HALKBANK A.D. BEOGRAD
Financial Statements and
Independent Auditor's Report
Year Ended December 31, 2020

Translation of the Auditors' Report issued in the Serbian language
Translation of the Bank's Financial Statements and Notes to the Financial Statements issued in the Serbian language

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This is an English translation of the Report originally issued in the Serbian language
(For management purposes only)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of HALKBANK a.d. Beograd

Opinion

We have audited the financial statements of HALKBANK a.d. Beograd (hereinafter: the "Bank"), which comprise the statement of financial position as at December 31, 2020, and the income statement, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Bank as at December 31, 2020 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the Bank's Annual Business Report other than the financial statements and the auditor's report thereon. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. With regard to the Annual Business Report, we have performed procedures prescribed by the Law on Accounting of the Republic of Serbia. Those procedures include verifying whether the Annual Business Report is formally prepared in accordance with the Law on Accounting of the Republic of Serbia.
Based on the procedures performed, to the extent we are able to assess this, we report that:

1. The information presented in the Bank's Annual Business Report for 2020 is consistent, in all material respects, with the accompanying financial statements for the year ended December 31, 2020.
2. The accompanying Annual Business Report for 2020 is prepared in accordance with the Law on Accounting of the Republic of Serbia.

Based on our knowledge and understanding of the Bank and its environment acquired during our audit, we have not determined that there is any material misstatement in the Annual Business Report.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of HALKBANK a.d. Beograd (Continued)

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

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of HALKBANK a.d. Beograd (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Belgrade, April 9, 2021

Deloitte d.o.o. BEOGRAD IV

Olivera Andrijasević
Certified Auditor
and on behalf of Deloitte d.o.o., Beograd

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

AKCIONARSKO DRUŠTVO HALKBANK BEOGRAD II

Translation of the Bank's Financial Statements and Notes to the Financial Statements issued in the Serbian language

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

	Note	2020	2019
Interest income	3.1, 4a	2,714,093	2,528,261
Interest expenses	3.1, 4b	(521,547)	(423,985)
Net interest income		**2,192,546**	**2,104,276**
Fee and commission income	3.2, 5a	981,159	929,972
Fee and commission expenses	3.2, 5b	(207,104)	(158,613)
Net fee and commission income		**774,055**	**771,359**
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	11,184	16,395
TOTAL OPERATING INCOME, NET		**2,778,688**	**2,678,170**
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	(923,096)	(951,681)
PROFIT BEFORE TAXES		**529,706**	**472,836**
Current income tax expense	3.10, 14	-	-
Deferred tax gains/(losses)	3.10, 14	-	-
PROFIT FOR THE YEAR	26	**529,706**	**472,836**

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AKCIONARSKO DRUŠTVO HALKBANK BEOGRAD

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

	2020	2019
PROFIT FOR THE YEAR	**529,706**	**472,836**
Components of other comprehensive income that cannot be reclassified to the profit or loss:		
Increase in revaluation reserves arising from intangible assets and property, plant and equipment (Note 20b)	-	523
Actuarial losses (Note 24b)	(2,882)	(773)
Components of other comprehensive income that can be reclassified to the profit or loss:		
Positive effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVtOCI) (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**

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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)**
Other comprehensive income						
Positive effects of changes in fair value of debt instruments measured at fair value through other comprehensive income (FVTOCI)	-	-	-	474,449	-	**474,449**
Balance at December 31, 2019	**6,260,280**	**2,712,323**	**1,726,528**	**926,752**	**472,836**	**12,098,719**
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)**
Other comprehensive income						
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**

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These financial statements were adopted by the Executive Board of HALKBANK a.d. Beograd on February 25, 2021

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AKCIONARSKO DRUŠTVO HALKBANK BEOGRAD II

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

AKCIONARSKO DRUŠTVO HALKBANK BEOGRAD

Translation of the Bank's Financial Statements and Notes to the Financial Statements issued in the Serbian language

1. BANK'S ESTABLISHMENT AND ACTIVITY

1.1. Establishment

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

In May 2015, Turkiye Halk Bankasi AS, Instanbul/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, Turkiye Halkbankasi AS, Istanbul/Turkey became it sole (100%) owner after purchase of the remaining shares held by the minority (non-controlling) shareholders.

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

1.2. Activities

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

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

As of December 31, 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 Turkiye Halkbankasi AS, Istanbul/Turkey.

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);

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);

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*

<u>*Policies applicable as from January 1, 2018*</u>

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).

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.

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.

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.

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%

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.

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 he used in the process of determining the amortized cost and interest income during the life of a financial instrument. In using the effective interest method, the Bank identifies fees that are part of the effective interest rate of the financial asset in accordance with its Impairment Allowance Methodology under IFRS 9

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.7. 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 imapirment allowance of financial assets measured at AC, However, the accumulated impairment allowance in the financial statements is not deducted from the fair value of assets but from the cumulative change in the fair value recorded within the other comprehensive income. Foreign exchange gains or losses, i.e., gains or losses on the changes in the value of the financial asset arising from the movements in the foreign exchange rates (if the asset is denominated in a foreign currency or linked to a currency clause) are not recognized within equity.

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.

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.

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 gyro 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 form the period in which the adjustment was made. Such tax losses, up to the amount of anticipated future taxable profit against which the tax losses can be offset, are recognized in the statement of the financial position as deferred tax assets.

Deferred Taxes

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

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

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

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.

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.

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.

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 5,000or less).

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).

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
	2,175,493	2,011,825
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
	125,816	116,152
RSD deposits measured at AC, due from:		
Banks	17,134	47,396
	17,134	47,396
Foreign currency deposits measured AC, due from:		
Banks	1,850	488
Non-residents	416	12,897
	2,266	13,385
Securities measured at FVtOCI:		
In RSD	392,452	327,914
In foreign currencies	743	10,301
	393,195	338,215
Other receivables measured at AC:		
In RSD	54	318
In foreign currencies	135	970
	189	1,288
TOTAL:	**2,714,093**	**2,528,261**

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).

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)**

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**

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	(267,383)	(264,348)
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	(13,694)	(421)
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	(1,942)	(10,885)
Write-off of irrecoverable receivables	(2,487)	(1,994)
Recovery of receivables previously written off	47,334	65,616
Net gains	44,847	63,622
Losses on the modification of financial instruments	(56,338)	(2,800)
Net losses	(56,338)	(2,800)
TOTAL:	**(294,510)**	**(214,832)**

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).

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).

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.

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

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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: Imapirment 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.

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:

	December 31, 2020	December 31, 2019
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: Imapirment allowance of the cash and balances held with the central bank	1,858	1,161
TOTAL:	**7,161,621**	**5,631,661**

16. RECEIVABLES UNDER DERIVATIVE FINANCIAL INSTRUMENTS

	December 31, 2020	December 31, 2019
Receivables/(liabilities) from financial derivatives	(1,266)	(1,563)
TOTAL:	**(1,266)**	**(1,563)**

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

	December 31, 2020	December 31, 2019
a) Pledged financial assets		
Bonds issued by the Republic of Serbia in RSD	1,200,000	2,260,870
	1,200,000	**2,260,870**
b) Securities measured at FVtPL		
Banks shares	590	826
Corporate shares	18,630	20,330
	19,220	**21,156**
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
	9,901,591	**8,325,324**
TOTAL:	**11,120,811**	**10,607,350**

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.

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: Imapirment 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 Turkiye Vakiflar in the amount of RSD 42,109 thousand).

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: Imapirment 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.

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%**

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19. LOANS AND RECEIVABLES DUE FROM CUSTOMERS (Continued)

Movements on the impairment allowance accounts in 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)	2020 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
Imapirment 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 imapirment 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

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
Imapirment 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 imapirment 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.

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	352,324	670,301
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	139,945	255,671
Net book value as of December 31	**212,379**	**414,630**

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	**-**	**-**	**212,371**	**212,371**

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

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

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

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 / m2, and in Čačak, Gornji Milanovac and Jagodina from 750 to 1,600 EUR / m2, in Kraljevo from 460 to 800 EUR / m2, in Krusevac from 500 to 1400 EUR / m2.	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.

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

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

c) EQUIPMENT

	December 31, 2020	December 31, 2019
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	(18,281)	(22,848)
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	(17,902)	(22,740)
Balance as of December 31	790,367	705,736
Net book value as of December 31	**581,297**	**382,091**

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

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

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:

	Level 1	Level 2	Level 3	Total
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:

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

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.

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 - **Business premises**	**December 31, 2020**	**December 31,2019**
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 - **Vehicles**	**December 31, 2020**	**December 31, 2019**
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**

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
	436,178	372,591
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:	**384,524**	**326,443**

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	**7,187,593**	**6,455,171**
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	**3,168,062**	**1,983,514**
Total: deposits, borrowings and other liabilities due to banks, other financial institutions and the central bank	**10,355,655**	**8,438,685**

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:

	in EUR '000	in RSD '000	in EUR '000	in RSD '000
Creditors	**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**

	in EUR '000	in RSD '000	in EUR '000	in RSD '000
Creditors	**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

	December 31, 2020	December 31, 2019
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	**54,797,547**	**41,645,507**
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	**6,171,875**	**6,841,269**
Total deposits, borrowings and other liabilities due to customers	**60,969,422**	**48,486,776**

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% do 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.

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 Balance at December 31, 2020	RSD '000 Balance at December 31, 2020	Matures in 2021	Matures in 2022	Matures in 2023	EUR '000 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 Balance at December 31, 2019	RSD '000 Balance at December 31, 2019	Matures in 2020.	Matures in 2021.	Matures in 2022.	EUR '000 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**

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**

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.

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	**936**	**836**

The Bank's Shareholders as of December 31, 2020

		RSD '000				Interest share (%)			
No.	Shareholder	Ordinary Shares	Cumulative preference shares	Other preference shares	TOTAL	Ordinary Shares	Cumulative preference shares	Other preference shares	TOTAL
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

		RSD '000				Interest share (%)			
No.	Shareholder	Ordinary Shares	Cumulative preference shares	Other preference shares	TOTAL	Ordinary Shares	Cumulative preference shares	Other preference shares	TOTAL
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	Total	Turkiye Halkbankasi	% Turkiye Halkbankasi	December 31, 2019	Total	Turkiye Halkbankasi	% Turkiye Halkbankasi
Ordinary shares	565,894	565,894	100,00%	Ordinary shares	565,894	565,894	100,00%
Preference shares	60,134	60,134	100,00%	Preference shares	60,134	60,134	100,00%
Total:	**626,028**	**626,028**	**100,00%**	**Total:**	**626,028**	**626,028**	**100,00%**

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.

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**

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 szr 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).

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;

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

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

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

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

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.

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

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.

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
Of which:		
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

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 imapirment requirements are:

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

Recognition and Modification of Financial Assets

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

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

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

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

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

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

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

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.

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 three has been a significant increase in the credit risk, which will cause allocation of the asset to Stage 2, as follows:

- Corporate customer segment
    1) 30 days past due in continuity at the date of assessment;
    2) Account blockade of over 30 consecutive days;
    3) FBE PE status;
    4) Gearing ratio: total debt (long-term liabilities + short-term liabilities)/equity >1 and at the same time changes in the sales, i.e., decrease in revenue of over 30%;
    5) Gearing ratio: total debt (long-term liabilities + short-term liabilities)/equity >1 and at the same maturity mismatch (current assets – current liabilities) < 1 and inadequate cash flows (cash flows from operating activities – short-term financial liabilities) <1;

Criteria 4 and 5 are not considered for newly founded entities.

- Retail customer segment
    1) 30 days past due in continuity at the date of assessment;
    2) FBE PE status.
    3) Deceased clients

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

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

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

Criterion 5 is not considered for newly founded entities.

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

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

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

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 imapirment allowance of assets in Stage 2, while the12-month ECL portion calculated in this way represents expected credit losses recognized for financial assets in Stage 1.

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

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

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

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

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 form 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.

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.

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 form the collateral foreclosure.

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

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

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 subsegements, 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.

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**
Cash and balances held with the central bank	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	-	-	-
	Closing balance at December 31, 2020	13,708,862	-	-
Receivables under derivative financial instruments	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	-	-	-
	Closing balance at December 31, 2020	-	-	-
Securities	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)
	Closing balance at December 31, 2020	11,120,791	-	20
Loans and receivables due from banks and other financial institutions	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)	-	-
	Closing balance at December 31, 2020	2,400,559	-	-
Loans and receivables due from customers	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)
	Closing balance at December 31, 2020	45,745,266	9,106,455	1,775,895
Other assets	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)
	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**

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	-	-
Cash and balances held with the central bank	Decreases through repayment, write-off and transfer to off-balance sheet items	-	-	-
	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	-	-	-
Receivables under derivative financial instruments	Decreases through repayment, write-off and transfer to off-balance sheet items	(6,278)	-	-
	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	-	-
Loans and receivables due from banks and other financial institutions	Decreases through repayment, write-off and transfer to off-balance sheet items	(1,144,840)	-	(4)
	Closing balance at December 31, 2019	1,453,796	-	-
	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
Loans and receivables due from customers	Decreases through repayment, write-off and transfer to off-balance sheet items	(13,709,459)	(2,024,356)	(756,161)
	Closing balance at December 31, 2019	40,288,103	4,316,986	2,284,316
	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**

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 1t, 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**
Cash and balances held with the central bank	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	-	-
Securities	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	-	-	-
Loans and receivables due from banks and other financial institutions	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	-	-
Loans and receivables due from customers	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	85146	106,824	915,315
Other assets	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).

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	-	-
Cash and balances held with the central bank	Decreases through repayment, write-off and transfer to off-balance sheet items	-	-	-
	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	-	-
Loans and receivables due from banks and other financial institutions	Decreases through repayment, write-off and transfer to off-balance sheet items	(1,271)	-	-
	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**

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 Stage1 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 Stage1 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.

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)

	December 31, 2019		December 31, 2018	
Category	**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

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%.

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

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.

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.

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).

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

Restructured receivables due from corporate customers are:

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

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

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

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

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

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

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

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

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

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

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

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

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	FVtPL	FVtOCI	Other – AC	Total carrying value	Total fair value
Financial assets					
Cash and balances held with the central bank	-	-	10,013,564	10,013,564	10,013,564
Receivables under derivative financial instruments	-	-	-	-	-
Securities	21,156	10,586,194	-	10,607,350	10,607,350
Loans and receivables due from banks and other financial institutions	-	-	1,453,134	1,453,134	1,453,134
Loans and receivables due from customers	-	-	45,804,396	45,804,396	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

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 that EUR 10,000,000 in RSD equivalent at all times.

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

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

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

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

As of December 31, 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%.

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%**

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	10,477	10,477
6.	Weekend housebr.1, Kamenjar 117, K.O. Veternik	77	19/02/2018	Aleksandra Kozomora	1,854	1,857
7.	Business premises, CM Ćuprija	82	20/12 2018	Interchem-him	4,619	4,619
8.	Business premises, CM Ćuprija	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.

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
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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 erivatives	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**

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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 erivatives	1,563	-	-	-	-	**1,563**
Deposits and other liabilities due to banks, other financial institutions and the central bank,	4,439,194	753,389	1,108,210	1,983,493	154,399	**8,438,685**
Deposits and other liabilities due to customers	21,244,345	5,221,384	10,344,874	9,106,074	2,570,099	**48,486,776**
Other liabilities	43,340	-	-	-	530,602	**573,942**
Total financial liabilities	**25,728,442**	**5,974,773**	**11,453,084**	**11,089,567**	**3,255,100**	**57,500,966**
Maturity match/mismatch (gap)	**(11,044,298)**	**(3,177,068)**	**1,153,093**	**10,782,241**	**12,890,267**	**10,604,235**

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.

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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)*

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 31st	(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.

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**

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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**

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.

RSD '000

December 31, 2020	EUR	EUR 15%	EUR -15%	USD	USD 15%	USD -15%	CHF	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)**

RSD '000

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

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.

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.

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.

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

(RSD '000)

	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%

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	13.90%	12.98%

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.

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 that 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.

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

	Number of customers		Loan and receivable amounts (on and off balance)		
Risk category	**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%.

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.

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:

		RSD
	December 31, 2020	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

ANNUAL OPERATING REPORT

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PEOPLE

BEYOND ALL

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I DEVELOPMENT, ORGANISATIONAL STRUCTURE AND BUSINESS ACTIVITIES

1. ESTABLISHMENT

Halkbank a.d. Beograd has been operating in the Republic of Serbia since 2015 when Turkiye Halk Bankasi A.S. became the major owner of Čačanska banka (operating since 1956).

The Bank was registered with the Serbian Business Registers Agency under Decision no. BD 54244 dated 13th September 2005.

The Bank has been operating under the name of Halkbank a.d. Beograd since 22nd October 2015 when the change of its legal name was registered in the Serbian Business Registers Agency under Decision no. BD 89155/2015.

2. ORGANISATION OF OPERATIONS

Halkbank a.d. Beograd is a universal bank, which offers all types of banking products and services to corporate clients, entrepreneurs and retail clients. The Bank encourages and finances growth and development of the domestic economy, but is also a safe place for savings deposits of all clients. The Bank's primary goal is to create products that will completely satisfy all customers' expectations.

The Bank is registered in the Republic of Serbia for performance of payment operations and credit and deposit operations in the country and abroad and it operates in compliance with the Law on Banks.

Halkbank a.d. Beograd has successfully expanded its business network and client base. Today the Bank offers services and products through a network of 28 branches, 7 sub-branches and 1 cash desk. As at 31st December 2020, the Bank was comprised of 9 branches in Belgrade, 3 branches in Čačak and branches located in the towns of Smederevo, Jagodina, Gornji Milanovac, Kraljevo, Užice, Kragujevac, Kruševac, Aranđelovac, Valjevo, Šabac, Niš, Leskovac, Novi Sad, Pančevo, Novi Pazar and Subotica and 7 sub-branches in Paraćin, Požega, Topola, Ivanjica, Vrnjačka Banja, Zrenjanin and Tutin.

> **Headquarters in Belgrade**

3. BASIC PERFORMANCE RATIOS

(in RSD thousand)

Income Statement	31.12.2019	31.12.2020	Revised plan 2020	Plan realization
Net interest income	2,104,276	2,192,546	2,198,703	100%
Net fee and commission income	771,359	774,055	781,892	99%
Net income/(losses) on impairment of financial assets	-214,832	-294,510	-188,124	157%
Operating expenses	2,220,922	2,285,895	2,329,214	98%
Net profit before tax	472,836	529,706	587,889	90%

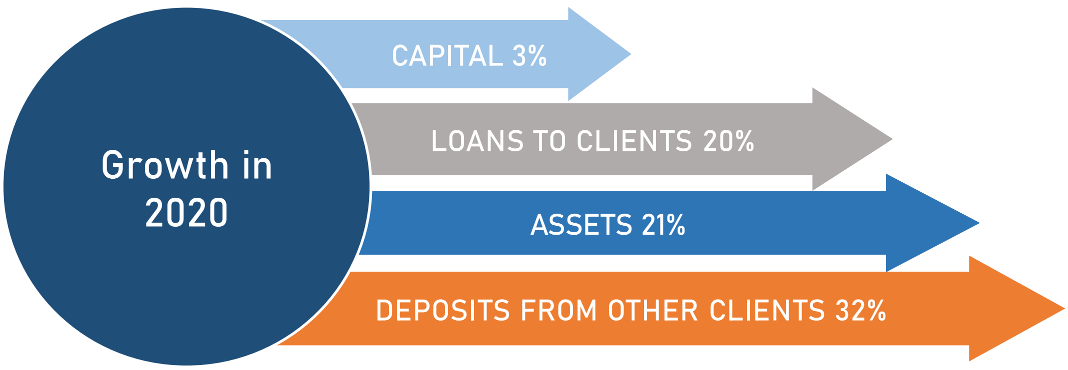
Balance Sheet	31.12.2019	31.12.2020	Revised plan 2020	Plan realization
Loans to clients*	45,786,729	55,099,508	56,791,237	85%
Deposits from other clients*	41,370,483	54,515,216	51,852,868	125%
Capital	12,098,719	12,488,546	12,482,432	102%
Total assets	69,993,543	85,015,897	82,306,140	122%

Key Performance Indicators (KPI)	31.12.2019	31.12.2020	Revised plan 2020
Costs to Income Ratio (CIR)**	75.67%	75.46%	77.29%
Non-interest income to Operating costs Ratio	36.51%	36.14%	34.98%
Capital Adequacy Ratio (CAR)	24.22%	21.18%	19.00%
ROA	0.75%	0.70%	0.77%
ROE	4.10%	4.30%	4.78%
NIM	4.33%	3.66%	3.58%

All financial projections for 2020 are prepared in EUR and realization of goals is followed in EUR. Planned amounts in this report are presented in EUR by using middle exchange rate RSD/EUR valid on 31.12.2020 for balance sheet positions and middle exchange rate RSD/EUR for 2020 for income statement positions.

*The difference of positions „Loans to clients“ and „Deposits from other clients“ from the positions in the official Balance sheet form are explained in the items 3.1 and 3.2

**In order to calculate the cost-to-income ratio, cost of provisions for liabilities have been excluded from the 'Other expenses' position in the statutory statement. Income from the 'Other income' position, with the exception of Reversal of provisions for liabilities, have been included within revenues along with net interest and fee income.



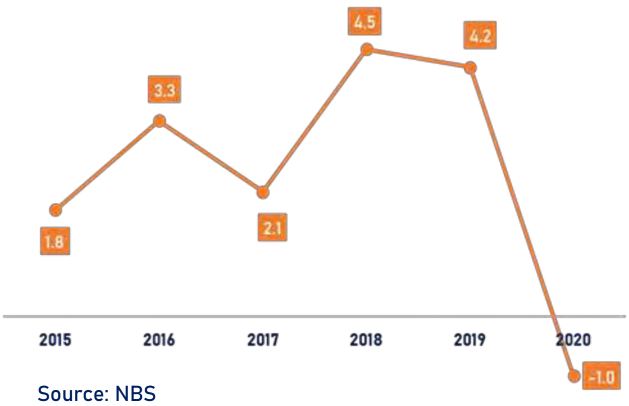
II FINANCIAL POSITION AND OPERATING RESULTS

1. MACROECONOMIC ENVIRONMENT AND BANKING SECTOR

Economic activity

Serbia, like all other economies, was in crisis during 2020, but achieved better results than most European countries. According to data from the NBS, the GDP of the Republic of Serbia in 2020 recorded a decline of -1.0%, which is significantly less than expected in CEE (about -5%) and in the entire EU (about -7.5%) The reason for the smaller decline than other European countries is due to the facts that Serbia entered a pandemic with a relatively high growth rate, high share of existential products in the economy, but also due to a strong and non-selective fiscal stimulus during the crisis. It is estimated that the decline did not come from the tradable sectors (agriculture, industry), but from the part of the service sectors most severely affected by the pandemic (tourism, catering and transport), while construction recorded a minimal decline.

Real GDP growth rate (%)



Source: NBS

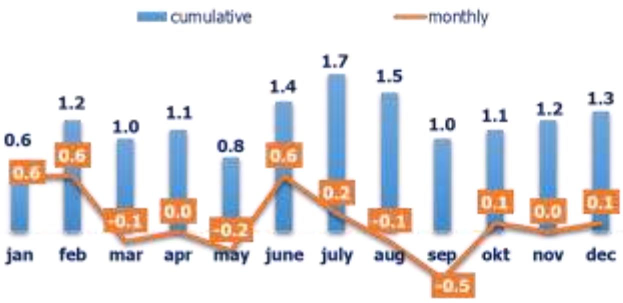
Negative economic trends, aid packages and higher investments in the health system, have led to a deficit of the national budget in 2020 in the amount of RSD 459,1 billion. As a result, the public debt of Serbia in relation to the gross domestic product increased, from 52% at the end of 2019 to 56.8%, as it was at the end 2020.

The total foreign trade of Serbia in 2020 amounts to EUR 40 billion, which is a decrease of 3.4% compared to 2019. Goods worth EUR 17 billion were exported, which is a decrease of 2.8%, while imports were worth EUR 22.9 billion, which is a decrease of 3.8% compared to 2019. The deficit is EUR 5.9 billion, which is a decrease of 6.8% compared to 2019.

Inflation

Inflation in Serbia has remained firmly under control, as it has in recent years. An important factor in low and stable inflation was and remains the relative stability of the exchange rate, as well as the anchoring of inflation expectations of the financial sector and the economy, which confirms the credibility of monetary policy. During 2020, the growth of consumer prices, cumulatively, amounted to 1.3%. The highest monthly growth of 0.6% was recorded in January, February and June. On the other hand, the largest monthly decline of 0.5% was recorded in September.

Consumer prices trends in Serbia during 2020



Source: Statistical Office of the Republic of Serbia

In the next year, inflation is expected to remain low and stable and to be below the 3% target throughout the year.

Labor market

Despite the challenges of the pandemic, data from the labor market confirm the importance of the economic measures packages, thanks to which favorable trends have continued. According to the Labor Force Survey, unemployment in 2020 was 9%, which is a decrease compared to 2019 by 1.4 percentage points.

The average net salary continued to grow and in 2020 amounted to RSD 60,073 (EUR 511), achieving a real increase of 7.7% compared to the previous year. In order to further recover domestic demand and preserve the living standards of the population, the Government of the Republic of Serbia in September 2020 decided to increase the minimum wage from January 1, 2021, from 172.54 dinars per hour to 183.93 dinars per hour , which means that the average minimum wage in the next year will be higher by 6.6% (i.e about 2 thousand dinars) than in 2020.

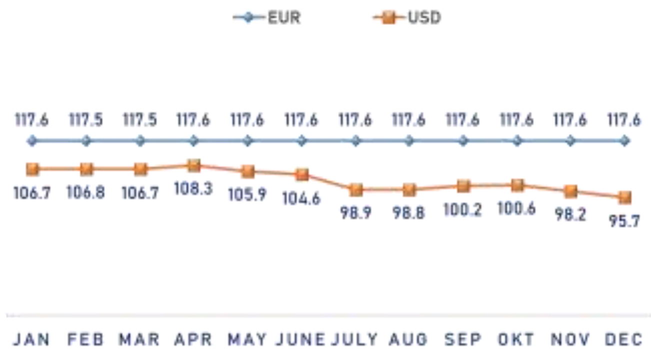
Movement of average monthly net salary and real growth rates

Source: Ministry of Finance

Exchange rate

Despite the depreciation pressures, which were present as a consequence of the pandemic since February 2020, the stable movement of the dinar against the euro continued during 2020. Hence, its value was almost unchanged during the year. On the other hand, due to the weakening of the dollar against the euro, the dinar strengthened against the dollar in 2020 by 8.82%.

FX trend during 2020



Source: NBS

Interest rates

During 2020, the NBS Executive Board lowered the value of the key policy rate on four occasions, in March, April, June and December. The value of the key policy rate was reduced by 125 basis points, i.e. from 2.25% to 1.00%.

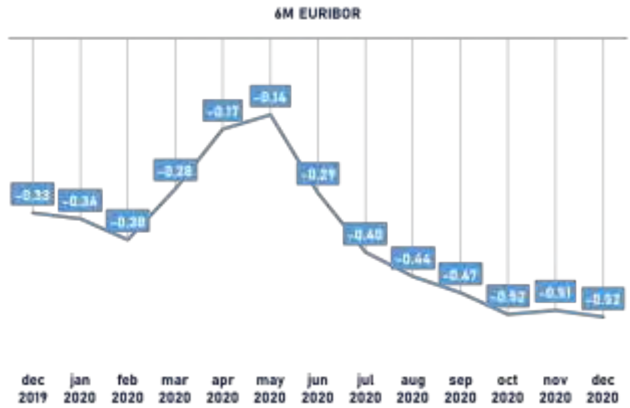
Fluctuation of the National Bank Key Policy Rate during 2020

Through the reduction of the key policy rate, the expansionary monetary policy continued with the ultimate goal of reducing the negative effects of the Covid-19 pandemic on economic activity. By organizing additional repo auctions for the purchase of securities and swap auctions for the purchase of foreign currency, dinar and foreign currency liquidity was increased.

The reduction of the key policy rate, together with the effects of the moratorium, measures to stimulate sustainable retail lending, as well as the granting of loans to micro, small and medium enterprises and entrepreneurs from the guarantee scheme, enabled double-digit growth in lending activity year on year. Given that the payment of potentially bad loans is delayed, the true picture of the quality of loans will be clear during 2021.

The monetary expansion of the NBS, but also of other central banks, influenced the fact that interest rates in Serbia were low and stable.

Fluctuation of the interest rates on the financial markets



Credit rating

The report of the rating agency Standard & Poor's from December 2020, states that the credit rating of Serbia is at the level of BB +, with stable prospects for its further improvement. This is a result of the fact that Serbia entered the crisis caused by the pandemic with significantly better overall economic indicators. In their reports from September 2020, the rating agencies Moody's and Fitch confirmed the rating of the credit rating of the Republic of Serbia at the level of Ba3, i.e. BB +, keeping the positive prospects for its further increase.

Banking sector

At the end of the third quarter of 2020, 26 banks operated on the Serbian banking market with an organizational network of 1,576 business units, employing 22,858 people.

The total assets of the Serbian banking sector amounted to RSD 4.510 billion, which is an increase of 10.42% during the first nine months of 2020. In the same period, banks' capital increased by 1.59% and amounted to RSD 717 billion.

The first 10 banks had a share of 80% in the total assets, in deposits 80.1%, and in loans 77.8%. As in the previous period, Banca Intesa is the leading bank according to the presented criteria with a share in the total banking sector's assets of 15.24%. Unicredit bank and Komercijalna bank also have a market share above 10%. Halkbank a.d. Belgrade in the first nine months of 2020, recorded an increase in market share in all significant balance sheet positions. The participation of Halkbank a.d. Belgrade in the total banking sector's assets is 1.79% and the Bank is on the 16th place by the size total assets. In terms of deposits, the Bank is on the 16th place in the banking sector with a share of 1.83%, while in terms of loans, it is also on the 16th place with a share of 2.07%.

The trend of market enlargement is expected to continue in 2020. The most significant transaction was the long-awaited takeover of Komercijalna Banka by the Slovenian banking group NLB. With this transaction, NLB Group achieves a market share of over 12% and becomes one of the top 5 banks in the Serbian market.

As of the third quarter of 2020, the banking sector achieved a pre-tax result of RSD 43.43 billion, which is -19.7% less than in the same period last year. 19 banks operated with a positive result with a total profit of RSD 44.65 billion, while 7 banks operated with a loss in the total amount of RSD 1.2 billion. Lower profit compared to the previous year are primarily due to higher impairment costs, which reached 14.7 billion dinars at the end of September. According to the realized profit during the first three quarters of 2020 in the amount of RSD

447,421 thousand, Halkbank a.d. Belgrade took 15th place.

The reduced profitability of the banking sector during the first nine months of 2020 was accompanied by a decrease in profitability indicators compared to the same period last year. At the end of the period, return on equity (ROE) was 8.14% while return on assets (ROA) was 1.35%.

Non-performing loans (NPL ratio) amounted to 3.4% at the end of September 2020, while NPL coverage ratio was 62.4%.

The banking sector of Serbia was adequately capitalized with an average capital adequacy ratio of 22.4% at the end of the third quarter, which is significantly above the prescribed minimum of 8%. Capital adequacy ratio of Halkbank a.d. Belgrade was 21.39% at the end of September (December 2020 21.18%).

2. ACHIEVEMENT OF BASIC OPERATING TARGETS

The targets set out in the Operating Policy for 2020 were implemented in the first nine months of 2020 through the activities listed below, with reference to the activities related to mitigate the negative effects caused by the Covid-19 pandemic.

1. In 2020, the Bank relocated branch Kalenić to the better and more appropriate location Crveni Krst in Belgrade and opened new sub-branch in Zrenjanin.

2. Realized value of Average Liquidity Ratio and its target for 2020 is shown in following table:

Indicators	2020	Plan 2020 (minimum)
The average liquidity ratio	1.92	1.2
The average narrow liquidity ratio	1.71	0.9
The average ratio of liquid assets	28.23%	20%

Due to the situation caused by the Covid-19, the Bank has identified environmental risks may have a direct impact on the deterioration of liquidity. In accordance with that, all necessary activities were taken in a timely manner in order to ensure the prevention of liquidity at the level it was at before the situation arose. It is estimated that dinar positions will be the most volatile on the interbank market and in the Bank itself, so the Bank concentrated activities on providing additional liquid assets in that currency. This was achieved by concluding REPO and SWAP agreements with the National Bank of Serbia, in the proportion that corresponded to the current position of the Bank. At the same time, the Bank conducted an active deposit management policy, and in the same period a part of most expensive deposits was released where due to significant amounts, there was a high concentration risk as well. In addition, despite the crisis, the Bank managed to raise its deposit base by constantly deepening cooperation with existing clients, finding new one and concluding new contracts. The implementation of these activities resulted in a stable liquid position of the Bank and relaxation in the part of interest expenses on deposits.

3. In 2020, the Bank achieved positive financial result in the amount of RSD 529,706 thousand. Realized values regarding this goal are shown in the following table:

(in RSD thousand)

Indicators	31.12.2020	Revised plan 2020	Plan realization
Net interest and fees income	2,966,601	2,980,595	99.53%
Operating costs	2,285,895	2,329,214	98.14%
Profit	529,706	587,889	90.10%

4. There were no emission of share capital in the first nine months of 2020. The main assumption for preparation of Operating Policy for 2020 was capital addition in the amount of EUR 30 million in the first half of 2020, necessary for financing planned investments in new Headquarters building, as well as implementation of new core banking system.

As planned capital increase of EUR 30 million was not realized in 2020, the Bank has done a revision of the budget, and projections of key financial indicators have been presented in this Operating report.

Regarding this matter, the Bank has postponed the planned investments, which are transferred to the budget for 2021.

5. In the first quarter of 2020, innovative and technologically advanced model of payment cards – "TESLA" project is completed and launched. The Bank was expecting and achieved positive effects from this innovative project and this should drive increase in non-interest income in the future as well as in number of credit and active clients through a wide range of products that are available to the existing and new clients.

6. In 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. In march 2020 National Bank of Serbia brought Decision on temporary measures to preserve the stability of the financial system, based on which Halkbank ad Belgrade offered all its clients (individuals, agro, entrepreneurs and companies) a delay in repayment of obligations – the first Moratorium valid until 30th of June 2020. Pursuant to the instructions of the NBS, during the state of emergency, the Bank does not charge default interest on overdue and unsettled receivables and does not initiate enforcement proceedings. The duration of the moratorium cannot be shorter than 90 days, i.e. the duration of the state of emergency. After the termination of the Moratorium, it was prescribed that debtors will continue to repay the loan, so that the loan repayment period is extended by 3 months. In accordance with the instructions of the NBS, regular interest is calculated on outstanding balance, excluding loans granted to legal entities, for which the Bank may calculate regular interest and on the amount of principal due during the moratorium. Regular interest calculated during the moratorium period is added to the main debt and new repayment plan is generated.

Additionally, at the end of July 2020, National Bank of Serbia brought new 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 for the purpose of preserving the stability of the financial system in the Republic of Serbia, due to the possibility that borrowers might face difficulties in the repayment of their obligations. The most important differences in relation to the previous decision are:

- Duration of the moratorium and extension of repayment plan - now it is two months (covering period from 1st of August until 30th of September 2020, including also remaining due receivables from July 2020 for clients who accepted moratorium). According to the previous decision it was at least 90 days;

- In terms of interest - calculated interest is evenly distributed over the period of repayment of loans and other bank products and is not attributed to the principal of the debt.

In order to maintain a sense of the regulations adopted in March 2020, as well as to meet the needs of clients, the National Bank of Serbia issued a new instruction in mid-September 2020. This instruction refers to the 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 and orders that, upon termination of the additional moratorium, regular interest calculated during the first moratorium has to be evenly distributed over the loan repayment period without attribution to the principal of the debt.

Having in mind the complexity of the pandemic's fallout on households and businesses, the NBS established that there is room for taking additional measures and at December 15th 2020 adopted the Decision on Temporary Measures for Banks to Enable Adequate Credit Risk Management amid COVID-19 Pandemic. By this Decision, the NBS prescribes the measures and activities to be applied by banks in order to ensure adequate credit risk management, which implies timely identification of debtors faced with potential difficulties and taking of appropriate steps. For this reason, the NBS prescribes an obligation for banks to approve debt repayment facilities to debtors who due to the conditions caused by the COVID-19 pandemic have or may have difficulties in the repayment of liabilities, at their request.

The facilities envisaged by the above Decision involve rescheduling and refinancing of loans, as well as a six-month grace period and appropriate extension of repayment term so that the debtor's monthly liabilities are not higher than those envisaged by the repayment schedule prior to the approval of facilities. Interest is calculated during the grace period, but it is up to the debtor to decide, in the request, whether it will pay interest during the grace period or after its expiry.

The Bank did not have in its portfolio loans approved in accordance with the provisions of this Decision as of December 31st 2020.

3. BALANCE SHEET

3.1 Assets

As of December 31st 2020, the Bank's total assets amounted to RSD 85,015,897 thousand and accounted increase of 21.46% compared to the end of 2019, or by RSD 15,022,354 thousand.

The main driver of this growth was lending activities, mostly induced by participation in the Guarantee Scheme for mitigating the effects of the COVID-19 pandemic, as well as proactive approach in retail segment. The growth of total loans in the observed period amounted to RSD 9,312,779 thousand (20.34%).

(in RSD thousand)

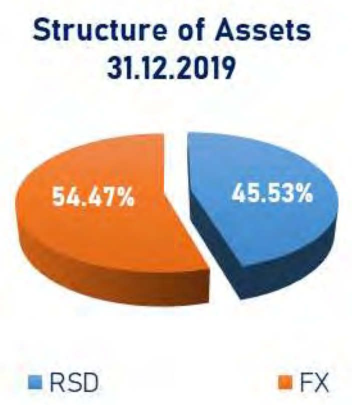
ASSETS	31.12.2019	31.12.2020	Revised plan 2020	% of change
Cash, cash equivalents and assets held with the central bank	10,013,564	13,707,004	9,594,544	36.88%
Financial assets*	10,607,350	11,120,811	10,934,959	4.84%
Loans to banks and other financial organizations**	1,453,132	2,398,662	2,704,345	65.07%
Loans to clients*	45,786,729	55,099,508	56,791,237	20.34%
Intangible assets, property, plant and equipment and investment property	1,726,263	1,822,164	1,928,315	5.56%
Other assets***	406,505	867,748	352,741	113.46%
Total assets	69,993,543	85,015,897	82,306,140	21.46%

* The position "Financial assets" consists of pledged financial assets, receivables from derivatives and securities from official Balance sheet.

** The positions of „Loans to clients" and „Loans to banks and other financial organizations" differ from the positions „Loans and receivables from clients" and „Loans and receivables from banks and other financial organizations" presented in the official Balance sheet form for the amount of claims for accrued interest, fee and accrued interest receivable and accrued income for EIR compensation, shown in the „Other assets" position. Position „Other assets" includes position „Deferred tax assets" from official Balance sheet form.

*** The position „Other assets" includes position „Deferred tax assets" from official Balance sheet form.

The following graphs present the currency structure of assets as at 31.12.2019. and 31.12.2020:



3.1.1 Loans to clients

Since arriving to the Serbian market, focus of Halkbank a.d. Beograd is on the maximum satisfaction of clients, the development of innovative products and services, the improvement and digitization of the processes in order to strengthen the efficiency of operations.

The structure of position loans to clients as of December 31st 2019 and December 31st 2020 is given in the following table:

(in RSD thousand)

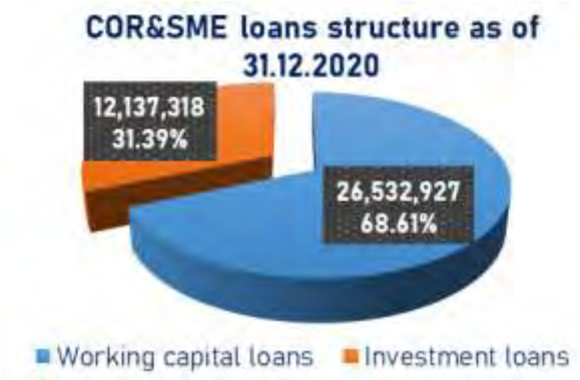
	31.12.2019	31.12.2020	Revised plan 2020	% of change
Loans to clients - net	45,786,729	55,099,508	56,791,237	20.34%
Corporate clients without NPL	31,502,109	38,781,185	39,977,268	23.11%
Retail clients without NPL	13,051,055	15,591,032	15,873,327	19.46%
NPL (net)*	1,233,565	727,291	940,642	-41.04%

** NPL position refers to net receivables from problematic customers, without receivables for interest and fee*

The Bank's net loan portfolio increased during the 2020 by 20.34%, or by RSD 9,312,779 thousand. Besides increase in net loan portfolio, compared to the end of 2019, it was recorded a decrease of the net NPL by 41.04% (collection of non-performing loans).

Gross loans – Corporate

Gross corporate loans, including gross NPL, as of December 31st 2020 amounted to RSD 40,331,861 thousand, with growth of 20.12% comparing to the end of 2019. In the following graphs, structure of these loans is presented:



The most important activities of Corporate and SME Marketing Division in 2020 were as follows:

- Bank realized EUR 165.8 million in Corporate, SME and Agro segments through Guarantee scheme for supporting of the economy, regular business activities, as well as certain programs and actions. The focus was on the Guarantee scheme for supporting of the economy, micro loans campaign for working capital loans with FX clause, RSD working capital loan campaign started in March 2020, FRK investment loans campaign in cooperation with the National Bank of Serbia, as well as lending to Agro clients.

- 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 procedure for application of the first and second Moratorium according to the Decision of the National Bank of Serbia, maintained the same approach in cooperation with clients and continued to constantly contact clients from the Bank's portfolio, in order to assess the effects and consequences of the pandemic on clients' operations, for joint activities that will prevent negative consequences. Clients were informed about all measures of the State, as well as the announced financial incentives that will be realized through the banking sector. Branches are monitored intensified on a daily basis with clear instructions on measures to be taken on the basis of new regulations and state regulations.

- In 2020, the Bank participated in the Guarantee scheme for supporting of the economy. The Bank realized total of EUR 70.4 million through 874 loans. 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 supporting the economy in the conditions of Covid-19 crisis for loans for maintaining liquidity and working capital through commercial banks operating in the Republic of Serbia. The total value of the funds foreseen for this measure is EUR 2 billion. We believe that participating in the implementation of the said program would contribute to the preservation and expansion of the portfolio of quality credit clients, would enable the placement of funds with first class collateral, as well as to provide support to clients in maintaining liquidity with funds with favorable interest rate.

The basic conditions of Guarantee Scheme are as follows:

- Guarantee from Republic of Serbia covers up to 80% of the principal of each individual loan, while the maximum amount of the guarantee at the portfolio level is 24%
- Eligible clients: Micro, Small and Medium Enterprises
- Purpose of loans: for liquidity and working capital, excluding refinancing and early repayment
- Maximum amount of loan is up to 25% of client's revenue, not more than EUR 3 million per individual client, at the banking sector level
- Maximum maturity of loan is up to 36 months, including 9-12 months grace period, with maximum yearly interest rate for EUR loans of 3M EURIBOR + 3.0% and for RSD loans 1M BELIBOR + 2.5%.

Gross loans - Retail

Gross retail loans, including gross NPL, as of December 31st 2020 amounted to RSD 15,856,607 thousand with the following structure:

(in RSD thousand)

Loan type	31.12.2019	31.12.2020	% of change
Cash loans	7,258,433	8,626,404	18.85%
Housing loans	4,910,910	6,221,866	26.69%
Consumer loans	801,417	679,921	-15.16%
Allowed overdraft	155,579	174,220	11.98%
Other	155,415	154,196	-0.78%
Total	13,281,754	**15,856,607**	**19.39%**

Retail Marketing and ADC Division realized numerous activities during 2020 with an aim to launch new products and services, to increase portfolio and to enable normal functioning of Bank during COVID 19 crises:

- At the beginning of the year implementation of procedures and technical solutions for adjusting loan approving process to the retail clients with regulatory requests have been done. The changes in regulation primarily refer to cash loans as the most used type of loans on Serbian market and their maximum maturity (83 months).

- Innovative and technologically advanced model of payment cards – "TESLA" project is completed and launched. As a special card, the MasterCard Sticker debit card stands out with its specific characteristics - reduced dimensions that can be glued to the pendant or the back of the mobile phone and make daily fast payments easier and more accessible.

- The project of introducing credit cards in the offer is launched and the registration of a new product with the National Bank of Serbia is done. Cooperation has been established with two brands - MasterCard with the World card, with which Wallet insurance is provided as an additional benefit to customers, and Visa Gold as a prestigious credit card.

- A project of new current account packages for private individuals - Standard, Silver and Gold - has been created and launched. Within the packages themselves, several mini-projects have been realized that provide additional value for the client (Insurance – Road Assistance, Travel insurance, Call Center personal approach 24h/7).

- Also, an offer was created adapted to non-residents and their specifics arising from regulatory acts – transaction banking and credit products with indicated rights and obligations, exceptions and other important information.

- The DigitalEgde project has been launched as one of the Bank's priorities, which improved Bank's services to retail customers. The improvement is reflected in a more modern and functional payment method through e-banking and m-banking applications. The additional benefit of DigitalEdge is a web and mobile solution, for both Android and iOS users, to open an account at Halkbank via PC, mobile phone or tablet without going to the Bank. In addition to opening an account, the DigitalEdge platform also enables customers to be informed about other bank's services, while the next step is to improve the service related to digital application for loans or deposits. In the third quarter, the application was improved with the additional option of payment via QR code. In addition, the

DigitalEdge platform currently provides information to clients on other services of the Bank, while the next step is planned to improve the service related to digital loan applications or time deposits. The Bank is currently in the phase of developing the function of submitting a request for opening a current account online, i.e. without coming to the Bank.

- Intensive work on undertaking all necessary activities in order to comply with the requirements of the NBS regarding the COVID-19 pandemic: Moratoriums 1, 2 and Reliefs have been applied according to the Decision of the National Bank of Serbia; Informing clients about the terms of the Moratorium and how to apply; Organizing the smooth functioning of payment operations for clients from the population segment, especially in conditions of reduced number of executors and limited working hours during the state of emergency, with special reference to the payment of funds from the accounts of clients who had limited movement during the state of emergency (pensioners and over 65), all in accordance with the instructions of the National Bank of Serbia.

- During 2020, several new campaigns were launched to increase demand for loans, which was reduced during the crisis caused by the COVID-19 virus. Most of the campaigns were related to cash loans, combined with new current account packages and a new SmartHALK platform for e / m banking services. In the mentioned period, 46,6 million euros were placed, 11.900 new packages of current accounts were opened and 8,754 old packages were migrated to new ones.

3.2 Liabilities

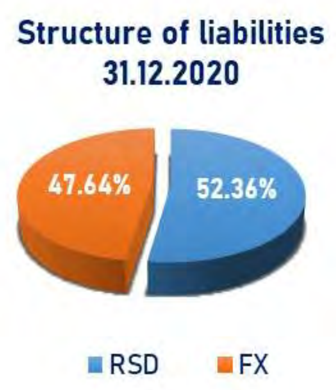
Total liabilities as of December 31st 2020 amounted to RSD 85,015,897 thousand with the following structure:

(in RSD thousand)

PASSIVE	31.12.2019	31.12.2020	Revised plan 2020	% of change
Deposits from banks and other financial organizations*	6,109,502	7,487,610	8,230,614	22.56%
Deposits from other clients*	41,370,483	54,515,216	51,852,868	31.77%
Funds borrowed**	8,821,223	8,159,379	7,995,454	-7.50%
Other liabilities***	1,593,616	2,365,146	1,744,773	48.41%
Total liabilities	57,894,824	72,527,351	69,823,708	25.27%
Share capital	8,972,603	8,972,603	8,972,603	0.00%
Current period profit	472,836	529,706	587,901	12.03%
Undistributed profit from previous years	0	682,330	471,732	-
Reserves	2,653,280	2,303,907	2,450,195	-13.17%
Total capital	12,098,719	12,488,546	12,482,432	3.22%
Total passive	69,993,543	85,015,897	82,306,140	21.46%

*The positions "Deposits from other clients" and "Deposits from banks and other financial organizations" differ from positions "Deposits and other liabilities from other clients" and "Deposits and other liabilities from banks, other financial institutions and central bank" presented in the official Balance sheet form for the amount of liabilities based on interest, fees, accrued liabilities for accrued interest and other financial obligations towards clients, shown in the „Other liabilities" position. Position "Other liabilities" includes position "Provisions" from the official Balance sheet form.
** The position "Funds borrowed" is presented without accrued interest liabilities that are presented in "Other liabilities" in this table.
*** The position "Other liabilities" includes position "Provisions" from the official Balance sheet form.

The following graphs present the currency structure of liabilities as at 31.12.2019 and 31.12.2020:



3.2.1 Deposits from banks, other financial organizations and central bank

The structure of deposits from banks, other financial organizations and central bank and comparative analysis as of December 31st 2019 and December 31st 2020 is presented in the following table:

(in RSD thousand)

Deposits from banks and other financial organizations	31.12.2019	31.12.2020	% of change
Transaction deposits	224,075	123,155	-45.04%
Other deposits	5,885,427	7,364,455	25.13%
Total	6,109,502	7,487,610	22.56%

Within the position, other deposits are deposits of insurance companies and "money market" deposits of domestic and foreign banks.

3.2.2 Deposits from other clients

The structure of deposits from other clients and comparative analysis by segments as of December 31st 2019 and December 31st 2020 is presented in the following tables and graphs:

(in RSD thousand)

Depoziti drugih klijenata	31.12.2019	31.12.2020	Revised plan 2020	% of change
Transaction deposits	15,471,872	24,653,761	22,692,979	59.35%
Other deposits	25,898,611	29,861,455	29,159,890	15.30%
Total	**41,370,483**	**54,515,216**	**51,852,868**	**31.77%**

Total increase of deposits from other clients in 2020 amounted to 31.77%.

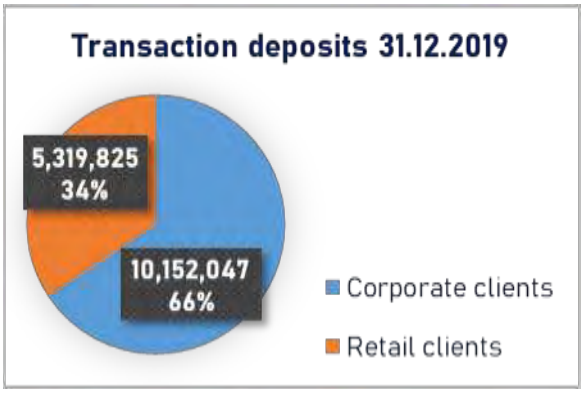
(in RSD thousand)

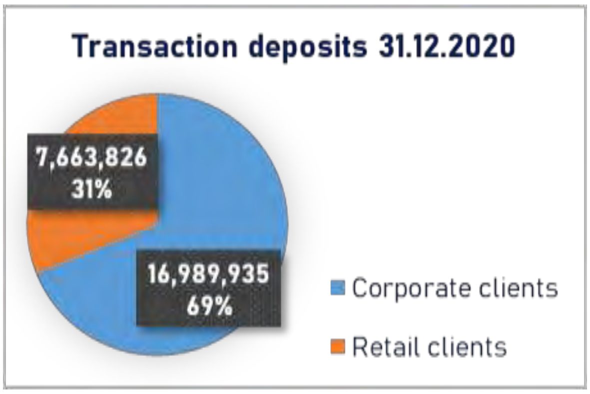
Deposits from other clients	31.12.2019	31.12.2020	Revised plan 2020	% of change
Corporate clients	21,781,545	31,406,924	28,924,729	44.19%
Retail clients	19,588,938	23,108,292	22,928,139	17.97%
Total	41,370,483	54,515,216	51,852,868	31.77%

By constant monitoring of market trends, individual and proactive approach to clients, the Bank increased the level of deposits from corporate clients by 44.19%, and the level of deposits from retail clients by 17.97%.

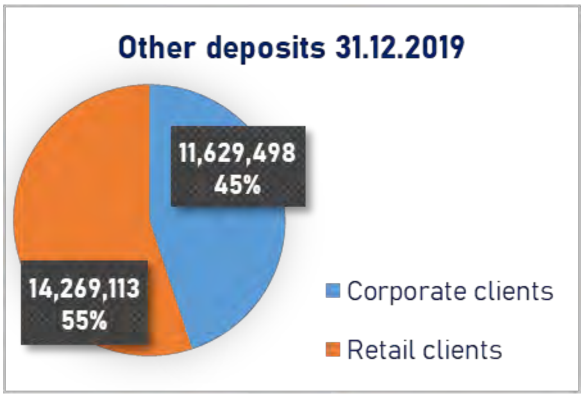
The structure deposits from other clients is presented in the following graphs:

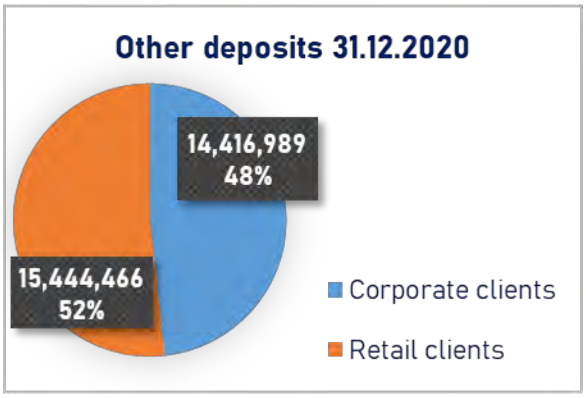
(in RSD thousand)





(in RSD thousand)





Funds borrowed

(in RSD thousand)

Borrowed loans in foreign currency	31.12.2019	31.12.2020	% of change
- EIB	5,950,863	5,303,581	-10.88%
- Demir-Halk Bank (Nederland) N.V.	587,964	999,432	69.98%
- EAR long-term revolving line	841,385	837,726	-0.43%
- European Fund for Southeast Europe	839,949	503,915	-40.01%
- GGF	553,378	484,154	-12.51%
- Government of Republic of Italy	47,684	30,571	-35.89%
Total	8,821,223	8,159,379	-7.50%

In 2020, the Bank paid the principle of long-term loans to IFIs on a regular basis in the amount of EUR 17,204 thousand. In the same period, the Bank withdrew EUR 11,583 thousand of IFI's funds.

3.2.3 Equity

The capital of the Bank as of December 31st 2020 amounted to RSD 12,488,546 thousand and comprised of the following:

(in RSD thousand)

Equity	31.12.2019	31.12.2020	% of change
Share capital – ordinary shares	5,658,940	5,658,940	0.00%
Share capital – preference cumulative shares	1,340	1,340	0.00%
Share capital – preference non-cumulative shares	600,000	600,000	0.00%
Share premium	2,712,323	2,712,323	0.00%
Revaluation reserves	926,753	577,380	-37.70%
Reserves from profit	1,726,527	1,726,527	0.00%
Undistributed profit from previous years	-	682,330	-
Profit of the current year	472,836	529,706	12.03%
Total	12,098,719	12,488,546	3.22%

The information about the number of shareholders and the basic information of shares is presented in the following table:

Information on shares	31.12.2019	31.12.2020
Number of shareholders	1	1
Number of shares	626,028	626,028
Nominal value per share in RSD	10,000	10,000
Net book value per share in RSD	19,326.16	19,948.86

4. OFF-BALANCE SHEET ITEMS

During 2020, the Bank issued performance and payment guarantees and letters of credit for its customers. The structure of off-balance sheet items as of December 31st 2019 and December 31st 2020 is presented in the following table:

(in RSD thousand)

Off-balance sheet items	31.12.2019	31.12.2020	% of change
Contingent liabilities (guarantees, avals, acceptances and irrevocable liabilities)	13,492,419	17,346,665	28.57%
Operations for and on behalf of third parties	265,345	257,727	-2.87%
Derivatives (SWAP)	943,938	470,321	-50.17%
Other off-balance sheet items	65,334,154	79,792,616	22.13%
Total	80,035,856	97,867,329	22.28%

The following table compares the structure of the item guarantees, avals, acceptances and irrevocable liabilities as of December 31st 2019 and December 31st 2020:

(in RSD thousand)

Garancije, avali, akcepti i preuzete neopozive obaveze	31.12.2019	31.12.2020	% of change
Performance guarantees	8,411,994	11,579,939	37.66%
Payment guarantees	2,854,307	3,153,131	10.47%
Unused limits which cannot be revoked	1,574,212	1,906,000	21.08%
Issued foreign currency letters of credit with Banks' confirmation	617,362	676,086	9.51%
Issued uncovered letters of credit	34,544	31,509	-8.79%
Total	13,492,419	17,346,665	28.57%

In the following table, position "Other off-balance sheet items" is presented.

(in RSD thousand)

Other off-balance sheet items	**31.12.2019**	**31.12.2020**	% of change
Received fixed assets (buildings, cars, land etc.) as collateral in favor of the Bank	38,301,484	42,306,867	10.46%
Commitments for framework loans and facilities	8,687,283	10,813,711	24.48%
Calculated suspended interest	4,969,015	5,076,233	2.16%
Financial assets pledged as collateral	2,260,870	1,200,000	-46.92%
Other off-balance sheet items	11,115,503	20,395,805	83.49%
Total	65,334,155	79,792,616	22.13%

5. STATEMENT OF PROFIT AND LOSS FOR THE PERIOD

The Income Statement for the period from January 1st to December 31st 2020 is presented in compliance with the Law on Accounting, IFRS and NBS regulations.

The Bank finished its operation in 2020 with a profit of RSD 529,706 thousand.

(in RSD thousand)

Income Statement	31.12.2019	31.12.2020	Abs change	% of change	Revised plan 2020
Interest income	2,528,261	2,714,093	185,832	7.35%	2,730,154
Interest expense	423,985	521,547	97,562	23.01%	531,451
Net interest income	**2,104,276**	**2,192,546**	**88,270**	**4.19%**	**2,198,703**
Fee and commission income	929,972	981,159	51,187	5.50%	993,532
Fee and commission expense	158,613	207,104	48,491	30.57%	211,640
Net fee and commission income	**771,359**	**774,055**	**2,696**	**0.35%**	**781,892**
Net trading income	**972**	**95,413**	**94,441**	**9716.15%**	**91,711**
Other operating income	**31,983**	**48,097**	**16,114**	**50.38%**	**32,922**
Net income/(losses) on impairment of financial assets	**-214,832**	**-294,510**	**-79,678**	**37.09%**	**-188,124**
Total net operating income	**2,693,758**	**2,815,601**	**121,843**	**4.52%**	**2,917,103**
Salaries, salary compensation and other personal expenses	906,313	958,415	52,102	5.75%	967,077
Depreciation costs	362,928	404,384	41,456	11.42%	418,577
Other expenses	951,681	923,096	-28,585	-3.00%	943,561
Total operating expenses	**2,220,922**	**2,285,895**	**64,973**	**2.93%**	**2,329,214**
NET PROFIT BEFORE TAX	**472,836**	**529,706**	**56,870**	**12.03%**	**587,889**

*The position "Other operating income" includes position "Other operating income" and "Other income" from official Statement of profit and loss.

In 2020, the Bank increased its net interest income by 4.19%, or by RSD 88,270 thousand, comparing to the same period last year. Net income from fees and commission is approximately at the same level as it was in 2019, mainly due to increase in Fee and commission expenses after starting Tesla project. With increase in volume of card transactions Bank will cover these expenses and will make space for significant increase in profit from this line of business. Total operating expenses are higher for 2.93%, or by RSD 64,973 thousand comparing to the same period last year.

The structure of interest income is presented in the following table:

(in RSD thousand)

Interest income	31.12.2019	31.12.2020	% of change
Corporate clients	1,221,065	1,382,840	13.25%
Retail clients	906,912	918,605	1.29%
Securities	338,215	393,195	16.26%
Other	62,069	19,453	-68.66%
Total	2,528,261	2,714,093	7.35%

The structure of fee and commission income is presented in the following table:

(in RSD thousand)

Fee and commission income	31.12.2019	31.12.2020	% of change
Fees from payment operations	532,061	551,799	3.71%
Fees from guarantees	146,193	172,095	17.72%
Fees from FX changes	110,150	101,803	-7.58%
Fees from payment cards	59,944	100,907	68.34%
Fees from loan processing	48,415	37,659	-22.22%
Fees from SWAP	23,848	4,983	-79.11%
Other fees	9,361	11,913	27.26%
Total	929,972	981,159	5.50%

The structure of interest expense is presented in the following table:

(in RSD thousand)

Interest expense	31.12.2019	31.12.2020	% of change
Deposits – corporate	161,119	198,269	23.06%
Deposits – retail	112,612	137,474	22.08%
Banks deposits	52,711	92,278	75.06%
Borrowings IFI's	87,005	83,256	-4.31%
IFRS 16	10,538	10,270	-2.54%
Total	423,985	521,547	23.01%

The structure of fee and commission expense is presented in the following table:

(in RSD thousand)

Fee and commission expenses	31.12.2019	31.12.2020	% of change
Payment operations	97,328	105,018	7.90%
Fees from payment cards	46,350	88,941	91.89%
Credit bureau and other fees	14,935	13,145	-11.99%
Total	158,613	207,104	30.57%

6. CASH FLOWS

Cash flows from operating activities during 2019 and 2020 are presented in the table below:

(in RSD thousand)

Cash inflows from operating activities	I - XII 2019	I - XII 2020	Change
Interest	2,406,095	2,336,690	-69,405
Fees	943,344	986,193	42,849
Other operating income	12,055	13,345	1,290
Dividend and share in profit	2,152	0	-2,152
Total cash inflows	**3,363,646**	**3,336,228**	**-27,418**
Cash outflows from operating activities			
Interest	394,245	461,902	67,657
Fees	155,653	204,341	48,688
Salaries	892,133	1,017,402	125,269
Tax and contribution	184,911	205,930	21,019
Other operating expenses	774,999	722,981	-52,018
Total cash outflows	2,401,941	2,612,556	210,615
Net cash inflows from operating activities before increase/decrease in financial assets or financial liabilities	961,705	723,672	-238,033

Cash inflows from operating activities before increase/decrease in financial assets or financial liabilities in 2020 decreased for RSD 27,418 thousand comparing to the same period in 2019.

Cash outflows from operating activities before increase/decrease in financial assets or financial liabilities increased for RSD 210,615 thousand comparing to the same period in 2019.

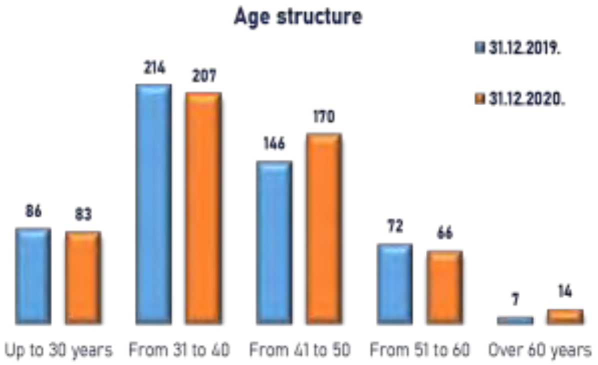
Net cash inflows from operating activities before increase/decrease in financial assets or financial liabilities in 2020 amounted to RSD 723,672 thousand, which is decrease of RSD 238,033 thousand comparing to same period in 2019.

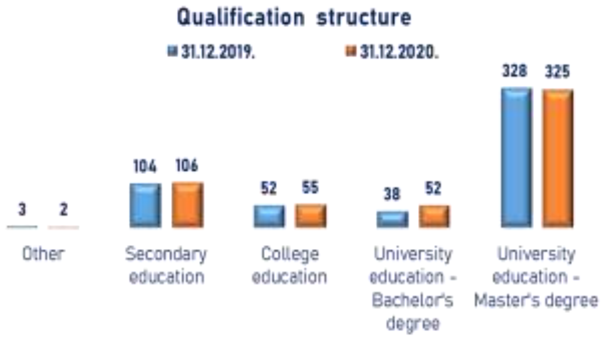
7. HUMAN RESOURCES

Employees present one of the most important resources on which the Bank's overall activities are based. At the end of 2020, the Bank had 540 employees and the following structure:

Number of employees	31.12.2019	31.12.2020	Revised plan 2020
Headquarter	219	228	235
Branches	306	312	315
Total	525	**540**	550

The following graphs show the qualification and age structure of employees as of December 31st 2019 and December 31st 2020:





In the qualification structure of employees at the end of 2020, the share of employees with higher education was 69.8%, while the participation of younger than 40 years was 53.7%. The Bank intensively invests in improving the skills and knowledge of employees through external and internal trainings and participation in educational panels. Particular attention is paid to the Bank's internal communication to all employees in order to be familiar with the strategic goals and results, and the most important challenges and activities.

Expenses for salaries, salary compensation and other personal expenses in 2020 amounted to RSD 958,415 thousand and accounts for 99.1% of revised budget for 2020.

As of COVID-19 pandemic outbreak, the Bank has undertaken a number of activities in order to protect employees. Employees were provided with protective equipment and disinfectants and regular disinfection of facilities was provided. Employees are enabled to work from home in order to ensure business continuity, while respecting self-isolation measures in cases prescribed by regulations. In addition, the number of employees staying at the Bank's premises has been reduced.

8. INVESTMENT PLAN

During 2020 total investments in fixed assets, investment property and intangible investments amounted to RSD 688,957 thousand.

Changes at these balance sheet items are presented in the following table: (in RSD thousand)

Investments*	Buildings	Equipment	Investment property	Intangible investments	Rents in IFRS 16 scope	Total	Revised plan for 2020
Balance 31.12.2019	414,630	382,091	137,845	270,726	520,971	1,726,263	1,726,263
Total increase:	553	334,675	0	113,442	240,287	688,957	517,608
IT	0	287,375	0	113,442	0	400,817	457,505
Adaption of business premises	553	24,053	0	0	0	24,606	25,535
Other	0	23,247	0	0	0	23,247	34,569
IFRS 16 – rents (building and cars)	0	0	0	0	240,287	240,287	103,235
Total decrease:	202,812	135,469	4,539	62,986	187,250	593,056	418,577
Depreciation	16,261	133,348	4,539	62,986	0	217,134	230,452
Depreciation – IFRS 16	0	0	0	0	187,250	187,250	188,124
Sell	186,551	1,742	0	0	0	188,293	0
Disposal and retirement	0	379	0	0	0	379	0
FX effects	0	0	0	0	0	0	-103,021
Balance 31.12.2020	212,371	581,297	133,306	321,182	574,008	1,822,164	1,928,315

** Presented in net amount*

During 2020, the Bank's investments related to relocation of branch Kalenić to the better and more appropriate location Crveni Krst in Belgrade, opening new sub-branch in Zrenjanin, purchase of ATMs and POS terminals, renewal of security and IT user equipment, as well as additional investment in licenses for finishing TESLA project.

Of the total increase, RSD 240.287 thousand is caused by IFRS 16.

9. COMPLIANCE OF OPERATIONS WITH THE NBS REGULATIONS AND IFI AGREEMENTS

As of December 31st of 2020, all the operating ratios of the Bank were within the limits prescribed by the Law on Banks and NBS regulations.

Ratio	The values prescribed by the NBS regulations	Values as at December 31st 2020
Regulatory Capital	Min 10,000,000 €	91,862,284 €
Capital adequacy ratio	min 8% (SREP 16.33%)	21.18%
Foreign exchange risk ratio	max 20%	0.83%
Liquidity ratio	Min 1	1.89
Narrow liquidity ratio	Min 0.7	1.68
Liquidity coverage ratio	Min 100%	230.16%
Exposure to one person or group of related persons	max 25%	14.86%
Sum of large exposures	max 400%	50.92%
Investment in non-financial sector	max 10%	0%
Investments in fixed assets and investment property	max 60%	13.90%

Business policy for 2020 as one of the main goals in the risk management process defines maintenance of capital adequacy ratio above 23%, taking into account planned capital increase in the amount of EUR 30 million. Since capital increase was not realized in 2020, as of December 31st 2020, calculated capital adequacy ratio was at the level of 21.18%, which is still significantly above required regulatory limits.

By the Decision on the Minimum Requirement for Capital and Eligible Liabilities of a Bank, National Bank of Serbia (IO NBS br.38, February 11th 2021) defines ratio of Capital and Eligible Liabilities to total liabilities for the Bank equal to 7.97%, which was previously at level of 8.44%. As per the last available calculation from June 30th 2020, the ratio of the Capital and Eligible Liabilities to total liabilities of the Bank was 20.67%, which is significantly above the defined limit. Based on the portfolio structure, it is expected that defined ratio will be on the similar level as at December 31st 2020.

Compliance with the covenants from the agreements concluded with the international financial institutions (IFIs)

Pursuant to the defined limits in the agreements concluded with the international financial institutions (IFIs) - German Development Bank (KfW), Green for Growth Fund (GGF), and European Fund for Southeast Europe (EFSE) the Bank is required to comply with certain financial covenants until the final repayment of the loans. As of December 31st of 2020, the Bank is aligned with all indicators.

III INVESTMENT FOR THE PURPOSE OF ENVIRONMENTAL PROTECTION

The Bank is particularly cautious to invest only in the projects that do not cause any environmental and social harm. Environmental and social (E&S) protection includes, besides ecological aspects, the issues of a local community and employee protection.

The aim of managing E&S risk is identification, assessment and control of the risks that may cause E&S harm and it is carried out in accordance with the E&S Risk Management Policy and the E&S Risk Management Procedure.

The following bodies are responsible for managing the E&S risk in the Bank:

- Board of Directors that establishes and at least once a year reviews E&S Risk Management Policy and identifies the need for any amendments,
- Executive Board that establishes and implements the E&S Risk Management Procedure,
- Credit Committees that make decisions on loan disbursement on the basis of the E&S information available and the opinion of the Corporate and SME Marketing Division,
- Credit Division that assesses the impact of the activity and the project during the process of appraising customers' creditworthiness,
- The Risk Management Department that monitors loans at the portfolio level by categories of E&S risks through the preparing and analysis of reports.

When processing individual clients' applications, E&S risk is classified for the basic activity of the client and the activity which is subject to financing.
There are the following E&S risk categories:

- High – Exclusion List;
- High – Category A;
- High;
- Medium and
- Low

Environmental risk

Overview of the Bank's exposures by environmental and social risk categories

(in RSD thousand)

Risk category	Number of clients		Amount of placements (balance and off-balance)		Increase/ decrease
	31.12.2019.	31.12.2020.	31.12.2019.	31.12.2020.	
High – Exclusion List	0	0	0	0	0
High – Category A	10	14	465,438	513,623	48,185
High	342	382	11,807,138	15,730,447	3,923,309
Medium	1,948	2,534	21,023,659	25,194,166	4,170,507
Low	2,296	2,364	22,443,645	26,733,615	4,289,970
Total	4,596	5,294	55,739,880	68,171,851	12,431,971

**For the purpose of analisys of environmental risk, the Bank includes only relevant part of portfolio.*

In the structure of exposures (balance sheet and off-balance sheet exposures) to clients, legal entities and entrepreneurs, as of December 31, 2020, the largest share was held by clients with activities with low environmental and social impact 39.22%, then exposures to clients with activities with medium impact participate with 36.96%, activities with high impact participate 23.07% and activities with high risk category A participate with 0.75%.

IV SIGNIFICANT EVENTS AFTER THE END OF BUSINESS YEAR

After the reporting period, there have been no events which had materially impact on financial statements of the Bank for the year ended 31st December 2020.

V ANTICIPATED FUTURE DEVELOPMENT

The business policy and strategy for the period from 2020 to 2024 defined the basic business goals and main guidelines for the development of Halkbank a.d. Belgrade on the Serbian market.

By increasing share capital in 2018 in the amount of EUR 40 million, as well as budgeted increase in capital in 2021, the Bank achieved adn will have an excellent base for rapid growth and business development in the future.

As one of the main goals it is planned the expansion of the branch network to more than 50 branches, with a high potential for raising market share in Belgrade and other regions where the Bank does not currently have branches. The Bank will be oriented towards SME clients, with a strong focus on the retail segment. It si planned that main Balance Sheet and Income Statement positions grow faster than expected growth of the banking sector.

All listed activities will lead to increase in market share in the banking sector to 3%, based on the size of total assets, with sustainable growth, good liquidity and capital adequacy position.

VI RESEARCH AND DEVELOPMENT ACTIVITIES

The Bank carries out a regular financial market research, analyses customers' financial needs and investigates a degree of satisfaction of the users of financial services.

The Marketing Division constantly develops new products and services, and based on the information and conclusions that it obtains through market research activities and customers' needs, strives to develop and offer modified existing products, as well as completely new products and services.

VII INFORMATION ON PURCHASE OF OWN SHARES

The Bank did not acquire its own shares during 2020.

VIII EXISTENCE OF AFFILIATES

Halkbank a.d. Beograd has successfully expanded its business network and client base. Today the Bank offers services and products through a network of 28 branches, 7 sub-branches and 1 cash desk. As at 31st December 2020, the Bank was comprised of 9 branches in Belgrade, 3 branches in Čačak and branches located in the towns of Smederevo, Jagodina, Gornji Milanovac, Kraljevo, Užice, Kragujevac, Kruševac, Aranđelovac, Valjevo, Šabac, Niš, Leskovac, Novi Sad, Pančevo, Novi Pazar and Subotica and 7 sub-branches in Paraćin, Požega, Topola, Ivanjica, Vrnjačka Banja, Zrenjanin and Tutin.

IX RISK MANAGEMENT ADEQUACY

The Bank's targets in risk management are identification, measuring, mitigating and monitoring all types of risks and thus minimizing the Bank's exposure to such risks.

Credit Risk

The Bank measures and monitors the credit risk level through assessing the clients' solvency and controlling the loan portfolio through the calculation of loan loss reserves pursuant to the NBS regulations and impairment provisions pursuant to the IFRS rules.

Structure of gross risk-weighted assets in terms of classification categories

(in RSD thousand)

Classification category	Classified amount as of 31.12.19	% of the share in gross risk-weighted assets		Classified amount as at 31.12.20	% of the share in gross risk-weighted assets	
A	28,378,670	40.03%	70.67%	37,463,638	42.94%	71.36%
B	21,716,803	30.64%		24,798,135	28.42%	
V	13,790,931	19.46%	19.46%	15,098,591	17.31%	17.31%
G	2,946,405	4.16%	9.87%	6,680,554	7.66%	11.33%
D	4,049,661	5.71%		3,203,943	3.67%	
Ukupno	70,882,353	100.00%		87,244,861	100.00%	

The total assets that are classified are decreased as of December 31st 2020 compared to the end of 2019 by 23.08%.

Compared to the end of 2019, there was a certain improvement in structure of the Bank's portfolio, which was caused by increase of share of receivables classified in A and B category by 0.69 percentage points and decrease of share of receivables classified in category V by 2.15 percentage points. Share of receivables classified in G and D category increased by 1.46 p.p. The increase in exposures classified in category G was equaly influenced by the approval of placements classified in category G, and reclassification of clients due to deterioration of financial indicators. This increase occurred in the last quarter of 2020, which in the last quarter increased the share of placements classified in category G by 2.90 p.p., while the share of placements classified in category D decreased by 0.73 p.p.

Portfolio quality as of December 31st 2020 is in medium risk level, taking into account that less than 75% of asset is classified in categories A and B.

Collection and coverage of NPLs

Gross NPL based on the methodology of reporting to the National Bank of Serbia is shown in the following table:

(in RSD thousand)

	31.12.2019	30.12.2020	Change
NPL portfolio	2,144,650	1,622,254	-522,396

NPL as of December 31st 2020 was reduced by RSD 522,396 thousand compared to December 31st 2019, as a result of collection and sale of NPL receivables, as well as accounting write-off conducted for 100% impaired non-performing receivables. In the year of 2020, the Bank has collected RSD 605,068 thousand of NPL including write-off receivables, while accounting write-off of 100% impaired non-performing receivables in the same period amounted to RSD 40,330 thousand. Despite of performing accounting write-off of receivables and transfer to off-balance sheet items the Bank does not waive its rights for the collection of non-performing exposures and legal rights arising from such loans.

On the other hand, new exposures that became the NPL comparing the end of the year 2020 to the end of the year 2019 amounted RSD 188,363 thousand.

Share of gross NPLs in total gross Bank's loans

Ratio	31.12.2019	31.12.2020	Change
Share of NPLs in total loans	4.59%	2.87%	-1,72 p.p.

The credit Risk Management Policy, adopted in the December 29th of 2020, defines the limit for the level of non-performing loans (NPL ratios) as a ratio of gross NPLs and gross loans at the level of below 7.5%. As of December 31st of 2020, the Bank is below defined limit.

NPL coverage

Ratio	31.12.2019	31.12.2020
Ratio of NPL coverage with Impairment provisions for loans	49.32%	67.75%
Ratio of NPL coverage with NPL Impairment provisions	42.53%	54.63%

In Credit Risk Management Policy, adopted in the December 29th of 2020, the Bank defined the highest acceptable level of non-performing exposures (NPE) in relation to total balance sheet and off-balance sheet assets that are classified at a level that is less than 7.5%, as well as the NPL coverage ratio which is calculated as a ratio of NPL impairments and non-performing loans (NPL) at the level above than 35%. The share of non-performing exposures (NPE) as of December 31st 2020 in total classified assets amounts to 2.06% and is significantly below the defined limit. The share of NPE decreased compared to December 31st 2019 for 1.18 p.p. The NPL coverage ratio as of December 31st 2020 amounted to 54.63% and it is significantly above the defined limit.

Liquidity Risk

Liquidity Ratio and Narrow Liquidity Ratio prescribed by NBS
in the period from January 1st to December 31st of 2020

	Liquidity Ratio	Narrow Liquidity Ratio
Value as of December 31st	1.89	1.68
Average	1.92	1.71
Maximum	2.56	2.13
Minimum	1.56	1.42
Daily NBS limit	Min 0.8	Min 0.5
NBS limit on monthly level	Min 1	Min 0.7

Liquidity ratios of the Bank during the period from January 1st to December 31st 2020 were in accordance with the prescribed limits by the Decision on liquidity risk management by banks. In order to manage liquidity risk adequately, the Bank monitors internally established indicators of structural liquidity, besides the limits prescribed by the NBS.

Additional liquidity ratios in the period from 01.01-31.12.2020 – internally established

	Min.	Max.	Average	Limit
Liquid assets ratio	25.15%	30.38%	28.23%	Min 20.00%
Net loans to total deposits ratio	88.87%	100.00%	95.69%	Max 200.00%
Customers' deposits to total deposits ratio	84.43%	95.17%	88.24%	Min 75.00%
Deposit concentration ratio	21.78%	25.57%	23.64%	Max 30.00%

The Bank was within internally prescribed liquidity limits during the period from 01.01-31.12.2020.

Foreign exchange risk

FX Risk ratio in the period from 01.01. - 31.12.2020

Value as of December 31st	0.83%
Average	1.24%
Maximum	4.62%
Minimum	0.07%
Limit NBS	Max 20%

Foreign currency risk measured by FX Risk ratio was located in the low risk category during the last quarter of 2020.

Interest rate risk

The impact of changes in interest rates on the economic value of the Bank is monitored through total net weighted position of the banking book.

Total net weighted position of the Bank as of December 31th 2020

	(in RSD thousand)
Total net weighted position	-526,289
Equity	10,801,152
Total net weighted position and equity ratio	4.87%
Internally prescribed maximum	20%

Operational risk

In the period from January 1st to December 31st 2020 in terms of Operational risk, 162 events were reported in the Application of Operational risks. Eighty-one of all events of operational risk that were reported referred to cash shortage or surpluses and have been successfully resolved (45 events of cash shortage and 36 events of cash surpluses).

Number of events	162
Cash shortage	45
Cash surplus	36
External frauds	44
Other	37
Net loss in EUR	1,935

The Bank performs also risk assessment of outsourcing processes, based on the contract concluded with third parties, which have clearly defined rights and obligations of the parties. When introducing new products, processes and systems or new business activities, the Bank also performs assessment and identification of operational risk.

Exposure risk

The Bank's exposure to persons related to the Bank and its large exposures as of December 31st 2020

	(in RSD 000)	% of equity	Limit NBS
Persons related to the Bank	1,918,791	17.76%	-
Large exposures	5,500,167	50.92%	Max 400%

Concentration risk

The Bank monitors the concentration risk through a concentration ratio that was defined as the ratio of the 20 largest gross exposures at the level of the client or the group of related parties reduced by exposures covered with cash deposits and total regulatory capital.

The policy of credit risk management has determined that the concentration ratio should be maintained at a level below 300%.

	31.12.2019	31.12.2020	Prescribed value
Concentration ratio of 20 largest clients/groups of related parties	119.87%	154.54%	Max 300% of regulatory capital

As of December 31st 2020, the concentration ratio is within an internally defined limit.

Additionally, in order to manage the concentration risk, by the Procedure for the Credit Risk Management at the portfolio level, exposure limits (balance sheet assets and off-balance sheet items) have been established to specific geographical areas and to a specific sector / business activity, which provide diversification of the portfolio. As of December 31st in the mining and processing industry, the largest exposure of the Bank is 23.28% and in retail 20.51%, which is significantly below the internally defined limit of 60% and 25% respectively. The exposure of the Bank in relation to geographical areas is monitored through the participation of exposures to clients from individual geographical areas in the total classified gross balance sheet assets and off-balance items. The Bank's largest exposure is to clients belonging to the region of Central and Western Serbia and amounts to 35.21% and in the region of Belgrade 31.86%, which is significantly below the internally defined limit of 70% and 50% respectively.

Exposures of the Bank to retail loans with a contractual maturity of more than 2920 days may not exceed 30% of the Bank's capital determined in accordance with the decision regulating the bank's capital adequacy increased by the amount of all bank liabilities in dinars with a remaining maturity of more than 1825 days. The calculation of the capital amount referred to in the preceding paragraph shall not be subject to the regulatory adjustments and deductions from capital prescribed by the NBS decision regulating the bank's capital adequacy, except for deductions for the loss of the current year and earlier years and for unrealized losses. As of December 31st 2020, concentration risk ratio in retail segment calculated as previously described is 12.80%, which is significantly below the defined limit.

Investment Risk

The Bank did not have investments in non-financial sector as of December 31st 2020. Total investments in entities that are not in financial sector and in fixed assets and investment property were in the category of low risk (below 45% of capital).

Bank's investments into non-financial sector and fixed assets as of December 31st 2020

	Investments into non-financial sectors	Investments into fixed assets	Total
Amount (000 RSD)	0	1,501,029	1,501,029
Share in equity	0%	13.90%	13.90%
Limit NBS	Max 10%	-	Max 60%

Country risk - The risk relating to the country of origin of the person to whom the Bank is exposed

Bank establishes a system of country classification regarding the level of country risk and is committed to a system of risk classification by applying categories assigned by international rating agencies (Moody's, Standard&Poors and Fitch).

In the period from 01.01. do 31.12.2020, the Bank had exposures to clients, which operate in countries that are classified as low-risk and medium-risk countries, according to the Classification of official international credit rating agencies and the Bank Procedure.

Bank exposure towards countries, which are in the category of low risk, is without limits. The country from this category as of December 31st 2020 were Germany, Austria, USA and Czech Republic. Countries in the category of medium risk were Turkey, Romania, Bosnia, Macedonia and Croatia. Exposure to countries in the category of medium risk was significantly below adopted internal limits during observed period.

Review of countries of clients whose exposure is involved in country risk as of December 31st 2020

Country	Risk category	Limit	Share in Bank's capital
Germany	low	without limit	3.15%
Austria	low	without limit	0.40%
USA	low	without limit	0.73%
Czech Republic	low	without limit	0.14%
Turkey	medium	100% regulatory capital	25.43%
Romania	medium	20% regulatory capital	13.77%
Bosnia	medium	40% regulatory capital	3.27%
Macedonia	medium	100% regulatory capital	19.30%
Croatia	medium	10% regulatory capital	0.04%

Decision on temporary measures for banks to enable adequate credit risk management amid COVID-19 pandemic

In view of the declared risk of spreading infective disease caused by the COVID-19 virus (corona virus), on December 14th 2020, the National Bank of Serbia passed a Decision on temporary measures for banks to enable adequate credit risk management amid COVID-19 pandemic (hereinafter the NBS Decision), which prescribes measures and activities that banks are required to implement to adequately manage credit risk, which means timely identification of potential difficulties for debtors and taking appropriate steps .

By these Decisions, the NBS prescribes an obligation for banks to approve relief in repayment to debtors (natural persons, farmers, entrepreneurs and companies) who due to the conditions caused by the COVID-19 pandemic have or may have difficulties in the repayment of liabilities, at their request.In accordance with the Decision and guidelines of the NBS, the Bank offered its debtors the possibility to use the repayment reliefs by posting the offer on its website and sending an individual notice to its debtors who are in arrears longer than 30 days on November 30th 2020.

The Bank shall approve to a debtor (natural person, farmer, entrepreneur and company) a relief in repayment of liabilities if all of the following conditions have been met:

– a borrower is unable to settle its liabilities to the bank and/or may have difficulties in settling these liabilities due to the COVID-19 pandemic;

– as at February 29th 2020 and in the 12-month period before that date, a borrower did not default on its liabilities to such bank, and neither of the claims on such borrower was classified as a non-performing loan.

The repayment reliefs are approved at the request of the debtor, and applies to the obligations of the Bank's clients on the basis of loans and credit products (credit cards and allowed overdrafts on the current account), approved until the date of entry into force of the Decision (December 15th 2020). The request may be submitted for one or more loans / credit products in use, no later than April 30th 2021.

The reliefs provided by the Decision refer to the reprogramming and refinancing of loans and liabilities, with the approval of a grace period of 6 months and the appropriate prolongation of the repayment period, so that the debtor's monthly obligations do not exceed those from the repayment plan before approving the relief. During the grace period, the Bank calculates interest, whereby the debtor determines whether to pay interest during the grace period or after its expiration.

As the Decision entered into force on December 15th 2020, the Bank did not have in its portfolio loans approved in accordance with the provisions of this Decision as of December 31st 2020.

X CORPORATE GOVERNANCE RULES

Corporate governance rules of Halkbank a.d. Beograd are regulated in the following by-laws:

- Statute;
- Foundation Agreement;
- Corporate Governance Code;
- Business Code of Supervisory Board Members;
- Code of Conduct and Ethical Principles;
- Anti-corruption Policy and
- General Operating Conditions.

HALKBANK A.D. BEOGRAD

Head of Financial Management and Planning Division
Aleksandar Mijailović

Member of Executive Board
Dušica Erić

AKCIONARSKO DRUŠTVO HALKBANK BEOGRAD

President of Executive Board
Kenan Bozkurt