turkey, Romania, Bosnia, Macedonia and Croatia. The Bank's exposure to these medium-risk countries was significantly lower than the internally prescribed limits during December 2020.

List of countries to which the Bank was exposed as of December 31, 2020

| Country | Risk level | Limit | Share in the Bank's capital* |
|--------------------------|-------------------|----------------------------|-------------------------------------|
| Germany | Low | No limit | 3.15% |
| Austria | Low | No limit | 0.40% |
| United States of America | Low | No limit | 0.73% |
| Czech Republic | Low | No limit | 0.14% |
| Turkey | Medium | 100% of regulatory capital | 25.43% |
| Romania | Medium | 20% of regulatory capital | 13.77% |
| Bosnia | Medium | 40% of regulatory capital | 3.27% |
| Macedonia | Medium | 100% of regulatory capital | 19.30% |
| Croatia | Medium | 10% of regulatory capital | 0.04% |
| Albania | Medium | 25% of regulatory capital | 0.00% |

29.11 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.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

*All amounts expressed in thousands of RSD, unless otherwise stated.***29. RISK MANAGEMENT (Continued)****29.11 Environmental Risks (Continued)**

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.

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

| Risk category | Number of customers | | Loan and receivable amounts (on and off balance) | | |
|-----------------------|---------------------|-------------------|--|-------------------|---------------------|
| | December 31, 2020 | December 31, 2019 | December 31, 2020 | December 31, 2019 | Increase / decrease |
| High – exclusion list | - | - | - | - | - |
| High – category A | 14 | 10 | 513,623 | 465,438 | 48,185 |
| High | 382 | 342 | 15,730,447 | 11,807,138 | 3,923,309 |
| Medium | 2,534 | 1,948 | 25,194,166 | 21,023,659 | 4,170,507 |
| Low | 2,364 | 2,296 | 26,733,615 | 22,443,645 | 4,289,970 |
| Total | 5,294 | 4,596 | 68,171,851 | 55,739,880 | 12,431,971 |

In the structure of exposures (balance sheet and off-balance sheet exposures) to corporate clients, legal entities and entrepreneurs, as of December 31, 2020, the largest share was that of the clients involved in business activities with low environmental and social impact, 39.22%, the second largest share, of 36.96%, 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 23.07% and activities with high risk category A had a share of 0.75%.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2020

*All amounts expressed in thousands of RSD, unless otherwise stated.***30. COMPLIANCE WITH NBS REGULATIONS**

| Performance/adequacy ratio | Values prescribed by NBS | Values achieved at December 31, 2020 | Values achieved at December 31, 2019 |
|---|--------------------------|--------------------------------------|--------------------------------------|
| Amount of the Bank's capital | Min 10,000,000 € | 91,862,284€ | 95,363,415€ |
| Total capital adequacy ratio | min 8% | 21.18% | 24.22% |
| Tier 1 capital ratio (T1 ratio) | Minimum 6% | 21.17% | 24.22% |
| Common equity tier 1 capital ratio (CET 1 ratio) | Minimum 4.5% | 18.82% | 21.63% |
| Foreign exchange risk ratio | max 20% | 0.83% | 3.35% |
| Liquidity ratio | Min 1 | 1.89% | 2.12% |
| Rigid (cash) liquidity ratio | Min 0.7 | 1.68% | 1.87% |
| Concentration ratio per the Bank's exposure to certain types of products* | Max 30% | 12.80% | 16.05% |
| Total exposure to the entities related to the Bank | - | 17.76% | 14.64% |
| Exposure to a single entity/a group of related entities | max 25% | 14.86% | 13.28% |
| Sum of all large Bank's exposures | max 400% | 50.92% | 14.99% |
| 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% | 13.90% | 12.98% |

* 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.

31. RECONCILIATION OF OUTSTANDING BALANCES RECEIVABLE AND PAYABLE WITH COUNTERPARTIES

In accordance with Article 22 of the Law on Accounting (Official Gazette of RS no. 79/2019), the Bank reconciled its balances of receivables and payables with its legal entity customers and creditors as of December 31, 2020. The aggregate balance of receivables and payables for which balance confirmations were requested amounted to RSD 121,425,032 thousand. The amount of reconciled receivables represents 90% of the total amount of receivables for which the balance confirmation requests were responded to by the clients. The total unreconciled receivables amounted to RSD 2,090,025 thousand. All of the Bank's liabilities were reconciled with counterparties.

32. EVENTS AFTER THE REPORTING PERIOD*Impact of the COVID-19 pandemic effects*

Regarding the COVID 19 pandemic, which began in 2020 and continued in 2021, the state of emergency, limited population movements and reduced levels of economic activity, measures taken by the Government of the Republic of Serbia to preserve financial stability and a positive environment for business, all of the foregoing has had an impact on the Bank's operations in all segments.

More importantly, the operating mode was changed, meaning that the Bank had to adapt promptly to all changes and continue to operate smoothly in the altered, and for all participants new, circumstances, but so that the end result can indeed involve meeting the planned targets, profitability, maintaining the necessary liquidity level and satisfactory portfolio quality. The management believes that the Bank managed to achieve all of the above in 2020, with increased engagement of all employees, of course, and timely and adequate response in the implementation of all measures prescribed by the regulator and the Republic of Serbia. It is realistic to expect that in the upcoming period, both due to the experience in the pandemic situation, which has definitely been gained, and due to the immunization that is already underway, a period of stabilization will occur and that the Bank will be able to resist all market risks and achieve the plans set. Of course, the Bank is willing and ready, if necessary, to propose and adopt new strategies and monitoring systems at the highest level of preparedness, with monitoring of all regulations and recommendations and to overcome new, possible disruptions of any kind.

NOTES TO THE FINANCIAL STATEMENTS**December 31, 2020***All amounts expressed in thousands of RSD, unless otherwise stated.***32. EVENTS AFTER THE REPORTING PERIOD (Continued)***Impact of the COVID-19 pandemic effects (continued)*

The Bank is in the process of introducing a new core system, which will be implemented over the next 3 years. The implementation of the new core system includes the procurement, installation and maintenance of the Bank's new basic banking information system and additional systems for supporting the Bank's regulatory and business requirements.

All of the foregoing does not require additional adjustments to or disclosures in the Bank's financial statements for the year ended December 31, 2020.

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:

| | December 31, 2020 | RSD December 31, 2019 |
|-----|----------------------|-----------------------------|
| USD | 95,6637 | 104,9186 |
| EUR | 117,5802 | 117,5928 |
| CHF | 108,4388 | 108,4004 |

Belgrade
February 25, 2021



Aleksandar Mijailović
Head of the Financial Management
and Planning Division



Dušica Erić
Member of the Executive Board



Kenan Bozkurt
Chairman of the Executive
Board

