KOMERCIJALNA BANKA AD BEOGRAD

ANNUAL REPORT

OF A PUBLIC COMPANY

FOR THE YEAR 2019

Belgrade, April 2020

C O N T E N T S

To be filled out by the bank		
Registration number: 0 7 7 3 7 0 6 8	Activity code: 6 4 1 9	Tax identification number: 1 0 0 0 0 1 9 3 1
Name of the Bank: KOMERCIJALNA BANKA AD BEOGRAD		
Bank's registered office: Beograd, 14, Svetog Save Street		

BALANCE SHEET

as of 31.12.2019.

(in RSD thousand)

Group of accounts, account	ITEM	ADP code				Remark number	Current year amount	Previous year amount	
								Closing balance	Opening balance
1	2	3				4	5	6	7
00 without 002, 010, 025, 05 (exept 050, 052 and part of 059), 060, 07, 085, 196, 296 and parts of 009, 019, 029, 069, 089, 199 and 299	ASSETS Cash and assets held with central bank	0	0	0	1	3к; 21	67.558.219	63.595.710	-
	Pledged financial assets	0	0	0	2		-	-	-
120, 125	Receivables from derivatives	0	0	0	3	3j; 22	-	4.070	-
120, 122, 124, 220, 222, 224, 129, 229	Securities	0	0	0	4	3j; 23	138.469.551	133.177.598	-
002, 01 (except 010 and part of 019), parts of 020, 028, 050, 052, 06 (except 060 and part of 069), parts of 080, 088, 10, 11, 16, 20, 21, 26, 190, 191, 290, 291, parts of 493 and 593 as deductible items (SSKR - SS code 1 (except code 17), code 70 and parts of codes 71 and 74) and parts of 009, 029, 059, 089, 199 and 299	Loans and receivables due from banks and other financial institutions	0	0	0	5	3j; 24	24.733.958	18.477.729	-
01 (except 010 and part of 019), parts of 020, 028, 06 (except 060 and part of 069), 080, 088, 10, 11, 16, 20, 21, 26, 190, 191, 290, 291, parts of 493 and 593 as deductible items (SSKR - SS code 17 and all other codes except the code 70 and parts of codes 71 and 74) and parts of 029, 069, 089, 199 and 299	Loans and receivables due from customers	0	0	0	6	3j; 25	180.852.563	167.545.674	-
123, 223	Changes in fair value of items that are the subject of hedging	0	0	0	7		-	-	-
126, 226	Receivables from derivatives held for hedging	0	0	0	8		-	-	-
130, 131, 230, 231, part of 139 and 239	Investments in associates and joint ventures	0	0	0	9		-	-	-
132, 232, part of 139 and 239	Investments in subsidiaries	0	0	1	0	3j; 26	3.433.697	2.611.859	-
33	Intangible assets	0	0	1	1	3lj; 27	665.735	557.051	-
34	Property, plant and equipment	0	0	1	2	3l; 3h; 28	6.437.937	5.619.078	-
35	Investment property	0	0	1	3	3m; 29	1.857.927	1.896.347	-
034 and part of 039	Current tax assets	0	0	1	4		-	-	-
37	Deferred tax assets	0	0	1	5	20.4.1	1.074.197	840.967	-
36	Non-current assets held for sale and discontinued operations	0	0	1	6	30	196.300	227.630	-
021, 022, 024, 027, 03 (except 034 and part of 039), 081, 082, 084, 087, 09, 134,192, 194, 195, 234, 292, 294, 295, 30, 38 and parts of 029, 089, 139, 199, 239 and 299	Other assets	0	0	1	7	3j; 31	7.100.359	6.612.267	-
	TOTAL ASSETS (from 0001 to 0017)	0	0	1	8		**432.380.443**	**401.165.980**	-

Group of accounts, account	ITEM	ADP code				Remark number	Current year	Previous year	
								Closing balance	Opening balance
1	2	3				4	5	6	7
411, 511	**LIABILITIES** Liabilities from derivatives	0	4	0	1		-	-	-
parts of 40, 420, 421, 490, 50, 520, 521, 590, and parts of 193 and 293 as deductible items (SSKR - SS code 1 (without code 17) and code 70 and parts of codes 71 and 74)	Deposits and other liabilities due to banks, other financial institutions and the central bank	0	4	0	2	3o; 32	5.021.756	5.662.748	-
parts of 40, 420, 421, 490, 50, 520, 521, 590, and parts of 193 and 293 as deductible items (SSKR - SS code 17 and all other codes, except for code 70 and parts of codes 71 and 74)	Deposits and other liabilities due to other customers	0	4	0	3	3o; 33	335.317.154	317.229.084	-
417, 517	Liabilities from derivatives held for hedging	0	4	0	4		-	-	-
418, 518	Changes in fair value of items that are the subject of hedging	0	4	0	5		-	-	-
410, 412, 415, 423, 496, 510, 512, 515, 523, 596 and 127 and 227 as deductible items	Liabilities from securities	0	4	0	6		-	-	-
424, 425, 482, 497, 524, 525, 582, 597 and parts of 193 and 293 as deductible items	Subordinated liabilities	0	4	0	7		-	-	-
450, 451, 452, 453, 454	Provisions	0	4	0	8	3p; 34	2.328.130	1.653.663	-
46	Liabilities from non-current assets held for sale and discontinued operations	0	4	0	9		-	-	-
455	Current tax liabilities	0	4	1	0		-	-	-
47	Deferred tax liabilities	0	4	1	1		-	-	-
426, 427, 43, 44, 456, 457, 491, 492, 494, 495, 526, 527, 53, 591, 592, 594 and 595	Other liabilities	0	4	1	2	3h; 35	13.861.230	9.059.972	-
	TOTAL LIABILITIES (from 0401 to 0412)	0	4	1	3		**356.528.270**	**333.605.467**	-
80	EQUITY Equity	0	4	1	4	3t; 36	40.034.550	40.034.550	-
128	Own shares	0	4	1	5		-	-	-
83	Profit	0	4	1	6	36.1	10.425.898	9.047.691	-
84	Loss	0	4	1	7		-	-	-
81, 82 - credit balance	Reserves	0	4	1	8	3t; 36.1	25.391.725	18.478.272	-
81, 82 - debit balance	Unrealized losses	0	4	1	9		-	-	-
	Non-controlling interest	0	4	2	0		-	-	-
	TOTAL EQUITY (0414 - 0415 + 0416 - 0417 + 0418 - 0419 + 0420) ≥ 0	0	4	2	1		**75.852.173**	**67.560.513**	-
	TOTAL DEFICIENCY OF CAPITAL (0414 - 0415 + 0416 - 0417 + 0418 - 0419 + 0420) < 0	0	4	2	2		-	-	-
	TOTAL LIABILITIES (0413 + 0421 - 0422)	0	4	2	3		**432.380.443**	**401.165.980**	-

In Belgrade,

on 16.03.2020.

Legal representative of the bank

To be filled out by the bank		
Registration number: 0 7 7 3 7 0 6 8	Activity code: 6 4 1 9	Tax identification number: 1 0 0 0 0 1 9 3 1
Name of the Bank: KOMERCIJALNA BANKA AD BEOGRAD		
Bank's registered seat: Beograd, 14, Svetog Save Street		

INCOME STATEMENT

in period from January 1st to December 31st, 2019.

(in RSD thousand)

Group of accounts, account	ITEM	ADP code				Remark number	Current year	Previous year
1	2	3				4	5	6
70	Interest income	1	0	0	1	3c; 8	13.630.674	13.744.908
60	Interest expenses	1	0	0	2	3c; 3h; 8	1.025.290	910.270
	Net interest income (1001-1002)	1	0	0	3		**12.605.384**	**12.834.638**
	Net interest expenses (1002-1001)	1	0	0	4		-	-
71	Fee and commission income	1	0	0	5	3d; 9	7.124.829	7.207.872
61	Fee and commission expenses	1	0	0	6	3d; 9	1.795.833	1.997.723
	Net fee and commission income (1005 - 1006)	1	0	0	7		**5.328.996**	**5.210.149**
	Net fee and commission expenses (1006 - 1005)	1	0	0	8		-	-
774-674+776-676+777-677	Net gains from changes in fair value of financial instruments	1	0	0	9	3e; 10	71.614	44.076
674-774+676-776+677-777	Net losses from changes in fair value of financial instruments	1	0	1	0		-	-
727-627+728-628	Net gains on reclassification of financial instruments	1	0	1	1		-	-
627-727+628-728	Net losses on reclassification of financial instruments	1	0	1	2		-	-
720-620+721-621	Net gains based on derecognition of financial instruments valued at fair value	1	0	1	3	3f; 11	353.490	230.194
620-720+621-721	Net losses based on derecognition of financial instruments valued at fair value	1	0	1	4		-	-
775-675+770-670	Net gains based on hedging	1	0	1	5		-	-
675-775+670-770	Net losses based on hedging	1	0	1	6		-	-
78-68	Net income from foreign exchange differences and the effects of contracted foreign currency clause	1	0	1	7	3b; 12	38.228	-
68-78	Net expenses from foreign exchange differences and the effects of contracted foreign currency clause	1	0	1	8	3b; 12	-	7.458
750-650+751-651+756-656+760-660+729-629	Net income from reversal of impairment of financial assets that are not valued at fair value through profit and loss	1	0	1	9	3j; 13	2.425.931	9.493
650-750+651-751+656-756+660-760+629-729	Net impairment losses of financial assets that are not valued at fair value through profit and loss	1	0	2	0		-	-
726-626	Net gains based on derecognition of financial instruments valued at amortised cost	1	0	2	1	14	-	526.547
626-726	Net losses based on derecognition of financial instruments valued at amortised cost	1	0	2	2	14	579.933	-
723-623	Net gains based on derecognition of investments in associates and joint ventures	1	0	2	3		-	-
623-723	Net losses based on derecognition of investments in associates and joint ventures	1	0	2	4		-	-

Group of accounts, account	ITEM	ADP code				Remark number	Current year	Previous year
1	2	3				4	5	6
74, 766	Other operating income	1	0	2	5	3g; 15	151.321	155.969
	NET OPERATING PROFIT (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) ≥ 0	1	0	2	6		**20.395.031**	**19.003.608**
	NET OPERATING LOSS (1003 - 1004 + 1007 - 1008 + 1009 - 1010 + 1011 - 1012 + 1013 - 1014 + 1015 - 1016 + 1017 - 1018 + 1019 - 1020 + 1021 - 1022 + 1023 - 1024 + 1025) < 0	1	0	2	7		-	-
63, 655-755	Costs of salaries, allowances and other personnel expenses	1	0	2	8	3r; 16	4.917.532	4.442.799
642	Depreciation costs	1	0	2	9	3l; 3lj; 17	1.005.837	551.988
752, 753, 761, 762, 767, 768, 773	Other income	1	0	3	0	18	720.795	280.229
64 (exept 642), 652, 653, 661, 662, 667, 668, 673	Other expenses	1	0	3	1	19	6.923.772	6.167.977
	PROFIT FROM CONTINUING OPERATIONS BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) ≥ 0	1	0	3	2		**8.268.685**	**8.121.073**
	LOSS FROM CONTINUING OPERATIONS BEFORE TAX (1026 - 1027 - 1028 - 1029 + 1030 - 1031) < 0	1	0	3	3		-	-
850	Tax on profit	1	0	3	4		-	-
861	Deffered tax income for the period	1	0	3	5	3i; 20.1	1.482.667	700.754
860	Deffered tax expense for the period	1	0	3	6	3i; 20.1	795.593	676.645
	PROFIT FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) ≥ 0	1	0	3	7		**8.955.759**	**8.145.182**
	LOSS FROM CONTINUING OPERATIONS AFTER TAX (1029 - 1030 - 1031 + 1032 - 1033) < 0	1	0	3	8		-	-
769-669	NET PROFIT OF DISCONTINUED OPERATIONS	1	0	3	9		-	-
669-769	NET LOSS OF DISCONTINUED OPERATIONS	1	0	4	0		-	-
	NET PROFIT (1034 - 1035 + 1036 - 1037) ≥ 0	1	0	4	1		**8.955.759**	**8.145.182**
	NET LOSS (1034 - 1035 + 1036 - 1037) < 0	1	0	4	2		-	-
	Profit attributable to parent legal entity	1	0	4	3		-	-
	Profit attributable to non-controlling interest stakeholders	1	0	4	4		-	-
	Loss attributable to parent legal entity	1	0	4	5		-	-
	Loss attributable to non-controlling interest stakeholders	1	0	4	6		-	-
	Earnings per share							
	Basic earnings per share (in RSD, rounded)	1	0	4	7	3u; 36.2	532	484
	Diluted earnings per share (in RSD, rounded)	1	0	4	8	3u; 36.2	532	484

In Belgrade,
on 16.03.2020.

Legal representative of the bank

To be filled out by the Bank		
Registration number: 0 7 7 3 7 0 6 8	Activity code: 6 4 1 9	TIN: 1 0 0 0 0 1 9 3 1
Name of the Bank: KOMERCIJALNA BANKA AD BEOGRAD		
Bank's registered seat: Beograd, 14, Svetog Save Street		

STATEMENT OF OTHER COMPREHENSIVE RESULT

in period from 01.01.2019. to 31.12.2019.

(in RSD thousand)

Group of accounts, account	ITEM	ADP Code				Remark number	Current year	Preceding year
1	2	3				4	5	6
	PROFIT FOR THE PERIOD	2	0	0	1		8.955.759	8.145.182
	LOSS FOR THE PERIOD	2	0	0	2		-	-
820	Other result for the period **Components of other result that cannot be reclassified to profit or loss:** Increase of revaluation reserves against intangible assets and fixed assets	2	0	0	3	20.5	111.214	-
820	Decrease of revaluation reserves against intangible assets and fixed assets	2	0	0	4		-	-
822	Actuarial gains	2	0	0	5	20.5; 34	-	53.387
822	Actuarial losses	2	0	0	6	20.5; 34	12.609	-
821	Positive effects of the changes in the value of equity instruments that are valued at fair value through the other result	2	0	0	7	20.5	651.534	230.026
821	Negative effects of the changes in the value of equity instruments that are valued at fair value through the other result	2	0	0	8		-	-
825	Unrealized gains arising from risk-protection equity instruments that are valued at fair value through other result	2	0	0	9		-	-
825	Unrealized losses arising from risk-protection equity instruments that are valued at fair value through other result	2	0	1	0		-	-
825	Unrealized gains on the basis of financial liabilities of a bank valued at fair value through profit and loss resulting from a change in the bank's creditworthiness	2	0	1	1		-	-
825	Unrealized losses on the basis of financial liabilities of a bank valued at fair value through profit and loss resulting from a change in the bank's creditworthiness	2	0	1	2		-	-
825	Positive effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss	2	0	1	3		-	-
825	Negative effects of changes in values arising from other components of other result that cannot be reclassified to profit or loss	2	0	1	4		-	-
823	**Components of other result that can be reclassified to profit or loss:** Positive effects of the changes in the value of debt instruments that are valued at fair value through other result	2	0	1	5	20.5	2.297.679	-
823	Negative effects of the changes in the value of debt instruments that are valued at fair value through other	2	0	1	6	20.5	-	203.597

Group of accounts, account	ITEM	ADP Code				Remark number	Current year	Preceding year
1	2	3				4	5	6
824	Gains from hedging instruments in a cash flow hedge	2	0	1	7		-	-
824	Losses from hedging instruments in a cash flow hedge	2	0	1	8		-	-
826	Unrealized gains arising from the calculation of transactions and balances in foreign currencies and the translation of result and financial position of foreign	2	0	1	9		-	-
826	Unrealized losses arising from the calculation of transactions and balances in foreign currencies and the translation of result and financial position of foreign	2	0	2	0		-	-
826	Unrealized gains based on instruments designed to protect against the risks of net investment in foreign	2	0	2	1		-	-
826	Unrealized losses based on instruments designed to protect against the risks of net investment in foreign	2	0	2	2		-	-
826	Unrealized gains on other instruments designed to protect against risks	2	0	2	3		-	-
826	Unrealized losses on other instruments designed to protect against risks	2	0	2	4		-	-
826	Positive effects of changes in values arising from other components of other result that can be reclassified to profit or loss	2	0	2	5		-	-
826	Negative effects of changes in values arising from other components of other result that can be reclassified to profit or loss	2	0	2	6		-	-
82	Tax-related profit that pertains to other result for the period	2	0	2	7	20.5	1.891	34.066
82	Tax-related loss that pertains to other result for the period	2	0	2	8	20.5	455.735	42.512
	Total positive other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 -2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2019 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 + 2027 -	2	0	2	9		**2.593.974**	**71.370**
	Total negative other result for the period (2003 - 2004 + 2005 - 2006 + 2007 - 2008 + 2009 -2010 + 2011 - 2012 + 2013 - 2014 + 2015 - 2016 + 2017 - 2018 + 2019 - 2020 + 2021 - 2022 + 2023 - 2024 + 2025 - 2026 + 2027 -	2	0	3	0		-	-
	TOTAL POSITIVE RESULT FOR THE PERIOD (2001 - 2002 + 2029 - 2030) ≥ 0	2	0	3	1		**11.549.733**	**8.216.552**
	TOTAL NEGATIVE RESULT FOR THE PERIOD (2001 - 2002 + 2029 - 2030) < 0	2	0	3	2		-	-
	Total positive result for the period that pertains to parent entity	2	0	3	3		-	-
	Total positive result for the period that pertains to owners without control rights	2	0	3	4		-	-
	Total negative result for the period that pertains to parent entity	2	0	3	5		-	-
	Total negative result for the period that pertains to owners without control rights	2	0	3	6		-	-

In Belgrade,

on 16.03.2020.

Legal representative of the Bank

To be filled out by the bank		
Registration number : 0 7 7 3 7 0 6 8	**Activity code: 6 4 1 9**	**Tax identification number: 1 0 0 0 0 1 9 3 1**
Name of the Bank: KOMERCIJALNA BANKA AD BEOGRAD		
Bank's registered seat : Beograd, 14, Svetog Save Street		

CASH FLOW STATEMENT
in period from 01.01. to 31.12.2019.

(in RSD thousand)

ITEM	ADP code				Current year	Previous year
1	2				3	4
A. CASH FLOWS FROM OPERATING ACTIVITIES						
I. Cash inflows from operating activities (from 3002 to 3005)	3	0	0	1	**22.680.043**	**22.365.620**
1. Inflow from interest	3	0	0	2	14.266.668	13.996.462
2. Inflow from fees	3	0	0	3	7.176.890	7.214.624
3. Inflow from other operating activities	3	0	0	4	1.225.350	1.146.009
4. Inflow from dividends and profit sharing	3	0	0	5	11.135	8.525
II. Cash outflows from operating activities (from 3007 to 3011)	3	0	0	6	**12.820.302**	**12.986.403**
5. Outflow from interest	3	0	0	7	919.958	947.520
6. Outflow from fees	3	0	0	8	1.729.276	1.967.989
7. Outflow from gross salaries, allowances and other personnel expenses	3	0	0	9	4.359.913	4.343.591
8. Outflow from taxes, contributions and other levies charged against income	3	0	1	0	945.578	890.900
9. Outflow from other operating expenses	3	0	1	1	4.865.577	4.836.403
III. Net cash inflow from operating activities prior to increase or decrease in financial assets and financial liabilities (3001 - 3006)	3	0	1	2	**9.859.741**	**9.379.217**
IV. Net cash outflow from operating activities prior to increase or decrease in financial assets and financial liabilities (3006 - 3001)	3	0	1	3	-	-
V. Decrease in financial assets and increase in financial liabilities (from 3015 to 3020)	3	0	1	4	**19.256.099**	**30.043.591**
10. Decrease in loans and other receivables from banks and other financial institutions, central bank and customers	3	0	1	5	-	-
11. Decrease in receivables from securities and other financial assets that are not intended for investment	3	0	1	6	-	699.138
12. Decrease in receivables from derivatives held for hedging and change in fair value of items that are the subject to protection against risk	3	0	1	7	-	-
13. Increase in deposits and other financial liabilities to banks, other financial institutions, central banks and customers	3	0	1	8	19.256.099	29.344.453
14. Increase of other financial liabilities	3	0	1	9	-	-
15. Increase in liabilities from derivatives intended for protection against risk and change in fair value of items that are subject of hedging	3	0	2	0	-	-
VI. Increase in financial assets and decrease in financial liabilities (from 3022 to 3027)	3	0	2	1	**29.251.299**	**4.396.653**
16. Increase in loans and other receivables from banks and other financial institutions, central bank and customers	3	0	2	2	23.950.330	4.396.653
17. Increase in receivables from securities and other financial assets that are not intended for investment	3	0	2	3	5.300.969	-
18. Increase in receivables from derivatives intended for protection against risk and change in fair value of items that are the subject of hedging	3	0	2	4	-	-
19. Decrease in deposits and other financial liabilities to banks, other financial institutions, central bank and customers	3	0	2	5	-	-
20. Decrease of other financial liabilities	3	0	2	6	-	-
21. Decrease in liabilities from derivatives intended for protection against risk and change in fair value of items that are the subject of hedging	3	0	2	7	-	-
VII. Net cash inflow from operating activities before profit tax (3012 - 3013 + 3014 - 3021)	3	0	2	8	-	**35.026.155**
VIII. Net cash outflow from operating activities before profit tax (3013 - 3012 + 3021 - 3014)	3	0	2	9	**135.459**	-
22. Profit tax paid	3	0	3	0	-	-
23. Dividends paid	3	0	3	1	-	-
IX. Net cash inflow from operating activities (3028 - 3029 - 3030 - 3031)	3	0	3	2	-	**35.026.155**
X. Net cash outflow from operating activities (3029 - 3028 + 3030 + 3031)	3	0	3	3	**135.459**	-

ITEM	ADP code				Current year	Previous year
1	2				3	4
B. CASH FLOWS FROM INVESTMENT ACTIVITIES						
I. Cash inflow from investment activities (from 3035 to 3039)	3	0	3	4	**50.001.000**	**42.094.231**
1. Inflow from long-term investment in securities	3	0	3	5	50.001.000	42.094.231
2. Inflow from sale of investments in subsidiaries and associates and joint ventures	3	0	3	6	-	-
3. Inflow from sale of intangible assets, property, plant and equipment	3	0	3	7	-	-
4. Inflow from sale of investment property	3	0	3	8	-	-
5. Other inflow from investment activities	3	0	3	9	-	-
II. Cash outflow from investment activities (from 3041 to 3045)	3	0	4	0	**47.854.250**	**58.424.017**
6. Outflow from investment in long-term securities	3	0	4	1	47.352.299	58.013.589
7. Outflow for purchase of investments in subsidiaries and associates and joint ventures	3	0	4	2	-	-
8. Outflow for purchase of intangible assets, property, plant and equipment	3	0	4	3	501.951	407.120
9. Outflow for purchase of investment property	3	0	4	4	-	-
10. Other outflow from investment activities	3	0	4	5	-	3.308
III. Net cash inflow from investment activities (3034 - 3040)	3	0	4	6	**2.146.750**	-
IV. Net cash outflow from investment activities (3040 - 3034)	3	0	4	7	-	**16.329.786**
V. CASH FLOWS FROM FINANCING ACTIVITIES						
I. Cash inflow from financing activities (from 3049 to 3054)	3	0	4	8	**95.834.974**	**84.792.124**
1. Inflow from capital increase	3	0	4	9	-	-
2. Inflow from subordinated liabilities	3	0	5	0	-	-
3. Inflow from borrowings	3	0	5	1	95.834.974	84.792.124
4. Inflow from issued securities	3	0	5	2	-	-
5. Inflow from sale of own shares	3	0	5	3	-	-
6. Other inflow from financing activities	3	0	5	4	-	-
II. Cash outflow from financing activities (from 3056 to 3060)	3	0	5	5	**97.476.818**	**89.475.977**
7. Outflow from purchase of own shares	3	0	5	6	-	-
8. Outflow from subordinated liabilities	3	0	5	7	97.090.930	89.475.977
9. Outflow from borrowings	3	0	5	8	-	-
10. Outflow from issued securities	3	0	5	9	385.888	-
11. Other outflow from financing activities	3	0	6	0	-	-
III. Net cash inflow from financing activities (3048 - 3055)	3	0	6	1	-	-
IV. Net cash outflow from financing activities (3055 - 3048)	3	0	6	2	**1.641.844**	**4.683.853**
Г. TOTAL CASH INFLOW (3001 + 3014 + 3034 + 3048)	3	0	6	3	187.772.116	179.295.566
Д. TOTAL CASH OUTFLOW (3006 + 3021 + 3030 + 3031 + 3040 + 3055)	3	0	6	4	187.402.669	165.283.050
Ђ. NET INCREASE IN CASH (3063 - 3064)	3	0	6	5	**369.447**	**14.012.516**
Е. NET DECREASE IN CASH (3064 - 3063)	3	0	6	6	-	-
Ж. CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	3	0	6	7	**40.375.748**	**26.314.898**
З. FOREIGN EXCHANGE GAINS	3	0	6	8	570.989	48.334
И. FOREIGN EXCHANGE LOSSES	3	0	6	9	449.533	-
Ј. CASH AND CASH EQUIVALENTS, AT THE END OF PERIOD (3065 - 3066 + 3067+ 3068 - 3069)	3	0	7	0	**40.866.651**	**40.375.748**

In Belgrade,
on 16.03.2020.

Legal representative of the bank

To be filled out by Bank		
Registration number: 0 7 7 3 7 0 6 8	Activity code: 6 4 1 9	TIN: 1 0 0 0 0 1 9 3 1
Name of the Bank: KOMERCIJALNA BANKA AD BEOGRAD		
Bank's registered seat: Beograd, 14, Svetog Save Street		

STATEMENT OF CHANGES IN EQUITY

Over the period from 01.01. to 31.12.2019.

(in RSD thousand)

No.	ITEM	ADP code	Share and other capital (accounts 800,801,803,809)	ADP code	Own shares (account 128)	ADP code	Issue premium (account 802)	ADP code	Reserves from profit and other reserves (account group 91)	ADP code	Revaluation reserves (account group 82 credit balance)	ADP code	Revaluation reserves (account group 82 debit balance)	ADP code	Profit (account group 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Minority interest	ADP code	Total (column 2-3+4+5+6-7+8-9+10)≥0	ADP code	Total (column 2-3+4+5+6-7+8-9+10)<0
	1		2		3		4		5		6		7		8		9		10		11		12
1.	**Opening balance as of January 1st of preceding year**	4001	17.191.466	4033		4065	22.843.084	4097	11.061.535	4128	4.030.259	4147	3.538	4165	8.137.249	4203		4241		4285	63.260.055	4291	-
2.	Effects of first aplication of new IFRS – increase	4002		4034		4066		4098		4130	176.617	4148		4166		4204		4242		x	x	x	x
3.	Effects of first aplication of new IFRS – decrease	4003		4035		4067		4099		4131		4149	3.538	4167	1.161.693	4205		4243		x	x	x	x
4.	Correction of material misstatement and changes to accounting policies in preceding year – increase	4004		4036		4068		4100		4132		4150		4168		4206		4244		x	x	x	x
5.	Correction of material misstatement and changes to accounting policies in preceding year – decrease	4005		4037		4069		4101		4133		4151		4169		4207		4245		x	x	x	x
6.	**Adjusted opening balance as of January 1st of preceding year (number 1+2-3+4-5)**	4006	17.191.466	4038	0	4070	22.843.084	4102	11.061.535	4134	4.206.876	4152	0	4170	6.975.556	4208	0	4246		4286	62.278.517	4292	-
7.	Total positive other comprehensive result for the period	x	x	x	x	x	x	x	x	4135	47.861	4153		x	x	x	x	4247		x	x	x	x
8.	Total negative other comprehensive result for the period	x	x	x	x	x	x	x	x	4136		4154		x	x	x	x	4248		x	x	x	x
9.	Profit for the year	x	x	x	x	x	x	x	x	x	x	x	x	4171	8.145.182	x	x	4249		x	x	x	x
10.	Loss for the year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4209		4250		x	x	x	x
11.	Transfer from reserves to result due to release of reserves – increase	x	x	x	x	x	x	x	x	x	x	x	x	4172		4210		4251		x	x	x	x
12.	Transfer from reserves to result due to release of reserves - decrease	x	x	x	x	x	x	x	x	x	x	x	x	4173		4211		4252		x	x	x	x
13.	Transactions with owners, recorded directly in equity – increase	4007		4039		4071		4103		x	x	x	x	4174		4212		4253		x	x	x	x
14.	Transactions with owners, recorded directly in equity – decrease	4008		4040		4072		4104		x	x	x	x	4175		4213		4254		x	x	x	x
15.	Profit distribution – increase	4009		4041		4073		4105	3.162.000	x	x	x	x	4176		4214		4255		x	x	x	x
16.	Profit distribution, and/or loss coverage – decrease	4010		4042		4074		4106		x	x	x	x	4177	3.162.000	4215		4256		x	x	x	x
17.	Dividend payments	4011		4043		4075		4107		x	x	x	x	4178	2.535.916	4216		4257		x	x	x	x
18.	Other – increase	4012		4044		4076		4108		x	x	x	x	4179	23.509	4217		4258		x	x	x	x
19.	Other – decrease	4013		4045		4077		4109		x	x	x	x	4180	398.640	4218		4259		x	x	x	x
20.	**Total transactions with owners (number 13-14+15-16-17+18-19) ≥ 0**	4014	0	4046	0	4078	0	4110	3.162.000	x	x	x	x	4181	0	4219	0	4260		x	x	x	x
21.	**Total transactions with owners (number 13-14+15-16-17+18-19) < 0**	4015	0	4047	0	4079	0	4111	0	x	x	x	x	4182	6.073.047	4220	0	4261		x	x	x	x
22.	**Balance as of December 31st of preceding year (number 6+7-8+9-10+11-12+20-21 for columns from 2,3,4,5,6,8,9), for column 7 (number 6+8-7)**	4016	17.191.466	4048	0	4080	22.843.084	4112	14.223.535	4137	4.254.737	4155	0	4183	9.047.691	4221	0	4262		4287	67.560.513	4293	-

No.	ITEM	ADP code	Share and other capital (accounts 800,801,803,809)	ADP code	Own shares (account 126)	ADP code	Issue premium (account 802)	ADP code	Reserves from profit and other reserves (account group 81)	ADP code	Revaluation reserves (account group 82 credit balance)	ADP code	Revaluation reserves (account group 82 debit balance)	ADP code	Profit (account group 83)	ADP code	Loss (accounts 840,841,842)	ADP code	Minorty interest	ADP code	Total (column 2-3+4+5+6-7+8-9+10)≥0	ADP code	Total (column 2-3+4+5+6-7+8-9)+10<0
	1		2		3		4		5		6		7		8		9		10		11		12
23.	**Opening balance as of January 1st of the current year**	4017	17.191.466	4049		4081	22.843.084	4113	14.223.535	4135	4.254.737	4156	0	4184	9.047.691	4222	0	4263		4288	67.560.513	4294	-
24.	Effects of first aplication of new IFRS – increase	4018		4050		4082		4114		4139		4157		4185		4223		4264		x	x	x	x
25.	Effects of first aplication of new IFRS – decrease	4019		4051		4083		4115		4140		4158		4186		4224		4265		x	x	x	x
26.	Correction of material misstatement and changes to accounting policies in preceding year – increase	4020		4052		4084		4116		4141		4159		4187		4225		4266		x	x	x	x
27.	Correction of material misstatement and changes to accounting policies in preceding year – decrease	4021		4053		4085		4117		4142		4160		4188		4226		4267		x	x	x	x
28.	**Adjusted opening balance as of January 1st of the current year (number 21+22-23)**	4022	17.191.466	4054	0	4086	22.843.084	4118	14.223.535	4143	4.254.737	4161	0	4189	9.047.691	4227	0	4268		4289	67.560.513	4295	-
29.	Total positive other comprehensive result for the period	x	x	x	x	x	x	x	x	4144	2.571.781	4162		x	x	x	x	4269		x	x	x	x
30.	Total negative other comprehensive result for the period	x	x	x	x	x	x	x	x	4145		4163		x	x	x	x	4270		x	x	x	x
31.	Profit for the year	x	x	x	x	x	x	x	x	x	x	x	x	4190	8.955.759	x	x	4271		x	x	x	x
32.	Loss for the year	x	x	x	x	x	x	x	x	x	x	x	x	x	x	4228		4272		x	x	x	x
33.	Transfer from reserves to result due to release of reserves – increase	x	x	x	x	x	x	x	x	x	x	x	x	4191		4229		4273		x	x	x	x
34.	Transfer from reserves to result due to release of reserves – decrease	x	x	x	x	x	x	x	x	x	x	x	x	4192		4230		4274		x	x	x	x
35.	Transactions with owners, recorded directly in equity – increase	4023		4055		4087		4119		x	x	x	x	4193		4231		4275		x	x	x	x
36.	Transactions with owners, recorded directly in equity – decrease	4024		4056		4088		4120		x	x	x	x	4194		4232		4276		x	x	x	x
37.	Profit distribution – increase	4025		4057		4089		4121	4.341.672	x	x	x	x	4195		4233		4277		x	x	x	x
38.	Profit distribution, and/or loss coverage – decrease	4026		4058		4090		4122		x	x	x	x	4196	4.341.672	4234		4278		x	x	x	x
39.	Dividend payments	4027		4059		4091		4123		x	x	x	x	4197	3.258.073	4235		4279		x	x	x	x
40.	Other – increase	4028		4060		4092		4124		x	x	x	x	4198	22.193	4236		4280		x	x	x	x
41.	Other – decrease	4029		4061		4093		4125		x	x	x	x	4199		4237		4281		x	x	x	x
42.	**Total transactions with owners (number 31-32+33-34-35+36- 37) ≥ 0**	4030	0	4062	0	4094	0	4126	4.341.672	x	x	x	x	4200	0	4238	0	4282		x	x	x	x
43.	**Total transactions with owners (number 31-32+33-34-35+36- 37) < 0**	4031	0	4063	0	4095	0	4127	0	x	x	x	x	4201	7.577.552	4239	0	4283		x	x	x	x
44.	**Balance as of December 31st of the current year (number 24+25-26+27+28+29-30+38-39 for columns from 2,3,4,5,6,8,9), for the column 7 (number 24+26-25)**	4032	17.191.466	4064	0	4096	22.843.084	4128	18.565.207	4146	6.826.518	4164	0	4202	10.425.898	4240	0	4284		4290	75.852.173	4296	-

In Belgrade,

on 16.03.2020.

Legal representative of the Bank

KOMERCIJALNA BANKA AD BEOGRAD

NOTES

TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2019

Belgrade, March 2020

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

1. BANK'S ESTABLISHMENT AND ACTIVITY

Komercijalna Banka a.d., Beograd (hereinafter the "Bank"), was established as at December 1, 1970 and transformed into a shareholding company as of May 6, 1992. The Bank was registered with the Commercial Court in Belgrade on July 10, 1991 and later registered with the Serbian Business Registers Agency on April, 14 2006. The Bank was issued its operating license by the National Bank of Yugoslavia on July 3, 1991.

The principal holders of voting shares in the Bank are as follows:

Republic of Serbia	83.23%

The Bank is registered for performing crediting, depositary and guarantee operations, as well as for payment transfer operations within the country and abroad.

As of December 31, 2019, the Bank was comprised of the Head Office located in Belgrade in Svetog Save Street no. 14, 6 business centers, 3 sectors that work with small and medium enterprises, 1 branch and 203 sub-branches in the territory of the Republic of Serbia (December 31, 2018: 6 business centers, 3 business and corporate centers, 1 branch and 201 sub-branches in the territory of the Republic of Serbia).

As of December 31, 2019, the Bank had 2,744 employees (December 31, 2018: 2,766 employees). The Bank's tax identification number is 100001931.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of Financial Statements

The Bank's unconsolidated financial statements (the "financial statements") for 2019 have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

The accompanying financial statements represent the Bank's unconsolidated (separate) financial statement. The Bank separately prepares and presents its consolidated financial statements in accordance with the International Financial Reporting Standards.

New and revised standards and interpretations issued that came into effect in the current period are disclosed in Note 2.2, while standards and interpretations in issue but not yet in effect are disclosed in Note 2.3.

The accompanying financial statements are presented in the format prescribed under the Decision on the Forms and Contents of the Items in the Forms of Financial Statements of Banks (Official Gazette of RS nos. 71/2014, 135/2014, 103/2018).

These financial statements were prepared at historical cost principle unless otherwise stipulated in the accounting policies presented hereunder.

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

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

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

2.2. Changes and additions to IFRSs whose implementation will be mandatory the following year

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

- **IFRS 16: Leases**

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. Please refer to Note 3.h for the effects of the adoption of the Standard and detailed disclosures.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**

The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**

The Amendments relate to whether the measurement, in particular impairment requirements, of long- term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

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

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**

The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

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

2.2. Changes and additions to IFRSs whose implementation will be mandatory the following year (continued)

The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements:*** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- ***IAS 12 Income Taxes:*** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- ***IAS 23 Borrowing Costs:*** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

2.3. Standards that are issued but not yet effective and were not adopted in the past

- **Amendment in 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**

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **Conceptual Framework in IFRS standards**

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS (continued)
2.3. Standards that are issued but not yet effective and were not adopted in the past (continued)

- **IFRS 3: Business Combinations (Amendments)**

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in 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, with earlier application permitted. These Amendments have not yet been endorsed by the EU. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)**

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Due to the implementation of IFRS 9, NBS has modified the regulations regarding compiling and presenting the financial statements for the period January – December 2018, so banks were obliged to implement new forms of financial statements with valid starting from 1 January 2018.

(a) Consolidation

The Bank has control over the following legal entities, which are not consolidated into these financial statements:

Legal Entity	Equity Interest
Komercijalna banka a.d. Podgorica, Montenegro	100%
Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina	99.99%
Investment Fund Management Company KomBank INVEST a.d. Beograd, Serbia	100%

The Bank's consolidated financial statements are prepared and disclosed separately.

In Bank's separate financial statements, investments in subsidiaries are measured at cost.

(b) Foreign Exchange Translation

Transactions in foreign currencies are translated into RSD at the spot middle exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies which are stated at cost, are translated at the rate ruling at the reporting date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

Exchange rates for major currencies used in the translation of the statement of financial position items denominated in foreign currencies, as determined by the National Bank of Serbia, were as follows:

	In RSD	
	2019	2018
USD	104.9186	103.3893
EUR	117.5928	118.1946
CHF	108.4004	104.9779
JPY	0.9653	0.9366

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Interest

Interest income and expense are recognized in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses that might arise.

The calculation of the effective interest rate includes all paid or received reimbursements and expenses that are an integral part of the effective interest rate – reimbursements for the processing of loan approval requests, as well as reimbursements for annexation.

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income from non-performing loans is recognized at the net principle, reducing the gross interest accrued by the impairment allowance amount, i.e. the amount that is likely not to be collected.

Recognition of interest income on impaired placements that are classified as Stage 3, by net principle, is carried out using an alternative unwinding concept. When a financial asset becomes significantly impaired, from the moment of initial recognition, it becomes Stage 3, and interest income is calculated using an alternative concept of unwinding - IRC method by reducing the accrued interest income associated with it with the allowance for impairment losses recognized in the current year, whereby interest receivable is recognized at gross principle.

(d) Fees and Commissions

Fee and commission income and expenses, that are an integral part of the effective interest rate for a financial asset or liability, are included in the measurement of the effective interest rate. Other fees are accrued and a proportional part is recorded as income for the current period.

Other fee and commission income is recognized as the related services are performed. Fee and commission income includes transfer payments in foreign currency, domestic payments transactions, loan administration, guarantee, letter of credit business and other banking services.

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

(e) Net gains arising on the fair value measurement of financial instruments

Net gains arising on the fair value measurement of financial instruments includes gains less losses due to changes in value: derivatives, changes in the value of financial assets that are measured at fair value through profit and loss and gains less losses arising from changes in the value of financial liabilities valued at fair value through the profit and loss account.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(f) Net gain on the derecognition of financial instruments at fair value

Net gain on derecognition of financial instruments at fair value refers to financial assets and liabilities at fair value through profit and loss and fair value through other comprehensive income.

g) Dividends

Income from dividends is recognized at the moment of economic benefits inflow arising from dividends. Dividends are reported under other income.

(h) Leasing

Accounting policy applied after 1 January 2019

At the beginning of the contract, the Bank assesses whether the contract contains a leasing component or represents a lease. More specifically, it analyzes whether the contract transfers the right to control the use of separable assets over a defined period of time in exchange for a fee.

Bank as leasee

The Bank applies a uniform recognition and measurement approach for all leases except for short-term leases and leases of low value assets. The Bank recognizes the leasing obligation to pay the lease and the right to use, which represents the right to use the fixed assets.

(i) Right of use assets

The Bank recognizes right of use asset on the day the lease begins (i.e. the date the asset is available for use). The right of use asset is measured at cost less accumulated depreciation and impairment losses, and is adjusted for any subsequent measurement of the lease liability. The cost of right of use asset includes the amount of recognized leasing liabilities, initial direct costs and lease payments made on or before the commencement date, less any lease incentives received.

Right of use assets is amortized on a pro rata basis over a period shorter than the lease term or the estimated useful life of the asset.

Right of use assets are amortized at a rate ranging from 92.31% to 6.70% annually, depending on the contractual right to use the asset.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(h) Leasing (continued)

(ii) Leasing liabilities

At the commencement of the lease, the Bank recognizes the lease liability, measured at the present value of the lease payment to be made during the lease term. Leasing payments include fixed payments less all lease incentive receivables, variable lease payments that depend on the index or rate, and amounts expected to be safely paid for residual value. Leasing payments also include the exercise price of the purchase option reasonably expected to be made by the Bank and the payment of penalties for termination of the contract if the termination option is available to the Bank for the duration of the contract.

Variable lease payments that do not depend on an index or rate are recognized as an expense (unless incurred to produce inventories) in the period in which the events or conditions that give rise to the payment occur.

In calculating the present value of a lease payment, the Bank uses its incremental borrowing rate at the date of commencement of the lease because the implied leasing interest rate is not easily determined. After the commencement date, the amount of the lease liability increases by the accrued interest for the previous period and decreases for the lease payments made. In addition, the carrying amount of a lease liability is remeasured if there is a modification of the contract, a change in the lease term, a change in the lease payment (e.g., changes in future payments resulting from a change in the index or rate used to determine such lease payments), or a change in the valuation of the purchase option. the underlying asset that is the subject of the lease.

In the first application of IFRS 16, the right to use the lease asset is generally measured in the amount of the lease liability, using an average incremental borrowing rate of 0.3324% to 2.4310% for EUR and in the range of 2.8660% to 4.1253% for RSD.

During 2019, the incremental indebtedness rate did not have large variations. In the last quarter, rates ranged from 0.2395% to 3.36732 for EUR and 1.23850 to 4.3866 for RSD.

(iii) Short-term leases and leases of low value assets

The Bank applies an exemption from the recognition of short-term leases for its short-term leases of machinery and equipment (i.e. those leases that have a term of less than 12 months from the commencement date and do not include an option to purchase). The exemption from recognition for the lease of low value assets on the lease of office equipment also applies. Lease payments for short-term leases and leases of low value assets are recognized as an expense, pro rata over the lease term.

Bank as a leasor

Leases in which the Bank does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Lease income is calculated on a pro rata basis over the life of the contract and is recorded as income in the income statement because of its operational nature. The initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as income in the period in which they are earned.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(h) Leasing (continued)

Accounting policy applied before 1 January 2019

Leasing is classified as financial when all the benefits and risks arising from the ownership of the leased asset are transferred to the Bank. Leasing is classified as operating when the benefits and risks arising from the ownership of the leased asset are not transferred to the Bank. The Bank does not invest in financial or operating leasing, ie it appears solely as a beneficiary of a financial or operating lease.

(i) Leasing liabilities

All operating lease payments during the year are recorded as an expense in the income statement on a straight-line basis over the lease term. Approved leasing incentives are recognized within the total cost of the lease over the lease term.

Minimum lease rates for financial leases are apportioned between the finance charge and the reduction in the remaining amount of the finance lease liability. Financial expenses are deferred to all periods during the lease term, so that they give a uniform periodic interest rate on the remaining amount of the lease liability.

(ii) Assets leased

The assets used by the Bank on a lease basis for which all benefits and risks arising from the ownership of the leased asset are transferred to the Bank are disclosed in the Bank's balance sheet. Financial leasing assets are initially measured at a value equal to the fair value of the leased asset, or at the present value of the minimum lease payments, if this is lower. Subsequent measurement of financial leasing assets is carried out according to the accounting policy applicable to the specific asset.

Leases of space used for branches and branches are primarily recorded as operating leases. Total operating lease payments are recognized in the income statement on a straight-line basis over the life of the lease. Assets used by the Bank under operating leases are classified as operating leases and are not recognized in the Bank's balance sheet.

(i) Tax Expenses

Tax expense comprises current taxes and deferred taxes. Current taxes and deferred taxes are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

(i) Current Income Tax

Current tax is expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Tax Expenses (continued)

(ii) Deferred Income Tax

Deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they write-off, based on the laws that have been enacted by the reporting date.

Deferred tax assets and deferred tax liabilities are offset if there is a legal right to offset current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities relate to the tax on the profits imposed by the same tax authority on the same taxpayer or different taxpayers who intend to either settle current tax liabilities and assets on a net basis or to simultaneously realize assets and settle liabilities in each future period in which a repayment or refund is expected amount of deferred tax liabilities or assets.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that the future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax liabilities are recognized on all taxable temporary differences.

(iii) Other Taxes and Contributions

According to the relevant legislation in the Republic of Serbia, the Bank pays various taxes and contributions, such as VAT, capital gains tax and payroll contributions. These are included under “Other expenses”.

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9

Financial Intruments

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

Financial asset

A financial asset is any asset that is:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Financial liability

A financial liability is any liability that is:

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

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

Financial assets

The Bank assesses the objectives of the business model for managing financial assets at the portfolio level, since such an assessment reflects, in the best way, the way in which business operations are managed and the manner in which management reports.

The classification of financial assets is based on the application of an appropriate business model for the management of financial assets and the fulfilment of the test of characteristics of contracted cash flows.

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

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

Financial assets can be classified into the following categories:

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

In accordance with the classification of assets from the previous paragraph, the Bank categorizes all placements from its portfolio relating to:

- **Loans** and receivables as non-derivative financial assets with fixed or determinable payments that are not quoted in the active market and which the Bank does not intend to sell in the short term
- **Securities that are measured at fair value through the profit and loss statement** that are instruments acquired for the purpose of generating profit from the fluctuation of prices and margins
- **Securities, which include debt securities and equity securities (capital instruments)**:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

- Debt securities include bonds and transferable securitized debt instruments, government records, treasury bills, commercial records, deposit certificates, bank notes, subordinated bonds and other similar debt securities traded on financial markets.
- Equity securities include shares representing a share in the equity of a joint stock company and convertible bonds which, under the conditions set out in the issuing decision, give the right to a replacement for ordinary shares of the company. Equity securities (equity instruments) are all forms of participation in the capital of legal entities for which there is an intention to hold for an indefinite period of time, which can be sold due to the need for liquidity or due to changes in interest rates, foreign exchange rates or market prices.
- Investments in subsidiaries that provide control, that is, over 50% of management rights and investments in associated legal entities that provide from 20% to 50% of management rights and
- **Financial derivatives** that include forward and swap transactions.

Classification and measurement

From a classification and measurement perspective, the new standard required all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

According to IFRS 9, financial assets are being measured in one of the following methods: amortised cost, fair Value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI). Equity instruments in subsidiaries that are not held for trading, can be classified as assets that are valued at fair value through other comprehensive income, without any subsequent reclassification of gains and losses through the Income Statement.

Initially, the financial asset is measured at fair value plus the transaction costs, except in the case of financial assets that are measured at fair value through the Income Statement (FVTPL) in which these costs are recognized as cost in the Income Statement.

A financial asset is measured at amortized cost unless it is designated as FVTPL and meets the following criteria:

- The goal of a business model of holding a financial asset is the collection of contracted cash flows and
- Contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Debt instruments are valued as FVOCI only if the following criteria are met and are not indicated as FVTPL:

- The goal of the business model of holding a financial asset is the collection of contracted cash flows and sales, and
- Contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Subsequently, gains or losses on the financial assets of the FVOCI will be recognized through the other comprehensive income, except for income or expense on impairment of financial assets and exchange rate differences, until the moment when the recognition of a financial asset ceases or when it is reclassified.
When the recognition of a financial asset ceases, the cumulative gain or loss previously recognized in the other comprehensive income will be reclassified from equity to the income statement. Interest calculated using the effective interest rate is recognized in the income statement. IFRS requires that all financial assets, other than derivatives and equity instruments, be analysed through a combination of the business model of managing a financial asset from one, and the characteristics of contracted cash flows on the other side.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Classification and measurement (continued)

The Bank has started the analyses of business models at the portfolio level of financial assets. The existing portfolio policies and strategies, as well as their application in practice, were considered. Also, the information and method of evaluating and reporting on the performance of the portfolio, information on the risks that affect the performance of the portfolio and how they are managed are considered. In addition, the frequency, scope and timing of the sale of financial assets in the past periods, the reasons for the sale as well as the plans for the sale of financial assets in the future period are considered.

In assessing whether the contractual cash flows represent only the payment of principal and interest, the Bank has reviewed the contractual terms of financial instruments and whether they contain stipulations that could change the time or amount of contracted cash flows, which would result in fair valuation of instruments. The analysis concluded that there are no credit products of the Bank whose contractual terms and conditions do not lead to cash flows that represent only payments of principal and interest on the principal balance at certain dates, which would require fair value valuation.

The results of the initial assessment indicated that:

- Loans and placements to customers and banks in accordance with IFRS 9 are assessed continuously as in accordance with IAS 39, at amortized cost;
- Financial instruments that are traded and whose value is measured at fair value through the Income Statement are still assessed in the same way;
- Debt instruments classified as available for sale in accordance with IAS 39 are largely estimated at fair value through other Other comprehensive income.

Taking into account the nature of the Bank's obligations, the accounting of financial liabilities will be the same as in accordance with the requirements of IAS 39. The Bank does not have a designated financial obligation as FVTPL and does not intend to do so. The conducted analysis does not indicate that there are material effects of the requirements of IFRS 9 regarding the classification of financial liabilities.

Impairment of financial assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Impairment of financial assets (continued)

Stage 1

Impairment allowance of financial instruments that are not deemed to have a significant deterioration in credit risk are calculated on the basis of 12-month expected losses (ECL) in accordance with IFRS 9. Stage 1 also includes exposures to the Republic of Serbia, the National Bank of Serbia and other exposures with a credit risk weight of 0, in accordance with the Decision on capital adequacy of the bank, except for the exposure on the basis of mandatory reserve and similar exposures.

Steg 2

All financial instruments for which credit risk has significantly increased are classified in Stage 2 and impairment allowance are calculated on the basis of expected losses for the entire life of the instrument (lifetime ECL).

The Bank is considering whether there is a significant increase in credit risk by comparing the life probability of probability of default against the initial recognition of the asset in relation to the risk of default at the end of each reporting period. According to the internal policy of the bank, a significant increase in credit risk is considered to be a delay of 31 to 90 days, customer restructuring, and clients on the watch list.

Stage 3

Similarly as in accordance with IAS 39, financial instruments are included in Stage 3, where there is objective evidence of impairment and there is no change in the coverage of loans classified in that segment, with the introduction of multiple collection scenarios. The impairment calculation on an individual basis will continue on the same principle.

In the assessment of expected credit losses (ECL), the Bank also included information on the expected trends in macroeconomic parameters for the next three years, for which a statistically significant dependence was established.

As different levels of impairment result in different ways of calculating the expected credit losses, the Bank has developed a methodology and accounted for risk parameters in accordance with the requirements of IFRS 9.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

(iii) De-recognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risk and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualifies for de-recognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Bank enters in transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risk and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of transferred asset.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.
Income and expenses are presented on net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(k) Cash and Cash Equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Property and Equipment

(i) Recognition and Measurement

Items of property and equipment are measured at cost.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Following initial recognition items of equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Following initial recognition, property is measured at valuation amount which represents its fair value at valuation date less subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuation is performed regularly in order to ensure that net book value does not differ significantly from reported amounts that would result from using the fair value approach at the end of reporting period.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item or property and equipment, and are recognized net within other income in profit or loss.

(ii) Subsequent Costs

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated depreciation rates for the current and comparative periods were as follows:

Asset	Estimated useful life (in years)	Rate %
Buildings	40	2.50%
Computer equipment	4	25.00%
Furniture and other equipment	2 – 15	6.70%-50.00%
Investments in other fixed assets	1 – 23.5	4.25%-86.20%
Leased fixed assets	1.1-14.6	6.90-92.31%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Property and Equipment(continued)

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

Maintenance costs for assets are recognized in the profit or loss in the period when occurred.

(lj) Intangible Assets

Intangible assets acquired by the Bank are stated at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of intangible assets is 3 to 10 years and amortization rates used range between 10.00% and 33.34%.

Amortization methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

(m) Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is initially measured at cost. Cost of acquired investment property comprises the purchase price and all expenses that can be directly attributed to the acquisition of the asset.

For subsequent measurement of investment property the Bank uses the cost model, such that investment property is measured at cost less accumulated depreciation and impairment losses.

Estimated useful life of investment property amounts to 40 years, while the depreciation rate used amounts to 2.5%. Depreciation is provided for in profit or loss on a straight line basis over the useful life of a given item of property, given that it reflects best the expected exploitation of the useful economic value embodied in the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Impairment of Non-Financial Assets

The carrying amounts of the Bank's non-financial assets, other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(o) Deposits, Borrowings and Subordinated Liabilities

Deposits, debt securities, borrowings and subordinated liabilities are the Bank's main sources of financing.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities, borrowings and subordinated liabilities are initially measured at fair value increased for all directly attributable transaction costs, while they are subsequently measured at amortized cost using the effective interest rate method.

(p) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Employment Benefits

In accordance with regulatory requirements in The Republic of Serbia, the Bank is obligated to pay contributions to tax authorities and to various state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in an amount computed by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to government funds. These taxes and contributions payable on behalf of the employee and employer are charged to personnel expenses in the period in which they arise.

In accordance with the Labor Law, the Bank is under obligation to pay its vesting employees retirement benefits. Long-term liabilities for retirement benefit provisions upon fulfillment of retirement criteria reported as of December 31, 2019 represent the present value of the expected future payments to employees as determined by actuarial assessment using assumptions disclosed in Note 34(b).

(s) Financial Guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are reported under off-balance sheet items.

(t) Capital and Reserves

The Bank's equity consists of founders' capital, shares of subsequent issues, share premium, profit reserves, revaluation reserves and unrealized losses on available for sale securities, retained earnings and current period result.
The Bank's equity is comprised of funds invested by the Bank's founders in monetary form and non-monetary form. A founder cannot withdraw funds invested in the Bank's equity.

(u) Earnings per Share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders for the effects of preferred convertible shares and dividing the adjusted amount by the weighted average number of ordinary shares outstanding during the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Segment Reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by Bank management (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which separate financial information is available.

In accordance with IFRS 8 "Operating Segments", the Bank discloses information on performance of segments, thus providing the users of the financial statements with additional information on income and expenses arising from its key business activities.

Upon determining operating segments, the Bank uses the following:

a) different products and services offered by the segments
b) separate segment management, and
c) internal reporting structure.

3.1. Changes of accounting policies for leases

IFRS 16 – Leasing is implemented and put into effect for the reporting periods on or after the January, 1 2019. IFRS 16 is superseding IAS 17 – Leasing, IFRIC 4 Determination of whether a contract contains a leasing element, SIC-15 Operational leasing – incentives and SIC-27 Assessment of substance of transactions which include a legal form of leasing. The Standard establishes principles for the recognition, measurement, presentation and disclosure of leasings and requirements of lessees so that the majority are recognized in the Income Statement.

The Bank adopted IFRS 16 by applying a modified retrospective approach on the day of the initial application January 1, 2019, so that the cumulative effects of the application of the standard are recognized on the day of the initial application.

The Standard allows two exceptions when recognizing leases – leases of low-value assets and short-term leases (i.e. leases that have a term which is less than 12 months). The Bank decided on using these two standard allowed exceptions.

From January 1, 2019, the Bank recognizes rights of use as leasing assets and liabilities for leasing contracts which satisfy all of the standard's terms and conditions, except for leases of low-value assets and short-term leases. Rights of use are recognized as the amount equal to the leasing liability adjusted for any advance or calculated lease payments that refer to those contracts that were recognized. Leasing liabilities are recognized by the level of the present value of the outstanding leasing payments, discounted for the incremental borrowing rate on the day of the initial application.

Comparative data on December 31, 2018 do not reflect these policy changes.

4. RISK MANAGEMENT

The Bank has recognized risk management process as the key element of business management given that risk exposure is an inseparable part of banking and is managed through a process of continued identification, measurement, monitoring, minimizing and setting of risk limits and through other types of control, including reporting in accordance with adopted strategies and policies.

The Bank has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, appropriate organizational structure, effective and efficient process of managing all risk it is exposed to, adequate system of internal controls adequate information system and process of internal capital adequacy assessment. Risk management process involves clear determining and documenting risk profile and adjusting risk profile to the Bank's aptitude to assume risk in accordance with the adopted strategies and policies.

The basic objectives that the Bank set for the risk management system within its risk management and capital management strategies are the following: minimizing the negative effects of the financial result and the capital by respecting the defined framework of acceptable risk level, diversification of the risk that the Bank is exposed to, maintaining the required levels of capital adequacy, maintaining the NPL's participation in the total loan to the receiving level for the Bank, most collector of the level of non-performing loans, maintaining indicators of liquidity coverage assets above the level prescribed by the regulations and internal limits, development of the Bank's activities in accordance with business strategies, opportunities and market development this to gain competitive advantage. The objectives of risk management are in line with the Bank's planning provisions.

Taking into account the changes in the regulations of the National Bank of Serbia and the need for further improvement of risk management, the Bank made significant changes in the organizational structure during the year 2019.

Risk Management System

The risk management system is governed by the following internal enactments:

- Risk Management Framework
- Risk Management Strategy and Capital Management Strategy;
- Risk Management Policies;
- Risk Management Procedures;
- Methodologies for Managing Individual Risks; and
- Other enactments.

With it's Risk Management Framework, the Bank formalized it's tendency towards taking risks, through defined goals (aims), tolerance (triggers) and limits, based on quantitative and qualitative analysis. The Risk Management Framework is an integrated process of decision-making within the Bank, as well as the process for strategic planning – development of the Strategy and Business plan.

Risk Management Strategy sets out:

- Long-term objectives, defined by the Bank's business policy and strategy and its attitude to assume risk determined in accordance with those objectives;
- Basic principles of risk undertaking and management;
- Basic principles of the process of internal assessment of the Bank's capital adequacy;
- Overview and definitions of all types of risk the Bank is exposed to or may be exposed to.

Also, the risk management strategy defines the criteria for determining, as well as the basic principles of managing bad assets and the highest acceptable level of bad assets for the Bank.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

The Bank has identified the basic principles of risk management in order to fulfill its long-term goals:

- Organization of the business of a separate organizational unit for risk management;
- Functional and organizational separation of risk management activities from the regular business activities of the Bank;
- Comprehensive risk management;
- Effectiveness of risk management;
- Cyclical risk management;
- Developing risk management as a strategic commitment;
- Risk management is part of the business culture.

The principles of managing bad assets and risk placements include:

- Active risk management;
- Preventive measures and activities aimed at minimizing further deterioration in asset quality;
- Defining bad asset management strategies - a set of activities and measures aimed at recovering the debtor's financial condition or initiating appropriate enforcement procedures;
- Early identification of debtors who are facing financial difficulties or are in arrears or non-settlement obligations (Watch List);
- Assessment of the borrower's financial condition;
- A set of indicators for involving the borrower into the scope of the organizational unit responsible for managing bad assets;
- Segregation of bad assets;
- Principle of materiality in defining possible measures;
- Increased frequency of monitoring the value of collateral and the funds obtained from collection;
- Organizational separation of the Sector for Prevention and Management of Risk Placements;
- Inclusion in corporate governance and risk management of indicators for bad asset tracking;
- Transparent reporting.

Management policies for certain types of risk define in more detail:

- The way of organizing the Bank's risk management process and clear delineation of the responsibilities of employees at all stages of the process, including the process of managing bad assets or risk placements;
- The method of assessing the risk profile of the Bank and the methodology for identification and measurement, or risk assessment;
- Ways of monitoring and controlling risks and establishing a system of limits, that is, the type of limits that the Bank uses and their structure;
- The manner of deciding and acting in case of exceeding established limits, while defining exceptional circumstances in which the approval of overdraft is possible within the legal framework;
- Measures to mitigate risks and rules for the implementation of these measures;
- Method and methodology for implementing the process of internal capital adequacy assessment of the Bank;
- Principles of functioning of the internal control system;
- The framework and frequency of stress testing, as well as treatment in cases of adverse stress test results.

The Bank closely defines risk management process and the responsibilities and responsibilities of all organizational parts of the Banke in the risk magaement system by Risk management procedures.
The Bank has closely prescribed the methods and approaches used in the risk management system by Individual methodologies.

4. RISK MANAGEMENT (continued)

Jurisdiction

The Board of Directors is in charge and responsible for the adoption of risk management strategy and strategy and capital management strategy, establishing a system of internal controls in the Bank and supervising its effectiveness, overseeing the work of the Executive Board, adopting quarterly reports on risk management, adopting the Recovery Plan, and implementation of the process of internal capital adequacy assessment, and others.

The Executive Board is responsible and responsible for the implementation of risk management strategy and policies and capital management strategies by adopting risk management procedures, ie identifying, measuring and assessing risks, and ensuring their implementation and reporting to the Governing Board in relation to those activities. Also, the Executive Board analyzes the risk management system and at least quarterly reports the Board of Directors on the level of risk exposure and risk management and decides, with the prior approval of the Board of Directors, of any increase in the Bank's exposure to a person related to the Bank, and shall inform the Management Board thereof.

The Audit Committee (the Banking Supervision Committee) is responsible and responsible for analyzing and monitoring the applied and adequate implementation of the adopted risk management strategies and policies and the internal control system. The Audit Committe report the Board of Directors at least one monthly on its activities and identified irregularities, and proposes the way in which it will be eliminated, propose improvements in risk management policies and procedures and implement the internal control system.

The Assets and Liabilities Management Committee is competent and responsible for monitoring the Bank's exposure to risks arising from the structure of its balance sheet claims, liabilities and off-balance sheet items, as well as proposing measures for managing interest rate risk and liquidity risk.

The Credit Committee decides on credit requirements within the framework of the Bank's regulations, analyzes the Bank's exposure to credit, interest and currency risk, analyzes the loan portfolio, and also proposes measures to the Executive Board of the Bank.

The risk management function defines and proposes to adopt the strategy, policies, procedures and risk management methodologies, identify, measure, mitigate, monitor and control and report on the risks to which the Bank is exposed in its operations. It is also responsible for developing models and methodologies for identifying, measuring, mitigating, monitoring and controlling risks, as well as for reporting to the competent authorities of the Bank.

The asset management sector is responsible for managing assets and liquidity, as well as in managing the assets and liabilities of the Bank. It also participates in the management of liquidity risk, interest rate risk and foreign exchange risk.

The internal audit function is responsible for the continuous implementation of an independent evaluation of the risk management system, as well as for the regular assessment of the adequacy, reliability and efficiency of the internal control system. The Internal Audit reports the Audit Committe and the Board of Directors on its findings and recommendations.

The business compliance control function is obliged to identify and evaluate the risks of such compliance at least annually and to submit risk management plans, on which it draws up a report to the Executive Board and the Board for monitoring the operations of the Bank.

4. RISK MANAGEMENT (continued)

Risk Management Process

The Bank regularly measures, or estimates, the risks it identifies in its business. Measurement implies the application of qualitative and quantitative methods and measurement models that enable the detection of changes in the risk profile and the assessment of new risks.

For all identified risks, the Bank determines their significance based on a comprehensive risk assessment inherent in certain Bank's products, products, activities and processes.

Risk mitigation involves diversification, transfer, reduction and / or avoidance of risks, and the Bank implements it in accordance with risk profile, risk aversion and risk tolerance.

Monitoring and control of risk is carried out through continuous monitoring of exposure according to different criteria, as well as through monitoring and control of the limits established by the Bank, which depend on the business strategy and market environment, as well as on the level of risk that the Bank is willing to accept.

The Bank has established a system of regular reporting on risk exposure and risk profile that enables relevant employees at all levels in the Bank to provide timely, accurate and sufficiently detailed information that is necessary for making business decisions and efficient risk management, ie safe and stable operation.

Risk management reports are regularly submitted to: the Board of Directors, the Executive Board, the Audit Committee, the Assets and Liabilities Management Committee and the Credit Committee, which contain all the information necessary for the risk assessment and risk conclusions of the Bank.

In its regular course of business, the Bank is particularly exposed to the following risks: credit risk and risks associated with the credit risk, liquidity risk, market risk, operational risks, investment risk, exposure risk and country risk as well as to all other risks that may arise from the Bank's regular operations.

4.1. Credit Risk

Credit risk represents the risk of negative effects on the Bank's financial result and capital arising from debtors' inability to settle the matured liabilities to the Bank.

The Bank has defined criteria for loan approval and rescheduling and restructuring of receivables prescribed by its loan approval procedures and methodology.

Prior to loan approval, the Bank assesses the creditworthiness of the borrower based on internally defined criteria as a primary and offered collateral as a secondary source of collection/loan repayment. Based on the identified and measured credit risk level (assessed financial situation and credit worthiness of the borrower, value and legal security of the credit hedge and other relevant factors), and independent risk assessment, the Bank's competent bodies enact a loan approval decision in accordance with the defined decision making system.

Decisions on credit risk exposure are defined through the decision making system that depends on the type of customer and exposure level. Credit decision makers with different levels of authority are: persons with special powers from the Risk Management function, the Credit Committee, the Executive Board and the Board of Directors.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

In decision making the principle of double control, the so-called “four eyes principle,” is observed which ensures that there is always a party that proposes and a party that approves a particular loan/investment.

For loans contracted in foreign currencies or RSD loans indexed to a currency clause, the Bank estimates the effects of the changes in foreign exchange rates on the financial situation and creditworthiness of debtors and particularly analyzes adequacy of the debtor’s cash flows in relation to the changed level of liabilities per loans assuming that there will be certain fluctuation in RSD exchange rates on an annual basis.

The organizational model of credit risk management system enables adequate communication, information exchange and collaboration at all organizational levels within the Bank as well as clear operational and organizational separation of functions for independent risk management and supporting activities on one hand and the activities of risk assumption on the other, i.e. segregation of duties, competencies and responsibilities. The Bank has also established an adequate information system for full coverage of persons involved in credit risk management system and appropriate management reporting.

Credit Risk Management

In accordance with the scope, type and complexity of the operations it performs, the Bank has organized a credit risk management process and clearly delineates the responsibilities of employees at all stages of the process.

The level of credit risk exposure acceptable to the Bank is in line with the defined risk management strategy and depends on the Bank’s portfolio structure based on which is limited negative effects on the Bank’s financial result and capital adequacy.
The basic principles of credit risk management are as follows:

- Managing credit risk at the individual loan level as well as the Bank’s entire portfolio level;
- Maintaining credit risk level that minimizes the negative effects on the Bank’s financial result and capital;
- Loan rating according to risk;
- Operating in accordance with best banking practices of loan approval;
- Ensuring adequate credit risk management controls.

In its effort to manage credit risk the Bank seeks to do business with customers that have good credit rating and to acquire appropriate collaterals to secure repayments. The Bank assesses creditworthiness of each customer upon the submission of a loan application and regularly monitors its debtors, loans and collaterals, in order to be able to undertake appropriate activities for the purpose of collecting its receivables.

The Bank performs quantitative and/or qualitative measurement, i.e. assessment of the identified credit risk. The credit risk measurement process is based on measuring risk level of individual loans and investments based on the internally adopted rating system.

The rating system is merely an instrument for encasement of individual decisions and assessing risk levels of individual investments. Besides the above mentioned, rating system is used for assessing the risk level of whole portfolio, and is also used in process of loan impairment for the purpose loan ranking by risk level and stating realistic value of receivables. Internal rating system is subject to regular review and improvements.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Credit Risk Management (continued)

In addition to the internal rating system, in credit risk analysis the Bank also uses principles prescribed by the National Bank of Serbia, which require classification of loans based on the prescribed criteria as well as calculation of the reserve for estimated credit risk losses. In December 2018, in accordance with the amendments to the regulations of the National Bank of Serbia, adopted the amending regulations that from January 1, 2019 confirms the cancellation of calculation of the reserves for the estimated credit losses.

Mitigating credit risk entails maintaining the risk at the level acceptable to the Bank's risk profile, i.e. maintaining acceptable quality level of the Bank's loan portfolio.

Basic credit risk mitigation techniques are:

- Exposure Limits - concentration risk,
- Diversification of investments,
- Collaterals.

The Bank's exposure limits per individual debtor are based on the assessment of the debtor's creditworthiness, whereas the exposure limits at the portfolio level are focused on restricting exposure concentration within the portfolio. The Bank continuously controls credit risk movements within a defined risk profile.

The concentration risk includes: large exposures (exposure to one person or group of related persons and persons associated with the Bank), exposure groups with the same or similar risk factors such as economic sectors, product types, geographical areas and similar, credit protection instruments.

The Bank monitors exposure according to defined limits with the same or similar risk factors, and depending on general economic trends, developments in certain sectors and geographic areas, values stated in the Bank's business plan, and carries out regular review of the defined limits and proposes redefining them in case of changes in risk factors.

By the Decision on risk concentration management based on the exposure of the bank to certain types of products, the National Bank of Serbia, from January 1,.2019 banks were obliged to monitor the risk of concentration or exposure of the bank to groups of products, primarily exposure to cash, consumer and other loans granted to households of agreed maturity over 8 years in 2019, over 7 years in 2020 and 6 years from 2021.

Monitoring investment quality at the individual debtor level is primarily based on obtaining updated information on the financial situation and creditworthiness of the debtor as well as on the market value of collateral, whereas credit risk monitoring at the portfolio level is performed through identification of changes at the level of client groups with certain preset levels of risk, investment, collateral and required reserves for estimated and unexpected losses for the purpose of establishing management of the asset balances and quality.

Credit risk control entails a process of continuous reconciling business operations with the defined system of limits, as well as under conditions of large credit exposure approaching the upper risk profile limit, i.e. upon introduction of new products and business activities.

As a hedge against counterparty default risk, the Bank undertakes the following steps in respect to collection of due receivables: rescheduling or restructuring; out-of-court settlement; seizure of goods or properties in order to collect receivables; sale and/or assignment of receivables; executing agreements with interested third parties; and instigating court proceedings and other measures.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Credit Risk Management (continued)

If the undertaken measures for regulating collection, i.e. enforced collection and court proceedings fail to provide expected results, i.e. when receivables cannot be collected in full, the Bank initiates reversal of the remaining receivables, or a transfer from the balance sheet to off balance sheet.

Apart from credit risk exposure, the Bank also has off-balance sheet exposures (various types of payment and performance guarantees, acceptances and letters of credit) based on which the Bank has contingent liabilities to make payments on behalf of third parties. For off-balance sheet exposures the Bank uses the same control processes and procedures that are used for credit risk.

Credit risk reporting includes internal and external reporting systems executed on a monthly basis according to a preset schedule and in conformity with the defined reporting system.

IFRS 9 financial instruments

In 2019, the Bank continuously applied the IFRS 9. In accordance with IFRS 9 financial assets can be classified and evaluated as:

- Financial instruments at amortized cost (AC), a business model for collecting contractual cash flows of principal and interest, and fulfilled SPPI criteria;
- Financial instruments at fair value through other comprehensive income (FVOCI), SPPI fulfilled, but the business model is the collection of contractual cash flows and sales;
- Financial instruments at fair value through profit and loss account (FVTPL).

The Bank's business model is defined as holding for the purpose of collecting cash on the basis of principal and interest, which is supported by an analysis that indicates that there are no facts that the Bank has defined a different business model. From the aspect of classification and measurement, IFRS 9 requires that all financial assets, other than equity instruments and derivatives, are estimated on the basis of the business model of managing specific financial assets and contractual characteristics of cash flows of the instruments themselves (based on the SPPI criteria test). Cash flows of financial instruments that are measured at amortized cost consist of principal and interest payments whose components are fees for the time value of money, credit risk, administrative costs and profit margin.

Equity instruments, in entities other than subsidiaries that are not held for trading, are classified as assets whose value is measured at fair value through other comprehensive income, with a reclassification of profit and loss through the income statement.

Also, by applying IFRS 9, the Bank calculates impairment for credit placements given to the countries and Central Banks of the Bank's members (for assets not available immediately) recorded at the expense of the income statement, as well as impairment based on the securities recorded through other comprehensive result.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Identification of problematic and restructured claims

The Bank monitors the quality of the portfolio based on the identification and analysis of early warning signals of clients. Warning signs are monitored on a regular time basis and based on analysis of those signs, customers are classified into the category Standard, Potentially risky (Watch list) and NPL clients (clients with problematic claims).

In accordance with the application of IFRS 9, starting from January 1, 2018, The Bank also introduced impairment Stages (Stage 1, Stage 2 and Stage 3) that monitor the status of the client. Standard clients rank as Stage 1, clients identifying credit risk increase (Watch List clients, days past due from 31 days to 90 days) are ranked as Stage 2, and NPL clients rank as Stage 3. Clients located in Stage 1 and 2 are impaired on a group basis, while Stage 3 clients, with the fulfillment of the criteria of material significance, are impaired individually. NPL clients at Stage 3, with less material exposure, are impaired on a group basis, while respecting the requirements of IFRS 9 standards in at least two collection scenarios.

Restructured unproblematic clients are classified as potentially risky clients, that is, to Stage 2 of impairment, while restructured problematic are classified as problematic clients, and are categorized into Stage 3 impairment.

The purpose of monitoring the quality of the portfolio is to prevent the direct transfer of Standard clients into the category of clients with problematic claims without prior identification of clients as potentially risky and without implementing measures to prevent the occurrence of risky placements,ie mitigating and reducing credit risk through the implementation of an adequate strategy and action plans. Potentially risky clients are more closely monitored than Standard clients, and if further credit risk is identified, clients are reclassified to category of problematic receivables.

Problematic receivables include all receivables that have days past due more than 90 days, for any material liability to the Bank, its parent or subordinated companies, receivables in which it is estimated on the basis of the financial condition that the borrower will not be able to settle its obligations in full without taking into account the possibility of the realization of credit protection instruments (regardless of whether they are late in settling liabilities), receivables for which the amount of the impairment was determined on an individual basis. Problems are also deemed to arise from: the cessation of the recording of interest income, fees and charges in the income statement, specific adjustments for credit risk that are calculated due to significant deterioration of credit quality following the occurrence of exposure, significant loss effected by the transfer of receivables, restructuring receivables made due to the financial difficulties of the debtor, as well as filing a motion for initiating bankruptcy proceedings against the debtor. Problematic receivables are all receivables from the debtor, if one receivalbe is classified as problematic receivable.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Identification of problematic and restructured claims (continued)

Restructuring of receivable is the approval, due to the financial difficulties of the borrower, the concessions in connection with the repayment of individual receivable that would not be approved to the debtor if he were not in such difficulties, irrespective of whether there are any due liabilities, whether the receivable was impaired and whether it was in the status of default. Restructuring is carried out in one of the following ways: by changing the conditions under which the receivable was originated, especially if the subsequent contractual terms of repayment are more favorable than originally agreed (interest rate reduction, write-off of principal and / or interest, change in maturity dates, etc.) as well as refinancing of receivables. Such circumstances are often called in practice ”forbearance". In addition, the category of restructured receivables also includes receivables in which:

- The change in the contractual terms of repayment is implemented, and those receivables that, in the absence of such changes, would be classified as problematic,
- The change in the contractual terms of repayment debts which led to a complete or partial write-off in a materially significant amount is implemented,
- The Bank has activated the contractual clauses on restructuring on which the repayment conditions are changing due to the occurrence of certain events (embedded clauses) against the debtor whose claim has been already classified in a group of problematic receivables, or would have been so classified that are not activated this clause,
- If the debtor has, at the same time a new claim was approved (or over a short period before or after the approval), made a payment on the basis of other claims of the Bank (or other legal entity to which the ceded claim against the debtor), which was classified or fulfilled the requirements to be classified in group problematic or, in the absence of new claims would be classified in the above group, i.e. fulfilled the requirements.

In accordance with implementing IFRS 9 standard, any restructuring of claims due to financial difficulties is considered to be modified or changed financial asset.

Modifications that cause the derecognition of the old financial assets and initial recognition of the new, and that they were motivated by a drop in the credit standing and repayment capacity, lead to initial recognition financial assets that standard defined as "POCI", ie. funds that are impairment at the time of initial recognition, and are initially valued at fair value. They do not have at the time of initial recognition impairment, but you must include the expected credit losses during lifetime assets in the calculation of effective interest rates.

Consequently, the Bank includes an initial expected credit losses in estimating cash flows, when Bank calculate a credit-adjusted effective interest rates of financial assets that are considered to be impairment at the time of initial recognition. Also, for purposes of calculation of impairment, this means going for the whole period of duration stay in Stage 3.

IFRS 9 in the event of a significant modification of a financial instrument, indicates the need to derecognise an old financial asset and recognise the new one at fair value at the date of recognition.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Identification of problematic and restructured claims (continued)

Termination of recognition leads to a sustained gain or loss recognized in the income statement and an equal difference between the amortized value of an old financial asset and the fair value of a new financial asset minus the amount of expected loan losses recognized as impairment on a new financial asset.

With every change made to credit terms, for placements that are not part of a problematic (PL) client's status, or the status of bad (NPL) clients, the Bank calculates a 10% test with the aim of determining whether the modification made is highly significant or less significant.

In it's system, the Bank keeps a record of every made assets modification, regardless of whether the modification is considered to be highly or less significant, and regardless of whether the modification occured due to changes in market conditions for good (PL) clients or due to bad (NPL) clients' business issues.

The Bank regularly follows the measures for restructuring of risky placements and controls the timeliness of undertaking these measures. Monitoring of the measures taken, ie realization of them, such as, for example, settlement of matured liabilities is done on a daily basis. The monitoring of the operations of the restructured clients is done regularly every 6 months, or more often, if necessary. The analysis of the financial statements, the analysis of indebtedness, the checking of the adequacy of the provision of monitoring the overall performance of strategies towards debtors are the key points of the mentioned monitoring.

Restructured claim which is classified into a group of problematic claims is, after the expiry of one year from the date of its restructuring, classified in the Bank of claims which are not considered problematic if the following conditions are met:

- Impairment amount of restructured claim has not been determined and the status of default has not occurred;
- During the past 12 months the payments were made on time or with a delay not greater than 30 days, in accordance with the changed conditions of repayment;
- Based on the analysis of the financial condition and creditworthiness of the client, it is estimated that it will be able to settle its obligations in full in accordance with the changed conditions of repayment.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Risk of asset quality change - asset delinquency

The quality of the Bank's assets is measured by the degree of exposure to particular risk categories according to the criteria defined by the internal rating system. The internal rating system is based on quantitative and qualitative parameters for determining the rating of the borrower. The rating scale contains five risk categories, divided into 19 sub-categories. Different exposures to the same borrower define the same rating category, regardless of the specificity of the different types of loans.

The Bank uses different rating models for credit risk depending on the type of clients. The calculation of the rating is done on a monthly basis based on qualitative and quantitative parameters and timely settlement of liabilities.

A low level of risk involves dealing with clients with good creditworthiness and is acceptable to the Bank (rating categories 1 and 2), a higher level of risk is the business with clients who have certain business problems and which can negatively affect the settlement of liabilities and whose business is intensively monitors (rating category 3 and 4) and a high level of risk denotes clients with negative business results and bad credit history (risk categories 4d, 4dd, and 5). Risk Category 4 is divided into five sub-categories: 4+, 4 and 4- – Non-risk clients (PE), 4D risk clients (NPE) with delay of up to 90 days and 4DD risky clients (NPE) with a delay of 91 to 180 days.

The Bank protects itself against the risk of asset quality changes through continuous monitoring of client's operations, identifying changes that may result from deterioration of the debtor's balance, delay in repayments or changes in the environment, and the provision of appropriate collateral.

Risk of asset value change – impairment of assets

The impairment of the placement is aimed at ensuring a reasonable, careful and timely determination of losses in order to protect the bank's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the contingent liabilities.

Impairment of placements and provisions are made only when there is a reasonable basis, ie when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, the difficulties in the cash flows of the borrower (financial difficulties) , the decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that the real loan will be settled from these assets.

The Bank assesses the impairment of receivables on a group and on a individual basis.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Individual and Group Assessment at Stage 3

The bank estimates impairment allowance for each individually significant placement with default status (risky placement, under a risk category 4D, 4DD and 5 according to the internal rating system), ie placements that are classified in stage 3 in accordance with IFRS 9. For this purpose, financial position of the loan beneficiary is taken into account, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the creditworthiness of the client, the value of the collaterals and the certainty of fulfillment of the client's obligations towards the members of the bank, a new assessment of the impairment of the placements is made.

The materiality threshold the bank determines on the basis of an analysis of the value structure of the portfolio by types of clients and products.

An impairment loss on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

Objective evidence that indicates the need for impairment of placements is considered to be:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfillment of other contractual provisions;
- when the members of the Bank , due to the financial difficulties of the borrower, substantially change the terms of repayment of claims in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) etc.

Evidence can be documented by analysis in the Watchlist process, information on the increased Stage of risk of the borrower.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the planned future cash flows of the borrower.

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Bank recognizes the existence of multiple collection scenarios when estimating the expected future cash flows in accordance with IFRS 9, which is applicable from January 1, 2018. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Bank on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

For a group of smaller material receivables that are clasiffied at Stage 3, when calculating the impairment, there are also several collection scenarios that are applied with certain probabilities, where these probabilities are calculated on the basis of statistical models using historical collection information.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Group assessment

Impairment is assessed on a group Stage for all placements where no objective evidence of impairment has been identified and are Stage 1 - standard clients and Stage 2 - clients with identified credit risk increase, as well as receivables based on commissions and other receivables that are not reduced to the present value.

The bank estimates are carried out by groups according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the economy sector and by rating groups by type of placements in the household sector), based on the internal rating system at the monthly Stage. The impairment methodology has significantly changed and instead of the approach to the incrred credit loss in accordance with IAS 39, the principle of future expected loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of statistically proven interdependencies.

In accordance with IFRS 9, the impairment is measured as follows:

- Stage 1 - Loans in which no deterioration in credit risk has been identified in relation to the moment of initial recognition. The Bank calculates the impairment charge based on the 12-month expected credit losses;
- Stage 2 - Loans in which a significant deterioration in credit risk has been identified in relation to the moment of initial recognition. The Bank calculates the impairment charge based on the expected credit losses for the entire life of the instrument.

The cost of impairment of financial instruments that are not considered to have significant credit risk deterioration are calculated on the basis of 12-month expected losses (ECL). Stage 1 includes exposures to the State and Central Banks of the Bank's members and other exposures with a credit risk weight of 0, in accordance with the Bank's Capital Adequacy Resolution, except for the exposure on the reserve requirement and similar exposures, on the basis of which the expected credit losses amount to 0.

All financial instruments in which credit risk detoriation has occurred are classified into Stage 2 and impairment costs are calculated on the basis of expected losses for the entire life of the instrument.

The bank considers whether there is a significant increase in credit risk from initial recognition of the asset in relation to the default risk at the end of each reporting period. The identification of a significant deterioration in credit risk is based on defined quantitative and qualitative criteria (such as early warning signals, overtime of over 30 days, and the like). In 2019, the Bank made ammendments to its Methodology for imapairment in the part referring to additional criteria for transfer to Stage 2, where it added a new quantitative criteria for credit risk deterioration from the inception date to the date of impairment calculation.

The bank calculates the cost of impairment of debt securities that are valued at fair value through other comprehensive income (FVOCI), as the accumulated amount of impairment that also affects the Income Statement. However, the expected credit losses do not reduce the amount of gross financial assets in the balance sheet.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Group assessment (continued)

For the corporate and retail sectors, the Bank calculates the expected credit losses (impairment) in the following way:

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

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

This formula is used to calculate the expected credit losses (impairments) at Stages 1 and 2, along with respect to the time horizon.

EAD, that is, the exposure at default, represents an estimate of the carrying amount in accordance with IFRS 9 at the time of default, taking into account the profile of contracted cash flows and the possible use of funds from approved credit lines before the default moment.

Exposure at default (EAD) represents the gross carrying amount of financial instruments is subject to impairment calculation, taking into account the ability of the client to increase its exposure at default.

For the calculation of EAD for Stage 1, the Bank assesses the possibility of default within 12 months for the calculation of a twelve month expected credit loss (ECL), that is, the impairment for a loan in the Stage 1 is calculated, which is expected to result in payment inability of obligations in the period of 12 months from the balance sheet date. For Stage 2, exposure to non-fullfilment of payment liabilities is required to be considered over the life of instrument.

PD represents an estimation of the probability of default in a given period of time. Failure to fulfill obligations may occur only at a specified time during the estimated period, unless it has previously ceased to recognize the instrument, and the Bank is still exposed. Based on historical data, the Bank calculates the PD parameter, especially in the corporate and retail sectors. In the corporate sector, PD is calculated by type of entity (large enterprises, medium-sized enterprises, small enterprises ...), and in the retail sector by type of product (housing loans, cash loans, agricultural loans ...). After calculating historical PDs, the Bank includes forward looking component through a Beta factor that predisposes the impact of the movement of macroeconomic variables (the movement of the GDP, unemployment, inflation rate, industrial production ...) to the future PD. The beta factor is calculated using statistical and econometric models.

In 2019, the Bank improved it's forward looking component by including it in the value of the Beta factor for all three scenarios of macroeconomic variable movements (optimistic, realistic, pessimistic), after which comes the weighting of probabilities of expected realisations of the three mentioned scenarios, in order to arrive at the final Beta factor which contains all three scenarios (optimistic, realistic, pessimistic)

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Group assessment (continued)

To calculate impairment for Stage 1, the Bank uses one-year PDs for the first 12 months, which are the product of the historical PD and Beta factor calculated for the first year.

When calculating impairment for Stage 2, where the impairment is calculated for each year of a financial asset, the Bank uses a marginal PD that represents the difference between two cumulative PD, between t + 1 and t, where t represents a time period of one year. The cumulative PD refers to the default probability that will occur with the period t. The probability that the default will be realized before or at the end of maturity T corresponds to the lifetime PD, ie the probability of default for the entire life of the financial instrument.

PD parameters are updated semi-annually (for the dates of 30 June and 31 December) and are applied in the next half of the year, except for 31 December when PD parameter is applied for 31 December.
LGD represents Loss given default and is an estimate of losses that arise in the event of default at a specified time. It is calculated as the difference between the contracted cash flows and the cash flows the creditor expects to receive, including the realization of any collateral. This is usually expressed as a percentage of EAD.

The Bank, in its assessment of credit losses assessed in accordance with the Impairment Assessment Methodology and IFRS 9, wishes to reflect the possibility of collecting cash flows from regular cash flows, but also from the realization of collateral and other collateral, which are directly related to a financial instrument. In that sense, the Bank applies the general concept of a separate LGD secured and LGD unsecured parameter, depending on the degree of securing individual placements. For the purpose of calculating the LGD Secured, or the expected loss rate after collateral, the Bank takes into account all internally available collaterals where there is an estimate of the probability of collectability.

The final step in calculating the impairment is the discount factor - **DF** for the purpose of reducing to the present value. For discounting, the initial effective interest rate is used, which includes only those interest and fees that can be identified as direct income of the Bank. At stage 2, the period of discounting depends on the duration of the financial asset, while at stage 1, the time factor is always equal to one year (12 months).

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Group assessment (continued)

For the purpose of calculating impairment for exposures to countries, financial institutions and impairment of securities, the Bank uses a different method of calculating impairment. The Bank does not have an adequate history in terms of migration and default exposure to countries and financial institutions. When assessing the impairment and default risk exposure towards securities issued by the Goverment and its bodies, central banks and financial institutions, it relies on surveys and external rating data of Moody's agency. It then uses all available resources that can be obtained with undue cost and effort, in order to adequately determine the probability of default for the purposes of impairment calculation. The probability of default for a period of one year is determined as the probability of migration from the specified external rating of the counterparty (or a rating of the related counterparty if no external rating is available) in the default status. The cumulative PD is determined simply by exponential elevation to the degree of one-year defaults, in the following way:

$$CPD_t = 1 - e^{-(default\ rate * t)}$$

The values of the annual rate of PD used in the calculation of the impairment of securities and financial institutions are reduced to monthly level.

For LGD unsecured the parameter used is prescribed for exposures to countries and financial organizations, in accordance with Basel standards. LGD secured (if there is a collateral) is used in the same way as in the corporate and retail sector.

Impairment of placements to the corporate and retail, countries and financial institutions reduces the value of placements and is recognized as an expense within the income statement, and impairment of securities is recorded through other comprehensive income.

Determining the probable loss on off-balance sheet items

Determining the individual probable loss on off-balance sheet items (contingent liabilities - payable and performance guarantees, letters of credit, and other off-balance sheet items) is carried out when there is estimated that there is a sufficient certainty that an outflow of funds will be made to settle the contingent liabilitiy and the borrower is classified at level 3. Also, for levels 1 and 2, the Bank establishes an estimate of the probable loss on off-balance sheet items for all off-balance sheet items, including unused commitments. The method of impairment of off-balance sheet items for level 1 and level 2 is the same as the impairment of balance sheet receivables other than in the part of recognition of EAD. When estimating the probable loss on off-balance items, the Bank reduces exposure for the Conversion Factor (CCF). In accordance with IFRS 9, the Bank calculated credit conversion factors (CCFs) based on experience that represent the likelihood of conversion of off-balance sheet exposures into balance sheet exposures and concluded that it does not have sufficient historical data to define CCF. Therefore, the bank uses the best approximation of CCF, and these are the conversion factors defined by the regulations of the Central Banks of the Bank's members.

For unused commitments for which the Bank has contracted an unconditional cancellation of a contract or the possibility of terminating a contractual obligation if the client violates the contractual obligations, the bank does not account for provisions based on unused commitments.

The probable loss on off-balance sheet items is recognized as an expense in the income statement.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Means of protection against credit risk (collateral)

In order to protect against exposure to credit risk, the most common practice that the Bank members use, in addition to regular monitoring of clients' operations, is to obtain security instruments (collaterals), which secure the collection of receivables and minimizes credit risk. The amount and type of collateral required depends on the credit risk assessment of the other counterparty.

As standard security instruments, the Bank provides contracting authorities and bills of exchange to clients, while as additional instruments, depending on the assessment of credit risk, and types of placements, other collaterals can be contracted:

- For commercial loans or corporate loans and loans for small businesses - mortgages on movable and immovable items (mortgages), deposits, banking, corporate and government guarantees, guarantees, stocks on securities, shares and receivables;
- For household loans - mortgages on real estate, deposits, guarantees of a solidary debtor, insurance of the National Corporation for securing housing loans at the parent Bank, and others;
- For borrowed securities and repurchase agreements - money or securities.

When assessing real estate or mortgages on movable property, members of the Bank require a professional and independent assessment of the value of immovable property by authorized appraisers in order to minimize the potential risk of unrealistic valuation. Property, goods, equipment and other movable items that are the subject of inventory must be and are insured by an insurance company acceptable to the Bank, and the policies are vinkulated for the benefit of the Bank.

In order to protect against the change in market values of collateral (mortgages, pledges, securities, etc.), the estimated collateral value is corrected for a defined percentage (haircut) depending on the type of collateral and location, which are regularly reviewed and revised. In this way, the Bank protects against potential losses due to inability to collect collateral from collateral.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Means of protection against credit risk (collateral) (continued)

The correction factor (haircut) represents the difference between the estimated value of the collateral and the cash inflow that can be realized by selling collateral in the collection process. Haircut brings down the estimated market value of each collateral instrument to the expected value that will be collected by its realization in the future, taking into account the volatility of market value, the possibility of realization and cash outflows based on activation and sales costs (court fees, tax costs that fall under the burden of the seller, costs of consultants and advertising and other costs), the expected decline in market value from the moment of estimation to the moment of the planned realization, as well as the inherent uncertainty in determining the value.

Members of the bank pay attention to the regular valuation of collaterals. For non-risk placements (standard clients) - level 1 and clients on the Watch list - level 2, mortgages on residential and business properties are assessed at least once in three years by an authorized appraiser. For risky placements (NPE) - level 3, mortgages on residential buildings are estimated at least once in three years, mortgages on business premises (business premises, premises, warehouses, construction land with and without building permit, agricultural land, other) at least once in 18 months, and mortgages on industrial facilities are estimated at least once a year (12 months) by an authorized appraiser. Securities are assessed on a monthly basis for all placements.

Regular monitoring of the value of real estate implies checking the value of the real estate based on available data and information, comparing the values of the real estate values with the values of the value on the market of the member countries of the Bank (realized sales, supply and demand) by the regions specified in the collateral catalog, using the statistical model, etc. For all business real estate, the Bank conducts a check of value at least once a year, and for residential and other real estate at least once in three years.

The value of collateral and the trend of movement is monitored and updated by the members of the bank in order to minimize the potential risk of unrealistic estimation and, if necessary, may require additional collateral in accordance with the concluded contract. Collaterals represent a secondary source of collection of receivables.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk

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

Total exposure to credit risk

In thousands of RSD

	31.12.2019		31.12.2018	
	Gross	**Net**	**Gross**	**Net**
I. Assets	**456,990,222**	**432,380,443**	**427,668,873**	**401,165,980**
Cash and balances with the central bank	67,558,219	67,558,219	63,595,710	63,595,710
Loans and advances to banks and other financial institutions	24,952,308	24,733,958	18,705,766	18,477,729
Loans and receivables from customers	192,872,896	180,852,563	181,694,980	167,545,674
Financial assets (securities and derivatives)	138,470,153	138,469,551	133,183,262	133,181,667
Other assets	9,339,310	7,100,360	8,657,056	6,612,268
Non monetary assets	23,797,336	13,665,793	21,832,099	11,752,932
II. Off-balance sheet items	**53,123,735**	**52,932,759**	**42,261,680**	**41,986,725**
Payable guarantees	4,210,006	4,185,429	3,107,502	3,037,138
Performance guarantees	4,764,048	4,722,824	3,004,569	2,962,498
Irrevocable liabilities	43,588,232	43,487,483	35,783,262	35,646,780
Other	561,449	537,023	366,347	340,309
Total (I+II)	**509,759,001**	**484,937,673**	**469,930,553**	**443,152,705**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Changes in loans and receivables to customers by Stage of risk during 2019

In thousands of RSD

	Stage 1	Stage 2	Stage 3	Total
31.12.2018	**158,867,478**	**3,330,552**	**19,496,950**	**181,694,980**
New receivables	27,527,105	292,921	74,701	27,894,727
Decrease/collection of receivables	(13,167,541)	(392,575)	(2,842,481)	(16,402,597)
Transfer to Stage 1	-	(900,675)	(304,024)	(1,204,699)
Transfer to Stage 2	(6,654,156)	-	(191,619)	(6,845,775)
Transfer to Stage 3	(555,125)	(231,513)	-	(786,638)
Transfer from other Stages	1,204,699	6,845,775	786,638	8,837,112
Other changes	3,062,450	(2,199,163)	(1,177,501)	(314,214)
31.12.2019	**170,284,910**	**6,745,322**	**15,842,664**	**192,872,896**

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

In thousands of RSD

	Stage 1	Stage 2	Stage 3	Total
31.12.2018	**1,036,247**	**247,682**	**12,865,378**	**14,149,307**
New receivables	201,275	14,334	69,000	284,609
Decrease/collection of receivables	(117,990)	(10,520)	(1,653,639)	(1,782,149)
Transfer to Stage 1	-	(23,215)	(137,084)	(160,299)
Transfer to Stage 2	(88,063)	-	(67,482)	(155,545)
Transfer to Stage 3	(4,501)	(5,940)	-	(10,441)
Transfer from other Stages	160,299	155,545	10,440	326,284
Other changes	(312,772)	(252,688)	(65,973)	(631,433)
31.12.2019	**874,495**	**125,198**	**11,020,640**	**12,020,333**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

During 2019, transitions of exposures by Stages are consequence of regular business transactions:

- transition to Stage 1 from Stage 2 and 3 is a consequence of the improvement of business parameters according to the financial statements for 2018, or due to the settlement of due liabilities in whole or in part (decrease in arrears);
- transition to Stage 2 from Stage 1 is a consequence of the modification made to the segment of Methodology that refers to the criteria for transfers to Stage 2, as well as an increase in credit risk in a certain number of clients;
- Transition to Stage 3 from Stage 1 and 2 is a consequence of an increase in credit risk (account blockage longer than 60 days, and an increase in over 90 days in most cases). During the year, Stage 1 receivables were at Stage 2 before they went to Stage 3. Reduction of Stage 3 receivables is due to the regulation of risk claims (collection from collateral and regular business operations of clients).
- The decrease of impairment allowance in other changes is mostly due to the improvement of risk parameters that are used for the impairment of PL (good) placements and were placed in the Bank's portfolio on the December 31, 2018 and December 31, 2019.
- Other changes are mainly related to increase / decrease of exposuret with clients who did not change stages on both dates. Additionally, other changes include the calculation of interest, exchange rate differences and more.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level of risk
In (000) RSD

31.12.2019	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	40,137,803	563,216	993,518	41,694,537	55,720	18,722	487,612	562,055	41,132,483
Cash Loans	34,456,268	369,714	250,163	35,076,145	161,194	19,467	196,477	377,138	34,699,007
Agricultural Loans	9,316,462	121,427	275,822	9,713,711	103,186	12,406	127,555	243,147	9,470,564
Other Loans	4,793,469	44,820	159,663	4,997,952	36,250	1,080	153,449	190,779	4,807,173
Micro Business	7,937,996	779,822	549,999	9,267,817	127,880	21,209	286,938	436,027	8,831,790
Total retail	**96,641,998**	**1,878,999**	**2,229,165**	**100,750,162**	**484,230**	**72,884**	**1,252,031**	**1,809,145**	**98,941,017**
Large corporate clients	30,404,295	4,177,915	6,273,603	40,855,813	81,782	43,052	3,714,019	3,838,853	37,016,960
Middle corporate clients	7,749,403	178,584	1,753,845	9,681,832	31,326	2,997	1,335,764	1,370,087	8,311,745
Small corporate clients	3,571,658	95,640	1,149,243	4,816,541	20,410	781	656,700	677,891	4,138,650
State owned clients	21,847,484	413,490	170,672	22,431,646	110,876	5,464	132,088	248,428	22,183,218
Other	10,070,072	694	4,266,136	14,336,902	145,871	21	3,930,037	4,075,929	10,260,973
Total corporate	73,642,912	4,866,323	13,613,499	92,122,734	390,265	52,315	9,768,608	10,211,188	81,911,546
Total	**170,284,910**	**6,745,322**	**15,842,664**	**192,872,896**	**874,494**	**125,199**	**11,020,639**	**12,020,333**	**180,852,563**
Due from banks	**24,737,891**	**-**	**214,417**	**24,952,308**	**3,933**	**-**	**214,417**	**218,350**	**24,733,958**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level
In (000) RSD

31.12.2018	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	37,397,786	654,204	1,521,937	39,573,927	32,149	18,803	722,406	773,358	38,800,570
Cash Loans	30,038,802	289,400	226,782	30,554,984	98,846	13,125	153,963	265,933	30,289,051
Agricultural Loans	8,357,877	91,169	263,341	8,712,387	60,893	3,809	138,525	203,227	8,509,160
Other Loans	5,193,080	56,258	179,373	5,428,711	31,736	1,384	167,551	200,671	5,228,039
Micro Business	8,694,031	115,982	656,885	9,466,898	120,679	4,018	317,218	441,915	9,024,982
Total retail	**89,681,576**	**1,207,013**	**2,848,318**	**93,736,907**	**344,303**	**41,139**	**1,499,663**	**1,885,105**	**91,851,802**
Large corporate clients	33,953,918	1,658,522	11,595,741	47,208,181	310,263	197,878	7,901,653	8,409,794	38,798,387
Middle corporate clients	6,995,710	211,590	1,935,944	9,143,244	67,366	3,164	1,287,520	1,358,050	7,785,194
Small corporate clients	3,458,723	121,341	1,207,560	4,787,624	36,736	631	632,196	669,563	4,118,060
State owned clients	12,989,199	132,086	503,850	13,625,135	86,779	4,870	139,220	230,869	13,394,267
Other	11,788,352	-	1,405,537	13,193,890	190,800	-	1,405,126	1,595,926	11,597,963
Total corporate	**69,185,902**	**2,123,539**	**16,648,632**	**87,958,073**	**691,944**	**206,543**	**11,365,715**	**12,264,202**	**75,693,871**
Total	**158,867,478**	**3,330,552**	**19,496,950**	**181,694,980**	**1,036,247**	**247,682**	**12,865,378**	**14,149,307**	**167,545,673**
Due from banks	**18,494,474**	**-**	**211,292**	**18,705,766**	**16,745**	**-**	**211,292**	**228,037**	**18,477,729**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Changes in impairement allowance of receivables in the Balance Sheet

	31.12.2018	Increase in impairment allowance	Reversal of impairment allowance	Other changes	31.12.2019
Total retail	1.885.105	1,644,843	(1,243,242)	(477,561)	1.809.145
Total corporate	12.264.202	3,820,362	(4,942,058)	(931,318)	10.211.188
Total	**14.149.307**	**5,465,205**	**(6,185,300)**	**(1,408,879)**	**12.020.333**
Due from banks	**228,037**	**40,853**	**(53,644)**	**3,105**	**218,351**

** Other changes relate to the transfer of 100% written-off receivables from balance sheet to off-balance sheet records, exchange rate differences and other changes.*

Problematic loans and receivables – Stage 3

Problematic loans and receivables are those loans and receivables for which the Bank has determined that there is objective evidence that indicates impairment and for which it does not expect the payment of due principal and interest due in accordance with the loan agreement (impaired receivables). Estimates of impairment for problematic receivables are made for each individually significant placement with the status of default (risk sub-category 4D and 4DD according to the internal rating system and risk category 5), if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of the financial asset and if there is a measurable decrease in future cash flows. Also, problematic loans include less materially significant Stage 3 loans, and their impairment calculation is done on a group basis in accordance with the requirements of IFRS 9.

Non-problematic loans and receivables – Stage 1 and 2

For non-problematic receivables in Stages 1 and 2 (rating categories 1, 2, 3 and subcategory 4), impairment is assessed on a group Stage (non-impaired receivables). Group estimates are carried out by groups according to similar credit risk characteristics that are formed on the basis of an internally prescribed methodology (rating groups by type of clients and placements), based on the internal rating system at the monthly Stage.

The impairment assessment on a group basis is based on the expected credit loss in accordance with probability unfulfilled commitments over the next 12 months (claims in Stage 1), unless there is a significant deterioration of credit risks in relation to the time of the initial recognition, when you estimate credit losses made on the basis of the probability of the neizmirenja obligations for a period of life of the instrument (claims at Stage 2). By appreciating specificity in dealings with clients, in particular establishes the migration for economic

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Receivables by days past due **– Stage 1 and 2**

In RSD thousands

	Stage 1						Stage 2					
31.12.2019	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	40,126,089	11,714	-	-	-	40,137,803	451,982	-	45,275	65,960	-	563,217
Cash Loans	32,496,413	1,959,855	-	-	-	34,456,268	133,784	78,369	119,376	38,185	-	369,714
Agricultural Loans	9,182,949	133,513	-	-	-	9,316,462	37,608	2,214	72,794	8,813	-	121,429
Other Loans	4,494,377	299,092	-	-	-	4,793,469	11,870	10,364	16,342	6,244	-	44,820
Micro Businesses	7,230,512	707,484	-	-	-	7,937,996	446,233	325,680	6,485	1,423	-	779,821
Retail clients	**93,530,340**	**3,111,658**	**-**	**-**	**-**	**96,641,998**	**1,081,477**	**416,627**	**260,272**	**120,625**	**-**	**1,879,001**
Large corporate clients	30,091,092	313,203	-	-	-	30,404,295	3,753,403	424,512	-	-	-	4,177,915
Middle corporate clients	7,523,028	226,375	-	-	-	7,749,403	108,098	70,483	3	-	-	178,584
Small corporate clients	3,474,992	96,666	-	-	-	3,571,658	68,993	26,647	-	-	-	95,640
State owned clients	21,034,676	812,809	-	-	-	21,847,485	394,081	19,409	-	-	-	413,490
Other	10,064,196	5,875	-	-	-	10,070,071	694	-	-	-	-	694
Corporate clients	**72,187,984**	**1,454,928**	**-**	**-**	**-**	**73,642,912**	4,325,269	541,051	3	-	-	4,866,323
Total	**165,718,324**	**4,566,586**	**-**	**-**	**-**	**170,284,910**	**5,406,746**	**957,678**	**260,275**	**120,625**	**-**	**6,745,324**
Out of which: restructured	-	-	-	-	-	-	**580,045**	**420,214**	**439**	**1,656**	**-**	**1,002,354**
Due from banks	**22,532,883**	**2,205,008**	**-**	**-**	**-**	**24,737,891**	**-**	**-**	**-**	**-**	**-**	**-**

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December 31, 2019

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Receivables by days past due **– Stage 1 and 2**

In RSD thousands

	Stage 1						Stage 2					
31.12.2018	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**	**Not due**	**Due up to 30 days**	**From 31-60 days**	**From 61-90 days**	**Over 90 days**	**Total**
Housing Loans	37,223,680	174,106	-	-	-	**37,397,786**	427,559	53,801	69,467	103,377	-	**654,204**
Cash Loans	27,792,930	2,245,873	-	-	-	**30,038,803**	65,876	55,360	119,999	48,165	-	**289,400**
Agricultural Loans	8,205,610	152,267	-	-	-	**8,357,877**	28,645	1,027	45,606	15,891	-	**91,169**
Other Loans	4,860,799	332,280	-	-	-	**5,193,079**	16,828	3,441	24,572	11,418	-	**56,259**
Micro Businesses	7,751,492	942,539	-	-	-	**8,694,031**	58,824	33,394	23,166	597	-	**115,981**
Retail clients	**85,834,511**	**3,847,065**	**-**	**-**	**-**	**89,681,576**	**597,732**	**147,023**	**282,810**	**179,448**	**-**	**1,207,013**
Large corporate clients	33,652,823	301,095	-	-	-	**33,953,918**	1,255,394	81,730	321,397	-	-	**1,658,521**
Middle corporate clients	6,765,412	230,298	-	-	-	**6,995,710**	163,902	35,601	12,088	-	-	**211,591**
Small corporate clients	3,404,257	54,466	-	-	-	**3,458,723**	110,899	10,433	9	-	-	**121,341**
State owned clients	12,980,623	8,576	-	-	-	**12,989,199**	100,167	31,754	165	-	-	**132,086**
Other	11,788,352	-	-	-	-	**11,788,352**	-	-	-	-	-	**-**
Corporate clients	**68,591,467**	**594,435**	**-**	**-**	**-**	**69,185,902**	**1,630,362**	**159,518**	**333,659**	**-**	**-**	**2,123,539**
Total	**154,425,978**	**4,441,500**	**-**	**-**	**-**	**158,867,478**	**2,228,094**	**306,541**	**616,469**	**179,448**	**-**	**3,330,552**
Out of which: restructured	-	-	-	-	-	-	295,208	26,407	-	9,571	-	331,186
Due from banks	**18,494,474**	**-**	**-**	**-**	**-**	**18,494,474**	**-**	**-**	**-**	**-**	**-**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Impaired receivables by days past due – **Problematic receivables, Stage 3**

In RSD thousands

31.12.2019	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	272,633	5,087	30,698	60,758	624,342	**993,518**
Cash Loans	54,228	18,653	14,590	11,590	151,102	**250,163**
Agricultural Loans	67,141	9,151	5,927	5,333	188,270	**275,822**
Other Loans	6,490	563	641	55	151,914	**159,663**
Micro Businesses	13,633	76,424	7,607	16,416	435,918	**549,998**
Retail clients	**414,125**	**109,878**	**59,463**	**94,152**	**1,551,546**	**2,229,164**
Large corporate clients	1,652,779	52,063	55,309	-	4,513,452	**6,273,603**
Middle corporate clients	199,802	-	-	-	1,554,043	**1,753,845**
Small corporate clients	22,076	-	-	6,556	1,120,610	**1,149,242**
State owned clients	334	-	-	-	170,337	**170,671**
Other	1,319,701	-	-	-	2,946,437	**4,266,138**
Corporate clients	**3,194,692**	**52,063**	**55,309**	**6,556**	**10,304,879**	**13,613,499**
Total	**3,608,817**	**161,941**	**114,772**	**100,708**	**11,856,425**	**15,842,663**
Out of which: restructured	1,424,595	58,846	71,849	20,037	5,766,584	7,341,911
Due from banks	**214,417**	**-**	**-**	**-**	**-**	**214,417**

Receivables with a delay of less than 90 days in Stage 3 relate to clients who have financial difficulties and the Bank has estimated that there is a risk of default by the end of the loan repayment, given that when considering the same, a set of different criteria is used.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Impaired receivables by days past due – **Problematic receivables, Stage 3**

In RSD thousands

31.12.2018	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	298,814	69,763	40,848	48,572	1,063,940	**1,521,937**
Cash Loans	60,889	23,413	12,821	17,977	111,682	**226,782**
Agricultural Loans	18,824	6,326	3,129	824	234,239	**263,342**
Other Loans	12,035	1,240	295	1,446	164,357	**179,373**
Micro Businesses	69,907	21,155	5,536	16,953	543,333	**656,884**
Retail clients	**460,469**	**121,897**	**62,629**	**85,772**	**2,117,551**	**2,848,318**
Large corporate clients						
Middle corporate clients	1,850,212	7,008	258,670	372,861	9,106,992	**11,595,743**
Small corporate clients	74,482	-	-	-	1,861,461	**1,935,943**
State owned clients	39,097	326,954	13,413	-	828,096	**1,207,560**
Other	324,552	8,458	-	-	170,839	**503,849**
Corporate clients	1,404,715	-	-	-	822	**1,405,537**
	3,693,058	**342,420**	**272,083**	**372,861**	**11,968,210**	**16,648,632**
Total	**4,153,527**	**464,317**	**334,712**	**458,633**	**14,085,761**	**19,496,950**
Out of which: restructured	2,122,009	23,622	36,725	21,914	10,893,051	**13,097,322**
Due from banks	**211,292**	**-**	**-**	**-**	**-**	**211,292**

NOTES TO THE FINANCIAL STATEMENTS
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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables

Participation of problematic receivables, Stage 3 in total loans *In RSD thousand*

31.12.2019	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructered receivables	Stage 3 Impairment allowance	Share of Stage 3 in total loans (%)	Collateral value Stage 3
Total retail	**100,750,162**	**1,809,145**	**2,229,165**	**527,968**	**1,252,031**	**2.21%**	**1,903,216**
Housing Loans	**41,694,537**	**562,054**	**993,518**	**209,731**	**487,612**	**2.38%**	**984,826**
Cash Loans	**35,076,145**	**377,138**	**250,163**	**11,929**	**196,477**	**0.71%**	**112,631**
Agricultural Loans	**9,713,711**	**243,147**	**275,822**	**44,886**	**127,555**	**2.84%**	**255,180**
Other	**4,997,953**	**190,779**	**159,663**	**-**	**153,449**	**3.19%**	**598**
Micro Businesses	**9,267,816**	**436,027**	**549,999**	**261,422**	**286,938**	**5.93%**	**549,981**
Corporate clients	**92,122,734**	**10,211,188**	**13,613,499**	**6,813,943**	**9,768,608**	**14.78%**	**12,126,609**
Agriculture	4,169,876	64,802	60,217	-	56,463	1.44%	60,385
Manufacturing Industry	13,054,066	1,214,467	2,958,078	2,879,046	1,165,968	22.66%	2,958,078
Electric Energy	91,586	1,116	-	-	-	0.00%	-
Construction	9,048,163	500,834	673,359	10,276	486,253	7.44%	673,708
Wholesale and Retail	23,100,789	567,209	845,424	607,050	455,214	3.66%	839,099
Service Activities	13,284,210	1,301,523	1,579,328	1,571,626	1,220,425	11.89%	1,578,182
Real Estate Activities	5,182,425	490,297	1,031,805	687,601	482,859	19.91%	1,029,573
Other	24,191,628	6,070,940	6,465,288	1,058,344	5,901,426	26.73%	4,987,584
Total	**192,872,896**	**12,020,333**	**15,842,664**	**7,341,911**	**11,020,639**	**8.21%**	**14,029,825**
Due from banks	**24,952,308**	**218,350**	**214,417**	**-**	**214,417**	**0.86%**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables

Participation of problematic receivables, Stage 3 in total loans *In RSD thousand*

31.12.2018	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructered receivables	Stage 3 Impairment allowance	Share of Stage 3 in total loans (%)	Collateral value Stage 3
Total retail	**93,736,907**	**1,885,105**	**2,848,318**	**856,108**	**1,499,664**	**3.04%**	**2,539,572**
Housing Loans	39,573,928	773,359	1,521,938	439,228	722,407	3.85%	1,511,459
Cash Loans	30,554,984	265,933	226,782	28,097	153,963	0.74%	132,048
Agricultural Loans	8,712,387	203,227	263,341	16,409	138,525	3.02%	237,991
Other	5,428,711	200,671	179,373	-	167,551	3.30%	1,191
Micro Businesses	9,466,897	441,915	656,884	372,374	317,218	6.94%	656,883
Corporate clients	**87,958,074**	**12,264,202**	**16,648,632**	**12,241,214**	**11,365,714**	**18.93%**	**14,951,036**
Agriculture	5,368,696	114,450	222,617	13,411	85,212	4.15%	222,785
Manufacturing Industry	14,604,683	2,420,833	4,160,130	3,818,420	2,322,335	28.48%	4,154,270
Electric Energy	99,306	3,105	27,298	-	19	27.49%	27,298
Construction	7,781,109	1,205,744	1,592,833	832,676	998,515	20.47%	1,593,206
Wholesale and Retail	23,677,087	901,765	1,875,109	1,612,891	651,402	7.92%	1,868,834
Service Activities	7,280,885	1,223,932	1,494,901	1,477,865	1,187,702	20.53%	1,494,901
Real Estate Activities	4.699.746	729,500	1,323,324	983,040	704,066	28.16%	-
Other	24,446,562	5,664,873	5,952,420	3,502,911	5,416,463	24.35%	4,265,943
Total	**181,694,981**	**14,149,307**	**19,496,950**	**13,097,322**	**12,865,378**	**10.73%**	**17,490,608**
Due from banks	**18,705,766**	**228,037**	**211,292**	**-**	**211,292**	**1.13%**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables (continued)

Changes in problematic receivables

In RSD thousand

	31.12.2018	New problematic receivables – Stage 3	Decrease in problematic receivables – Stage 3	Foreign exchange rate effect	Other changes	31.12.2019	Net value at the end of the year
Housing Loans	1,521,937	267,043	(754,206)	16,944	(58,201)	993,518	505,905
Cash Loans	226,782	200,417	(164,611)	(72)	(12,353)	250,163	53,686
Agricultural Loans	263,341	138,504	(101,341)	(1,037)	(23,645)	275,822	148,267
Other Loans	179,373	64,674	(83,749)	(20)	(615)	159,663	6,215
Micro Businesses	656,885	115,648	(85,576)	(2,143)	(134,814)	549,999	263,061
Retail	**2,848,318**	**786,286**	**(1,189,483)**	**13,672**	**(229,628)**	**2,229,165**	**977,134**
Large corporate clients	11,595,741	52,229	(2,369,380)	(38,523)	(2,966,465)	6,273,602	2,559,584
Middle corporate clients	1,935,943	13,744	(39,355)	(7,893)	(148,594)	1,753,845	418,081
Small corporate clients	1,207,560	32,900	(67,381)	(4,522)	(19,314)	1,149,243	492,542
State owned clients	503,850	118	(35,756)	(2,177)	(295,363)	170,672	38,584
Other	1,405,537	6,438	(412)	(5,634)	2,860,207	4,266,137	336,100
Corporate Clients	**16,648,631**	**105,429**	**(2,512,284)**	**(58,749)**	**(569,529)**	**13,613,499**	**3,844,891**
Total	**19,496,950**	**891,715**	**(3,701,767)**	**(45,077)**	**(799,157)**	**15,842,664**	**4,822,025**
Due from banks	**211,292**	**-**	**-**	**-**	**3,125**	**214,417**	**-**

The decrase of restructured receivables mostly relates to the cession of fee receivables, permanent write-off and the transfer of 100% impaired receivables to off-balance sheet records at the parent Bank. Other changes relate to a partial increase/decrease in the amount of restructured receivables within one lot during the year and mostly to the partial collection at parent Bank.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.3. Nonproblematic receivables (Stage 1 and Stage 2)

In RSD thousand

	31.12.2019				31.12.2018			
	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals
Housing Loans	40,600,372	100,647	40,701,019	40,522,852	37,897,797	154,193	38,051,990	37,867,041
Cash Loans	34,666,856	159,126	34,825,982	10,813,597	30,006,894	321,308	30,328,202	6,122,364
Agricultural Loans	9,415,826	22,063	9,437,889	8,032,833	8,419,685	29,361	8,449,046	6,617,026
Other Loans	4,817,669	20,620	4,838,289	101,654	5,211,496	37,842	5,249,338	91,821
Micro Businesses	8,341,708	376,110	8,717,818	8,706,933	8,414,374	395,639	8,810,013	8,804,246
Retail	**97,842,431**	**678,566**	**98,520,997**	**68,177,869**	**89,950,246**	**938,343**	**90,888,589**	**59,502,500**
Large corporate clients	31,140,683	3,441,528	34,582,211	34,670,639	30,369,732	5,242,708	35,612,440	32,707,216
Middle corporate clients	7,869,442	58,545	7,927,987	7,916,337	7,100,191	107,110	7,207,301	7,044,748
Small corporate clients	3,631,327	35,971	3,667,298	3,665,949	3,521,734	58,329	3,580,063	3,632,286
State owned clients	14,856,901	7,404,073	22,260,974	22,554,545	10,926,175	2,195,210	13,121,386	10,060,358
Other	4,862,214	5,208,551	10,070,765	7,645,774	11,788,160	92	11,788,252	8,742,174
Corporate Clients	**62,360,567**	**16,148,668**	**78,509,235**	**76,453,244**	**63,705,993**	**7,603,449**	**71,309,442**	**62,186,782**
Total	**160,202,998**	**16,827,234**	**177,030,232**	**144,631,113**	**153,656,238**	**8,541,792**	**162,198,031**	**121,689,281**
Due from banks	**24,737,891**	**-**	**24,737,891**	**-**	**18,494,474**	**-**	**18,494,474**	**-**

NOTES TO THE FINANCIAL STATEMENTS
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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables

In RSD thousand

31.12.2019	Gross exposure	Impairment of gross exposure	Resturctured receivables	Impairment of restructured receivables	Resturctured receivables stage 2	Impairment of restructured receivables- stage 2	Resturctured receivables stage 3	Impairment of restructured receivables- stage 3	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Total retail	**100,750,162**	**1,809,145**	**783,965**	**220,652**	**255,997**	**14,316**	**527,968**	**206,336**	**0.78%**	**781,141**
Housing Loans	41,694,538	562,054	436,581	98,673	226,850	13,525	209,731	85,147	1.05%	436,581
Cash Loans	35,076,145	377,138	28,678	9,606	16,749	463	11,929	9,143	0.08%	26,246
Agricultural Loans	9,713,711	243,147	51,963	8,103	7,077	326	44,886	7,778	0.53%	51,571
Other	4,997,952	190,779	-	-	-	-	-	-	0.00%	-
Micro Businesses	9,267,816	436,027	266,743	104,270	5,321	2	261,422	104,268	2.88%	266,743
Corporate Clients	**92,122,734**	**10,211,188**	**7,560,299**	**4,081,967**	**746,357**	**4,927**	**6,813,943**	**4,077,040**	**8.21%**	**7,560,299**
Agriculture	4,169,866	64,802	-	-	-	-	-	-	-	-
Manufacturing Industry	13,054,066	1,214,467	2,879,045	1,139,334	-	-	2,879,046	1,139,334	22.05%	2,879,045
Electric Energy	91,586	1,116	-	-	-	-	-	-	-	-
Construction	9,048,163	500,834	746,514	10,460	736,238	4,895	10,276	5,565	8.25%	746,514
Wholesale and Retail	23,100,789	567,209	609,526	337,956	2,476	32	607,050	337,924	2.64%	609,526
Service Activities	13,284,210	1,301,523	1,571,626	1,219,163	0	-	1,571,626	1,219,163	11.83%	1,571,626
Real Estate Activities	5,182,425	490,297	695,244	452,272	7,643	-	687,601	452,272	13.42%	695,244
Other	24,191,629	6,070,940	1,058,344	922,782	-	-	1,058,344	922,782	4.37%	1,058,344
Total	**192,872,896**	**12,020,333**	**8,344,264**	**4,302,619**	**1,002,354**	**19,243**	**7,341,911**	**4,283,376**	**4.33%**	**8,341,440**
Due from banks	**24,952,308**	**218,351**	**-**	**-**	**-**	**-**	**-**	**-**	**0.00%**	**-**

NOTES TO THE FINANCIAL STATEMENTS
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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

In RSD thousand

31.12.2018	Gross exposure	Impairment of gross exposure	Resturctured receivables	Impairment of restructured receivables	Resturctured receivables stage 2	Impairment of restructured receivables- stage 2	Resturctured receivables stage 3	Impairment of restructured receivables- stage 3	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Total retail	**93,736,907**	**1,885,105**	**1,096,805**	**344,729**	**240,697**	**7,605**	**856,108**	**337,124**	**1,17%**	**1,094,194**
Housing Loans	39,573,927	773,358	675,476	191,582	236,248	7,545	439,228	184,037	1,71%	675,277
Cash Loans	30,554,984	265,933	28,097	11,556	-	-	28,097	11,556	0,09%	25,912
Agricultural Loans	8,712,387	203,227	17,857	5,531	1,448	-	16,409	5,531	0,20%	17,630
Other	5,428,711	200,671	-	-	-	-	-	-	0,00%	-
Micro Businesses	9,466,897	441,915	375,375	136,060	3,001	61	372,374	135,999	3,97%	375,375
Corporate Clients	**87,958,074**	**12,264,202**	**12,331,703**	**8,712,244**	**90,489**	**14,972**	**12,241,214**	**8,697,272**	**14,02%**	**12,296,249**
Agriculture	5,368,696	114,450	13,411	-	-	-	13,411	-	0,25%	13,411
Manufacturing Industry	14,604,682	2,420,833	3,818,420	2,301,616	-	-	3,818,420	2,301,616	26,15%	3,812,560
Electric Energy	99,306	3,105	-	-	-	-	-	-	0,00%	-
Construction	7,781,109	1,205,744	832,676	811,000	-	-	832,676	811,000	10,70%	832,676
Wholesale and Retail	23,677,087	901,765	1,692,947	561,400	80,056	14,972	1,612,891	546,428	7,15%	1,663,353
Service Activities	7,280,885	1,223,932	1,477,865	1,187,615	-	-	1,477,865	1,187,615	20,30%	1,477,865
Real Estate Activities	4.699.746	729,500	993,473	683,104	10,433	-	983,040	683,104	21,14%	993,473
Other	24,446,562	5,664,873	3,502,911	3,167,509	-	-	3,502,911	3,167,509	14,33%	3,502,911
Total	**181,694,980**	**14,149,307**	**13,428,508**	**9,056,973**	**331,186**	**22,578**	**13,097,322**	**9,034,395**	**7,39%**	**13,390,443**
Due from banks	**18,705,766**	**228,037**	**-**	**-**	**-**	**-**	**-**	**-**	**0,00%**	**-**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Changes in restructured receivables

In RSD thousand

	31.12.2018	New restructured receivables	Decrease in restructured receivables	Foreign exchange rate effect	Other changes*	31.12.2019	Net
Housing Loans	675,476	13,862	(33,510)	11,110	(230,357)	436,581	337,908
Cash Loans	28,097	5,888	(1,057)	(56)	(4,194)	28,678	19,072
Agricultural Loans	17,857	36,993	(173)	(91)	(2,623)	51,963	43,860
Other Loans	-	-	-	-	-	-	-
Micro Businesses	375,375	9,747	(6,367)	(843)	(111,169)	266,743	162,474
Retail	**1,096,805**	**66,490**	**(41,107)**	**10,120**	**(348,343)**	**783,965**	**563,314**
Large corporate clients	10,862,610	736,238	(5,355,689)	(35,592)	(49,095)	6,158,472	3,051,836
Middle corporate clients	1,079,829	-	-	(5,075)	(638)	1,074,116	327,056
Small corporate clients	389,263	9,432	(55,854)	(1,984)	(13,146)	327,711	99,440
State owned clients	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Corporate Clients	**12,331,702**	**745,670**	**(5,411,543)**	**(42,651)**	**(62,879)**	**7,560,299**	**3,478,332**
Total	**13,428,507**	**812,160**	**(5,452,650)**	**(32,531)**	**(411,222)**	**8,344,264**	**4,041,646**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**

The decrase of restructured receivables mostly relates to the cession of fee receivables, permanent write-off and the transfer of 100% impaired receivables to off-balance sheet records. Other changes relate to a partial increase/decrease in the amount of restructured receivables within one lot during the year and mostly to the partial collection.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Measures that the Bank implements in the restructuring of receivables

The bank implements different restructuring measures depending on the needs of clients, respecting the Bank's interest in taking into account the complete business, financial and collateral position of clients.

The measures that the Bank members most often implement during the restructuring of placements are:

- The extension of the maturity period, which is mainly followed by the adjustment of the interest rate, which is in line with the financial position of the clients,
- The introduction of a grace period or moratorium on the settlement of obligations within a specified period
- Supporting clients in the implementation of reinvestments i.e. the sale of non core assets with the aim of lowering their exposure to the Bank
- Capitalization of days past due, if there are matured liabilities due to maturity, they are returned to unexpected liabilities during the implementation of the restructuring, or a new initial balance of claims is formed,
- Refinancing of receivables - in justified cases it is possible to refinance receivables from other creditors in order to improve the position of the Bank (collateral or financial approval of favorable repayment terms),
- partial write-offs - in the past period, the Bank members did not carry out partial write-offs in the course of restructuring,
- The conversion of debt into equity - has not been carried out in the past period

These measures can be implemented individually or by implementing a number of measures depending on each individual restructuring process.

4.1.5. Risk of concentration

The Bank manages the risk of concentration through a set limit system that includes exposure limits with the same or similar risk factors (according to sectors / activities, geographical areas, individual debtors or groups of related parties, credit protection instruments ...). Establishing appropriate exposure limits is the basis for risk concentration control in order to diversify the loan portfolio. Bank on an annual basis depending on market trends, appetite for risk, business policy Bank and the annual business plan, reviewed and, if necessary, changes internally set limits.

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

Loans and receivables from banks and other financial organizations by branch and geographical concentration of exposures

In RSD thousand

	Non problematic receivables					Problematic receivables				
31.12.2019	**Serbia**	**Montenegro**	**B&H**	**EU**	**Other**	**Serbia**	**Montenegro**	**B&H**	**EU**	**Other**
Retail	**98,520,997**	**-**	**-**	**-**	**-**	**2,229,165**	**-**	**-**	**-**	**-**
Housing Loans	40,701,019	-	-	-	-	993,518	-	-	-	-
Cash Loans	34,825,982	-	-	-	-	250,163	-	-	-	-
Agricultural Loans	9,437,889	-	-	-	-	275,822	-	-	-	-
Other	4,838,289	-	-	-	-	159,663	-	-	-	-
Micro Businesses	8,717,818	-	-	-	-	549,999	-	-	-	-
Corporate Clients	**68,444,773**	**2,782,938**	**7,281,524**	**-**	**-**	**13,613,499**	**-**	**-**	**-**	**-**
Agriculture	4,109,650	-	-	-	-	60,217	-	-	-	-
Manufacturing Industry	10,095,988	-	-	-	-	2,958,078	-	-	-	-
Electric Energy	91,586	-	-	-	-	-	-	-	-	-
Construction	8,374,803	-	-	-	-	673,359	-	-	-	-
Wholesale and Retail	22,255,366	-	-	-	-	845,424	-	-	-	-
Service Activities	11,704,882	-	-	-	-	1,579,328	-	-	-	-
Real Estate Activities	4,150,620	-	-	-	-	1,031,805	-	-	-	-
Other	7,661,878	2,782,938	7,281,524	-	-	6,465,289	-	-	-	-
Total	**166,965,770**	**2,782,938**	**7,281,524**	**-**	**-**	**15,842,664**	**-**	**-**	**-**	**-**
Due from banks	**5,734,421**	**8,720**	**86,932**	**5,465,156**	**13,442,662**	**-**	**-**	**-**	**-**	**214,417**

Total credit exposure nonproblematic receivables are Montenegro and Bosnia and Herzegovina and are located in Stage 1.
Depending on general economic trends and developments in individual industrial sectors, the Bank members carried out the diversification of investments in industrial sectors that are resistant to the impact of negative economic developments.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

Loans and receivables from banks and other financial organizations by branch and geographical concentration of exposures

In RSD thousand

	Non problematic receivables					Problematic receivables				
31.12.2018	**Serbia**	**Montenegro**	**B&H**	**EU**	**Other**	**Serbia**	**Montenegro**	**B&H**	**EU**	**Other**
Retail	**90,888,589**	**-**	**-**	**-**	**-**	**2,848,318**	**-**	**-**	**-**	**-**
Housing Loans	38,051,990	-	-	-	-	1,521,937	-	-	-	-
Cash Loans	30,328,202	-	-	-	-	226,782	-	-	-	-
Agricultural Loans	8,449,046	-	-	-	-	263,341	-	-	-	-
Other	5,249,338	-	-	-	-	179,373	-	-	-	-
Micro Businesses	8,810,013	-	-	-	-	656,884	-	-	-	-
Corporate Clients	**59,521,054**	**3,442,252**	**8,346,136**	**-**	**-**	**16,648,632**	**-**	**-**	**-**	-
Agriculture	5,146,080	-	-	-	-	222,617	-	-	-	-
Manufacturing Industry	10,444,552	-	-	-	-	4,160,130	-	-	-	-
Electric Energy	72,008	-	-	-	-	27,298	-	-	-	-
Construction	6,188,277	-	-	-	-	1,592,833	-	-	-	-
Wholesale and Retail	21,801,978	-	-	-	-	1,875,109	-	-	-	-
Service Activities	5,785,984	-	-	-	-	1,494,901	-	-	-	-
Real Estate Activities	3.376.422	-	-	-	-	1,323,324	-	-	-	-
Other	6,705,753	3,442,252	8,346,136	-	-	5,952,421	-		-	-
Total	**150,409,643**	**3,442,252**	**8,346,136**	**-**	**-**	**19,496,950**	**-**		**-**	**-**
Due from banks	**6,459,266**	**8,705**	**105,045**	**9,334,204**	**2,587,254**	**-**	**-**		**-**	**211.292**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

Loans and receivables to customers by geographical concentration of exposures in Serbia

In RSD thousand

	31.12.2019				31.12.2018			
	Vojvodina	Belgrade	Central Serbia	Total	Vojvodina	Belgrade	Central Serbia	Total
Total retail	21,993,459	43,544,444	35,212,259	**100,750,162**	21,009,431	39,629,904	33,097,571	**93,736,906**
Corporate clients	26,806,493	39,856,528	15,395,251	**82,058,272**	28,958,035	31,100,893	16,110,758	**76,169,686**
Total	**48,799,952**	**83,400,972**	**50,607,510**	**182,808,434**	**49,967,466**	**70,730,797**	**49,208,329**	**169,906,592**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.6. Financial assets

In RSD thousand

	31.12.2019		31.12.2018	
	Gross	Net	Gross	Net
Financial assets:				
− at fair value through profit and loss	10,289,019	10,289,019	4,813,880	4,813,880
− at fair value through other comprehensive income	128,181,134	128,180,532	128,369,382	128,367,788
Total	**138,470,153**	**138,469,551**	**133,183,262**	**133,181,668**

Financial assets at fair value through profit and loss relate to investment units of the Kombank Monetary Fund, which are valued by mark to market, as well as securities of the Republic of Serbia, which are assessed according to the methodology of internally developed models (mark to model) , as well as swap transactions and bonds of the Republic of Serbia, which are held at fair value through the other comprehensive income, or on the basis of market prices for securities traded on the stock market (mark to market).

Financial assets at fair value through other comprehensive income are placements for which there is an intent to hold them in an unspecified period of time and which can be sold due to liquidity needs or due to changes in interest rates, foreign exchange rates or market prices. They consist, in large part, of treasury bills and bonds issued by the Republic of Serbia, the Republic of Srpska municipality bonds and bonds of other banks and countries.

Securities at fair value through other comprehensive income are initially estimated at cost, and their fair value is calculated on a monthly basis, based on market prices for securities traded on the stock market (mark to market), as well as applying internally developed models (mark to model) in the event that independent sources of market information are not available for a particular financial instrument, or when the available prices do not change regularly nether there are significant trading volumes. This model of valuation is based on the maturity date of the security and level of risk free interest rates.

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral)

In the following reviews, the value of the collateral is presented at the fair value of the collateral, so that the collateral value is only shown up to the amount of gross placements (in cases where the value of the collateral exceeds the amount of the loan). When the collateral value is lower than the value of gross placement, the value of the collateral is expressed.

The value of collateral and guarantees received in order to mitigate the exposure to credit risk arising from the placement of clients is shown in the following review.

Loans and receivables from customers covered by collateral

In RSD thousand

	Stage 1					Stage 2				
31.12.2019	**Real Estate**	**Deposits**	**Guarantees**	**Other Collaterals**	**Total**	**Real Estate**	**Deposits**	**Guarantees**	**Other Collaterals**	**Total**
Housing Loans	37,671,653	12,071	-	2,276,421	**39,960,145**	537,227	-	-	25,479	**562,706**
Cash Loans	79,624	379,175	-	10,182,910	**10,641,709**	3,716	10,779	-	157,393	**171,888**
Agricultural Loans	3,938,071	13,765	5,272	3,964,160	**7,921,268**	47,139	845	-	63,582	**111,566**
Other	-	3,252	-	89,540	**92,792**	-	26	-	8,836	**8,862**
Micro Businesses	1,003,601	680,428	-	6,243,075	**7,927,104**	183,232	106,480	-	490,117	**779,829**
Total Retail	**42,692,949**	**1,088,691**	**5,272**	**22,756,106**	**66,543,018**	**771,314**	**118,130**	**-**	**745,407**	**1,634,851**
Large Corporate Clients	16,292,099	192,603	2,469,948	11,449,633	**30,404,283**	3,423,605	0	-	754,322	**4,177,927**
Middle Corporate Clients	2,536,852	493,534	29,424	4,677,942	**7,737,752**	16,152	0	-	162,433	**178,585**
Small Corporate Clients	949,624	145,321	-	2,475,364	**3,570,309**	31,488	12,859	-	51,294	**95,641**
State	838,223	-	4,871,883	16,137,378	**21,847,484**	-	-	-	413,490	**413,490**
Other	-	-	-	7,645,774	**7,645,774**	-	-	-	-	**-**
Corporate Clients	**20,616,798**	**831,458**	**7,371,255**	**42,386,091**	**71,205,602**	**3,471,245**	**12,859**	**-**	**1,381,539**	**4,865,643**
Total	**63,309,747**	**1,920,149**	**7,376,527**	**65,142,197**	**137,748,620**	**4,242,559**	**130,989**	**-**	**2,126,946**	**6,500,494**
Of which: restructured	-	-	-	-	-	234,926	5,242	-	760,332	**1,000,500**
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

* Other collateral relating to the pledge on the goods, the lien on the receivables, the pledge on equipment, warranty.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In RSD thousand

			Stage 3		
31.12.2019	**Real Estate**	**Deposits**	**Guarantees**	**Other Collaterals**	**Total**
Housing Loans	955,804	-	-	29,022	**984,826**
Cash Loans	3,576	12,032	-	97,023	**112,631**
Agricultural Loans	200,440	-	-	54,740	**255,180**
Other	-	122	-	477	**599**
Micro Businesses	370,819	246	-	178,916	**549,981**
Total Retail	**1,530,639**	**12,400**	**-**	**360,178**	**1,903,217**
Large Corporate Clients	5,176,426	40	-	1,093,501	**6,269,967**
Middle Corporate Clients	1,540,779	-	-	211,115	**1,751,894**
Small Corporate Clients	932,356	-	-	216,886	**1,149,242**
State	7,306	-	334	-	**7,640**
Other	**2,759,593**	**-**	**-**	**185,635**	**2,945,228**
Corporate Clients	**10,416,460**	**40**	**334**	**1,707,137**	**12,123,971**
Total	**11,947,099**	**12,440**	**334**	**2,067,314**	**14,027,188**
Of which: restructured	6,394,982	-	-	945,958	7,340,940
Due from banks	**-**	**-**	**-**	**-**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In RSD thousand

	Stage 1					Stage 2				
31.12.2018	**Real Estate**	**Deposits**	**Guarantees**	**Other Collaterals**	**Total**	**Real Estate**	**Deposits**	**Guarantees**	**Other Collaterals**	**Total**
Housing Loans	34,299,759	12,509	-	2,901,626	**37,213,894**	634,773	-	-	18,374	**653,147**
Cash Loans	44,976	544,305	-	5,411,958	**6,001,240**	-	14,515	-	106,609	**121,125**
Agricultural Loans	3,128,582	126,409	14,064	3,271,857	**6,540,912**	52,141	-	-	23,974	**76,115**
Other	-	4,389	-	87,364	**91,753**	-	-	-	69	**69**
Micro Businesses	1,479,436	648,308	-	6,560,521	**8,688,265**	14,236	3,908	-	97,837	**115,981**
Total Retail	**38,952,754**	**1,335,919**	**14,064**	**18,233,327**	**58,536,063**	**701,150**	**18,424**	**-**	**246,863**	**966,436**
Large Corporate Clients	21,269,065	322,031	101,803	9,385,388	**31,078,288**	554,800	-	-	1,074,128	**1,628,928**
Middle Corporate Clients	2,168,776	280,297	-	4,384,084	**6,833,158**	120,526	-	21,718	69,347	**211,590**
Small Corporate Clients	1,098,757	190,487	-	2,221,647	**3,510,891**	66,590	54,796	-	9	**121,395**
State	614,943	1,182	1,580,848	7,731,818	**9,928,791**	-	-	-	131,567	**131,567**
Other	-	-	-	8,742,174	**8,742,174**	-	-	-	-	**-**
Corporate Clients	**25,151,541**	**793,998**	**1,682,652**	**32,465,111**	**60,093,302**	**741,915**	**54,796**	**21,718**	**1,275,050**	**2,093,479**
Total	**64,104,295**	**2,129,917**	**1,696,716**	**50,698,438**	**118,629,365**	**1,443,065**	**73,220**	**21,718**	**1,521,913**	**3,059,916**
Of which: restructured	-	-	-	-	-	286,060	-	-	15,532	301,592
Due from banks	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

* Other collateral relating to the pledge on the goods, the lien on the receivables, the pledge on equipment, warranty.

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4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In RSD thousand

31.12.2018	Stage 3				
	Real Estate	**Deposits**	**Guarantees**	**Other Collaterals**	**Total**
Housing Loans	1,438,831	-	-	72,628	**1,511,459**
Cash Loans	9,982	1,165	-	120,901	**132,048**
Agricultural Loans	172,246	-	192	65,552	**237,991**
Other	-	-	-	1,191	**1,191**
Micro Businesses	513,503	5,157	-	138,223	**656,883**
Total Retail	**2,134,562**	**6,322**	**192**	**398,495**	**2,539,572**
Large Corporate Clients	9,904,778	-	-	1,686,932	**11,591,710**
Middle Corporate Clients	1,548,980	-	-	267,116	**1,816,096**
Small Corporate Clients	1,098,275	-	-	113,097	**1,211,372**
State	7,306	-	297,254	27,298	**331,859**
Other	-	-	-	-	**-**
Corporate Clients	**12,559,340**	**-**	**297,254**	**2,094,442**	**14,951,036**
Total	**14,693,902**	**6,322**	**297,447**	**2,492,938**	**17,490,608**
Of which: restructured	11,513,479	-	-	1,575,372	13,088,851
Due from banks	**-**	**-**	**-**	**-**	**-**

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

The ratio of the amount of loans and the estimated value of the real estate held as collateral is monitored according to the range of Loan To Value Ratio - LTV ratios.

Overview of loans covered by mortgages according to LTV range

In thousands of RSD

	December 31, 2019	December 31, 2018
Less than 50%	25,360,866	27,640,458
50% - 70%	20,106,604	18,738,367
71% - 100%	22,014,570	19,798,281
101% - 150%	6,032,339	8,671,141
More than 150%	7,166,289	10,272,865
Total exposure	**80,680,668**	**85,121,112**
Average LTV	**64.10%**	**68.98%**

4.1.8. Foreclosed assets

Foreclosed assets taken by the Bank in the process of collection of placements are presented in the following review:

In thousands of RSD

	Residental Premises	Business Premises	Equipment	Land and Forests	Securities	Total
31.12.2018	**75,116**	**1,919,147**	**111,543**	**162,889**	**-**	**2,268,695**
Acquisiton	-	67,690	7,686	-	1,940	77,316
Transfer to invesment proprety	-	(60,474)	-	-		(60,474)
Write-off	(5,510)					(5,510)
31.12.2019	**69,606**	**1,926,363**	**119,229**	**162,889**	**1,940**	**2,280,027**
Impairment Allowances	**32,165**	**817,169**	**92,109**	**43,853**	**1,940**	**987,236**
Net	**37,442**	**1,109,194**	**27,120**	**119,036**	**-**	**1,292,791**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk

Liquidity risk is the possibility of adverse effects on the Bank's financial result and capital due to the Bank's inability to settle its obligations, and in the event of insufficient liquidity reserves and inability to cover unexpected outflows and other liabilities.

The Bank respects the basic principles of liquidity in its business, achieving sufficient level of funds to cover short-term liabilities, and it respects the solvency principle by forming an optimal structure of own and borrowed funds and establishing a sufficient level of liquidity reserves that do not jeopardize the realization of the planned return on capital.

The liquidity risk is manifested in the difference between the inflow of funds on one hand, and the maturity of liabilities on the other hand, including the possibility of delaying planned inflows as well as unexpected outflows. Liquidity risk can arise in the form of risk of sources of funds and market liquidity risk. The problem of liquidity from the aspect of sources of funds refers to the structure of liabilities and is expressed through the potentially significant share of unstable sources, short-term sources or their concentration. On the other hand, the risk of liquidity is manifested through the deficit of reserves and the difficult or impossible acquisition of liquid assets at acceptable market prices.

The Bank has established an appropriate organizational structure, which clearly delineates the process of taking liquidity risk out of the process of its management. The primary role in the liquidity risk management process is performed by the Assets and Liabilities Management Committee of the parent Bank within its competencies, as well as other relevant committees of the Bank members, whose decisions may influence the Bank's exposure to this risk.

In order to minimize liquidity risk, the Bank:

- diversifies sources of funds, by currency and maturity;
- form and maintain sufficient level of liquidity reserves;
- manages funds;
- monitor future cash flows and liquidity on a daily basis;
- limits the basic sources of credit risk that have the most significant impact on the liquidity risk;
- defines and periodically tests the Liquidity Management Plans in Crisis Situations.

Liquidity risk management process consists of identification, measurement, mitigation, monitoring, controlling and reporting on liquidity risk.

Identification of liquidity risk in a comprehensive and timely manner the causes that lead to the occurrence of liquidity risk and includes the determination of current liquidity risk exposure as well as liquidity risk exposure arising from new business products and activities.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk(continued)

Measurement, or liquidity risk assessment, is a quantitative and/or qualitative assessment of the identified liquidity risk, using the following methods:

• GAP analysis;
• Ratio analysis;
• Stress test.

Mitigation involves maintaining the liquidity risk at an acceptable level for the Bank's risk profile by defining a system of limits that includes regulatory and internal limits, as well as the timely undertaking of risk mitigation measures and operations within these limits.

Liquidity risk control and monitoring includes the process of monitoring compliance with internally determined limits, as well as monitoring the defined measures for mitigating the Bank's liquidity risk exposure, which includes control at all levels of liquidity risk management, as well as an independent control system implemented by organizational units responsible for internal audit and compliance control business.

Liquidity risk reporting includes the internal and external reporting system, is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Bank adjusts its operations with the liquidity indicator, as follows: 0.8 calculated for one business day; then a minimum of 0.9 for no more than three consecutive working days, i.e. a minimum of 1 as the average of all working days of the month 0.5 calculated for one working day; then a minimum of 0.6 not more than three consecutive working days, i.e. a minimum of 0.7 as the average of all working days of the month.

During 2019 the Bank has aligned its operations with a liquidity coverage ratio indicator in all currencies, which maintains at a level not lower than 100%.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Compliance with externally defined liquidity limits:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquidity Coverage Ratio	
	2019	2018	2019	2018	2019	2018
As at December 31	4.08	3.86	3.83	3.56	410%	395%
Average for the period	4.22	4.38	3.95	4.10	432%	444%
Maximum for the period	4.75	4.92	4.43	4.68	495%	495%
Minimum for the period	3.55	3.19	3.38	2.94	391%	388%

During 2019, the liquidity indicator, the narrow liquidity indicator and the indicator of liquidity coverage ratio ranged above the defined limits, as well as within the framework of the defined risk tolerance.

The Bank defines the internal limits, based on the internal report on GAP's liquidity.

Compliance with internally defined liquidity limits on the last day:

	Limits	2019	2018
GAP up to 1 month / Total assets	Max (10%)	1.71%	1.57%
Cumulative GAP up to 3 months / Total assets	Max (20%)	1.83%	1.85%

In addition, the Bank limits and adjusts the operations with the limits of the structure of liabilities and the limits defined by the maturity aspect for significant currencies.

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December 31, 2019

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at December 31, 2019

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	67,558,219	-	-	-	-	**67,558,219**
Loans and receivables due from other banks and other financial institutions	23,827,458	256	15,500	890,744	-	**24,733,958**
Loans and receivables due from Customers	11,134,447	8,530,912	39,435,619	80,203,795	41,547,790	**180,852,563**
Financial assets (securities)	3,154,455	4,939,204	13,939,546	97,736,585	18,699,761	**138,469,551**
Other assets	1,397,572	543,680	1,628,444	-	1,481	**3,571,177**
Total	**107,072,151**	**14,014,052**	**55,019,109**	**178,831,124**	**60,249,032**	**415,185,468**
Deposits and other liabilities due to banks, other financial institutions and central bank	3,570,345	90,624	1,219,573	141,214	-	**5,021,756**
Deposits and other liabilities due to Customers	257,052,575	7,849,735	30,584,788	38,288,073	1,541,983	**335,317,154**
Other liabilities	1,099,397	272,537	11,087,392	587,848	45,034	**13,092,208**
Total	**261,722,317**	**8,212,896**	**42,891,753**	**39,017,135**	**1,587,017**	**353,431,118**
Net liquidity gap						
As of December 31, 2019	**(154,650,166)**	**5,801,156**	**12,127,356**	**139,813,989**	**58,662,015**	**61,754,350**
As of December 31, 2018	**(140,270,556)**	**8,779,267**	**4,766,593**	**132,935,906**	**48,927,417**	**55,138,627**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at December 31, 2018

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	63,595,710	-	-	-	-	63,595,710
Loans and receivables due from other banks and other financial institutions	15,216,102	2,227,838	1,190	1,032,599	-	18,477,729
Loans and receivables due from Customers	8,456,758	7,926,685	36,576,671	71,432,208	43,153,352	167,545,674
Financial assets (securities)	11,067,634	10,552,127	17,775,934	86,258,304	7,527,668	133,181,667
Other assets	1,823,922	563,471	1,399,901	-	-	3,787,294
Total	100,160,126	21,270,121	55,753,696	158,723,111	50,681,020	386,588,074
Deposits and other liabilities due to banks, other financial institutions and central bank	3,825,579	1,768,283	35,548	33,338	-	5,662,748
Deposits and other liabilities due to Customers	234,415,598	10,547,173	44,778,288	25,734,422	1,753,603	317,229,084
Other liabilities	2,189,505	175,398	6,173,267	19,445	-	8,557,615
Total	**240,430,682**	**12,490,854**	**50,987,103**	**25,787,205**	**1,753,603**	**331,449,447**
Net liquidity gap						
As of December 31, 2018	**(140,270,556)**	**8,779,267**	**4,766,593**	**132,935,906**	**48,927,417**	**55,138,627**
As of December 31, 2017	**(123,441,719)**	**14,070,310**	**526,461**	**121,922,574**	**37,718,448**	**50,796,074**

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The report on the maturity structure of monetary assets and liabilities contains monetary balance positions arranged according to the remaining maturity, i.e. a conservative assumption is made that all transaction and a-vista deposits will be withdrawn within one month.

The Bank collects deposits of corporate and retail secotr, which usually have shorter maturities and can be withdrawn on demand. The short-term nature of these deposits increases the Bank's liquidity risk and requires the active management of this risk, as well as the constant monitoring of market trends.

The Bank manages short-term liquidity risk by monitoring and controlling positions in all significant currencies in order to timely consider the need for additional sources of financing in the event of maturity of the respective positions, i.e. in the long-term plans the structure of its sources and placements in order to provide sufficiently stable sources and sufficient liquidity reserves.

The management believes that the appropriate diversification of the portfolio of deposits by the number and type of depositors, as well as the previous experience, provide a good precondition for the existence of a stable and long-term deposit base, which is why no significant outflows are expected on this basis.

The Bank regularly reviews the Liquidity Management Plan in crisis situations and checks the survival and solvency period, the availability of sources for covering the liabilities that would possibly arise, or assess the support under the assumed conditions of the crisis.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows of monetary assets and monetary liabilities as at December 31, 2019

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 - 12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	67,558,219	-	-	-	-	**67,558,219**
Loans and receivables due from other banks and other financial institutions	23,868,946	569	18,629	892,565	-	**24,780,709**
Loans and receivables due from customers	11,855,610	9,870,701	44,800,742	94,080,850	52,268,229	**212,876,132**
Financial assets (securities)	3,154,455	4,939,204	13,939,546	97,736,585	18,699,761	**138,469,551**
Other assets	1,397,572	543,680	1,628,444	-	1,481	**3,571,177**
Total	**107,834,802**	**15,354,154**	**60,387,361**	**192,710,000**	**70,969,471**	**447,255,788**
Deposits and other liabilities due to banks, other financial institutions and central bank	3,577,589	91,751	1,243,209	147,939	-	5,060,488
Deposits and other liabilities due to customers	257,188,893	7,942,741	30,964,958	39,664,572	1,866,523	337,627,687
Other liabilities	1,099,397	272,537	11,087,392	587,848	45,033	13,092,207
Total	**261,865,879**	**8,307,029**	**43,295,559**	**40,400,359**	**1,911,556**	**355,780,382**
Net liquidity gap						
As of December 31, 2019	**(154,031,077)**	**7,047,125**	**17,091,802**	**152,309,641**	**69,057,915**	**91,475.406**
As of December 31, 2018	**(139,731,065)**	**10,020,297**	**9,442,567**	**146,707,702**	**61,688,473**	**88,127,973**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows of monetary assets and monetary liabilities as at December 31, 2018

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 - 12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	63,595,710	-	-	-	-	63,595,710
Loans and receivables due from other banks and other financial institutions	15,217,369	2,236,892	6,369	1,042,878	-	18,503,508
Loans and receivables due from customers	9,174,190	9,253,466	41,737,558	86,420,854	56,288,262	202,874,330
Financial assets (securities)	11,067,634	10,552,127	17,775,934	86,258,304	7,527,668	133,181,667
Other assets	1,823,922	563,471	1,399,901	-	-	3,787,293
Total	**100,878,825**	**22,605,956**	**60,919,762**	**173,722,036**	**63,815,930**	**421,942,508**
Deposits and other liabilities due to banks, other financial institutions and central bank	3,829,992	1,783,138	35,838	35,190	-	5,684,158
Deposits and other liabilities due to customers	234,590,393	10,627,123	45,268,089	26,959,699	2,127,457	319,572,761
Other liabilities	2,189,505	175,398	6,173,268	19,445	-	8,557,616
Total	**240,609,890**	**12,585,659**	**51,477,195**	**27,014,334**	**2,127,457**	**333,814,535**
Net liquidity gap						
As of December 31, 2018	**(139,731,065)**	**10,020,297**	**9,442,567**	**146,707,702**	**61,688,473**	**88,127,973**
As of December 31, 2017	**(122,823,021)**	**15,211,425**	**5,093,059**	**135,183,557**	**49,982,773**	**82,647,793**

Undiscounted cash flows arising from the positions of monetary assets and liabilities include future cash flows based on balance sheet positions and future interest rates.

4. RISK MANAGEMENT (continued)

4.3. Market risk

Market risk is the possibility of adverse effects on the Bank's financial result and equity due to changes in market variables and includes interest rate risk in the banking book, foreign exchange risk for all business activities it performs and price risk of trading book positions.

The Bank is exposed to price risk, foreign exchange risk, counterparty risk, and the risk of settlement delivery based on items listed in the trading book. The trading book contains balance sheet and off-balance sheet items of assets and liabilities based on financial instruments held for trading purposes or for the protection of positions in other financial instruments held in a trading book.

The Bank has established an appropriate organizational structure, which clearly delineates the process of taking over market risks from the process of its management. The primary role in the market risk management process is performed by the Assets and Liabilities Management Committee, the Investment Board as well as other relevant committees of the parent Bank, as well as the relevant committees of the Bank members whose decisions may influence the Bank's exposure to this risk.

4.3.1. Interest rate risk

Interest rate risk is the risk of adverse effects on the Bank's financial result and equity based on positions in the banking book due to adverse changes in interest rates. Exposure to this type of risk depends on the ratio of interest-sensitive assets and interest-sensitive liabilities.

The Bank manages the following types of interest rate risk:

- risk of time mismatch of repayment and repricing risk;
- yield curve risk - to whom it is exposed due to change in yield curve shape;
- base risk - to which it is exposed due to different reference interest rates in interest-sensitive positions with similar characteristics in terms of maturity or re-pricing;
- optionality risk - to whom it is exposed because of contracted options - loans with the possibility of early repayment, deposits with the possibility of early withdrawal, and others.

The main objective of interest rate risk management is to maintain an acceptable level of exposure to interest rate risk from the aspect of impact on the financial result, by maintaining an adequate policy of maturity adjustment of the period for re-forming the interest rate, matching the appropriate sources with placements according to the type of interest rate and maturity, as well as the projection of the movement of the yield curve on the foreign and domestic market. Primarily, the Bank manages the internal yield margin through the cost of loans and deposits, focusing on the interest margin.

The Bank particularly examines the impact of changes in interest rates and the structure of interest-bearing assets and liabilities from the aspect of maturity, re-forming interest rates and currency structure and managing their impact on the economic value of capital.

The Bank assesses the impact that standardized interest rate shocks (parallel positive and negative interest rates on the reference yield curve of 200 basis points) could have for each significant currency individually and for all other currencies together.

The process of managing interest rate risk is carried out through identification, measurement, mitigation, monitoring, control and reporting of interest rate risk.

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.1. Interest rate risk (continued)

Identification of interest rate risk involves a comprehensive and timely identification of the causes that lead to the creation of risks and involves determining current exposure as well as exposure to interest rate risk based on new business products and activities.

Measurement, or interest rate risk assessment, is a quantitative assessment of the identified interest rate risk using the following methods:

- GAP analysis;
- Ratio analysis;
- Duration;
- Economic value of capital;
- Stress test.

Interest rate risk mitigation involves maintaining the risk at an acceptable level for the Bank's risk profile and implies the process of defining the Bank's exposure limits, as well as defining and implementing measures to mitigate interest rate risk.

The control and monitoring of interest rate risk includes the process of monitoring compliance with the established system of limits, as well as monitoring the defined measures for reducing the Bank's interest rate risk. Interest rate risk control involves control at all levels of governance as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Interest rate risk reporting involves a clearly defined system of internal reporting to the competent committees and bodies of the Bank's members on interest rate risk management.

Internal limits are determined on the basis of the internal interest report GAP, which includes all balance sheet items.

The compliance with internally defined interest rate risk limits on the last day was as follows:

	Limits	2019	2018
Relative GAP	Max 15%	1.26%	2.01%
Coefficient of Disparity	0.75 – 1.25	1.02	1.02

During 2019, interest rate risk indicators moved within internally defined limits.

In addition, the Bank has defined the internal limits for exposure to interest rate risk by significant currencies and the limit of the maximum economic value of capital.

Compliance with internally defined limits of economic value of capital:

	2019	2018
On December 31st	3.74%	4.30%
Average for period	4.60%	4.77%
Maximum for period	5.56%	5.72%
Minimum for period	3.74%	4.00%
Limit	**10%**	**20%**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.1. Interest rate risk (continued)

GAP report - interest rate risk of the monetary sub-balance on December 31, 2019

Exposure to interest rate risk can also be seen on the basis of the GAP Report on interest rate risk for monetary assets and liabilities:

In thousands of RSD

	Up to 1 Month	From 1 - 3 Months	From 3 -12 Months	From 1 - 5 Years	Over 5 Years	Interest-Bearing	Non-Interest Bearing	Total
Cash and Cash Funds held with the Central Bank	22,839,264	-	-	-	-	22,839,264	44,718,955	67,558,219
Loans and receivables due from banks and other financial institutions	23,594,947	-	15,500	67,595	-	23,678,042	1,055,916	24,733,958
Loans and receivables due from customers	46,079,592	22,595,240	54,075,083	55,114,328	2,584,885	180,449,128	403,435	180,852,563
Financial assets (securities)	2,641,823	4,939,204	13,939,546	97,736,585	18,699,761	137,956,919	512,632	138,469,551
Other assets	-	-	-	-			3,571,177	3,571,177
Total	**95,155,626**	**27,534,444**	**68,030,129**	**152,918,508**	**21,284,646**	**364,923,353**	**50,262,115**	**415,185,468**
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,690,041	90,624	1,219,568	21,214	-	5,021,447	309	5,021,756
Deposits and other liabilities due to customers	260,562,899	9,877,622	39,724,362	22,788,002	1,401,236	334,354,121	963,033	335,317,154
Other liabilities	39,743	-	-	-	-	39,743	13,052,465	13,092,208
Total	**264,292,683**	**9,968,246**	**40,943,930**	**22,809,216**	**1,401,236**	**339,415,311**	**14,015,807**	**353,431,118**
Interest rate GAP								
-At December 31, 2019	**(169,137,057)**	**17,566,198**	**27,086,199**	**130,109,292**	**19,883,410**	**25,508,042**	**36,246,308**	**61,754,350**
-At December 31, 2018	**(143.449.929)**	**14.576.342**	**18.032.010**	**118.027.670**	**11.869.726**	**19.055.819**	**36.082.808**	**55.138.627**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.1. Interest rate risk (continued)

GAP report - interest rate risk of the monetary sub-balance on December 31, 2018

Exposure to interest rate risk can also be seen on the basis of the GAP Report on interest rate risk for monetary assets and liabilities:

In thousands of RSD

	Up to 1 Month	From 1 - 3 Months	From 3 -12 Months	From 1 - 5 Years	Over 5 Years	Interest-Bearing	Non-Interest Bearing	Total
Cash and Cash Funds held with the Central Bank	23,573,523	-	-	-	-	23,573,523	40,022,187	63,595,710
Loans and receivables due from banks and other financial institutions	15,108,994	2,227,838	1,190	200,130	-	17,538,152	939,577	18,477,729
Loans and receivables due from customers	46,406,690	14,941,447	43,932,737	56,082,686	5,877,718	167,241,278	304,396	167,545,674
Financial assets (securities)	11.065.869	10.552.011	17.313.062	86.255.911	7.527.551	132.714.404	467.263	133.181.667
Other assets	-	-	-	-	-	-	3.787.294	3.787.294
Total	**96.155.076**	**27.721.296**	**61.246.989**	**142.538.727**	**13.405.269**	**341.067.357**	**45.520.717**	**386.588.074**
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,829,350	1,767,067	35,548	33,338	-	5,665,303	(2,555)	5,662,748
Deposits and other liabilities due to customers	235,775,655	11,377,887	43,179,431	24,477,719	1,535,543	316,346,235	882,849	317,229,084
Other liabilities	-	-	-	-	-	-	8,557,615	8,557,615
Total	**239.605.005**	**13,144,954**	**43,214,979**	**24,511,057**	**1,535,543**	**322.011.538**	**9.437.909**	**331,449,447**
Interest rate GAP								
-At December 31, 2018	**(143.449.929)**	**14.576.342**	**18.032.010**	**118.027.670**	**11.869.726**	**19.055.819**	**36.082.808**	**55.138.627**
-At December 31, 2017	**(121,279,033)**	**14,046,387**	**7,000,395**	**108,437,184**	**10,012,306**	**18,217,238**	**32,578,836**	**50,796,074**

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.1. Interest rate risk (continued)

The GAP report on the interest rate risk of the monetary sub-balance sheet contains monetary balance positions arranged according to the period of re-forming the interest rate or the remaining period to maturity, depending on which period is shorter. In accordance with the above, a conservative assumption was made that all transactions and avista deposits will be withdrawn within one month.

The management of the Bank members believes that the appropriate position matching by type of interest rate and re-establishment period provides a good precondition for existence with the required financial result while preserving the economic value of the capital.

Risk of interest rate changes

In addition to monitoring interest rate GAP, interest rate risk management involves monitoring the sensitivity of Bank's assets and liabilities to different interest rate scenarios, the Bank regularly implements stress-based interest rate risk testing, which assesses the impacts of the change of key factors on the interest rate risk of the Bank.

In modeling the scenario, in addition to changing interest rates, the impact of early withdrawal of deposits and early repayment of loans, assessed by the Bank on the basis of historical developments and expert assessments, is specifically considered, the Bank has carried out an estimate of the movement of transaction deposits, demand deposits and household savings by applying relevant statistical models from domain analysis of time series.

The standard scenario implies a parallel change (increase and decrease) of the interest rate of 100 basis points (b.p.). The analysis of the Bank's sensitivity, or the impact on the financial result of the increase and decrease in the interest rate, assuming symmetrical movements and a constant financial position, is given in the table:

In thousands of RSD

	Parallel increase of 100 b.p.	Parallel reduction of 100 b.p.
2019		
At December 31,	423,942	(423,942)
2018		
At December 31,	397,617	(397,617)

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.2. Foreign exchange risk

The process of managing foreign currency risk is carried out through identification, measurement, mitigation, monitoring, control and reporting on foreign exchange risk.

The Bank comprehensively identifies in a timely manner the causes that lead to the creation of foreign currency risk, which implies determining the current exposure to foreign exchange risk, as well as the exposure to foreign exchange risk based on new business products and activities.

Measurement, or foreign exchange risk assessment, is a quantitative assessment of the identified foreign currency risk, using the following techniques:

- GAP analysis and foreign exchange risk indicator;
- VaR;
- Stress test;
- Backtesting,

Foreign exchange risk mitigation involves maintaining the risk at an acceptable level for the Bank's risk profile by setting a transparent system of limits and defining measures to mitigate foreign exchange risk.

Foreign exchange risk control and monitoring includes monitoring and the compliance of positions with internally and externally defined limits, as well as monitoring of defined and undertaken measures. Continuous monitoring and control of foreign currency risk enables timely measures to be taken to maintain foreign exchange risk within defined limits. Foreign exchange risk control involves control at all levels of governance, as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Foreign exchange risk reporting includes the internal and external reporting system and is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Bank coordinates its operations with the regulated foreign currency risk indicator, which represents the ratio of the open foreign exchange position and position in gold and regulatory capital.

Overview of the total risk foreign currency position and the regulated foreign currency risk indicator as at December 31:

	2019	**2018**
Total risk foreign exchange position	1,257,900	1,064,940
Foreign exchange risk indicator	1.98%	1.9%
Regulatory limit	**20%**	**20%**

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.2. Foreign exchange risk (continued)

Overview of monetary assets and monetary liabilities by currencies as at December 31, 2019

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	32,435,373	152,839	6,191,696	575,597	39,355,505	-	-	-	28,202,714	67,558,219
Loans and receivables due from banks and other financial institutions	6,314,769	2,897,452	858,499	2,453,557	12,524,277	-	-	-	12,209,681	24,733,958
Loans and receivables due from customers	13,222,029	-	-	-	13,222,029	117,831,474	-	60,074	49,738,986	180,852,563
Financial assets (securities)	61,081,935	10,372,443	1,799,460	-	73,253,838	173,617	-	-	65,042,096	138,469,551
Other assets	412,158	165,375	787	1,585	579,905	-	-	-	2,991,272	3,571,177
Total	**113,466,264**	**13,588,109**	**8,850,442**	**3,030,739**	**138,935,554**	**118,005,091**	**-**	**60,074**	**158,184,749**	**415,185,468**
Deposits and other liabilities due to banks, other financial institutions and the central bank	1,471,665	274,197	105,512	26,043	1,877,417	30,331	-	-	3,114,008	5,021,756
Deposits and other liabilities due to customers	226,094,811	12,792,858	8,701,959	2,892,981	250,482,609	187,138	-	-	84,647,407	335,317,154
Other liabilities	1,787,432	87,964	99,406	32,018	2,006,820	882,332	-	-	10,203,056	13,092,208
Total	**229,353,908**	**13,155,019**	**8,906,877**	**2,951,042**	**254,366,846**	**1,099,801**	**-**	**-**	**97,964,471**	**353,431,118**
Net Currency Position, December 31, 2019	**(115,887,644)**	**433,090**	**(56,435)**	**79,697**	**(115,431,292)**	**116,905,290**	**-**	**60,074**	**60,220,278**	**61,754,350**

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.2. Foreign exchange risk (continued)

Overview of monetary assets and monetary liabilities by currencies as at December 31, 2018

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	32,651,089	114,133	620,428	481,553	**33,867,203**	-	-	-	29,728,507	63,595,710
Loans and receivables due from banks and other financial institutions	7,361,578	2,063,711	3,065,118	2,197,712	**14,688,119**	-	-	-	3,789,610	18,477,729
Loans and receivables due from customers	15,297,168	-	-	-	**15,297,168**	101,017,998	-	3,651,403	47,579,105	167,545,674
Financial assets (securities)	66,540,863	11,114,968	1,702,199	-	**79,358,030**	249,591	-	-	53,574,046	133,181,667
Other assets	1,148,340	95,892	63,825	1,295	**1,309,352**	-	-	-	2,477,942	3,787,294
Total	**122,999,038**	**13,388,704**	**5,451,570**	**2,680,560**	**144,519,872**	**101,267,589**	**-**	**3,651,403**	**137,149,210**	**386,588,074**
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,337,798	828,756	364,639	29,583	**3,560,776**	19,073	-	-	2,082,899	5,662,748
Deposits and other liabilities due to customers	218,260,607	11,894,683	8,620,407	2,590,604	**241,366,301**	468,239	19,705	-	75,374,839	317,229,084
Other liabilities	742,789	121,323	108,507	30,146	**1,002,765**	-	-	-	7,554,850	8,557,615
Total	**221,341,194**	**12,844,762**	**9,093,553**	**2,650,333**	**245,929,842**	**487,312**	**19,705**	**-**	**85,012,588**	**331,449,447**
Net Currency Position, December 31, 2018	**(98,342,156)**	**543,942**	**(3,641,983)**	**30,227**	**(101,409,970)**	**100,780,277**	**(19,705)**	**3,651,403**	**52,136,622**	**55,138,627**

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4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3 2. Foreign exchange risk

A review of the ten-day VaR

The Bank also performs stress testing of foreign exchange risk, which assesses the potential impact of specific events and/or changes in more financial variables on the financial result, equity and foreign exchange risk indicator.

VaR denotes the largest possible loss in the Bank's portfolio for a certain period and at a predetermined confidence interval. The Bank calculates one-day and ten-day VaR, with a confidence interval of 99%, on foreign currency positions (foreign currency VaR). The Bank calculates VaR using the autoregressive-heteroscedic model GARCH, for which it did not request the approval of the National Bank of Serbia, in order to assess regulatory capital requirements for foreign exchange risk.

Foreign currency VaR is accounted for in foreign currency positions, as well as in positions of indexed currency clauses contained in the banking book and trading book.

A review of the ten-day VaR with a confidence interval of 99% for 2019 and 2018 is shown as follows:

In thousands of RSD

	As at December 31,	Average	Maximum	Minimal
2019				
Foreign currency risk	7,247	7,674	27,366	365
2018				
Foreign currency risk	18,360	14,039	36,751	554

4. RISK MANAGEMENT (continued)

4.4. Operational risk

Operational risk represents the possibility of negative effects on the Bank's financial result and equity due to employee errors (intentional or accidental), inadequate procedures and processes in the Bank, inadequate management of information and other systems in the Bank, as well as occurrence of unforeseen external events. Operational risk includes legal risk.

Operational risk is defined as an event that occurred as the result of inappropriate or unsuccessful internal processes, employee and system actions or system and other external events, internal and external abuses, hiring and security practices at the workplace, customer receivables, product distribution, fines and penalties for infractions, damage incurred to property, disruptions in operations and system errors and process management.

The Bank monitors operational risk events according to the following business lines: corporate financing, trade and sales, retail brokerage services, corporate banking, retail banking, payment transfers, agency services and asset management.

The process of operational risk management represents an integral part of the Bank's activities conducted on all levels and ensures identification, measuring, relieving, monitoring and reporting continually on operational risks ahead of their realization, as in accordance with the legal requirements and deadlines. The existing process relies on known methods of measuring operational risk exposures, database on operating losses, an updated control and reporting system.

The Bank monitors operational risk events daily and manages operating risks. For the purpose of efficient operational risk monitoring, the Bank appoints employees who are in charge of operational risk with the objective of monitoring operational risk in its every organizational part, where such employees are responsible for accuracy and timeliness of information about all operational risk events that occur in their organizational unit, as well as for keeping records about all such events in the operational risk database. The organizational part of the Bank which is responsible for risk management monitors and reports operational risks to the Bank's Board of Directors, the Bank's Executive Board and the Audit Committee.

Measurement and assessment of operational risk at the Bank is done through quantitative and/or qualitative assessment of identified operational risk. The Bank measures operational risk exposure through event records, self-assessment and stress testing.

Self-assessment consists of assessment of risk exposure by organizational units based on the roadmap for identifying operating risks, through measurement of potential ranges and frequencies of events that can result in losses, identification of levels of control that business areas must maintain over these risks and measures of improvement.

The Bank cannot eliminate all operational risks, but by introducing a rigorous framework of control, monitoring and response to potential risks it is capable of managing these risks. The Bank takes measures in order to relieve operational risks and ensure proactive response to events potentially creating operational risks through continued monitoring of all activities, application of adequate and reliable information system and by applying project approach orientation, the implementation of which helps improve the business practice and optimize the Bank's business processes.

4. RISK MANAGEMENT (continued)

4.4. Operational risk (continued)

Through reliable reporting on the implementation of measures undertaken to mitigate operational risks, the Bank has established a system for monitoring the activities undertaken by the Bank's organizational parts in order to reduce arising operational risks. The Bank assess the risk of entrusting third parties with activities related to the Bank's operations and based on the service contracts executed with such third parties which clearly define terms, rights, obligations and responsibilities of the contracting parties.

With the objective of smooth and continued operation of all significant systems and processes in the Bank, and to limit losses that could be incurred in extraordinary circumstances, the Bank adopted the Business Continuity Plan, in order to ensure the restoration and recovery of the information technology systems in the event of interruption or stoppage of operations, the Bank adopted the Disaster Recovery Plan.

4.5. Risks of investment

The risk of the Bank's investment represents the risk of investments in other legal entities and in fixed assets and investment property. The Bank's investment in a person who is not a person in the financial sector may be up to 10% of the Bank's capital, whereby this investment implies an investment by which members of the Bank acquire a holding or shares of a person other than a person in the financial sector. The Bank's total investments in non-entities in the financial sector and in fixed assets and investment property of the Bank may be up to 60% of the Bank's capital, except that this restriction does not apply to the acquisition of shares for their further sale within six months of the date of acquisition.

4.6. Exposure risk

The Bank's large exposure to a single entity or a group of related parties, including entities related to the Bank, is an exposure that exceeds 10% of the Bank's capital.

In its business, the Bank takes care of compliance with the regulatory defined exposure limits:

- Exposure to a single client or a group of related parties must not exceed 25% of the Bank's equity;
- The sum of all large Group exposures must not exceed 400% of the Bank's equity.

Defined limits of exposure to one client or a group of related parties also applies to clients related to the Bank.

The Bank's exposure to one entity or group of related parties, as well as the exposure to clients related to the Bank, was within the prescribed limits.

4. RISK MANAGEMENT (continued)

4.7. Country risk

The risk of the country is a risk that relates to the country of origin of the entity to which the Bank is exposed, or the risk of the possibility of adverse effects on the Bank's financial result and capital due to the inability of the Bank members to collect receivables from the debtor for reasons arising from political, economic or social country of origin of the debtor. The country's risk includes the following risks:

- Political and economic risk, which implies the likelihood of a loss due to the inability of members of the Bank to collect receivables due to restrictions established by the acts of the state and other authorities of the country of origin of the debtor, as well as the general and systemic circumstances in that country;
- Transfer risk, which implies the likelihood of a loss due to the inability to collect receivables denominated in a currency other than the official currency of the country of origin of the debtor, due to the limitation of the payment of obligations towards creditors from other countries in a particular currency as determined by the acts of the state and other authorities of the debtor country.

The Bank manages the country's risk at the level of individual placements and portfolio level. Measuring and controlling the exposure of an individual country's risk exposure to a country's risk is determined by the category of internal rating of the debtor country, based on the rating assigned by internationally recognized rating agencies and determining the exposure limit as a percentage of the Bank's capital, depending on the country's internal rating category.
The measurement and control of a portfolio’s exposure to country risk the Bank performs based on the Banking of claims according to the degree of risk of the borrower countries.

In order to adequately manage the country's risk, the Bank defines the exposure limits individually by country of origin of the debtor.

Placements of the Bank that are approved by debtors originated outside of The Republic of Serbia, for the financing of business established in the Republic of Serbia, where repayment of financial liabilities towards the Bank is expected to be covered from the resources arising from the business established in the Republic of Serbia, represent Bank’s receivables with no country risk exposure towards the country of origin of the debtor.

4. RISK MANAGEMENT (continued)

4.8. Fair value of financial assets and liabilities

4.8.1. Overview of the carrying amount and fair value of financial assets and liabilities not measured at fair value

In thousands of RSD

	31.12.2019		31.12.2018	
	Carrying value	Fair value	Carrying value	Fair value
Financial Assets				
Loans and receivables due from customers	180,852,563	179,731,191	167,545,674	163,189,685
Financial Liabilities				
Deposits and other liabilities due to customers	335,317,154	335,262,611	317,229,084	317,294,651

Calculating the fair value of loans and loans to clients is estimated using the model of discounting cash flows, for loans and placements with fixed interest rates. Discount rates are based on current interest rates, which are offered for instruments under similar conditions to clients, approximately the same credit quality. Also, liabilities to customers with maturities fixed at a fixed interest rate are discounted taking into account the applicable terms and conditions in accordance with the type of deposit, term of deposit and currency.

For loans that are no longer approved, nor is it possible to approve (loans indexed to CHF), discounting was made at the same interest rates. During 2019, in compliance with the Law of conversion of home loans to loans indexed to CHF, the Bank converted most of it’s home loans to home loans indexed to EUR. Also, for loans subsidized by the state, with a fixed interest rate, discounting was made at the same rate, as members of the Bank would not approve loans at low interest rates if there was no subsidization of part of the interest by the state. All loans and liabilities with a variable interest rate are in accordance with the applicable market conditions and Business Policy of the members of the Bank.

4. RISK MANAGEMENT (continued)

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

4.8.2. Financial instruments measured at fair value

In thousands of RSD

	31.12.2019				31.12.2018			
Finacial assets	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**
Financial assets at fair value through profit and loss (in RSD)	512,632	4,877,762		1,657,268	459,586	1,197,681	-	**1,657,268**
Financial assets at fair value through profit and loss (in foreign currency)	174,460	4,724,165		3,156,612	318,499	2,838,113	-	3,156,612
Financial assets at fair value through other comprehensive income (in RSD)		59,651,701		51,916,780	-	51,916,780	-	51,916,780
Financial assets at fair value through other comprehensive income (in foreign currency)	11,997,444	56,357,770	173,617	76,451,007	12,476,019	63,725,398	249,590	76,451,007
Total	**12,684,536**	**125,611,398**	**173,617**	**133,181,667**	**13,254,104**	**119,677,972**	**249,590**	**133,181,667**

Level 1 comprises financial instruments with whom it can be traded on the stock exchange, while level 2 contains securities whose fair value is estimated based on internally developed models based on information from the auctions on the secondary securities market.

The fair value of assets for which no direct trading information is available is assigned to level 3 (municipal bonds).

4. RISK MANAGEMENT (continued)

4.9. Capital Management

The Bank has established a risk management system in accordance with the scope and structure of its business activities, and the goal of capital management is the smooth realization of the Bank's business policy objectives.

The calculation of capital and capital adequacy ratios has been in accordance with Basel III standard as of June 30, 2017.

The main objectives of capital management are:

- maintaining of the minimum regulatory requirement (EUR 10 million);
- maintenance of individual capital buffers;
- respect of the minimum regulatory capital adequacy ratios increased for the combined capital buffer;
- maintaining confidence in security and business stability;
- realization of business and financial plans;
- supporting the expected growth in placements;
- enabling the optimism of future sources of funds and their use;
- achieving dividend policy.

The Bank’s regulatory capital represents the sum of Tier 1 capital (composed of the Common Equity Tier 1 capital and the additional Tier 1 capital) and Tier 2 capital, reduced for the deductible items. Capital adequacy ratio represent the ratio of capital (total, Tier 1 or Common Equity Tier 1) of the Bank and the sum of: risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries, settlement/delivery risk except on the basis of free delivery), market risks (including foreign exchange and position risk), operational risk and other risks from Pillar I. Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries are determined in accordance with the prescribed risk weight for all exposure classes. Risk exposure amount for operational risks calculated by multiplying the reciprocal value of the prescribed capital adequacy and capital requirements for operational risk, determined as the three-year average of the product of the exposure indicator in all lines of business and the prescribed capital requirements for each business line.

4. RISK MANAGEMENT (continued)

4.9. Capital Management (continued)

Capital adequacy ratios

	In thousands of RSD	
	31.12.2019	**31.12.2018**
Tier 1 capital	65,426,275	58,512,822
Common Equity Tier 1 capital	65,052,765	58,139,312
Additional Tier 1 capital	373,510	373,510
Deductible items of capital	(1,779,291)	(1,473,139)
Capital	**63,646,984**	**57,039,683**
Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries	169,432,937	161,828,271
Risk exposure amount for operational risk	32,768,254	31,379,213
Risk exposure amount for market risks	4,238,173	2,281,232
Capital adequacy ratio (min. 14.27%)	**30.83%**	**29.18%**
Tier 1 capital adequacy ratio (min. 12.27%)	**30.83%**	**29.18%**
Common Equity Tier 1 capital adequacy ratio (min. 10.77%)	**30.65%**	**28.99%**

During 2019, all prescribed capital adequacy ratios were above regulatory limits (8% + combined capital buffer, 6% + combined capital buffer and 4.5% + combined capital buffer for indicators of adequacy of total, Tier 1 and Common Equity Tier 1 capital respectively).

By the Capital Management Strategy and Plan, the Bank ensures the maintenance of the level and structure of internal capital that provides adequate support for the growth of placements, future sources of funds and their use, the implementation of dividend policy, and adjustment to changes in regulatory requirements.

During 2019, the Bank calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of the Tier 1 capital and the amount of exposures that are included in the calculation of the ratio.

The Capital Management Plan, as part of the capital management system, includes:

- Strategic goals and the period for their realization;
- A description of the process of managing the available internal capital, planning its adequate level and responsibility for this process;
- Procedures for planning an adequate level of available internal capital;
- The way to reach and maintain an adequate level of available internal capital;
- Restrictions on available internal capital;
- Demonstrating and explaining the effects of stress testing on internal capital requirements;
- Allocation of capital;
- Business plan in case of occurrence of unforeseen events.

4. RISK MANAGEMENT (continued)

4.9. Capital Management (continued)

On a continuous basis, the Bank conducts the process of internal capital adequacy assessment in accordance with the nature, scope and complexity of its business activities, in accordance with the Risk Management Strategy, Individual Risk Management Policies and the Capital Management Strategy.

The process of internal capital adequacy assessment, as a documented and continuous process, meets the following requirements:

- is based on identification and risk measurement;
- provides a comprehensive assessment and monitoring of the risks to which the Bank is exposed or may be exposed;
- Provides adequate available internal capital in accordance with the risk profile of the Bank;
- is involved in the Bank's management system and decision making;
- Subject to regular analysis, monitoring and verification.

The stages of the internal capital adequacy assessment process in the Bank include:

- Determination of materially significant risks, in accordance with qualitative and quantitative criteria;
- Calculation of the amount of internal capital requirements;
- Calculation of stressed internal capital requirement for individual risks;
- Determining the total internal capital requirement;
- Comparison of the following elements:

    a. capital and available internal capital;
    b. minimum capital requirements and internal capital requirements for individual risks;
    c. the sum of minimum capital requirements and total internal capital requirements.

5. USE OF ASSESSMENT

The management uses assumptions and estimates that have an effect on the presented values of assets and liabilities during the reporting period. Estimates, as well as assumptions on the basis of which estimates have been made, are the result of regular checks. These estimates and assumptions are based on previous experience, as well as different information available on the day of drawing up financial statements, which act in a realistic and reasonable manner in the circumstances.

Key sources of estimation uncertainty

Provisions for credit losses

Assets that are valued at amortised cost are assessed for impairment in the manner described in accounting policy 3 (j).

The impairment of placements aims ensure a reasonable, careful and timely determination of losses in order to protect the Bank's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the contingent liabilities.

Impairment of placements and provisions are only made when there is a reasonable basis, i.e. when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, and which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, the difficulties in the cash flows of the borrower (financial difficulties), the decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that the loan will be settled from these assets.

The Bank assesses the impairment of receivables on a group and on a individual basis.

Individual assessment

The Bank assesses the impairment allowance for each individually significant placement with the default status (risky placement, sub-category risk 4D, 4DD and 5 according to the internal rating system) , i.e. placements that are classified at stage 3 in accordance with IFRS 9. On this occasion, account is taken of the financial position of the loan beneficiary, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the client's creditworthiness, the value of collateral and the certainty of fulfillment of client's obligations towards the Bank, a new assessment of the impairment of placements is made.

The materiality threshold is determined by the Bank on the basis of an analysis of the value structure of the portfolio by types of customers and products.

An impairment allowance on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

5. USE OF ASSESSMENT (continued)

Individual assessment (continued)

Objective evidence that indicates the need for impairment of placements is considered to be:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfillment of other contractual provisions;
- when the members of the Bank, due to the financial difficulties of the borrower, substantially change the terms of repayment of claims in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) and the like.

Evidence can be documented by the analysis of the Watch process, information on the increased level of debtors' risk, reports from meetings held with the debtor, reports on the monitoring of clients collateral, reports of enforced collection and days of blockade, reports on loans in arrears and other information which the Bank has.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the planned future cash flows of the borrower.
When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Bank recognizes the existence of multiple collection scenarios when estimating the expected future cash flows. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Bank on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

Group assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and which are not individually significant in default status and for placements for which impairment allowance calculated on individual assessment has not been determined, as well as receivables based on commissions and other receivables that are not reduced to the present value.

Bank estimates are carried out by groups according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the economy sector and by rating groups by type of placements in the household sector), based on the internal rating system at the monthly level. The impairment methodology has significantly changed and instead of the approach to the incrred credit loss in accordance with IAS 39, the principle of expected loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of statistically proven interdependencies.

5. USE OF ASSESSMENT (continued)

Group assessment (continued)

Group-based impairment is based on the expected credit loss in accordance with the probability of default in the next 12 months (stage 1 receivables), except in cases where there is a significant increase in credit risk in relation to the moment of initial recognition, when the credit loss assessment is carried out on the probability of default for the instrument's life span (stage 2 receivables).

By appreciating the specifics of the clients, migrations for corporate clients, micro businesses, retail clients by product types, financial institutions and exposure to countries are determined separately.

The impairment allowance reduces the gross amount of the placements and is recognized as an expense in the income statement.

Determining the probable loss on off-balance sheet items

Determining the probable loss on off-balance sheet items (contingent liabilities) is carried out when it is estimated that there is enough certain expectation that an outflow of funds will be made to settle the contingent liability. The Bank also determines the probable loss for unused commitments, for which there is not unconditionall and without prior notice, possibile cancelation the contracted obligation. When calculating provisions based on unused commitments, the Bank uses a conversion factor (CCF) that adjusts the carrying amount of unused commitments.

Determination of fair value

The fair value of financial instruments is the amount by which assets can be exchanged or liabilities settled between the well informed, willing parties in a transaction under market conditions.

The Bank performs valuation of financial instruments by:

- Fair value through profit and loss
- fair value through other comprehensive income, with the recognition of "recycling" or without recognition in the income statement.

Financial assets and liabilities classified at fair value through the profit and loss account are subsequently measured at the fair value without including the cost of sales or other expenses when the recognition is terminated. Gains / losses arising from the change in the fair value of these financial instruments, their dividend income, and exchange rate differences are recognized in the income statement. There is no test of the potential impairment of these financial instruments.

5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

After initial recognition, equity instruments are subsequently measured depending on whether they have a quoted market price. Instruments of capital which have a quoted market price are measured at market value, and investments in equity instruments that do not have a quoted market price in an active market are measured using valuation techniques, combining more available approaches and techniques for measuring fair values.

Investments in equity instruments that are not held for trading and which are measured at fair value through other comprehensive income are subsequently measured at fair value excluding the cost of sales or other expenses in case of derecognition.
With the exception of received dividends recognized in the income statement, all other related gains and losses, including a component of foreign exchange differences, are recognized in the other comprehensive income, through equity.

The amounts shown in the other comprehensive income can not be subsequently transferred to the income statement, although cumulative gains or losses can be transferred within equity, to undistributed profits.

Investments in debt instruments that are valued at fair value through other comprehensive income are valued in the following way after initial recognition:

a. gains / losses from impairment, which are derived from the same methodology, which is also applied to financial assets measured at amortized cost, are recognized in the income statement;
b. gains / losses on exchange differences are recognized in the income statement;
c. interest income, calculated using the effective interest method, is recognized in the income statement;
d. gains / losses from changes in fair value are recognized through other comprehensive income;
e. in case of modification made, the gain / loss from modification is recognized in the income statement and
f. in case of derecognition, the cumulative gain / loss previously recognized through the other comprehensive income is reclassified from equity to the income statement, as adjustment due to reclassification.

5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

Financial derivatives are subsequently translated at market value. Market values of financial derivatives are obtained on the basis of various valuation techniques, including the discounting of cash flows. The change in the value of financial derivatives is accounted for in the balance sheet and income statement.

Changes in the fair value of financial liabilities for liabilities that are measured at fair value are made in the case of:

- a change in fair value that is a consequence of a change in its own credit risk of an obligation is reflected in the other comprehensice income, and
- the remaining amount of the change in the fair value of the liability is recorded in the income statement.

Financial liabilities held for trading and derivatives, after initial recognition and impairment, are valued at fair value.

The change in the fair value of a financial liability held for trading is included in income statement of the period in which it was incurred.

If the Bank settles its obligations towards creditors and employees in cash, which is determined in relation to the price of the shares or has the option to determine between these two methods of settling the obligation, the valuation of such transactions is carried out in accordance with the relevant IFRS.

The concept of fair value

When measuring fair values, the Bank identifies methods/techniques that need to maximize the use of observable observable inputs and to minimize the use of unobservable inputs.

There are 3 approaches for measuring fair values:

- market approach
- income approach
- cost approach

The Bank determines the fair value of financial instruments at the balance sheet date. Whenever possible, the Bank performs measurement of fair value using the market prices available in the active market for the given instrument. The market is considered active if quoted prices are easily and regularly available and represent real and regular market transactions at market conditions.

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5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

In the event that the market for financial instruments is not active, fair value is determined using estimation methodology. Estimation methodologies include transactions at market terms between the well informed, willing parties (if available), reference to the existing fair value of other instruments that are essentially the same, discounted cash flow analyzes, and other alternative methods. The selected estimation methodology maximizes the use of market data, is based on the least possible extent on the Bank-specific estimates, includes all factors that market participants consider as determining for the price, in accordance with the accepted economic methodologies for determining the price of financial instruments. Input data for estimation methods reasonably reflect market expectations and risk-bearing factors that are contained in a financial instrument. The assessment methods are adjusted and tested for their correctness by using the prices from perceptible existing transactions on the market for the same instruments, based on other available observable market data.

The best evidence of the fair value of a financial instrument in the initial recognition is the price achieved in the transaction, i.e. the fair value of the consideration given or received, unless the fair value of the instrument is proven by comparison with other remarkable existing transactions on the market for the same instruments (without modification or re-formulation) or is based on an estimation method whose variables include only data that is visible on the market. When the price achieved in a transaction gives the best evidence of fair value at initial recognition, financial instruments are initially measured at the cost of the transaction and all the differences between that price and the value initially established by the valuation method are subsequently recorded in the income statement, depending on the individual facts and circumstances transactions, but not later than the moment when the assessment is supported by perceptible market data or when the transaction is completed.

Any difference between the fair value at initial recognition and the amount that may depend on the non-observable parameters are recognized in the income statement without delay but are recognized over the life of the instrument in an appropriate manner or when they are purchased, transferred or sold, or when the fair value becomes noticeable. The assets and long positions are measured at the offered price, and the obligations and short positions are measured at the required price. The fair value reflects the credit risk of the instrument and includes adjustments that reflect the credit risk of the Bank and other counterparties, where relevant. Estimates of fair values based on assessment models are corrected for all other factors, such as liquidity risk or uncertainty models, to the extent that the Bank considers that third parties can take them into account when determining the transaction price.

Determination of the fair value of financial instruments and recognition of the effects of the assessment is carried out on the basis of the provisions of the Methodology for determining the fair value of financial instruments , based on Politics and Strategy risk management .

6. SEGMENT REPORTING

The Bank has three operating segments – profit centers, which are the Bank's strategic divisions and their business is object of segment reporting.

The following summary describes the operations in each of the Bank's reporting segments:

Corporate Banking	Includes loans, deposits and other transactions and balances with corporate customers but not with banks
Retail Banking	Includes loans, deposits and other transactions and balances with retail customers, micro businesses, entrepreneurs and agriculture clients
Investment banking and interbank operations	Include securities and other financial instruments, as well as transactions with banks

In 2019, the net gain from indirect write-offs amounting to RSD 2,425,931 thousand, had a significant impact on the result (of which the collected written off receivables amounted to RSD 1,086,560 thousand).

Also, the profit of the year has been impacted by the derecognition loss of the financial assets measured at amortized cost in the amount of RSD 579,933 thousand, due to the implementation of the Law of conversion of mortgage loans indexed in Swiss francs.

When producing segment reports, operational operating costs are divided into direct operating costs (directly under the control of business segments or directly linked to segment business) and indirect operating costs (the amount of these costs is not directly controlled by the segments or there is no direct link to the business of the segments).

Each business segment is granted with direct operating costs relating to this segment as well as with part of indirect operating expenses (distribution of these costs to segments is performed using the corresponding keys that are used for the allocation of costs of cost centers to profit centers).

Direct operating expenses at Bank level amounted to RSD 7,759,261 thousand and make up 70% of total operating costs. Direct operating costs are mostly comprised of expenses that are directly attributable to the business segments (salaries, rental costs, depreciation costs, marketing and other costs), and a minor part are comprised of expenses that are allocated to the segments based on management decisions.

The amount which refers to the segment of retail banking was RSD 5,818,576 thousand of direct costs (75% of total direct costs) as a result of large business network and number of employees in the retail sector.

In accordance with the aforementioned, in 2019, the Bank realized pre-tax profit in the amount of RSD 8,268,685 thousand.

6. SEGMENT REPORTING (continued)

Operating segments report for 2019 is provided below:

In RSD thousand

Revenues and expenses	Retail Banking	Corporate Banking	Investment and Interbank operations	Other	Total
Interest income	6,980,294	2,189,786	4,460,594	-	13,630,674
Interest expenses	(705,481)	(211,120)	(89,155)	(19,534)	(1,025,290)
Net interest income	6,274,813	1,978,666	4,371,439	(19,534)	12.605.384
Net income/expenses from related party transactions	3,912,956	812,561	603,479	-	5,328,996
Net fee and commission income	6,980,294	2,189,786	4,460,594	-	13,630,674
Profit before impairment allowance	10,187,769	2,791,227	4,974,918	(19,534)	17,934,380
Net gains/losses from impairment allowance	(479,074)	2,029,564	875,441	-	2,425,931
Profit before operating expenses	9,708,695	4,820,791	5,850,359	(19,534)	20,360,311
Direct operating expenses	(5,818,576)	(1,734,099)	(206,586)	-	(7,759,261)
Net foreign exchange gains/losses	-	-	38,228	-	38,228
Net other income and expenses	(1,101,590)	(136,425)	172,770	-	(1,065,245)
Profit before indirect operating expenses	2,788,530	2,950,268	5,854,770	(19,534)	11,574,034
Indirect operating expenses	(1,868,570)	(1,158,962)	(277,817)	-	(3,305,349)
Profit before tax	**919,960**	**1,791,306**	**5,576,953**	**(19,534)**	**8,268,685**
Assets per segment					
Cash and cash funds held with the central bank	-	-	67,558,219	-	67,558,219
Loans and receivables due from banks and other financial institutions	-	-	24,733,958	-	24,733,958
Loans and receivables due from customers	98,957,179	81,895,384	-	-	180,852,563
Investment securities	-	-	138,469,551	-	138,469,551
Other	-	-	3,433,697	17,332,456	20,766,152
	98,957,179	**81,895,384**	**234,195,425**	**17,332,456**	**432,380,443**
Liabilities per segment					
Liabilities to banks	-	-	5,021,756	-	5,021,756
Obligations to clients	281,378,192	47,948,279	5,990,683	-	335,317,154
Other	-	-	-	16,189,360	16,189,360
	281,378,192	**47,948,279**	**11,012,439**	**16,189,360**	**356,528,270**

6. SEGMENT REPORTING (continued)

Operating segments report for 2018 is provided below:

In RSD thousand

Revenues and expenses	Retail Banking	Corporate Banking	Investment and Interbank operations	Other	Total
Interest income	6,680,347	2,461,416	4,603,145	-	13,744,908
Interest expenses	(630,059)	(178,255)	(101,956)	-	(910,270)
Net interest income	6,050,288	2,283,161	4,501,189	-	12,834,638
Net income/expenses from related party transactions	(727,305)	(601,012)	1,328,317	-	-
Net fee and commission income	3,835,447	757,668	617,034	-	5,210,149
Profit before impairment allowance	**9,158,430,**	**2,439,817**	**6,446,540**	**-**	**18,044,787**
Net gains/losses from impairment allowance	(25,518)	22,453	12,558	-	9,493
Profit before operating expenses	**9,132,912**	**2,462,270**	**6,459,098**	**-**	**18,054,280**
Direct operating expenses	(5,764,006)	(1,410,121)	(179,085)	-	(7,353,212)
Net foreign exchange gains/losses	-	-	(7,458)	-	(7,458)
Net other income and expenses	(174,451)	488,639	233,847	-	548,035
Profit before indirect operating expenses	**3,194,455**	**1,540,788**	**6,506,402**	**-**	**11,241,645**
Indirect operating expenses	(1,590,128)	(1,193,677)	(336,767)	-	(3,120,572)
Profit before tax	**1,604,327**	**347,111**	**6,169,635**	**-**	**8,121,073**
Assets per segment					
Cash and cash funds held with the central bank	-	-	63,595,710	-	63,595,710
Loans and receivables due from banks and other financial institutions	-	-	18,477,729	-	18,477,729
Loans and receivables due from customers	91,855,167	75,690,507	-	-	167,545,674
Investment securities	-	-	133,177,598	-	133,177,598
Other	-	-	2,611,859	15,757,411	18,369,270
	91,855,167	**75,690,507**	**217,862,895**	**15,757,411**	**401,165,980**
Liabilities per segment					
Liabilities to banks	-	-	5,662,748	-	5,662,748
Obligations to clients	261,120,783	49,937,553	6,170,748	-	317,229,084
Other	-	-	-	10,713,635	10,713,635
	261,120,783	**49,937,553**	**11,833,496**	**10,713,635**	**333,605,467**

7. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

(i) Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are highly liquid or having a short term original maturity (less than one year) it is assumed that the carrying amount is approximate to their fair value. This assumption is also applied to demand deposits, saving accounts without a specific maturity and all variable interest rate financial instruments.

(ii) Fixed rate financial instruments

The fair value of fixed interest rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The assessed fair values of assets and liabilities with fixed interest rates mostly correspond to the carrying values thereof given that the interest rates applied do not depart from market interest rates. There are no materially significant departures in this respect.

8. NET INTEREST INCOME / EXPENSES

Net interest income / expenses include:

	Year ended 2019	*(000) RSD* 31 December 2018
Income from:		
Loans and receivables due from banks (REPO)	163,551	245,310
Loans and receivables due from customers	9,169,584	9,141,760
The National Bank of Serbia (liquid assets deposited and mandatory reserves	265,487	283,703
Investment securities	4,031,553	4,074,135
Leasing contracts - derecognition	499	-
Total interest income	**13,630,674**	**13,744,908**
Exprenses from:		
Deposits and liabilities due to banks and other financial institutions	72,512	18,773
Deposits and liabilities due to customers	920,133	812,122
Borrowings received	13,112	79,375
Leasing liabilities	19,533	-
Total interest expenses	**1,025,290**	**910,270**
Net interest income	**12,605,384**	**12,834,638**

Total interest income and expenses calculated using the effective interest rate method presented in the table above relate to financial assets and liabilities other than those at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

9. NET INCOME / EXPENSES FROM FEES AND COMMISSIONS

Net fee and commission income includes:

		(000) RSD
	Year ended	31 December
	2019	2018
Fees and commission income in domestic currency		
Payment transfer operations	3,421,718	3,577,857
Fees on issued loans and guarantees	108,163	114,521
Fees on purchase and sale of foreign currencies	587,035	410,146
Brokerage and custody fees	35,486	31,343
Fees arising from card operations	1,974,586	2,188,083
Credit Bureau processing fees	79,848	69,291
Other banking services	577,143	481,160
	6,783,979	**6,872,401**
Fees and commission income in foreign currencies		
Payment transfer operations	106,371	101,003
Fees on issued loans and guarantees - corporate customers	4,939	8,772
Brokerage and custody fees	23,145	20,858
Fees arising from card operations	206,369	204,768
Other banking services	26	70
	340,850	**335,471**
	7,124,829	**7,207,872**
Fee and commission expenses in domestic currency		
Payment transfer operations	150,202	135,377
Fees arising on purchase and sale of foreign currencies	18,431	32,831
Fees arising from card operations	557,489	931,307
Credit Bureau processing fees	72,110	64,462
Other banking services	158,347	132,197
	956,579	**1,296,174**
Fee and commission expenses in foreign currencies		
Payment transfer operations	117,113	79,817
Fees arising from card operations	667,125	577,283
Other banking services	55,016	44,449
	839,254	**701,549**
	1,795,833	**1,997,723**
Net fee and commission income	**5,328,996**	**5,210,149**

10. NET GAINS / LOSSES FROM CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

Net gains on the financial assets held for trading include:

	Year ended 2019	(000) RSD 31 December 2018
Gains on the sales of securities and other financial assets held for trading – SWAP	-	11,915
Gains on the fair values of securities and other funds are valued at fair value through PL-Bonds of the Republic of Serbia	84,157	22,647
Gains on the fair value adjustment of securities – investment units	8,632	9,586
	92,789	44,148
Losses on the sales of securities and other financial assets held for trading – SWAP	(4,070)	-
Losses on the fair values of securities and other funds are valued at fair value through PL-Bonds of the Republic of Serbia	(17,105)	(72)
Net gain / loss	**71,614**	**44,076**

11. NET GAINS / LOSSES FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Net gain/loss on the grounds of termination of recognition consists of:

	Year ended 2019	(000) RSD 31 December 2018
Gains arising from the cessation of recognition of Finn. instr at fair value through Other Comprehensive Income	238,373	86,991
Gains arising from the cessation of recognition of securities at fair value through the income statement	117,563	162,425
Gains arising from the cessation of recognition of derivatives at fair value through the income statement - FORWARD	3,789	-
Losses arising from the cessation of recognition that Fin. instr are valued at fair value through Other Comprehensive Income	(69)	(688)
Losses from the sale of securities at fair value through income statement	(6,166)	(18,534)
Net gain / loss	**353,490**	**230,194**

Gains arising from derecognition of finanical assets valued at fair value through Other Comprehensive Income in the amount of RSD 238,373 thousand relates to bonds of the Republic of Serbia, out of which amount of RSD 52,679 thousand relates to bond denominated in dinars and RSD 185,694 thousand to bonds denominated in foreign currency.

Gains arising from derecognition of securities and other investments at fair value through income statement in the amount of RSD 117,563 thousand relates to: bonds of the Republic of Serbia in dinars in the amount of RSD 70,314 thousand, the bonds of the Republic of Serbia in foreign currency amounting to RSD 43,963 thousand and investment units in total of RSD 3,286 thousand.

11. NET GAINS / LOSSES FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (continued)

Gains arising from derecognition of derivatives at fair value through the income statement (forwards) in the amount RSD 3,789 thousand relates to revenues from FX transactions with commercial banks.

Losses arising from derecognition of financial instruments which are measured at fair value through the Other Comprehensive Income of RSD 69 thousand enirely relates to bonds of the Republic of Serbia.

Losses arising from derecognition of securities and other investments at fair value through income statement amounting to RSD 6,166 thousand relatess to: bonds of the Republic of Serbia in dinars amounting to RSD 3,789 thousand and the bonds of the Republic of Serbia in a foreign currency of RSD 2,377 thousand.

12. NET EXCHANGE RATE GAINS / LOSSES AND GAINS / LOSSES ON AGREED CURRENCY CLAUSE

		(000) RSD
	Year ended 2019	**31 December 2018**
Positive currency clause effects	562,986	1,345,260
Positive currency clause effects – value adjustment of securities	808	2,627
Foreign exchange gains – value adjustment of liabilities	2,587	5,503
Positive currency clause effects – leasing contracts	8,970	-
Foreign exchange gains	1,005,190	555,299
	1,580,541	**1,908,689**
Negative currency clause effects	(1,086,510)	(1,452,551)
Negative currency clause effects – value adjustment of securities	(2,035)	(3,357)
Negative currency clause effects – value adjustment of liabilities	(1,580)	(4,636)
Negative currency clause effects – leasing contracts	(3,528)	-
Foreign exchange losses	(448,660)	(455,603)
	(1,542,313)	**(1,916,147)**
Net gain / (loss)	**38,228**	**(7,458)**

13. NET GAIN FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT

Net income from reduction in impairment of financial assets relates to:

	Year ended 31 December 2019	*(000) RSD* 2018
Impairment allowance of financial assets measured at amortised cost	(5,867,890)	(5,726,589)
Provisions for off-balance sheet items	(244,521)	(360,293)
Impairment allowance for debt securities measured through other comprehensive income	(85,685)	(80,945)
Losses arising from modifications of financial investments	(14,631)	-
Reversal of impairment allowance of financial assets valued at amortised cost	7,168,031	5,487,456
Reversal of provisions for off-balance sheet items	328,498	305,089
Income from collection of receivables previously written-off	1,086,560	329,451
Gains from Securities at fair value through Other Comprehensive Income	55,569	55,324
Net gain	**2,425,931**	**9,493**

The Bank recorded impairment of the foreclosed assets in the amount of RSD 82,470 thousand (note 31) at the position Expense of indirect write-offs, based on the fair value appraisals of property and equipment by certified appraisers, in accordance with the internal Act of the Bank.

In the course of 2019 the Bank collected written-off receivables in the amount of RSD 1,086,560 thousand. Out of the total amount of collected written-off receivables, the largest individual amount refers to a collection from Febuary 2019, which the Bank achived through the realization of a contract between two clients, in compliance with the legal provisions of Reorganization Plan (UPPR), on the basis of the purchase of storage space over which the Bank is entitled to the mortgage. The total collection amount of RSD 442,089 thousand was recognized in the income statement on the basis of the collection of writen-off receivables.
The other remaining part of the full amount is mostly related to debt collection from off-balance records for which their was a previously executed write-off carried out by a transfer from on-balance to off-balance, out of which collection from retail clients amounts to RSD 148,765 thousand and the remained of RSD 495,706 thousand relates to the collection of loans from legal entities.

By the end of January 2020 the Bank did not make materially significant collections from imapaired placements that would affect the reversal of impairment.

Effects arising from the credit risks of debt securities in the amount of net loss of RSD 30,116 thousand the Bank recognised in Equity, in the position losses of the debt instruments (Expenses of debt securities at fair value through Other Comprehensive Income in the amount of RSD 85,685 thousand and income on the same basis in amount of RSD 55,569 thousand). These positions are exempt from the structure of the table of changes in the impairment and provisions for off-balance sheet items.

13. NET GAIN FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

MOVEMENT ON IMPAIRMENT ACCOUNTS AND PROVISIONS FOR OFF-BALANCE

	Loans and receivables due from banks (Note 24.2)	Loans and receivables due from customers (Note 25.2)	Investment securities (Notes 23)	Investments in Subsidiaries (Note 26)	Other assets (Note 31)	Off-balance sheet liabilities (Note 34)	Total
Balance as at January 1, 2019	**228,037**	**14,149,307**	**1,594**	**2,869,029**	**1,952,107**	**274,954**	**19,475,028**
New impairment allowance	40,853	5,465,204	74	-	361,759	244,521	6,112,411
Decrease in impairment allowance	(53,644)	(6,185,300)	(1,059)	(821,838)	(106,190)	(328,498)	(7,496,529)
Positive effect of a decrese in impairment allowance by the Law of conversion of loans to CHF	-	(278,567)*	-	-	-	-	(278,567)
Foreign exchange effects	3,105	(22,814)	(7)	-	(768)	-	(20,484)
Permanent Write-offs	-	(1,294,991)	-	-	(11,234)	-	(1,306,225)
Write-off – decrease of value adjustments on the bases of the Law of conversion of loans to CHF	-	(1,733)*	-	-		-	(1.733)
Other changes	-	189,227**	-	-	(37,373)	-	151,854
Balance as of December 31, 2019	**218,351**	**12,020,333**	**602**	**2,047,191**	**2,158,301**	**190,977**	**16,635,755**

** effect of the implementation of the Law of conversion of loans indexed in CHF – the part that refers to the reversal of impairments in CHF before the conversion of loans to EUR ,in accordance with the instructions of the NBS*
*** effect of recognition of interest income on impaired loans using an alternative concept IRC method that relates to the netting of interest income and expense of value adjustments*

In 2019, the Bank increased net expenses from impairment of placements at amortized cost, off-balance provisions and the net effect of valuation of equity stakes in subsidiaries in total amount of RSD 1,384,118 thousand, out of which the positive effect of the valuation of equity stakes in subsidiaries, which are held at cost are amounted to RSD 821,838 thousand (note 26).

Among other changes on the impairment accounts the amount of RSD 1,306,225 thousand relates to permanent write-off that the Bank carried out in 2019, i.e. transfer from on-balance to off-balance records on the basis of the decisions of the NBS of the accounting write-off.

14. NET GAINS / LOSSES FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

	(000) RSD	
	Year ended 31 December	
	2019	**2018**
Net gains/losses from derecognition of the financial instruments measured at amortised cost	(579,933)	526,547
Net gain / loss	**(579,933)**	**526,547**

The loss realized in 2019 relates entirely to the net effects of the implementation of the Law of conversion of mortgage loans indexed in Swiss francs in April 2019, by which banks were obliged to recognize the expense of conversion and the impairment of the outstanding debt in the income statement of the current period.
According to the Law, the amount obtained by the conversion of outstanding debt from Swiss francs to debt indexed to EUR using a conversion exchange rate for all clients that signed a contract with the Bank, is impaired by 38% where 23% of that impairment is borne by the Bank's income statement of the current period, and for the 15% of impairment there is a formed claim from The Republic of Serbia. The negative net effect shown in the income statement of the Bank is related to the recalculation of 23% impairment of net receivables on the basis of derecognition of loans in Swiss francs.
The new, decresed amount of loan receivables in EUR, with the new repayment plans, are recorded by the Bank under the position Loans and receivables due from customers.

15. OTHER OPERATING INCOME

	(000) RSD	
	Year ended 31 December	
	2019	**2018**
Other income from operations	137,310	145,233
Revenues from dividends and shares	14,011	10,736
Net income	**151,321**	**155,969**

In the other operating income from operations in the amount of RSD 137,310 thousand, the most significant amounts relate to revenue from lease of properties, including advances received for rental in the amount of RSD 64,216 thousand and refunds of court costs and utility costs in the amount of RSD 48,456 thousands, revenues from charged costs for the use of business mobile phones upon employee authorization and the cost of using business vehicles for private purposes in the amount of RSD 14,033 thousand.

In the course of 2019, the Bank received dividends from shares and securities held for trading in amount of RSD 14,011 thousand (2018: RSD 10,736 thousand), which form part of the position of Other income, and dividends from shares in the VISA Inc. in the amount of RSD 7,893 thousand, Dunav Osiguranje ADO of RSD 4,422 thousand and MasterCard of RSD 1,696 thousand.

16. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

Costs of salaries, salary compensation and other personal expenses consist of:

	(000) RSD Year ended 31 December 2019	2018
Net salaries	2,596,042	2,630,690
Net benefits	484,417	463,408
Payroll taxes	379,934	381,607
Payroll contributions	824,871	822,864
Considerations paid to seasonal and temporary staff	3,283	6,141
Provisions for retirement benefits – net (Note 34)	31,113	80,266
Other personal expenses	597,872	57,823
Total	**4,917,532**	**4,442,799**

In 2019, majority of other personal expenses relates to annual benefits to employees.

17. DEPRECIATION COSTS

	(000) RSD Year ended 31 December 2019	2018
Amortization costs – intangible assets (Note 27.2)	204,577	139,188
Depreciation costs – property and equipment (Note 28.2)	369,410	376,772
Depreciation costs – investment property (Note 29.1)	38,420	36,028
Depreciation costs – right of use assets (Note 28.2)	393,430	-
Total	**1,005,837**	**551,988**

18. OTHER INCOME

Other income consists of:

	Year ended 2019	31 december 2018
Income from reversal of unused provisions for litigations and other liabilities	512,334	134,110
Income from decrease of liabilities	5,391	40,650
Other income	203,070	105,469
Total	**720,795**	**280,229**

Within the position of Other income in 2019, the most significant items are revenues:

- On the basis of litigation finished in favour of the Bank or disputes temporarily ceased until finalization of related case in the amount of RSD 512,334 thousand
- On the grounds of reducing liabilities in the amount of RSD 5,391 thousand
- From a change in value of fixed assets in the amount of RSD 19,018 thousand,
- Interest payments from previous years – from retail clients in total of RSD 30,863 thousand and from entrepreneurs in the amount of RSD 291 thousand
- interest payments from previous years – from corpotate clients in total of RSD 129,961 thousand

19. OTHER EXPENSES

Other expenses include:

		(000) RSD
	Year ended 31 December	
	2019	**2018**
Cost of materials	302,604	334,632
Cost of production services	1,366,843	1,877,932
Non-material costs (without taxes and contributions)	2,601,773	2,432,612
Taxes payable	164,512	147,540
Contributions payable	710,856	740,120
Other operating costs	25,765	26,427
Other expenses	422,499	304,928
Losses from sales of fixed assets and intangible investments	709	-
Losses arising from write-off of fixed assets and Intangible assets	6,650	12,405
Expenses arising from changes in value of investment property and assets held for sale	69,100	20,410
Expenses arising from provisions for litigations (Note 34)	1,252,461	270,971
Total	**6,923,772**	**6,167,977**

a) Other expenses

Within the position of other expenditures in the amount of RSD 422,499 thousand, among others the following are recorded:

- expenditure arising from paid invoices of insurance companies for life insurance policies of clients in favour of the Bank in the amount of RSD 219,695 thousand, and whose payment was covered by the Bank. The specified policies are used as collateral for loans granted to individuals. Additionally, this position also includes expenditures related to insurance policies for users of current account sets and travel insurance international payment cards in the amount of RSD 67,243 thousand, and

b) Provision for litigations

Expenditures on the basis of provisions for litigation totalling to RSD 1,252,461 thousand (note 34) are result of increased expenditures for 3,435 new cases during the year 2019, and increase expenditures for active cases from previous years.

20. INCOME TAX – current tax and deferred tax

20.1 Components of income taxes as of December 31 were as follows:

	(000) RSD Year ended 31 December 2019	2018
Gains from deferred taxes	1,482,667	700,754
Gains from deferred taxes	(795,593)	(676,645)
Total	**687,074**	**24,109**

In 2019 and 2018 the Bank din not pay current income taxes, based on the applicable tax regulations.

20.2 Reconciliation of the effective tax rate is presented in the table below:

(000) RSD

	2019	2019	2018	2018
Profit for the year before taxes		8,268,685		8,121,073
Tax calculated using the local income tax rate	15%	1,240,303	15%	1,218,161
Expenses not recognized for tax purposes	2.61%	216,264	1.05%	85,015
Tax effects of the net capital losses /gains	-0.01%	(386)	-0.01%	(621)
Tax effects of income reconciliation	-0.91%	(75,645)	-0.24%	(19,773)
Tax effects on IFRS 9	-0.42%	(34,851)	-0.43%	(34,851)
Tax credit received and used in the current year	-9.02%	(746,013)	-7.80%	(632,773)
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-6.77%	(599,672)	-7.57%	(615,158)
Tax effect adjustments (used and new ones)	-8.31%	(687,074)	-0.30%	(24,109)
Tax effects stated within the income statement		687,074		24,109

20.3 Movements in deferred taxes as at December 31 are presented as follows:

	(000) RSD Year ended 31 December 2019	2018
Balance as of January 1	840,967	857,096
Occurrence and reversal of temporary differences	233,230	(16,129)
Balance as of December 31	**1,074,197**	**840,967**

In the course of 2019, the Bank has not paid taxes on the profit, given that when it calculated tax on income for 2018 it did not state it's liability to pay tax, due to the usage of tax losses carried forward and withholding tax paid in another country.

20. INCOME TAX – current tax and deferred tax (continued)

20.4. Deferred tax assets and liabilities

20.4.1. Deferred tax assets and liabilities refer to:

(000) RSD

			2019			2018
	Asset	Liability	Net	Asset	Liability	Net
Difference in the present value of fixed assets for tax and financial reporting purposes	39,299	-	39,299	69,359	-	69,359
Transfer tax losses	1,259,350	-	1,259,350	878,000	-	878,000
Effect of increase in deferred tax liabilities for securities available for sale and equity investments	570	(1,008,254)	(1,007,684)	4.885	(570,187)	(565,302)
Long-term provisions forretirement benefits	53,838	-	53,838	49,098	-	49,098
Impairment of assets	324,857	-	324,857	295,225	-	295,225
Employee benefits under Article 9 paragraph 2. CIT Law - calculated but not paid in the tax period	1,213	-	1,213	1,183	-	1,183
Accrued and unpaid public duties	163	-	163	13	-	13
First implementation of IFRS 9	104,552	-	104,552	-	-	-
Conversion based tax loan	76,119	-	76,119	-	-	-
Provisions for litigations	242,231	-	242,231	135,023	-	135,023
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	-	(19,741)	(19,741)	-	(21,632)	(21,632)
Total	**2,102,192**	**(1,027,995)**	**1,074,197**	**1,432,786**	**(591,819)**	**840,967**

Tax losses carried forward that are not recorded in the books of the Bank and on basis of which deferred tax assets were not formed, but can be used to cover taxes on profits in the coming periods amount to RSD 595,917 thousand which relate to a part of the tax loss realized in 2016.

Deferred tax assets were not formed for tax credits on the basis of fixed asset investments in the amount of RSD 12,508 thousand, while tax credit for intercompany dividends of RSD 13,154 thousand is entirely utilized in 2019.

20.4.2. Overview of tax credits for which deferred tax assets were not recognized:

(000) RSD

Type of tax credit	Year	Amount as of 31.12.2019	Amount as of 31.12.2018	Expiration date for use
	2014			2019
	2015			2020
Tax losses carried forward	2016	595,917	7,979,816	2021
Total tax losses		**595,917**	**7,979,816**	
Impact of tax losses on future income tax (15%)		89,388	1,196,972	2019 -2021
Tax credit on the basis of investment in fixed assets	2013	12,508	15,692	2023
Tax credit on the basis of intercompany dividends	2014	-	13,154	2019
Total for the coverage of future profit tax liabiliites		**101,896**	**1,225,818**	

20. INCOME TAX – current tax and deferred tax (continued)

20.4. Deferred tax assets and liabilities

20.4.3. Movements in temporary differences during 2019 and 2018 are shown as follows:

(000) RSD

2019	As of 1 January	Through P&L	Through OCI	Directly through retained earnings	As of 31 December
Property, plant and equipment	69,359	(16,707)	(13,353)	-	39,299
Tax losses carried forward	878,000	381,350	-	-	1,259,350
Securities	(565,302)	-	(442,382)	-	(1,007,684)
Long term provisions for employee benefits	49,098	4,740	-	-	53,838
Actarial gains	(21,632)	-	1,891	-	(19,741)
Impairment of assets	295,225	29,632	-	-	324,857
Assets based on the payment of other employee liabilities	1,183	30	-	-	1,213
Accrued and unpaid public duties	13	150	-		163
Tax credit based on first implementation of IFRS 9	-	104,552	-	-	104,552
Tax credit based on conversion of CHF loans	-	76,119	-	-	76,119
Provisions for legal disputes	135,023	107,208	-	-	242,231
Total	**840,967**	**687,074**	**(453,844)**		**1,074,197**

(000) RSD

2018	As of 1 January	Through P&L	Through OCI	Directly through retained earnings	As of 31 December
Property, plant and equipment	112,277	(46,444)	3,526	-	69,359
Tax losses carried forward	878,146	10,854	-	-	878,000
Securities	(529,547)	-	(35,755)	-	(565,302)
Long term provisions for employee benefits	35,322	13,776	-	-	49,098
Actarial gains	(13,623)	-	(8,009)	-	(21,632)
Impairment of assets	265,532	29,693	-	-	295,225
Assets based on the payment of other employee liabilities	1,192	(9)	-	-	1,183
Accrued and unpaid public duties	-	13	-		13
Provisions for legal disputes	118,797	16,226	-	-	135,023
Total	**857,096**	**24,109**	**(40,238)**		**840,967**

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20. INCOME TAX – current tax and deferred tax (continued)

20.5 Tax effects relating to Other comprehensive income

(000) RSD

	2019			2018		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to fair adjustments of equity investments and securities available for sale	2,920,446	(438,067)	2,482,379	54,832	(8,224)	46,608
Net decrease due to actual losses	(12.609)	1,891	(10,718)	53.387	(8,008)	45,379
Valuation of property	111,214	(13,353)	97,861	-	3,526	3,526
Decrease due to fair value adjustments of equity investments and securities available for sale (decrease in equity and securities)	28,767	(4,315)	24,452	(28,403)	4,260	(24,143)
Total	**3,047,818**	**(453,844)**	**2,953,974**	**79,816**	**(8,446)**	**71,370**

21. CASH AND ASSETS HELD WITH THE CENTRAL BANK

Cash and assets held with the central bank include:

(000) RSD

	31 December 2019	31 December 2018
In RSD		
Cash on hand	4,328,913	4,242,968
Gyro account	23,873,701	25,485,440
Other RSD cash funds	99	99
	28,202,713	**29,728,507**
In foreign currencies		
Cash on hand	9,092,077	2,956,171
Gyro account	30,261,966	30,910,922
Other cash funds	1,463	110
	39,355,506	**33,867,203**
Total	**67,558,219**	**63,595,710**
Adjustment to cash and cash held with the central bank for the purpose of preparing statement of cash flows		
Foreign currency accounts held with foreign banks (Note 24.1)	3,570,398	7,690,960
Foreign currency obligatory reserves	(30,261,966)	(30,910,922)
	(26,691,568)	**(23,219,962)**
Cash and cash equivalents reported in statement of cash flows	**40,866,651**	**40,375,748**

21. CASH AND ASSETS HELD WITH THE CENTRAL BANK (continued)

In the cash flow statement, the bank records cash on the NBS bank account, cash on accounts of foreign banks, funds in the account of the Central Securities Depository and cash at the cash register.

Within the giro account, the RSD mandatory reserve is presented, which represents the minimum reserve of the RSD funds allocated in accordance with the Decision on the obligatory reserve with the National Bank of Serbia. In accordance with the aforementioned Decision, the RSD mandatory reserve is calculated on the amount of the average daily book value of dinar deposits, loans and other RSD liabilities during one calendar month using the rate ranging from 0.0% to 5.00%, depending on the maturity of liabilities and their source, while the calculated RSD obligatory reserve makes the sum: calculated obligatory reserves in RSD, 38.00% of the RSD countervalue of the calculated obligatory reserve in EUR on deposits up to 730 days, and 30.00% of RSD countervalue calculated compulsory reserve in EUR on deposits over 730 days.

The National Bank of Serbia pays interest to the Bank on the allocated funds in RSD in the amount of 1.25% annually up until 18.08.2019, 1% from 18.08 to 17.11 and 0,75% from 18.11.2019.

The Bank shall calculate the foreign exchange required reserve on the 17th day of the month on the basis of the average foreign currency deposit balance during the previous calendar month. The Bank shall allocate foreign currency required reserves in foreign currency to a special account with the National Bank of Serbia and may withdraw these funds as necessary. The bank is obliged to maintain the average monthly balance of the allocated foreign currency reserve in the amount of the calculated foreign currency reserve requirement, while in order to achieve the average daily balance of the allocated reserve requirement, the daily balance on the foreign currency reserve requirement account may be less than or greater than the calculated foreign currency reserve requirement.

Persuant to the Decision on Amendment of the Decision on Obligatory Reserve dated 11.12.2015 (Official Gazzete 102/2015), the rates applied in calculation of the obligatory foreign currency reserve were as follows:

- for foreign currency deposits placed up to 730 days the rate of 20% was applied
- for foreign currency deposits placed for over 730 days the rate of 13% was applied
- for RSD deposits indexed with currency clause the rate of 100% was applied regardless of maturity

In accordance with Decision on Obligatory Reserves Held with NBS, the Bank allocated a part of its foreign currency reserve to its gyro account. The Bank does not realize interest on the obligatory reserve in the currency of the foreign country.

Other foreign currency cash in the amount of RSD 1,463 thousand (2018: RSD 110 thousand) relate to an accruals account at the Central Registry of securities for security trading.

22. RECEIVABLES UNDER DERIVATIVES

(000) RSD

	31 December 2019	31 December 2018
Claims arising from changes in fair value of derivatives in dinars-SWAP	-	4,070
Total	-	4,070

23. SECURITIES

23.1. Securities consist of:

(000) RSD

	31 December 2019	31 December 2018
Securities measured at fair value through profit and loss (in RSD)	5,390,394	1,653,198
Securities measured at fair value through profit and loss in foreign currency	4,898,625	3,156,612
Total	10,289,019	4,809,810
Securities measured at fair value through other comprehensive income (in RSD)	59,825,920	52,167,965
Securities measured at fair value through other comprehensive income in foreign currency	68,355,214	76,201,417
Impairment	(602)	(1,594)
Total	128,180,532	128,367,788
Total	**138,469,551**	**133,177,598**

23.2. Breakdown of securities measured at fair value through profit and loss is provided below:

(000) RSD

	31 December 2019	31 December 2018
Republic of Serbia bonds (in RSD)	4,877,762	1,193,611
Investment units of OIF monetary fund (in RSD)	512,632	459,587
Republic of Serbia bonds (in foreign currencies)	4,898,625	3,156,612
Total	10,289,019	4,809,810

Investment units as at December 31, 2019 in the total amount of RSD 512,632 thousand refer to investment units KomBank Monetary Fund, Belgrade.

23. SECURITIES (continued)

23.3. The structure of the securities that are measured at fair value through other comprehensive income:

(000) RSD

	31 December 2019	31 December 2018
In RSD		
Republic of Serbia bonds	59,651,702	51,916,780
Bonds of local government (city of Sabac and municipality of Stara Pazova)	174,218	251,185
Total RSD	59,825,920	52,167,965
In foreign currencies		
Republic of Serbia bonds	65,908,342	73,841,988
Bonds of foreign banks (Raiffeisen Bank International)	1,799,460	1,702,199
Bonds of foreign States (Republika Srpska)	647,412	657,230
Total in foreign currencie	68,355,214	76,201,417
Total	128,181,134	128,369,382

Changes in impairment is presented as follows:

(000) RSD

Impairment of securities at fair value through OCI	31 December 2019	31 December 2018
Individual impairment allowance		
Balance at January 1	1,594	3
Correction of the opening balance:		
IFRS 9 – correction results in capital	-	1,828
Adjusted balance as of 1 January 2018	-	1,831
Change for the year (Note 13)	74	586
Effects of the changes in foreign exchange rates (Note 13)	(7)	(5)
Reversal (Note 13)	(1,059)	(818)
Permanent write-off	-	-
Total individual impairment allowance	602	1,594

24. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

24.1 Loans and receivables due from banks include:

(000) RSD

	31 December 2019	31 December 2018
RSD loans and receivables		
Per repo transactions	12,000,000	1,500,000
Loans for working capital	-	1,000,000
Overnight loans	200,000	1,260,000
Other receivables	3,148	15,993
Prepayments	6,805	14,744
Allowance	(273)	(1,127)
	12,209,680	3,789,610
FX loans and receivables		
By repo transactions	2,103,540	-
Foreign currency accounts held with foreign banks (Note 21)	3,570,398	7,690,960
Overnight loans	2,161,743	1,587,977
Other loans and receivables due from foreign banks	896,474	751,504
Foreign currency deposits placed with other banks	2,896,134	3,774,544
Prepayments	1,834	1,394
Other receivables	5,958	9,684
Loans to foreign banks (subsidiaries)	67,195	101,309
Secured foreign currency warranties	1,039,080	997,656
Impairment allowance	(218,078)	(226,909)
	12,524,278	14,688,119
Total	24,733,958	18,477,729

As at 31 December 2019, securities acquired in reverse repo transactions with the National Bank of Serbia in the amount of RSD 12,000,000 thousand relate to treasury bills purchased from the National Bank of Serbia, maturing up to 8 days with the annual interest rate of 1.03% to 2.4%.

Short-term time deposits with banks in RSD are deposited for up to one year with an interest rate ranging from 1.05 % to 3.4% per annum. Short term time deposits at banks in foreign currency are deposited for a period not exceeding one year, with interest rates ranging from 0.02% to 0.20% per annum for the EUR, from 1.35% to 2.4% for USD and 0.13% to CHF.

Interest rates on long-term loans extended revolving foreign dependent banks ranged in scope from 2,335% to 4.52% which is a 6m EURIBOR plus a fixed share of 2.75%.

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24. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

24.2 Movements on the account of impairment allowance of loans and receivables due from banks are provided in the table below:

Impairment allowance	31 December 2019	31 December 2018
Balance at 1 January	228,037	202,558
IFRS 9 – correction of results through equity	-	25,260
Adjusted balance as of 1 January 2018	-	227,818
Impairment in the current year:		
Increase (Note 13)	40,853	66,805
Effects of the changes in foreign exchange rates (Note 13)	3,105	9,171
Permanent write-off	-	-
Reversal (Note 13)	(53,644)	(76,584)
Other	-	827
Balance at 31 December	218,351	228,037

25. LOANS AND RECEIVABLES DUE FROM CLIENTS

25.1 Loans and receivables due from customers:	2019 Gross Amount	2019 Impairment Allowance	2019 Carrying Amount	2018 Gross Amount	2018 Impairment Allowance	2018 Carrying Amount
Corporate customers and agro						
Transaction account overdrafts	520,354	(13,158)	507,196	752,971	(20,901)	732,070
Working capital loans	41,530,893	(3,815,411)	37,715,482	33,354,044	(4,395,390)	28,958,654
Investment loans	40,409,450	(960,446)	39,449,004	32,805,889	(1,269,586)	31,536,303
Loans for payments of imported goods and services	2,062,163	(19,802)	2,042,361	2,072,507	(18,613)	2,053,894
Loans for discounted bills of exchange, acceptances and payments made for guarantees called on	362,298	(328,945)	33,353	386,037	(289,188)	96,849
Other loans and receivables	26,213,573	(5,749,113)	20,464,460	36,744,167	(6,894,653)	29,849,514
Prepayments	87,657	(1,260)	86,397	106,661	(19,262)	87,399
Accruals	(156,819)	-	(156,819)	(151,278)	-	(151,278)
	111,029,569	(10,888,135)	100,141,434	106,070,998	(12,907,593)	93,163,405
Retail customers – private individuals						
Transaction account overdrafts	3,159,725	(169,167)	2,990,558	3,564,677	(173,254)	3,391,423
Housing loans	41,752,415	(533,828)	41,218,587	39,641,860	(742,907)	38,898,953
Cash loans	35,107,841	(359,512)	34,748,329	30,684,586	(247,009)	30,437,577
Consumer loans	197,000	(1,070)	195,930	131,729	(1,069)	130,660
Other loans and receivables	1,847,862	(65,086)	1,782,776	1,915,763	(74,749)	1,841,014
Prepayments	268,705	(3,535)	265,170	249,874	(2,726)	247,148
Accruals	(490,221)	-	(490,221)	(564,506)	-	(564,506)
	81,843,327	(1,132,198)	80,711,129	75,623,983	(1,241,714)	74,382,269
Balance as of December 31	192,872,896	(12,020,333)	180,852,563	181,694,981	(14,149,307)	167,545,674

25. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

25.2 Movements on the account of impairment allowance of loans and receivables due from customers are presented in the table below:

	31 December 2019	31 December 2018
Individual impairment allowance		
Balance at January 1	12,865,378	17,031,882
IFRS 9 – correction of result through equity	-	109,895
Adjusted balance as of 1 January 2018	-	17,141,777
Impairment in the current year		
Increase (Note 13)	2,383,710	1,672,859
Reclassification from Bank;s impairment	(846,629)	346,947
Effects of the changes in foreign exchange rates (Note 13)	(12,394)	(6,146)
Reversal (Note 13)	(2,243,131)	(1,773,670)
Reduction of impairment CHF-EUR Conversions under the Law on Conversion of Loans in CHF	(165,317)	-
Permanent write-off	(960,161)	(4,518,125)
Conversion of CHF-EUR write-off under the Law on Conversion of Loans in CHF	(816)	-
Other (Note 13)	-	1,736
Individual impairment allowance	**11,020,640**	**12,865,378**
Group impairment allowance		
Balance at January 1	1,283,929	1,002,717
IFRS 9 – correction of result through equity	-	109,895
Adjusted balance as of 1 January 2018	-	1,644,874
Impairment in the current year		
Increase (Note 13)	3,081,495	3,759,011
Reclassification to Individual impairment allowance	846,629	(346,947)
Effects of the changes in foreign exchange rates (Note 13)	(10,420)	(5,591)
Permanent write-off	(3,942,169)	(3,345,664)
Reduction of impairment CHF-EUR Conversions under the Law on Conversion of Loans in CHF	(113,250)	-
Reversal (Note 13)	(334,830)	(606,661)
Conversion of CHF-EUR write-off under the Law on Conversion of Loans in CHF	(917)	-
Other	189,226	184,907
Total Group impairment allowance	999,693	1,283,929
Balance as of December 31	**12,020,333**	**14,149,307**

Loans and receivables due from retail customers

During 2019, short-term and long-term loans to retail customers in RSD were approved for a period of 30 days to 120 months in RSD with nominal interest rates ranging from 1.80% to 13.95% per annum.

Short-term loans to retail customers in foreign currency are approved for a term up to twelve months with nominal interest rates ranging from 1.40% to 8.00% annually.

Long-term loans to retail customers in foreign currency are approved for the period from thirteen to thirty-sixteen months with nominal interest rates ranging from 1.50% to 8.00% annually.

25. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

Loans and receivables due from legal entities

Short-term loans to legal entities in RSD were approved for a period of up to twelve months with a range of interest rates ranging from 2.70% to 6.95% annually. In foreign currency, short-term loans were granted for a period up to twelve months with an interest rate of EUR 1.20% to 5.45% annually. Long-term loans in RSD were approved for a period of thirteen months to one hunderd and twenty months at an interest rate of 2.73% to 5.80% annually. Long-term loans in foreign currency were granted for a period of hunderd and forty-four months at an interest rate of EUR 1.07% to 4.45% annually.

Risks and Uncertainties

The management of the Bank calculates provision for possible loan losses by applying the concept of expected credit losses. Losses due to the impairment of financial assets held at amortised cost are measured as the difference between the carrying value of the financial asset and the present value of the estimated future cash flows discounted with the initial interest rate of the asset. Losses are recognized in the income statement and are measured at the position of impairment and of financial assets. When events after the balance sheet date is affected by a reduction in the amount of loss due to impairment, such a reduction is recognized as revenue of the abolition of impairment, through the income statement.

Loans and other receivables are shown in the amount less the Bank and the individual calculation of impairment. Individual and group provisions are deducted from the book value of loans that are identified as impairment to their value reduced to their recoverable value. In order to protect against the risk of default in dealings with customers, the Bank is undertaking the following measures for the regulation of claims: extension, restructuring, alignment, retrieval of assets for the purpose of securing payment of claims, the conclusion of contracts with interested third party, launch litigation and other measures. If measures regulating investments, or foreclosure and court proceedings have not produced the expected results, or when there is no possibility of the collection in its entirety, initiates the proposal for a permanent write-off of the remaining claims of the banks, or transfer from on-balance to off-balance records.

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26. INVESTMENTS INTO SUBSIDIARIES

	31 December 2019	31 December 2018
KomBank INVEST a.d., Beograd	140,000	140,000
Komercijalna banka a.d., Banja Luka	2,974,615	2,974,615
Komercijalna banka a.d., Podgorica	2,366,273	2,366,273
Impairment allowance	(2,047,191)	140,000
Total	**3,433,697**	**2,611,859**

Effects of conducted appraisals of investments into subsidiaries

Permanent equity stakes in subsidiaries - banks were impaired in 2016 in the amount of RSD 2,869,029 thousand, in accordance with the requirements of IAS 36, based on an estimate of their fair value by an independent appraiser. Impairment was recognized at the expense of the Bank's expense.

Investments in the permanent stakes of subsidiary banks have been subject to impairment testing at the end of 2017 and 2018, as IAS 36 requires a new estimate of fair value only where there is evidence that the value of the asset can be further reduced (or that the previously recognized impairment has been significantly reduced) .
In 2019, when reviewing the performance of both subsidiaries, after the impairment that was made in 2016, significant changes with positive consequences were identified.
Based on the clear indications with positive effects on the operations of the subsidiary banks, as well as the expectation that such developments will continue in the near future, the Bank engaged an independent valuer in 2019 to determine the fair value of the subsidiaries' equity interest. Based on the results of the assessment, a part of previously recognized impairment of interest in subsidiaries was reversed in the total amount of RSD 821,838 thousand as at 31 December 2019.

As at 31 December 2019. the net value of the investement in subsidiaries amounts to RSD 3,433,697 thousand.

27. INTANGIBLE ASSETS

27.1 Intangible assets comprise:

(000) RSD

	31 December 2019	31 December 2018
Intangible assets	638,758	384,273
Intangible assets in progress	26,977	172,778
Total	**665,735**	**557,051**

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27. INTANGIBLE ASSETS (continued)

27.2 Movements on the account of intangible assets in 2019 and 2018 are presented below:

(000) RSD

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance as of January 1, 2018	**2,089,953**	**119,603**	**2,209,556**
Additions	-	235,976	235,976
Transfers	182,801	(182,801)	-
Expenditures	(4,948)	-	(4,948)
Balance as of December 31, 2018	**2,267,806**	**172,778**	**2,440,584**
Balance as of January 1, 2019	**2,267,806**	**172,778**	**2,440,584**
Additions	-	313,261	313,261
Transfers	459,062	(459,062)	-
Disposals	(7,087)		(7,087)
Balance as of December 31, 2019	**2,719,781**	**26,977**	**2,746,758**
Impairment			
Balance as of January 1, 2018	1,749,293	-	1,749,293
Amortization (Note 17)	139,188	-	139,188
Expenditures	(4,948)	-	(4,948)
Balance as of December 31, 2018	**1,883,533**	**-**	**1,883,533**
Balance as of January 1, 2019	**1,883,533**		**1,883,533**
Amortization (Note 17)	204,577	-	204,577
Disposals	(7,087)		(7,087)
Balance as of December 31, 2019	**2,081,023**	**-**	**2,081,023**
Net carrying value			
Balance as of December 31, 2018	**384,273**	**172,778**	**557,051**
Balance as of December 31, 2019	**638,758**	**26,977**	**665,735**

28. PROPERTY, PLANT AND EQUIPMENT

28.1 Property, plant and equipment comprise:

(000) RSD

	31 December 2019	31 December 2018
Property	4,907,488	4,898,896
Equipment	526,522	520,557
Investments in progress	43,224	199,625
Right of use assets	960,703	-
Total	**6,437,937**	**5,619,078**

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28. PROPERTY, PLANT AND EQUIPMENT (continued)

28.2 Movements on the account of property and equipment in 2019 and 2018 are presented below:

(000) RSD

	Property	Equipment	nvestemts n progress	Leased business premises	Leased equipmen t	Total
Cost						
Balance as at January 1, 2018	**6,875,719**	**3,473,864**	**132,565**	-	-	**10,482,148**
Additions	-	-	304,152	-	-	304,152
Transfer from investments in progress	67,899	169,193	(237,092)	-	-	-
Transfer from investment property	49,341	-	-	-	-	49,341
Write-off	(42,228)	(123,758)	-			(165,986)
Shortages	-	(23,058)	-	-		(23,058)
Balance as at December 31, 2018	**6,950,731**	**3,496,241**	**199,625**	**-**	**-**	**10,646,597**
Balance as at January 1, 2019	**6,950,731**	**3,496,241**	**199,625**		**-**	**10,646,597**
Correction of opening balance as at January 1, 2019 – adoption of IFRS 16	-	-	-	1,330,695	18,760	**1,349,455**
Adjusted opening balance as at January 1, 2019	**6,950,731**	**3,496,241**	**199,625**	**1,330,695**	**18,760**	11,996,052
Additions and new lease contracts	-	-	149,631	63,187	6,010	216,211
Transfer from investments in progress	74,255	231,777	(306,032)		-	-
Write-off	(11,675)	(122,621)				(134,296)
Revaluation gain	244,948	-	-		-	244,948
Revalaution loss	(142,218)				-	(142,218)
Shortages	-	(541)	-		-	(541)
Modification of leasing contracts	-	-	-	(29,891)	-	(29,891)
Leasing - other				(49,121)	-	(49,121)
Balance as at December 31, 2019	**7,116,041**	**3,604,856**	**43,224**	**1,314,870**	**24,770**	**12,103,761**
Accumulated Depreciation						
Balance as at January 1, 2018	**1,924,883**	**2,902,017**	**-**	**-**	**-**	**4,826,900**
Depreciation (note 17)	159,206	217,566	-	-	-	376,772
Write-off	(32,254)	(121,327)	-	-	-	(153,581)
Shortages	-	(22,572)	-	-	-	(22,572)
Balance as at December 31, 2018	**2,051,835**	**2,975,684**	**-**	**-**	**-**	**5,027,519**
Balance as at January 1, 2019	**2,051,835**	**2,975,684**	**-**			**5,027,519**
Depreciation (note 17)	144,592	224,818	-	383,941	9,489	762,840
Write-off	(10,598)	(121,640)				(132,238)
Revaluation gain	57,793	-	-	-	-	57,793
Revalaution loss	(35,069)	-				(35,069)
Shortages	-	(528)	-	-	-	(528)
Modification of leasing contracts	-	-	-	(2,893)	-	(2,893)
Leasing - other	-	-	-	(11,600)	-	(11,600)
Balance as at December 31, 2019	**2,208,553**	**3,078,334**	**-**	**369,448**	**9,489**	**5,665,824**
Net carrying value						
Balance as at December 31, 2018	**4,898,896**	**520,557**	**199,625**	**-**	**-**	**5,619,078**
Balance as at December 31, 2019	**4,907,488**	**526,522**	**43,224**	**945,422**	**15,281**	**6,437,937**

28. PROPERTY, PLANT AND EQUIPMENT (continued)

The Bank does not have mortgaged buildings to secure repayment of the loans.

Due to incomplete cadastral books, on 31 December 2019, for 24 objects with the present value of RSD 484,488 thousand the Bank still does not have evidence of ownership (the number of facilities includes assets acquired through collection of receivables). The Bank's management takes all necessary measures for the acquisition of ownership papers. Completion of this process depends on the conduct of the competent national authorities.

In 2019, a total write-off of fixed assets and derecognition of permanently unusable fixed assets with the present value of RSD 2,058 thousand was made, of which, based on the Annual Count, write-off and derecognition of permanently unusable fixed equipment with the present value of RSS 981 thousand was made and shortages of RSD 13 thousand.

29. INVESTMENT PROPERTY

29.1. Changes in investment property during 2019 and 2018 are shown in the following table

(000) RSD

	Total
Cost	
Balance as of January 1, 2018	2,252,473
Transfer from investments in progress	-
Transfer to PPE	-
Sales	(49,341)
Fair valuation – decrease	(7,700)
Balance as of December 31, 2018	**2,195,432**
Balance as of January 1, 2019	2,195,432
Sales	-
Transfer to PPE	-
Fair valuation – decrease	-
Balance as of December 31, 2019	**2,195,432**
Accumulated Depreciation	
Balance as of January 1, 2018	263,865
Depreciation (Note 17)	36,028
Transfer to PPE	-
Sales	-
Fair valuation – decrease	(808)
Balance as of December 31, 2018	**299,085**
Balance as of January 1, 2019	**299,085**
Depreciation (Note 17)	38,420
Sales	-
Fair valuation – decrease	-
Balance as of December 31, 2019	**337,505**
Net Book Value	
Balance as of December 31, 2018	**1,896,347**
Balance as of December 31, 2019	**1,857,927**

As of 31 December 2019 the Bank has reported investment properties with the net book value of RSD 1,857,927 thousand, which comprise leased properities.

29. INVESTMENT PROPERTY (continued)

As of December 31, 2019, the net result from investment property is negative and amounts to RSD 10,488 thousand.

Property	Area in m²	Total expenses	Realized rental income	Difference in 000 RSD
Beograd, Trg Politike 1	3,354	(22,910)	9,551	(13,359)
Nis, Vrtiste nova d-zgrada	1,816	(4,692)	-	(4,692)
Nis, TPC Kalča	85	(802)	4,198	3,396
Beograd, Omladinskih brigada 9	15,218	(22,474)	16,989	(5,485)
Sabac, Majur, Obilazni put bb	1,263	(1,784)	-	(1,784)
Lovcenac, Marsala Tita bb	46,971	(2,894)	7,071	4,177
Negotin, Save Dragovica 20-22	658	(823)	-	(823)
Nis, Bulevar 12 Februar bb	816	(649)	5,725	5,076
Beograd, Radnička 22	7,190	(18,619)	17,198	(1,421)
Novi Sad, Vardarska 1/B,	291	(1,715)	3,463	1,748
Novi Sad, Bulevar Oslobodjenja 88, 3 lokala	44	(198)	496	298
Kotor, Stari Grad, Palata beskuca, business office, Br.1	207	(2,250)	4,386	2,136
Beograd, Luke Vojvodica 77a	80	(623)	868	245
Total		**(80,433)**	**69,945**	**(10,488)**

30. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

(000) RSD

	December 31, 2019	December 31, 2018
Non-current assets held for sale and assets from discontinued operations	196,300	227,630
Total	196,300	227,630

Non-current assets held for sale:

Property	Area in m²	Carrying Value
Jasika, business premises	75.87	511
Pozarevac, Mose Pijade 2, business office	826.82	26,530
Pozarevac, Mose Pijade 2, business office	880.86	21,952
Vrbas, M. Tita 49, business space	145.56	2,022
Kotor, business space 1 and 2	690.00	87,002
Beograd, Palmira Toljatija 5	637.00	58,283
Total		196,300

During 2019, based on the fair value appraisals of an authorized external appraisers, a decrease in the value of non-current assets held for sale amounted to RSD 10,332 thousand.

During 2019, the Bank sold three facilities in the amount of RSD 11,747 thousand, and on that basis, a loss on sale in the amount of RSD 709 thousand was recognized at the expense of the income statement. The difference between the sale value of RSD 11,747 thousand and the present value of assets sold of RSD 20,998 thousand in the amount of RSD 9,251 thousand reduced revaluation reserves in the balance sheet in the amount of RSD 9,040 thousand, recognized profit of the previous year in the amount of RSD 498 thousand RSD (based on revaluation of depreciation) and loss from sale in the amount of RSD 709 thousand. The Bank's management still intends to carry out the sale for all assets that have not been sold in the past year.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

31. OTHER ASSETS

Other assets comprise:

In RSD thousand

	31 December 2019	31 December 2018
In RSD		
Fee receivables per other assets	116,335	106,138
Inventories	121,434	135,901
Foreclosed assets	2,280,027	2,268,696
Prepaid expenses	164,077	141,291
Equity investments	2,398,583	1,747,050
Other RSD receivables	3,782,343	3,219,110
	8,862,799	**7,618,186**
Impairment allowance on:		
Fee receivables per other assets	(78,391)	(68,497)
Foreclosed assets	(987,236)	(949,729)
Equity investments	(446,661)	(446,661)
Other RSD receivables	(830,057)	(850,384)
	(2,342,345)	**(2,315,271)**
In foreign currencies		
Fee receivables per other assets	1,409	807
Other receivables from operations	367,911	913,961
Receivables in settlement	270,124	381,106
Other foreign currency receivables	283,728	189,655
	923,172	**1,485,529**
Impairment allowance on:		
Other receivables from operations	(265,877)	(98,373)
Receivables in settlement	(77,390)	(77,804)
	(343,267)	**(176,177)**
Total	**7,100,359**	**6,612,267**

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December 31, 2019

31. OTHER ASSETS (continued)

Movements of other assets and prepayments impairment allowance is shown in the following table:

In RSD thousand

	31 December 2019	31 December 2018
Individual impairment allowance		
Balance at January 1	243,567	212,592
Corection of opening balance:		
IFRS 9 – correction of result through equity	-	
	-	13,637
Adjusted balance as of 1 January 2018	-	226,229
Increase (Note 13)	4,621	10,584
Reversal (Note 13)	(1,509)	10,980
Permanent write-off	-	(4,226)
Individual impairment allowance	**246,679**	**243,567**
Group impairment allowance		
Balance at January 1	1,708,540	2,244,271
Corection of opening balance:		
IFRS 9 – correction of result through equity	-	(443,121)
Adjusted balance as of 1 January 2018	-	1,801,150
Increase (Note 13)	357,138	216,744
Effects of the changes in foreign exchange rates (Note 13)	(768)	117
Reversal (Note 13)	(104,681)	(301,700)
Permanent write-off	(11,234)	-
Other (Note 13)	(37,372)	(7,771)
Total Group impairment allowance	**1,911,622**	**1,708,540**
Balance as of December 31		
Group impairment allowance	**2,158,301**	**1,952,107**
Inventory impairment allowance (not exposed to credit risk)	80,650	92,680
Balance as of December 31	**2,238,951**	**2,044,787**

31. OTHER ASSETS (continued)

a) Equity investments

Other assets also comprise equity investments and are shown in the following table

Equity investments	2019	2018
Equity investments in banks and other financial organizations	80,270	80,270
Equity investments in companies and other legal entities	465,249	410,760
Equity investments in non-resident entities abroad	1,853,064	1,256,020
	2,398,583	1,747,050
Impairment allowance of:		
Equity investments in banks and other financial organizations	(80,270)	(80,270)
Equity investments in companies and other legal entities	(366,391)	(366,391)
	(446,661)	**(446,661)**

Equity investments in banks and other financial organizations relate to: Euroaxis banka a.d., Moskva in the amount of RSD 78,387 thousand, Union banka a.d., in the amount of RSD 1,874 thousand and Universal banka in bankruptcy in the amount of RSD 9 thousand.

Equity investments in companies mostly relate to: 14. Octobar a.d. Krusevac in the amount of RSD 324,874 thousand, Dunav osiguranje a.d.o. Beograd in the amount of RSD 86,902 thousand, RTV Politika d.o.o. Beograd in the amount of RSD 37,634 thousand, Beogradska berza a.d. in the amount of RSD 2,246 thousand and Politika a.d. Beograd in the amount of RSD 2,244 thousand.

Equity investments in non-resident entities abroad relate to VISA Company in the amount of RSD 1,475,253 thousand and MASTER Card in the amount of RSD 377,811 thousand.

Impairment allowance of equity investments totaling RSD 446,661 thousand relates to the impairment of cost of those equity investments that have no market value, out of which the major portion refers to: 14. October a.d., Krusevac in the amount of 324.874 thousand dinars, Euroaxis bank Moscow worth 78.387 thousand dinars, RTV Politika Belgrade driver, to the tune of thousands of dinars 37.633, Politika a.d. and PPD Dobricevo d.o.o. Cuprija amounting to RSD 2,563 thousand.

31. OTHER ASSETS (continued)

b) Other receivables and receivables from operations

Other RSD receivables mostly refer to receivables from purchase and sale of foreign currencies totaling to RSD 1,528,740 thousand (impairment of RSD 801 thousand), operating receivables of RSD 250,607 thousand (impairment of RSD 88,772 thousand), foreclosed assets of RSD 2,287,027 thousand (impairment of RSD 987,236 thousand), advances paid for working capital assets of RSD 84,543 thousand, (impairment of RSD 5,607 thousand), rental receivables of RSD 372,546 thousand (impairment of RSD 283,807 thousand) and interest receivables per other assets of RSD 203,067 thousand (impairment of RSD 156,189 thousand) and receivables from operations per court verdict totaling to RSD 209,085 thousand (written off in total, 100%).

Other receivables from operations in foreign currencies totaling to RSD 270,124 thousand for the most part relate to receivables for spot transactions of RSD 180,460 thousand.

v) Foreclosed assets

Foreclosed assets totaling to RSD 2,280,027 thousand gross, less recorded impairment allowance of RSD 987,236 thousand, with the net carrying value of RSD 1,292,791 thousand relate to:

I Foreclosed properties classified in accordance with the classification decision that applied before December 30, 2013 years

(000) RSD

Description	Area in m^2	Value	Date of acquisition
Novi Pazar, Kej Skopskih zrtava,44 local	82.95	2,021	27.09.2006
Gnjilica, field VII class	2,638	55	15.04.2008
Cacak, Hotel "Prezident", Bulevar oslobodjenja bb	2,278.92	82,315	21.01.2009
Budva, Montenegro, forest, IV class	8,292	86	12.10.2010
Buce, forest, IV class	974	3,751	27.05.2011
Prijevor, forest IV class	1,995	4,339	27.05.2011
Belgrade, 14 Miajla Avramovic, building	925.35	156,017	21.11.2011
Krusevac, Kosevi, production and office building I.C.P.	12,836	42,533	08.06.2012
Mladenovac, Sopot-Nemenikuce, field III class	16,633	250	25.06.2012
Obrenovac, Mislođin, field III class	10,017	983	11.07.2012
Novi Pazar, Ejupa Kurtagica 13, House	139.90	3,370	24.07.2012
Majur, Tabanovačka, field	14,452	1,524	10.08.2012
Mali Požarevac, large field, field III and IV classes	21,915	299	27.09.2012
Cuprija, Aleksa Santic 2/24, apartment	72.40	770	15.01.2013
NIS, Ivana Milutinovica 30, business office	438.39	4,677	23.04.2013
NIS, Triglavska 3/1, flat	79.80	3,007	04.06.2013
Mladenovac, field-lug III class	1,142	392	18.07.2013
NIS, Bulevar 12. februar, outhouse-storage	2,062	37,156	30.07.2013
Kula,Zeleznicka bb,business office,land	7,959	20,890	01.10.2013
Prijepolje, Karosevina, sawmill	450	797	08.11.2013
Total I		**365,232**	

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31. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

II Foreclosed properties classified in accordance with the classification decision that is applied after December 30, 2013

Description	Area in m2	Value	*(000) RSD* Date of acquisition
Vukovac,, Milatovac, agricultural land	132,450	534	16.05.2014
BOR, Nikole Pasica 21, commercial building, warehouse	3,823	42,503	08.05.2014
Subotica, Magnetic fields, 17, production hall and warehouse	2,492	42,381	18.07.2014
Mokra Gora, land, forests, fields, houses	58,400	3,479	31.01.2014
Kopaonik, House with land	337	3,739	31.01.2014
Novi Sad, Bulevar oslobođenja and 30th, commercial property 6/3	29	2,821	31.01.2014
Novi Sad, Bulevar oslobođenja 30 and commercial property 7/3	44	4,280	31.01.2014
Novi Sad, Bulevar oslobođenja and 30th, commercial property 8/3	35	3,405	31.01.2014
Novi Sad, Bulevar oslobođenja and 30th, commercial property 9/3	34	3,308	31.01.2014
Novi Sad, Bulevar oslobođenja and 30th, commercial property 10/3	39	3,794	31.01.2014
Novi Sad, Bulevar oslobodjenja 88, commercial/23	253	18,490	31.01.2014
Novi Sad, Tihomira Ostojića 4, office space 7	134	5,254	31.01.2014
Novi Sad, Polgar Andrasa 40/a, office space 8	81	4,531	31.01.2014
Novi Sad, Polgar Andrasa 40/a, office space 9	79	4,418	31.01.2014
Novi Sad, Polgar Andrasa 40/a, office space 10	408	23,468	31.01.2014
Zrenjanin, Novosadski put 4, building, pump and land	9,144	31,921	14.08.2014
Budva, Reževici, Montenegro, rocks, forest	1,363.20	18,846	22.07.2014
Budva, Reževici, Montenegro, forest V class	5,638.54	76,958	22.07.2014
NIS, Ivana Gorana Kovacica 31, residential building	434.58	4,142	17.04.2013
Mladenovac, Americ, field IV class	7,768	237	03.10.2014
Valjevo, Rađevo selo, warehouse	394	402	11.06.2014
Bela Crkva, Kajtasovo, forest	4,187	66	03.10.2014
Mladenovac, fields, orchards	25,136	502	03.10.2014
Valjevo, Vojvode Misica 17, family building	106	1,569	25.09.2014
NIS, Čajnička bb, residential buildings with additional building	825.74	9,851	14.03.2013
NIS, Sjenička 1, commercial buildings, warehouses, workshops	1,452.73	12,129	14.03.2013
Belgrade, Zemun, Cara Dusana 130, factory complex	6,876	92,109	16.06.2014
NIS, Sumadijska 1, Office space	504.60	1,658	04.12.2014
Valjevo, Worker 6, place	69	2,550	28.05.2014
Prokuplje, field III class	12,347	536	28.08.2015
Mionica, Prote Zarko Tomovica bb, House	107	1,594	10.09.2015
Prokuplje, Maloplanska 7, building with land	490	257	11.06.2012
Sokobanja, agricultural land, Orchard, field IV class	417,908	5,142	31.07.2012
Sokobanja, production hall with land	5,042	21,684	31.07.2012
Sokobanja, space with land	2,005	623	31.07.2012
Sokobanja, House with land	4,194	3,370	31.07.2012
Belgrade, Pivljanina 83, residential buildings	278.52	55,648	23.08.2012
Divčibare, meadows V class	8,012	3,982	02.12.2015
Lebane, Branka Radičevica 17, residential and commercial building	768.42	5,232	27.08.2015
Loznica, Lipnica, Karađorđeva, residential and commercial building with land	146	1,897	15.10.2015
Vrhpolje, lodging hospitality	1,334	2,169	16.05.2013
Krusevac, century village, a concrete base with land	100,560	124,605	11.03.2016
Zrenjanin, Bagljas, pasture II class	230	46	22.12.2015
Svilajnac, Kodublje, Office building, halls and land	10,462	28,184	26.02.2016
Aleksandrovo, Merosina, building with land	8,527	13,428	23.12.2015
Cacak, Suvo polje, buildings 1 and 2 with land	1,225	10,986	05.05.2016
Bojnik, Mirosevce, fields, pasture, vineyard	29,550	216	31.03.2016
Valjevo, Bobove, field VI and VII class	20,599	289	19.05.2016
Kotor, Montenegro, Office space, building No. 1	106	19,591	22.12.2016
Kotor, Montenegro, Office space, building No. 1	345	60,714	22.12.2016
Kotor, Montenegro, Office space, building No. 1	345	56,594	22.12.2016
Nis, Trg Ucitelja Tase br. 10/1, office space	79.40	5,808	13.03.2019
Curug, Nikole Pasica bb, silosi sa pomocnim objektima	910	58,498	07.10.2019
Total II		**900,438**	

NOTES TO THE FINANCIAL STATEMENTS
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31. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

III Equipment foreclosed before December 30, 2013 – that do not meet requirements according to the NBS classification of balance and of-balance sheet items

Description	Value	*(000) RSD* Date of acquisition
Krusevac, moveable assets (\machinery, furniture, equipment)	6,160	08.06.2012
Nis i Soko Banja Moveable assets (lines for processing coffee, transport devices and devices for maintaining hygiene)	5,527	31.07.2012
Paracin, lines for production for coffee	2,276	31.12.2012
Vranic, lines for production	3,913	09.07.2013
Total III	**17,876**	

IV Equipment acquired in periods after December 30, 2013 – which do not classify as balance and off-balances items in accordance with the relevant NBS decision

Description	Value	*(000) RSD* Date of acquisition
Moveable property, agricultural equipment and tools	53	03.06.2015
Equipment supplies raw materials	1,380	18.07.2014
Motor vehicle, installation material	609	13.05.2014
Other	239	
Total IV	**2,281**	

V Equipment acquired in the periods after December 30, 2013 which does not qualify under the NBS decision on the classification of balance sheet assets and off-balance sheet items

Description	Value	*(000) RSD* Date of acquisition
Equipment	6,964	07.10.2019
Total V	**6,964**	

VI Securities acquired through the collection of receivables

Description	Value	*(000) RSD* Date of acquisition
Securities acquired through the collection of receivables	1,940	12.09.2019
Impairment of securities	(1,940)	
Total VI	**-**	
Total (current value) I + II+ III+ IV+V+VI	**1,292,791**	

31. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

The effect of the impairment of assets acquired through collecting receivables in 2019 is shown in the table:

In 000 RSD

Effects of property impairment	77,716
Effects of equipment impairment	2,814
1. Total impairment of real estate and equipment	**80,530**
2. Effect of Impairment of foreclosed securities	1,940
(1.+2.) Total effect of the proceeds from the collection of receivables	**82,470**

Total negative effect amounted to RSD 82,470 thousand and it was recognized as expense of a period as follows (note 13):

- Impairment of real estate in the amount of RSD 28,505 thousand based on the estimated lower market value of real estate and land, as well as impairment calculated in accordance with the internal act due to the inability to sell for a period longer than twelve months in the amount of RSD 49,211 thousand for real estate whose fair value is higher than net book value
- for equipment in the amount of RSD 2,814 thousand based on the estimate of the lower market value and in accordance with the Bank's internal act
- Impairment of securities received by collection of receivables in the amount of RSD 1,940 thousand was made on the basis of the legally adopted UPPR as an executive document obligatory for all creditors.

By engaging an authorized external appraiser, the Bank carried out a reassessment of fixed assets acquired through collecting receivables acquired prior to the twelve month period.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

31. OTHER ASSETS (continued)

v) Foreclosed assets(continued)

G.1.1 Appraisal value of foreclosed properties

In 000 RSD

Property	Area in m²	Book value before the appraisal	Appraisal value In EUR	Appraisal value Net current value in RSD	Difference in value
Belgrade, Mihaila Avramovica 14a,building	925.35	164,228	1,397	156,017	(8,211)
Krusevac, St. selo, a concrete base with land	100,560	131,163	1,115	124,605	(6,558)
Cacak, Hotel "Prezident", Bulevar oslobodjenja BB	2,278.92	98,456	837	82,315	(16,141)
Belgrade, Zemun, Cara Dusana 130, factory complex	6,876	96,957	825	92,109	(4,848)
Budva, Reževici, Montenegro, forest V class	5,638.54	79,502	676	76,958	(2,544)
Curug, Nikole Pasica bb, silos with auxiliary facilities	910	61,577	524	58,498	(3,079)
Kotor, Montenegro, Office space, building No. 1 PD 4	345	60,860	518	60,714	(146)
Kotor, Montenegro, Office space, building No. 1 PD6	345	60,860	518	56,594	(4,266)
Belgrade, Pivljanina 83, Office building	278.52	58,577	498	55,648	(2,929)
BOR, Nikole Pasica 21, commercial building, warehouse	3,823	46,813	398	42,503	(4,310)
Subotica,Magnetna polja 17, production hall and warehouse	2,492	44,612	379	42,381	(2,231)
Krusevac, Kosevi bb, production and office building I.C.P.	12,836	45,433	386	42,533	(2,900)
NIS, Bulevar 12. Februara bb, extra building-warehouse	2,062	39,112	333	37,156	(1,956)
Sokobanja, link, port, with land, Orchard, House, field IV kl.	429,149	32,340	275	30,819	(1,521)
Zerenjanin,Bagljas,Novosadski put 4,building,pump,land, pasture	9,374	33,649	286	31,967	(1,682)
Svilajnac, Kodublje, partner, buildings, halls and land	10,462	29,667	252	28,184	(1,483)
Novi Sad, Polgar Andrasa 40/a, pressing business. Space 10	408	24,703	210	23,468	(1,235)
Kula, Zeleznicka bb, commercial property, land	7,959	21,990	187	20,890	(1,100)
Kotor, Montenegro, Office space, building No. 1 PD2	106	20,622	175	19,591	(1,031)
Novi Sad, Bulevar oslobodjenja 88, Office 23	253	19,463	165	18,490	(973)
Budva,Rezevici, Montenegro,forest	1,363.20	19,469	165	18,846	(623)
Aleksandrovo, Merosina, administration building with land	8,527	14,135	120	13,428	(707)
Nis, Sjenicka 1, commercial buildings, warehouses, workshops	1,452.73	12,767	108	12,129	(638)
Cacak, Suvo polje,building 1 и 2 with land	1,225	11,564	98	10,986	(578)
Nis, Cajnicka BB, building	825.74	10,369	88	9,851	(518)
Novi Sad, Tihomira Ostojica 4, business office 7	79.40	6,114	51	5,808	(306)
Lebane, Branka Radičevica 17, residential and commercial building	134	5,530	47	5,254	(276)
Aleksandrovo, Merosina, administration building with land	768.42	5,507	46	5,232	(275)
NIS, Ivana Milutinovica 30, business space	438.39	4,923	42	4,677	(246)
Novi Sad, Polgar Andrasa 40/a, , business space 8	81	4,769	40	4,531	(238)
Novi Sad, Polgar Andrasa 40/a, , business space 9	79	4,651	39	4,418	(233)
Novi Sad, Bulevar Oslobodjenja 30a, business space (5 local)	181	18,535	158	17,608	(927)
Prijevor, forest 4 class	1,995	4,559	39	4,339	(220)
NIS, Ivana Gorana Kovacica 31, residential area	434.58	4,360	37	4,142	(218)
Divcibare, meadows V class	8,012	4,114	35	3,982	(132)
Mokra Gora, houses and meadows	58,400	3,986	34	3,479	(507)
Kopaonik, House with land	337	3,936	33	3,739	(197)
Budva, forest IV class	974	3,875	33	3,751	(124)
Novi Pazar, Ejupa Kurtagica 13, House	139.90	3,547	30	3,370	(177)
Nis, Triglavska 3/1, apartment	79.8	3,165	27	3,007	(158)
Valjevo, Radnicka 6, apartment	69	2,684	22	2,550	(134)
Other (26 properties)	-	24,836	211	23,696	(1,140)
Total		**1,347,979**		**1,270,263**	**(77,716)**

31. OTHER ASSETS (continued)

v) Foreclosed assets(continued)

G.1.2 Appraisal value of foreclosed equipment

Description	Book value before the appraisal	Net current value in RSD	*In 000 RSD* Difference in value
Movable assets	13,572	12,296	(1,276)
Equipment, supplies, secundary raw material	9,532	8,636	(896)
Other	6,831	6,189	(642)
Total	**29,935**	**27,121**	**(2,814)**

Based on the judgment of the Supreme Court of Montenegro in 2019, the Bank registered real estate acquired through the collection of claims in the present value of RSD 4,592 thousand. (real estate in Tivat).

For three movable items with a total value of RSD 96 thousand, the Bank does not hold any book ownership (items recorded in off-balance sheet records). The Bank's management takes all necessary measures to sell the acquired assets.

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

Deposits and other liabilities due to banks and other financial institutions comprise:

	December 31, 2019	*(000) RSD* December 31, 2018
Demand deposits	2,290,676	2,985,493
Term deposits	2,696,719	1,951,518
Borrowings	-	709,168
Expenses deferred at the effective interest rate (deductible item)	-	(2,990)
Other	34,361	19,559
Balance as at December 31	**5,021,756**	**5,662,748**

During 2019 term deposits were 1.05% to 1.87% for RSD and foreign currency term deposits placed by banks were deposited at interest rate of 1.4% to 2.7% for USD and 0.01% to 0.05% for EUR.

Borrowings comprise liabilities arising from foreign lines of credit due to foreign legal entities and extraterritorial organizations which, for the purpose of compiling the balance sheet, are regarded as banks.

Breakdown of long-term borrowings included in aforementioned line “Borrowings” is shown as follows:

	December 31, 2019	*(000) RSD* December 31, 2018
EBRD	-	709,168
Balance as at December 31	**-**	**709,168**

In the first quarter of 2019, the Bank repaid the last installment of the EBRD credit facility in the amount of EUR 6,000 thousand, repaying the liabilities completely.

33. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS

Deposits and other liabilities due to customers comprise:

(000) RSD

	December 31, 2019	December 31, 2018
Corporate customers and agro		
Demand deposits	66,490,499	64,150,115
Overnight and other deposits	9,669,464	10,561,044
Borrowings	1,426,861	2,111,822
Special-purpose deposits	1,874,311	2,085,383
Deposits for loans approved	512,003	610,368
Interest payable, accrued interest liabilities and other financial liabilities	501,280	470,598
Retail customers – private individuals		
Demand deposits	36,182,657	29,277,626
Savings deposits	210,219,965	200,064,602
Special-purpose deposits	5,081,330	4,605,537
Deposits for loans approved	2,287,268	2,322,718
Interest payable, accrued interest liabilities and other financial liabilities	901,117	834,097
Other deposits	170,399	135,174
Balance at December 31	335,317,154	317,229,084

Corporate Customer Deposits

RSD demand deposits of corporate customers mostly comprise balances of transaction deposits of companies and other legal entities. In accordance with the Decision on Interest Rates for 2019, these deposits were interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate is 0.10% per annum if average monthly balance is higher than RSD 50 thousand.

Foreign currency demand deposits of non-resident customers are non-interest bearing, except for specific business arrangements.

In 2019 short-term RSD deposits of corporate customers were placed at annual interest rates ranging between: 0.0% on deposits placed from 3 to 14 days to annual key policy rate less 0.75 percentage points for deposits placed up to a year per annum with minimum RSD 300 thousand deposited. Short-term deposits of entrepreneurs were placed at an interest rate ranging between 0.25% and 2.20% annually with minimum RSD 300 thousand deposited.

Short-term foreign currency deposits of corporate customers and entrepreneurers were placed at an interest rate ranging between 0.0% and 0.40% annually for EUR deposits and from 0.00% to 1.00% for USD.

Long-term RSD deposits of corporate customers were placed at an interest rate determined by the amount of the National Bank of Serbia key policy annual rate decreased from 0.5 to increased 0.20 percentage points, whereas those denominated in foreign currency accrued interest at the annual rate from 0.50% to 0.70% for EUR and from 1.30% to 1.40% annually for USD.

33. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS (continued)

Retail deposits

Dinar and foreign currency savings deposits of the private individuals during 2019 were non-interest bearing.

Short-term retail deposits in dinars were deposited at interest rates ranging from 1.50% to 3.50% annually, and in foreign currency from 0.05% to 0.35% for EUR, and for other currencies from 0.10% to 1.00% annually.

Long-term retail deposits in dinars are deposited at interest rates ranging from 3.75% to 4.00% annually, and in foreign currency from 0.65% to 0.80% for EUR, and for other currencies from 1.00% to 1.50% annually
During the year, the Bank also offered special interest rates on share savings, with limited periods of validity that are not disclosed.

Within the liabilities arising from loans, the total liabilities on foreign credit lines to foreign legal entities that are defined as customers for the balance sheet purposes are recognized.

The structure of long-term and short-term loans that are stated in the position of liabilities to customers is as follows:

(000) RSD

	December 31, 2019	December 31, 2018
Long-term credit		
Government of the Republic of Italy	36,139	103,104
European Investment Bank (EIB)	1,376,259	1,955,882
European Agency for Reconstruction and Development (EAR)	14,463	52,836
Balance at December 31	**1,426,861**	**2,111,822**

The maturity of the loans presented is between 2020 and 2030.

On credit lines, the Bank contracted certain financial indicators with creditors. The methodology for calculating contractual financial ratios by credit lines differs from the method of calculating ratios in accordance with the regulations of the National Bank of Serbia in the part of capital calculation and includes items for determining open credit exposure.

During 2019, the Bank made early repayment of a portion of the European Agency for Reconstruction and Development (EAR) line in the amount of EUR 52 thousand.

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December 31, 2019

33. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS (continued)

33.1. Structure and movement of deposits and other financial liabilities to banks, other financial organizations, central bank and customers are shown below

(000) RSD

	December 31, 2019	December 31, 2018
Balance, January 1		
Deposits and other financial liabilities to banks, other financial institutions and the central bank (Note 32)	5,662,748	4,532,505
Deposits and other finan. liabilities to other customers (note 33)	317,229,084	292,471,640
Balance, January 1	**322,891,832**	**297,004,145**
Net inflows / outflows - deposits	19,184,637	30,275,999
Net inflows / outflows - loans	(1,255,956)	(4,683,853)
Net inflows / outflows - interest	(919,958)	(947,520)
Net inflows / outflows - fees	(6,320)	(10,755)
Foreign exchange differences	(567,930)	325,072
Accrued interest and other non-cash transactions	1,012,605	928,744
Balance at December 31	**340,338,910**	**322,891,832**

(000) RSD

	December 31, 2019	December 31, 2018
Deposits and other financial liabilities to banks, other financial institutions and the central bank (Note 32)	5,021,756	5,662,748
Deposits and other finan. liabilities to other customers (Note 33)	335,317,154	317,229,084
Total banks and customers	**340,338,910**	**322,891,832**

34. PROVISIONS

Provisions relate to:

(000) RSD

	December 31, 2019	December 31, 2018
Provisions for off-balance sheet items (Note 13)	190,977	274,954
Provisions for litigations (Note 37.4)	1,614,874	900,152
Provisions for employee benefits in accordance with IAS 19	522,279	478,557
Balance at December 31	2,328,130	1,653,663

Movements on the accounts of provisions are provided below:

(000) RSD

	2019				2018			
	Off-balance sheet provisions (Note 13)	Provisions for litigation (Note 37.4)	Provisions for employee benefits (IAS 19)	Total	Off-balance sheet provisions (Note 13)	Provisions for litigation (Note 37.4)	Provisions for employee benefits (IAS 19)	Total
Balance at January 1	274,954	900,152	478,557	1,653,663	124,392	791,982	451,677	1,368,051
Correction of opening balance – IFRS 9	-	-	-	-	95,358	-	-	95,358
Ajusted opening **Balance at January 1**	-	-	-	-	219,750	791,982	451,677	1,463,409
Changes over the year	244,521	1,252,461	31,599	1,528,581	360,293	270,971	80,266	711,530
Provisions against actuarial gains within equity	-		12,609	12,609	-	-	(53,386)	(53,386)
Release of provisions	-	(25,405)	-	(25,405)	-	(28,691)	-	(28,691)
Reversal of provisions	(328,498)	(512,334)	(486)	(841,318)	(305,089)	(134,110)	-	(439,199)
Balance at December 31	190,977	1,614,874	522,279	2,328,130	274,954	900,152	478,557	1,653,663

34. PROVISIONS (continued)

a) Provisions for litigations

A provision was done on the basis of estimates of future outflows in the amount of claims, including interest and costs. Total provisions for 5,160 cases as of 31 December 2019 amounted to RSD 1,614,874 thousand.

In comparison with 31 Decemebr 2018 there was a change in the overall level of provision in the net amount RSD 714,722 thousand. Of that, a change that relates to the additional provisions for litigations is RSD 740,127 thousand, recognized in the income statement, while the reduction of provisions totaling to RSD 25,405 thousand refers to the use of the provisions for payments and for passed court verdicts.

The largest number of disputes concerns claims for payment of credit processing fees, damages and determination.

b) Provisions for retirement benefits

Provisions for retirement benefits are formed on the basis of an independent actuary's report at the balance sheet date, and are stated in the amount of the present value of expected future payments.

Main actuarial assumptions used in the calculation of provisions for severance pay:

	December 31, 2019	December 31, 2018
Discount rate	4.00%	4.75%
Salary growth rate within the Bank	2.00%	2.00%
Employee turnover	4.00%	4.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Serbia was used to determine the discount rate.

35. OTHER LIABILITIES

Other liabilities include:

(000)RSD

	December 31, 2019	December 31, 2018
Payables	211,615	471,594
Liabilities to employees (salaries, taxes, contributions and other liabilities to employees)	70,502	71,059
Advances received	23,310	26,820
Leasing liabilities	962,168	-
Deferred income from interest and fees and other income	132,796	144,594
Accrued liabilities and other accruals	636,227	357,763
Liabilities on transitional accounts	2,312,258	2,276,184
Profit liabilities	9,229,643	5,442,133
Liabilities for taxes and contributions	14,654	26,263
Other liabilities	268,057	243,562
Balance at December 31	**13,861,230**	**9,059,972**

Liabilities on transitional accounts in the amount of RSD 2,312,258 thousand mainly relate to liabilities arising from the purchase and sale of foreign currency in foreign currency by banks in the amount of RSD 1,528,706 thousand, liabilities in the account for liquidated foreign currency accounts of domestic legal entities in the amount of RSD 215,008 thousand , foreign currency liabilities arising from spot transactions in the amount of RSD 180,759 thousand, liabilities arising from the settlement of clients' accounts in dinars in the amount of RSD 104,932 thousand and transitional liabilities on other bases in dinars in the amount of RSD 65,270 thousand.

a) Profit liabilities in the total amount of RSD 9,229,643 thousand consist of:

- dividend payable on preference shares in the amount of RSD 99,570 thousand,
- dividends on ordinary shares in the amount of RSD 7,701,758 thousand and
- liabilities from profit to employees in the amount of RSD 1,428,315 thousand

By Decision of the Bank's Assembly 4586/3 from 24 April 2019, a portion of retained earnings from previous years was allocated for dividends on ordinary shares in the amount of RSD 3,245,000 thousand and preferential shares in the amount of RSD 13,073 thousand, with the limitation of payment by fulfilling the requirements of Article 25 of the Law on Banks.

During 2019, the Bank did not make payments based on profit sharing for 2014, 2015, 2016, 2017 and 2018 due to the abovementioned limitation.

35. OTHER LIABILITIES (continued)

b) Leasing liabilities

	(000) RSD
Opening balance as at January 1, 2019 – the effect of the first application of IFRS 16	1.349.455
Interest expenses	19.533
Interest income - termination of contracts	(499)
Expenses from the negative currency clause of the leasing contract	3.528
Income from the positive. val. Leasing clauses	(8.970)
Taxes for legal entities and individuals	62.970
Other net income from leasing	(60)
Leasing payments during the year	(459.189)
Other	(4.600)
Balance as at December 31, 2019	**962.168**

36. EQUITY

36.1 Equity is comprised of:

(000) RSD

	December 31, 2019	December 31, 2018
Issued capital	17,191,466	17,191,466
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	18,565,207	14,223,535
Revaluation reserves	6,826,518	4,254,737
Retained earnings	1,470,139	902,509
Profit / (Loss) for the period	8,955,759	8,145,182
Balance as at December 31	**75,852,173**	**67,560,513**

The Bank's issued (share) capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Bank as well as to shares in profit distribution. As of December 31, 2019 the Bank's share capital totaled RSD 17,191,466 thousand and comprised 17,191,466 shares with the individual par value of RSD 1 thousand.

Breakdown of the Bank's shares is provided in the table below:

(000)RSD

Share Type	December 31, 2019	Share Count December 31, 2018
Ordinary shares	16,817,956	16,817,956
Preferred shares	373,510	373,510
Balance as at December 31	**17,191,466**	**17,191,466**

36. EQUITY (continued)

The structure of the Bank's shareholders with ordinary (common stock) shares at December 31, 2019 was as follows:

Name of the shareholder	No. of shares	% participation
Republic of Serbia	13,997,686	83.23
Jugobanka a.d., Beograd – in I bankruptcy	321,600	1.91
OTP BANKA SRBIJA (custody account)	298,352	1.77
Dunav Osiguranje a.d. Beograd	290,214	1.73
BDD M&V INVESTMENTS AD BEOGRAD (cumulative account)	272,600	1.62
East capital (lux)-Balkan fund	189,756	1.13
GLOBAL MACRO ABSOLUTE RETURN A	133,148	0.79
GLOBAL MACRO CAPITAL OPPORTUNITIES	131,568	0.78
Stancom co. d.o.o. Beograd	117,535	0.70
GLOBAL MACRO PORTFOLIO	84,003	0.50
FRONT MARK OPPORTUN.MASTER	68,404	0.41
DEKA INZENJERING	60,090	0.36
I.N. DRENIK NONWOVENS TRADING	58,950	0.35
ALLIANCEBERNS.NEXT 50E.M.(M)F.	53,837	0.32
Other (1,113 shareholders)	740,213	4.40
	16,817,956	**100.00**

The structure of the Bank's shareholders with preferred shares at December 31, 2019 was as follows:

Shareholder	Share Count	*(000) RSD* % share
An individual	85,140	22.79
Jugobanka a.d., Beograd in bankruptcy	18,090	4.84
Others (632 shareholders)	270,280	72.37
	373,510	**100.00**

On June 26, 2019 the Ministry of Finance of the Republic of Serbia repurchased shares which were held by the shareholders DEG-DEUTSHE INVESTITIONS and SVEDFUND INTERNATIONAL in the total percentage of 6.90%, and on November 26,2019 repurchased EBRD shares 24.43%, IFC CAPITALIZATION FUND LP shares 10.15%, which increased percentage of ownership of Serbian Government to 83.23%.

Revaluation reserves amounting to RSD 6,826,518 thousand (2018: RSD 4,254,737 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 1,004,444 thousand, revaluation reserves from valuation of equity instruments in the amount of RSD 1,631,690 thousand, revaluation reserves arising from the valuation of debt securities amounting to RSD 4,078,523 thousand and actuarial gains of RSD 111,861 thousand. Presented values include deferred tax effects.

36. EQUITY (continued)

36.2. Earnings per share

Basic earnings per share is calculated by dividing the profit (loss) attributable to shareholders (of a parent company) by weighted average number of ordinary shares outstanding for the period.

	2019	2018
Earnings minus preferred dividend (In RSD thousand)	8,942,686	8,132,109
Weighted average number of shares outstanding	16,817,956	16,817,956
Earnings per share (in RSD)	**532**	**484**

Basic earnings per share for the year 2019 amounts to RSD 532 or 53.17% of the nominal value of ordinary shares, while for 2018 earning per share was RSD 484, or 48.35% of the nominal value of the ordinary shares

37. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

	December 31, 2019	*(000) RSD* December 31, 2018
Operations on behalf and for the account of third parties	4,152,268	4,228,635
Taken-over future liabilities	53,595,618	44,069,612
Derivatives intended for trading under the contract currency	-	1,772,919
Other off-balance sheet items	402,692,145	407,748,884
Total	**460,440,031**	**457,820,050**

37.1 Guarantees and letters of credit

The Bank issues guarantees and letters of credit to vouch to third parties for the liability settlement by its clients. Such contracts have defined validity terms, which most commonly last up to a year. The contractual values of contingent liabilities are presented in the table below:

	December 31, 2019	*(000) RSD* December 31, 2018
Payment guarantees (note 4.1.1.)	4,210,006	3,107,502
Performance guarantees (note 4.1.1.)	4,764,048	3,004,569
Letters of credit	281,963	214,361
Balance as at December 31	**9,256,017**	**6,326,432**

The above listed amounts represent the maximum amount of loss that the Bank would incur as at reporting date in the event that none of the Bank's clients were able to settle their contractual obligations (Note 4).

37. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

37.2 Commitments

The breakdown of commitments is provided below:

(000) RSD

	December 31, 2019	December 31, 2018
Unused portion of approved payment and credit card loan facilities and overdrafts	10,970,821	11,017,337
Irrevocable commitments for undrawn loans	32,550,431	24,627,309
Other irrevocable commitments	818,349	2,098,534
Balance as at December 31	**44,339,601**	**37,743,180**

37.3 Other off-balance sheet items comprise managed funds and other off-balance sheet assets

Funds managed on behalf and for the account of third parties amount to RSD 4,152,267 thousand and are mostly comprised of assets for consignment loans of the Republic of Serbia in the amount of RSD 3,448,971 thousand and relate to the long-term housing loans extended to retail customers, loans on the basis of the purchase of social apartments of budget institutions in the amount of RSD 305,001 thousand (loans taken from Beobanka in bankruptcy). Other assets mainly relate to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets which amount to RSD 402,692,145 thousand, the Bank,
among other things, records nominal value of securities per custody operations performed for the account of its clients RSD 49,759,948 thousand, the nominal value of the securities in the portfolio of the Bank RSD 128,417,584 thousand, repo investments in Treasury bills RSD 12,000,000 thousand, the amount written-off of funds in dollars in the amount of 28,787,673 thousand dinars, and the amount written-off of financial assets in foreign currency in the amount of 3,781,298 thousand dinars, according to the NBS of the accounting write off balancing assets. The Bank according to the issued permission to perform custody jobs saved and financial instruments in the accounts of clients ' securities, what is off-balance evidence. The Bank takes no credit risk in respect of managed funds.
Moreover, in accordance with the regulations, other off-balance sheet assets include the value of the tangible assets received as collaterals securitizing loan repayment: residential and commercial real estate properties and other collaterals that amount to RSD 166,846,879 thousand.

37.4 Litigation

Based on the expert estimate made by the Bank's Legal Department and attorneys at law representing the Bank, the Bank made provisions for potential litigation losses for all the legal cases against the Bank in 2019 in the total amount of RSD 1,614,874 thousand (2018: RSD 900,152 thousand) (Note 34).

As of 31 December 2019 contingent liabilities based on legal suits filed against the Bank amounted to RSD 5,650,650 thousand (for 5,933 cases).

Included in this amount are both the binding claims for payment and the value of the subject-matter of the dispute indicated in the claims with the determining claim. The above amount does not include interest and costs of the procedure.

In addition, as at 31 December 2019 the Bank has recorded 12,709 proceedings against third parties in the total amount of RSD 43,661,628 thousand.

37. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

37.5 Tax Risks

Tax systems in the Republic of Serbia is undergoing continuous amendments. In different circumstances, tax authorities could have different approach to some problems, and could establish additional tax liabilities together with related penalty interest and fines. The Bank's management believes that tax liabilities recognized in the financial statements are fairly presented.

During 2019, the tax control of the calculation and payment of corporate income tax for 2017 was carried out as part of the reported tax deduction. Upon inspection, no irregularities were identified.

38. RELATED PARTY DISCLOSURES

Legal entities and individuals are considered related parties if one party has control, joint control or significant influence in making financial and operating decisions of another legal entity. Related parties are also those who are under the common control of the same parent company.

In the normal course of business, a number of banking transactions are performed with subsidiaries. These include loans, deposits, investments in equity securities, derivative instruments, payment transactions and other banking operations.

38.1 Shareholders and subsidiaries

The Republic of Serbia, which owns 83.23% of the Bank's ordinary shares, has the largest share in the management actions of the Parent Bank. The parent bank has three subsidiaries: Komercijalna banka a.d., Podgorica, Komercijalna banka a.d., Banja Luka and KomBank INVEST a.d., Belgrade.

NOTES TO THE FINANCIAL STATEMENTS
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38. RELATED PARTY DISCLOSURES

38.1 Parent Bank and subsidiaries

A. Balance as at December 31, 2019

RECEIVABLES

Subsidiarieds	Loans and Receivables	Intrest and fee	Other Assets	Alowance	Net Balance Exposure	Off-Balance Sheet Items	Total
1.Komercijalna banka AD Podgorica	6,675	889	-	89	7,475	1,111,252	1,118,727
2 Komercijalna banka AD Banja Luka	83,967	25	549	973	83,568	1,999,078	2,082,646
3. Kombank Invest	-	253	-	1	252	200	452
Total:	**90,642**	**1,167**	**549**	**1,063**	**91,295**	**3,110,530**	**3,201,825**

LIABILITIES *(000) RSD*

Subsidiaries	Deposits and loans	Intrest and fee	Other liabilities	Total
1.Komercijalna banka AD Podgorica	950,104	-	7	950,111
2 Komercijalna banka AD Banja Luka	154,073	-	-	154,073
3. Kombank Invest	25	-	-	25
Total	**1,104,202**	**-**	**7**	**1,104,209**

INCOME AND EXPENSES *(000) RSD*

Subsidiaries	Interest income	Fee and Commission Income	Interest expenses	Fee and Commission Expense	Net income/ expenses
1.Komercijalna banka AD Podgorica	59	5,033	(2,358)	(100)	2,634
2 Komercijalna banka AD Banja Luka	1,962	3,631	-	(300)	5,293
3. Kombank Invest	-	1,997	-	-	1,997
Total	**2,021**	**10,661**	**(2,358)**	**(400)**	**9,924**

Komercijalna Banka AD Beograd realized net negative exchange rate differences in the amount of RSD 7,288 thousand on the basis of transactions with its subsidiaries (in 2018: net negative exchange rate differences in the amount of RSD 10,321 thousand).

38. RELATED PARTY DISCLOSURES

38.1 Parent Bank and subsidiaries

B. Balance as at December 31, 2018

RECEIVABLES

Subsidiarieds	Loans and Receivables	Intrest and fee	Other Assets	Alowance	Net Balance Exposure	Off-Balance Sheet Items	Total
1.Komercijalna banka AD Podgorica	6,651	882	-	93	7,440	-	7,440
2. Komercijalna banka AD Banja Luka	101,737	25	881	1,261	101,382	1,181,946	1,283,328
3. Kombank Invest	-	162	-	-	162	200	362
Total:	**108,388**	**1,069**	**881**	**1,354**	**108,984**	**1,182,146**	**1,291,130**

LIABILITIES *(000) RSD*

Subsidiaries	Deposits and loans	Intrest and fee	Other liabilities	Total
1.Komercijalna banka AD Podgorica	1,440,473	-	1,651	1,442,124
2 Komercijalna banka AD Banja Luka	179,992	-	-	179,992
3. Kombank Invest	8	-	-	8
Total	**1,620,473**	**-**	**1,651**	**1,622,124**

INCOME AND EXPENSES *(000) RSD*

Subsidiaries	Interest income	Fee and Commission Income	Interest expenses	Fee and Commission Expense	Net income/ expenses
1.Komercijalna banka AD Podgorica	70	2,994	-	(2)	3,062
2 Komercijalna banka AD Banja Luka	3,449	4,073	-	(835)	6,687
3. Kombank Invest	-	1,386	-	-	1,386
Total	**3,519**	**8,453**	**-**	**(837)**	**11,135**

Komercijalna banka AD Beograd realized net negative exchange rate differences in the amount of RSD 10,321 thousand (2017: net positive exchange rate differences in the amount of RSD 54,899 thousand) based on transactions with its subsidiaries.

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

38. RELATED PARTY DISCLOSURES (continued)

38.2 Other related parties

Loans and receivables from related parties

(000) RSD

Loans and Receivables	2019 Balance	2019 Off balance	2019 Total	2018 Balance	2018 Off balance	2018 Total
Bolero ZR	-	-	-	1	-	1
Beomox doo	23,483	1,220	24,703			
PMC Inzinjering	1	-	1	1	-	1
Physical entities	176,512	17,227	193,739	148,782	14,815	163,597
Total	**199,996**	**18,447**	**218,443**	**148,784**	**14,815**	**163,599**

Liabilities	depsits	Borrowings	Total	Deposits	Borrowings	total
PMC Inzinjering	89	-	89	207	-	207
Beomox doo	7,950	-	7,950			
Arhitektonski biro studio 3	100	-	100	1	-	1
JP Jugoimport	4,964	-	4,964	29	-	29
Anfibija doo Cacak	-	-	-	239	-	239
EBRD (note 32)	-	-	-	-	710,563	710,563
International Finance Corporation (note 32, 34)	-	-	-	9	-	9
Reprezend DOO	12	-	12	12	-	12
Bolero ZR	19	-	19	11	-	11
Natural persons	216,065	-	216,065	146,812	-	146,812
Total	**229,199**	**-**	**229,199**	**147,320**	**710,563**	**857,883**

38. RELATED PARTY DISCLOSURES (continued)

38.2 Other related parties (continued)

(000) RSD

	2019		
	Interest	Fees	Total
PMC Engineering	-	35	35
Anfibija			
Architectural Bureau STUDIO 3	-	11	11
Веомох доо	482	318	800
ЈП Југоимпорт	-	4,847	4,847
Bolero ZR	-	18	18
Natural persons	7,667	844	8,511
Total income	**8,149**	**6,073**	**14,222**
Expenses			
EBRD	(4)	(1)	(5)
	(4)	-	(4)
Natural persons	(629)	(15)	(644)
Total expenses	**(637)**	**(16)**	**(653)**
Net expenses	**7,512**	**6,057**	**13,569**

(000) RSD

	2018		
	Interest	Fees	Total
Income			
PMC Engineering	-	12	12
Anfibija	-	7	7
Architectural Bureau STUDIO 3	-	12	12
Bolero ZR	-	18	18
Natural persons	7,207	1,124	8,331
Total income	**7,207**	**1,173**	**8,380**
Expenses			
EBRD	(40,813)	-	(40,813)
Natural persons	(1,109)	(736)	(1,845)
Total expenses	**(41,922)**	**(736)**	**(42,658)**
Net expenses	**(34,715)**	**437**	**(34,278)**

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

38. RELATED PARTY DISCLOSURES (continued)

38.3 Gross and net remunerations paid to the members of the Bank's Executive Board, Board of Directors and Audit Committee were as follows:

(000) RSD

	December 31, 2019	December 31, 2018
Gross remunerations Executive Board	63,403	58,927
Net remunerations Executive Board	52,981	49,500
Gross remunerations Board of Directors and Audit Committee	29,747	40,324
Net remunerations Board of Directors and Audit Committee	18,801	25,310

39. UNRECONCILED OUTSTANDING ITEM STATEMENTS

Based on the analysis of the regular Annual Count as at December 31, 2019, the Bank has inconsistent statements of outstanding items for ten customers with the stated reason for disputing.

Non-reconciled statements for three clients relate to clients who dispute the amount of receivables for given advances, receivables from issued invoices and rent receivables in the total amount of RSD 27 thousand (thirteen unverified statements in the amount of RSD 6,431 thousand were returned on the same basis of receivables).

For one client, the non-reconciling amounts relate to off-balance sheet items of irrevocable guarantees under the warranty, with the client's reason for not agreeing because the warranty has expired. The object of the dispute is the customs guarantee, which expires within 180 days. The guarantee was issued in the amount of RSD 100,000 thousand.

Four clients dispute the amounts of claims on domestic and foreign payments, unreported amounts from bankruptcy for clearing checks, fees for the affairs of an issue agent in dinars, all in the amount of RSD 117 thousand.

In two cases, the clients partially challenged the amount relating to January overpayments in the amount of RSD 1,154 thousand.

The amount of allowances for disputed claims (and the amount of provisions for balance sheet items) is determined by the Bank's credit risk policy.

The Bank is in the ongoing process of reconciling disputed items.

40. EVENTS AFTER THE BALANCE SHEET DATE

Based on the decision of the Bank's Board of Directors, a call was made to hold a regular session of the Bank's Shareholder Assembly on March 9, 2020, with a proposal for a Decision on approval of the Bank's strategy and business plan for the period 2020 - 2022.

On February 26, 2020 the Ministry of Finance of the Republic of Serbia announced that the representatives of Nova Ljubljanska banka d.d. (NLB) and the Minister of Finance of the Republic of Serbia, have signed Sales and purchase agreement for 83.23% of ordinary shares of Komercijalna banka AD Beograd.

By signing this agreement, the Bank has acquired a new strategic partner, who will take over the management of the Bank upon completion of the transaction.

Apart from the events described in the previous paragraphs, there were no significant events after the balance sheet date that would have to be disclosed in the financial statements.

41. EXCHANGE RATES

Foreign exchange rates determined at the interbank foreign exchange market applied for the reconciliation of balance sheet items in RSD on December 31, 2019 and 2018 for certain major currencies are:

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

In Belgrade, March 16, 2020

Signed on behalf of Komercijalna banka a.d. Beograd by:

Miroslav Perić, PhD
Member of the Executive Board

Vladimir Medan, PhD
Chief Executive Officer

KOMERCIJALNA BANKA A.D. BEOGRAD
FINANCIAL STATEMENTS AND AUDITORS’ REPORT
FOR THE YEAR ENDED DECEMBER 31, 2019

CONTENTS

Building a better working world

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

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF KOMERCIJALNA BANKA A.D. BEOGRAD

Report on the financial statements

Opinion

We have audited the financial statements of Komercijalna banka a.d. Beograd (the Bank), which comprise the balance sheet as at 31 December 2019, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

Basis for opinion

We conducted our audit in accordance with Auditing Standards applicable in 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), 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

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Adequacy of the loan loss provisions

This is a key audit matter as significant judgement is involved to determine the loan loss provisions. The use of different modelling techniques and assumptions could produce significantly different estimates of impairment of loans to customers. The carrying amount of loans to customers amounts to RSD 180,852,563 thousand (or 42% of total assets) as at 31 December 2019.

Key areas of judgement include the interpretation of requirements to determine impairment under application of IFRS 9, which is reflected in the Bank's expected credit loss model, the identification of exposures with a significant increase in credit risk, assumptions used in the expected credit loss model such as the financial condition of the counterparty, expected future cash flows and forward looking macroeconomic factors (e.g. National Bank of Serbia key policy rate, BELIBOR rate, inflation rate) as disclosed in Note 4.1 Risk management - Credit risk, and evaluation and assumptions used in the possible outcomes of individually assessed loans for impairment.

The possible outcomes are based on discounted cash flows for individually assessed loans and include judgement and complexity areas such as, impairment triggers, probabilities of relevant scenarios for cash flow forecasts and the cash flow forecasts themselves, including collateral realization.

For further information, refer to Note 3(j) - Summary of significant accounting policies, "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 and Note 4.1 - Risk management - Credit risk of the accompanying financial statements.

We have assessed the design and tested the operating effectiveness of internal controls over collective impairments within the loan portfolios, as well as the impairment assessment processes for individually assessed loans.

We involved experts in the field of credit risk modeling for the review of IFRS 9 methodology and impairment models, as well as for the review of forward-looking information models, and information systems experts for the test of effectiveness of the IT general controls on the core system applications which support impairment calculations.

We assessed the modelling techniques and methodology against the requirements of IFRS 9 Financial Instruments. Additionally, we assessed the appropriateness of significant assumptions used in models for calculating the loan loss provision.

We examined a sample of exposures and performed procedures to evaluate the timely identification of exposures with a significant increase in credit risk and classification of instruments in stages according to IFRS 9. Our procedures include reassessment of the creditworthiness of clients and review of input parameters such as probability of default, days past due, watch-list triggers, or reprograms.

We also re-performed management's impairment calculation on a sample of collectively impaired loans for mathematical accuracy.

For individually impaired loans our procedures included assessing the identification of loss events and testing of assumptions used in the models, including the forecasted future cash flows and the estimated value of underlying collaterals. For a sample of individually impaired loans, we understood the latest developments at the borrower and considered whether key judgments were appropriate given the borrowers' circumstances. We also re-performed management's impairment calculation for mathematical accuracy. In addition, we tested key inputs to the impairment calculation including the expected future cash flows, their timing and valuation of collateral held, and discussed with management as to whether valuations were up to date, consistent with the strategy being followed in respect of the particular borrower.

We assessed the adequacy of the disclosures included in Note 3(j) - Summary of significant accounting policies, "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 and Note 4.1 - Risk management - Credit risk of the accompanying financial statements.

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Responsibilities of management and Audit Committee for the financial statements

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

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

Audit Committee is 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 Auditing Standards 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 Auditing Standards applicable in Republic of Serbia, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

We communicate with Audit Committee 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.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

We have reviewed the annual business report of the Bank. Management is responsible for the preparation of the annual business report in accordance with the legal requirements of the Republic of Serbia. Our responsibility is to assess whether the annual business report is consistent with the annual separate financial statements for the same financial year. Our work regarding the annual business report has been restricted to assessing whether the accounting information presented in the annual business report is consistent with the annual separate financial statements and did not include reviewing other information contained in the annual business report originating from non-audited financial or other records. In our opinion, the accounting information presented in the annual business report is consistent, in all material respects, with the separate financial statements of the Bank for the year ended 31 December 2019.

The partner in charge of the audit resulting in this independent auditor's report is Danijela Mirković.

Belgrade, 16 March 2020

Preduzeće za reviziju Ernst & Young d.o.o. Beograd

Danijela Mirković
Authorized Auditor
Ernst & Young d.o.o. Beograd

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

	Note	2019	2018
Interest income	3c; 8	13,630,674	13,744,908
Interest expenses	3c; 3h; 8	(1,025,290)	(910,270)
Net interest gains		12,605,384	12,834,638
Income from fees and commissions	3d; 9	7,124,829	7,207,872
Expenses on fees and commissions	3d; 9	(1,795,833)	(1,997,723)
Net gains from fees and commissions		5,328,996	5,210,149
Net gains from changes in fair value of financial instruments	3e; 10	71,614	44,076
Net gains from derecognition of the financial instruments measured at fair value	3f; 11	353,490	230,194
Net exchange rate gains / (losses) and gains / (losses) on agreed currency clause	3b; 12	38,228	(7,458)
Net income from reduction in impairment of financial assets not measured at fair value through income statement	3j; 13	2,425,931	9,493
Net gains / (losses) from derecognition of the financial instruments measured at amortised cost	14	(579,933)	526,547
Other operating income	3g; 15	151,321	155,969
TOTAL NET OPERATING INCOME		20,395,031	19,003,608
Salaries, salary compensations and other personal expenses	3r; 16	(4,917,532)	(4,442,799)
Depreciation costs	3l; 3lj; 17	(1,005,837)	(551,988)
Other income	18	720,795	280,229
Other expenses	19	(6,923,772)	(6,167,977)
PROFIT BEFORE TAX		8,268,685	8,121,073
Gains from deferred taxes	3i; 20.1	1,482,667	700,754
Losses on deferred taxes	3i; 20.1	(795,593)	(676,645)
PROFIT AFTER TAX		8,955,759	8,145,182
EARNINGS PER SHARE			
Basic earnings per share (in dinars, without paras)	3u; 36.2	532	484
Diluted earnings per share (in dinars, without paras)	3u; 36.2	532	484

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

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 16, 2020.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Miroslav Perić, PhD
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
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Vladimir Medan, PhD
Chief Executive Officer

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

	Note	2019	2018
PROFIT FOR THE PERIOD		8,955,759	8,145,182
Other comprehensive income for the period			
Components of other comprehensive income which cannot be reclassified to profit or loss:			
Increase in revaluation reserves based on intangible assets and fixed assets	20.5	1111,214	-
Actuarial gains / (losses)	20.5; 34	(12,609)	53,387
Positive effects of change in value of equity instruments measured at fair value through other comprehensive income	20.5	651,534	230,026
Components of other comprehensive income that may be reclassified to profit or loss:			
Positive / (negative) effects of change in value of debt instruments measured at fair value through other comprehensive income	20.5	2,297,679	(203,597)
Tax gains relating to other comprehensive income for the period	20.5	1,891	34,066
Tax losses relating to other comprehensive income for the period	20.5	(455,735)	(42,512)
Total positive other comprehensive income		2,593,974	71,370
TOTAL POSITIVE COMPREHENSIVE INCOME FOR THE PERIOD		11,549,733	8,216,552

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

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 16, 2020.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Miroslav Perić, PhD
Member of the Executive Board

Vladimir Medan, PhD
Chief Executive Officer

Translation disclaimer: The English version is a translation of the original in Serbian for information purposes only. In case of discrepancy, the Serbian version will prevail

BALANCE SHEET
As of December 31, 2019
(Thousands of RSD)

	Note	31.12.2019	31.12.2018
ASSETS			
Cash and assets held with the central bank	3к; 21	67,558,219	63,595,710
Receivables under derivatives	3j; 22	-	4,070
Securities	3j; 23	138,469,551	133,177,598
Loans and receivables from banks and other financial organisations	3j; 24	24,733,958	18,477,729
Loans and receivables from clients	3j; 25	180,852,563	167,545,674
Investments into subsidiaries	3j; 26	3,433,697	2,611,859
Intangible investments	3lj; 27	665,735	557,051
Property, plant and equipment	3l; 3h; 28	6,437,937	5,619,078
Investment property	3m; 29	1,857,927	1,896,347
Deferred tax assets	20.4.1	1,074,197	840,967
Non-current assets held for sale and discontinued operations	30	196,300	227,630
Other assets	3j; 31	7,100,359	6,612,267
TOTAL ASSETS		432,380,443	401,165,980
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and other liabilities to banks, other financial organisations and central bank	3o; 32	5,021,756	5,662,748
Deposits and other financial liabilities to clients	3o; 33	335,317,154	317,229,084
Provisions	3o; 34	2,328,130	1,653,663
Other liabilities	3h; 35	13,861,230	9,059,972
TOTAL LIABILITIES		356,528,270	333,605,467
EQUITY			
Share capital	3t; 36	40,034,550	40,034,550
Profit	36.1	10,425,898	9,047,691
Reserves	3t; 36.1	25,391,725	18,478,272
TOTAL EQUITY		75,852,173	67,560,513
TOTAL LIABILITIES AND EQUITY		432,380,443	401,165,980

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

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 16, 2020.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Miroslav Perić, PhD
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

Vladimir Medan, PhD
Chief Executive Officer

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

DESCRIPTION	Share capital and other equity	Premium on issue of shares	Reserves from profit and other reserves	Revaluation reserves (credit balance)	Revaluation reserves (debit balance)	Profit	Total
Opening balance as at 1 January 2018	17,191,466	22,843,084	11,061,535	4,030,259	(3,538)	8,137,249	63,260,055
Effects of the first implementation of new IFRS - increase				176,617			176,617
Effects of the first implementation of new IFRS - decrease					3,538	(1,161,693)	(1,158,155)
The adjusted opening balance as at 1 January 2018	17,191,466	22,843,084	11,061,535	4,206,876	-	6,975,556	62,278,517
Total positive other comprehensive income for the period	-	-	-	47,861	-	-	47,861
Profit for the current year	-	-	-	-	-	8,145,182	8,145,182
Distribution of profit - increase	-	-	3,162,000	-	-		3,162,000
Distribution of profit and/or coverage of losses - decrease	-	-	-	-	-	(3,162,000)	(3,162,000)
Dividend payments	-	-	-	-	-	(2,535,916)	(2,535,916)
Other - increase	-	-	-	-	-	23,509	23,509
Other - decrease	-	-	-	-	-	(398,640)	(398,640)
Total transactions with owners	-	-	3,162,000	-	-	(6,073,047)	(2,911,047)
Balance as at 31 December 2018	17,191,466	22,843,084	14,223,535	4,254,737	-	9,047,691	67,560,513

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

DESCRIPTION	Share capital and other equity	Premium on issue of shares	Reserves from profit and other reserves	Revaluation reserves (credit balance)	Revaluation reserves (debit balance)	Profit	Total
Opening balance as at 1 January 2019	17,191,466	22,843,084	14,223,535	4,254,737	-	9,047,691	67,560,513
The adjusted opening balance as at 1 January 2019	17,191,466	22,843,084	14,223,535	4,254,737	-	9,047,691	67,560,513
Total positive other comprehensive income for the period	-	-	-	2,571,781		-	2,571,781
Profit for the current year	-	-	-	-	-	8,955,759	8,955,759
Distribution of profit - increase	-	-	4,341,672	-	-	-	4,341,672
Distribution of profit and/or coverage of losses - decrease	-	-		-	-	(4,341,672)	(4,341,672)
Dividend payments	-	-	-	-	-	(3,258,073)	(3,258,073)
Other - increase	-	-	-	-	-	22,193	22,193
Other - decrease	-	-	-	-	-	-	-
Total transactions with owners	-	-	4,341,672	-	-	(7,577,552)	(3,235,880)
Balance as at 31 December 2019	17,191,466	22,843,084	18,565,207	6,826,518	-	10,425,898	75,852,173

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

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 16, 2020.
Signed on behalf of Komercijalna banka a.d., Beograd by:

Miroslav Perić, PhD
Member of the Executive Board

Vladimir Medan, PhD
Chief Executive Officer

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

	2019	2018
A. CASH FLOW FROM OPERATING ACTIVITIES		
Cash inflow from operating activities	22,680,043	22,365,620
Interest	14,266,668	13,996,462
Fees	7,176,890	7,214,624
Other operating income	1,225,350	1,146,009
Dividends and profit sharing	11,135	8,525
Cash outflow from operating activities	(12,820,302)	(12,986,403)
Interest	(919,958)	(947,520)
Fees	(1,729,276)	(1,967,989)
Gross salaries, salary compensations and other personal expenses	(4,359,913)	(4,343,591)
Taxes, contributions and other duties charged to income	(945,578)	(890,900)
Other operating expenses	(4,865,577)	(4,836,403)
Net cash inflow / (outflow) from operating activities before an increase or decrease in financial assets and financial liabilities	9,859,741	9,379,217
Decrease in financial assets and increase in financial liabilities	19,256,099	30,043,591
Decrease in receivables under securities and other financial assets not intended for investment	-	699,138
Increase in deposits and other financial liabilities to banks, other financial organisations, central bank and clients	19,256,099	29,344,453
Increase in financial assets and decrease in financial liabilities	(29,251,299)	(4,396,653)
Increase in loans and receivables from banks, other financial organisations, central bank and clients	(23,950,330)	(4,396,653)
Increase in receivables under securities and other financial assets not intended for investment	(5,300,969)	-
Net cash inflow / (outflow) from operating activities before profit tax	(135,459)	35,026,155
Net cash inflow / (outflow) from operating activities	(135,459)	35,026,155

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

	2019	2018
B. CASH FLOW FROM INVESTING ACTIVITIES		
Cash inflow from investing activities	50,001,000	42,094,231
Investment in investment securities	50,001,000	42,094,231
Cash outflow from investing activities	(47,854,250)	(58,424,017)
Investment into investment securities	(47,352,299)	(58,013,589)
Purchase of intangible investments, property, plant and equipment	(501,951)	(407,120)
Other outflow from investing activities	-	(3,308)
Net cash inflow / (outflow) from investing activities	2,146,750	(16,329,786)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Cash inflow from financing activities	95,834,974	84,792,124
Loans taken	95,834,974	84,792,124
Cash outflow from financing activities	(97,476,818)	(89,475,977)
Loans taken	(97,090,930)	(89,475,977)
Other outflow from financing activities	(385,888)	-
Net cash inflow / (ouflow) from financing activities	(1,641,844)	(4,683,853)
TOTAL CASH INFLOW	187,772,116	179,295,566
TOTAL CASH OUTFLOW	(187,402,669)	(165,283,050)
NET INCREASE / (DECREASE) IN CASH	369,447	14,012,516
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	40,375,748	26,314,898
EXCHANGE RATE GAINS	570,989	48,334
EXCHANGE RATE LOSSES	(449,533)	-
CASH AND CASH EQUIVALENTS AT PERIOD - END	40,866,651	40,375,748

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

These financial statements were approved by the Executive Board of Komercijalna banka a.d., Beograd on March 16, 2020.

Signed on behalf of Komercijalna banka a.d., Beograd by:

Miroslav Perić, PhD
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

Vladimir Medan, PhD
Chief Executive Officer

1. BANK'S ESTABLISHMENT AND ACTIVITY

Komercijalna Banka a.d., Beograd (hereinafter the "Bank"), was established as at December 1, 1970 and transformed into a shareholding company as of May 6, 1992. The Bank was registered with the Commercial Court in Belgrade on July 10, 1991 and later registered with the Serbian Business Registers Agency on April, 14 2006. The Bank was issued its operating license by the National Bank of Yugoslavia on July 3, 1991.

The principal holders of voting shares in the Bank are as follows:

Republic of Serbia	83.23%

The Bank is registered for performing crediting, depositary and guarantee operations, as well as for payment transfer operations within the country and abroad.

As of December 31, 2019, the Bank was comprised of the Head Office located in Belgrade in Svetog Save Street no. 14, 6 business centers, 3 sectors that work with small and medium enterprises, 1 branch and 203 sub-branches in the territory of the Republic of Serbia (December 31, 2018: 6 business centers, 3 business and corporate centers, 1 branch and 201 sub-branches in the territory of the Republic of Serbia).

As of December 31, 2019, the Bank had 2,744 employees (December 31, 2018: 2,766 employees). The Bank's tax identification number is 100001931.

2. BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS

2.1. Basis of Preparation and Presentation of Financial Statements

The Bank's unconsolidated financial statements (the "financial statements") for 2019 have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

The accompanying financial statements represent the Bank's unconsolidated (separate) financial statement. The Bank separately prepares and presents its consolidated financial statements in accordance with the International Financial Reporting Standards.

New and revised standards and interpretations issued that came into effect in the current period are disclosed in Note 2.2, while standards and interpretations in issue but not yet in effect are disclosed in Note 2.3.

The accompanying financial statements are presented in the format prescribed under the Decision on the Forms and Contents of the Items in the Forms of Financial Statements of Banks (Official Gazette of RS nos. 71/2014, 135/2014, 103/2018).

These financial statements were prepared at historical cost principle unless otherwise stipulated in the accounting policies presented hereunder.

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

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

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

2.2. Changes and additions to IFRSs whose implementation will be mandatory the following year

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

- IFRS 16: Leases

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. Please refer to Note 3.h for the effects of the adoption of the Standard and detailed disclosures.

- IFRS 9: Prepayment features with negative compensation (Amendment)

The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)

The Amendments relate to whether the measurement, in particular impairment requirements, of long-term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)

The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

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

2.2. Changes and additions to IFRSs whose implementation will be mandatory the following year (continued)

The IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle, which is a collection of amendments to IFRSs. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- IFRS 3 Business Combinations and IFRS 11 Joint Arrangements: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 Income Taxes: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- IAS 23 Borrowing Costs: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

2.3. Standards that are issued but not yet effective and were not adopted in the past

- Amendment in 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

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

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

2.3. Standards that are issued but not yet effective and were not adopted in the past (continued)

- IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in 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, with earlier application permitted. These Amendments have not yet been endorsed by the EU. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

- IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. It is not expected that the requirements of this standard will have significant effect on Bank's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Due to the implementation of IFRS 9, NBS has modified the regulations regarding compiling and presenting the financial statements for the period January – December 2018, so banks were obliged to implement new forms of financial statements with valid starting from 1 January 2018.

(a) Consolidation

The Bank has control over the following legal entities, which are not consolidated into these financial statements:

Legal Entity	Equity Interest
Komercijalna banka a.d. Podgorica, Montenegro	100%
Komercijalna banka a.d. Banja Luka, Bosnia and Herzegovina	99.99%
Investment Fund Management Company KomBank INVEST a.d. Beograd, Serbia	100%

The Bank's consolidated financial statements are prepared and disclosed separately.

In Bank's separate financial statements, investments in subsidiaries are measured at cost.

(b) Foreign Exchange Translation

Transactions in foreign currencies are translated into RSD at the spot middle exchange rates at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies which are stated at cost, are translated at the rate ruling at the reporting date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

Exchange rates for major currencies used in the translation of the statement of financial position items denominated in foreign currencies, as determined by the National Bank of Serbia, were as follows:

	In RSD	
	2019	2018
USD	104.9186	103.3893
EUR	117.5928	118.1946
CHF	108.4004	104.9779
JPY	0.9653	0.9366

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Interest

Interest income and expense are recognized in the income statement using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses that might arise.

The calculation of the effective interest rate includes all paid or received reimbursements and expenses that are an integral part of the effective interest rate – reimbursements for the processing of loan approval requests, as well as reimbursements for annexation.

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income from non-performing loans is recognized at the net principle, reducing the gross interest accrued by the impairment allowance amount, i.e. the amount that is likely not to be collected.

Recognition of interest income on impaired placements that are classified as Stage 3, by net principle, is carried out using an alternative unwinding concept. When a financial asset becomes significantly impaired, from the moment of initial recognition, it becomes Stage 3, and interest income is calculated using an alternative concept of unwinding - IRC method by reducing the accrued interest income associated with it with the allowance for impairment losses recognized in the current year, whereby interest receivable is recognized at gross principle.

(d) Fees and Commissions

Fee and commission income and expenses, that are an integral part of the effective interest rate for a financial asset or liability, are included in the measurement of the effective interest rate. Other fees are accrued and a proportional part is recorded as income for the current period.

Other fee and commission income is recognized as the related services are performed. Fee and commission income includes transfer payments in foreign currency, domestic payments transactions, loan administration, guarantee, letter of credit business and other banking services.

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

(e) Net gains arising on the fair value measurement of financial instruments

Net gains arising on the fair value measurement of financial instruments includes gains less losses due to changes in value: derivatives, changes in the value of financial assets that are measured at fair value through profit and loss and gains less losses arising from changes in the value of financial liabilities valued at fair value through the profit and loss account.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(f) Net gain on the derecognition of financial instruments at fair value

Net gain on derecognition of financial instruments at fair value refers to financial assets and liabilities at fair value through profit and loss and fair value through other comprehensive income.

g) Dividends

Income from dividends is recognized at the moment of economic benefits inflow arising from dividends. Dividends are reported under other income.

(h) Leasing

Accounting policy applied after 1 January 2019

At the beginning of the contract, the Bank assesses whether the contract contains a leasing component or represents a lease. More specifically, it analyzes whether the contract transfers the right to control the use of separable assets over a defined period of time in exchange for a fee.

Bank as leasee

The Bank applies a uniform recognition and measurement approach for all leases except for short-term leases and leases of low value assets. The Bank recognizes the leasing obligation to pay the lease and the right to use, which represents the right to use the fixed assets.

(i) Right of use assets

The Bank recognizes right of use asset on the day the lease begins (i.e. the date the asset is available for use). The right of use asset is measured at cost less accumulated depreciation and impairment losses, and is adjusted for any subsequent measurement of the lease liability. The cost of right of use asset includes the amount of recognized leasing liabilities, initial direct costs and lease payments made on or before the commencement date, less any lease incentives received.

Right of use assets is amortized on a pro rata basis over a period shorter than the lease term or the estimated useful life of the asset.

Right of use assets are amortized at a rate ranging from 92.31% to 6.70% annually, depending on the contractual right to use the asset.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(h) Leasing (continued)

(ii) Leasing liabilities

At the commencement of the lease, the Bank recognizes the lease liability, measured at the present value of the lease payment to be made during the lease term. Leasing payments include fixed payments less all lease incentive receivables, variable lease payments that depend on the index or rate, and amounts expected to be safely paid for residual value. Leasing payments also include the exercise price of the purchase option reasonably expected to be made by the Bank and the payment of penalties for termination of the contract if the termination option is available to the Bank for the duration of the contract.

Variable lease payments that do not depend on an index or rate are recognized as an expense (unless incurred to produce inventories) in the period in which the events or conditions that give rise to the payment occur.

In calculating the present value of a lease payment, the Bank uses its incremental borrowing rate at the date of commencement of the lease because the implied leasing interest rate is not easily determined. After the commencement date, the amount of the lease liability increases by the accrued interest for the previous period and decreases for the lease payments made. In addition, the carrying amount of a lease liability is remeasured if there is a modification of the contract, a change in the lease term, a change in the lease payment (e.g., changes in future payments resulting from a change in the index or rate used to determine such lease payments), or a change in the valuation of the purchase option. the underlying asset that is the subject of the lease.

In the first application of IFRS 16, the right to use the lease asset is generally measured in the amount of the lease liability, using an average incremental borrowing rate of 0.3324% to 2.4310% for EUR and in the range of 2.8660% to 4.1253% for RSD.

During 2019, the incremental indebtedness rate did not have large variations. In the last quarter, rates ranged from 0.2395% to 3.36732 for EUR and 1.23850 to 4.3866 for RSD.

(iii) Short-term leases and leases of low value assets

The Bank applies an exemption from the recognition of short-term leases for its short-term leases of machinery and equipment (i.e. those leases that have a term of less than 12 months from the commencement date and do not include an option to purchase). The exemption from recognition for the lease of low value assets on the lease of office equipment also applies. Lease payments for short-term leases and leases of low value assets are recognized as an expense, pro rata over the lease term.

Bank as a leasor

Leases in which the Bank does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Lease income is calculated on a pro rata basis over the life of the contract and is recorded as income in the income statement because of its operational nature. The initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as income in the period in which they are earned.

3. OVERVIEW OF THE BASIC ACCOUNTING POLICIES (continued)

(h) Leasing (continued)

Accounting policy applied before 1 January 2019

Leasing is classified as financial when all the benefits and risks arising from the ownership of the leased asset are transferred to the Bank. Leasing is classified as operating when the benefits and risks arising from the ownership of the leased asset are not transferred to the Bank. The Bank does not invest in financial or operating leasing, ie it appears solely as a beneficiary of a financial or operating lease.

(i) Leasing liabilities

All operating lease payments during the year are recorded as an expense in the income statement on a straight-line basis over the lease term. Approved leasing incentives are recognized within the total cost of the lease over the lease term.

Minimum lease rates for financial leases are apportioned between the finance charge and the reduction in the remaining amount of the finance lease liability. Financial expenses are deferred to all periods during the lease term, so that they give a uniform periodic interest rate on the remaining amount of the lease liability.

(ii) Assets leased

The assets used by the Bank on a lease basis for which all benefits and risks arising from the ownership of the leased asset are transferred to the Bank are disclosed in the Bank's balance sheet. Financial leasing assets are initially measured at a value equal to the fair value of the leased asset, or at the present value of the minimum lease payments, if this is lower. Subsequent measurement of financial leasing assets is carried out according to the accounting policy applicable to the specific asset.

Leases of space used for branches and branches are primarily recorded as operating leases. Total operating lease payments are recognized in the income statement on a straight-line basis over the life of the lease. Assets used by the Bank under operating leases are classified as operating leases and are not recognized in the Bank's balance sheet.

(i) Tax Expenses

Tax expense comprises current taxes and deferred taxes. Current taxes and deferred taxes are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

(i) Current Income Tax

Current tax is expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Tax Expenses (continued)

(ii) Deferred Income Tax

Deferred income tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they write-off, based on the laws that have been enacted by the reporting date.

Deferred tax assets and deferred tax liabilities are offset if there is a legal right to offset current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities relate to the tax on the profits imposed by the same tax authority on the same taxpayer or different taxpayers who intend to either settle current tax liabilities and assets on a net basis or to simultaneously realize assets and settle liabilities in each future period in which a repayment or refund is expected amount of deferred tax liabilities or assets.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that the future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax liabilities are recognized on all taxable temporary differences.

(iii) Other Taxes and Contributions

According to the relevant legislation in the Republic of Serbia, the Bank pays various taxes and contributions, such as VAT, capital gains tax and payroll contributions. These are included under "Other expenses".

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9

Financial Intruments

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

Financial asset

A financial asset is any asset that is:

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Financial liability

A financial liability is any liability that is:

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

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

Financial assets

The Bank assesses the objectives of the business model for managing financial assets at the portfolio level, since such an assessment reflects, in the best way, the way in which business operations are managed and the manner in which management reports.

The classification of financial assets is based on the application of an appropriate business model for the management of financial assets and the fulfilment of the test of characteristics of contracted cash flows.

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

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

Financial assets can be classified into the following categories:

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

In accordance with the classification of assets from the previous paragraph, the Bank categorizes all placements from its portfolio relating to:

- Loans and receivables as non-derivative financial assets with fixed or determinable payments that are not quoted in the active market and which the Bank does not intend to sell in the short term
- Securities that are measured at fair value through the profit and loss statement that are instruments acquired for the purpose of generating profit from the fluctuation of prices and margins
- Securities, which include debt securities and equity securities (capital instruments):

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

- Debt securities include bonds and transferable securitized debt instruments, government records, treasury bills, commercial records, deposit certificates, bank notes, subordinated bonds and other similar debt securities traded on financial markets.
- Equity securities include shares representing a share in the equity of a joint stock company and convertible bonds which, under the conditions set out in the issuing decision, give the right to a replacement for ordinary shares of the company. Equity securities (equity instruments) are all forms of participation in the capital of legal entities for which there is an intention to hold for an indefinite period of time, which can be sold due to the need for liquidity or due to changes in interest rates, foreign exchange rates or market prices.
- Investments in subsidiaries that provide control, that is, over 50% of management rights and investments in associated legal entities that provide from 20% to 50% of management rights and
- Financial derivatives that include forward and swap transactions.

Classification and measurement

From a classification and measurement perspective, the new standard required all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

According to IFRS 9, financial assets are being measured in one of the following methods: amortised cost, fair Value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI). Equity instruments in subsidiaries that are not held for trading, can be classified as assets that are valued at fair value through other comprehensive income, without any subsequent reclassification of gains and losses through the Income Statement.

Initially, the financial asset is measured at fair value plus the transaction costs, except in the case of financial assets that are measured at fair value through the Income Statement (FVTPL) in which these costs are recognized as cost in the Income Statement.

A financial asset is measured at amortized cost unless it is designated as FVTPL and meets the following criteria:

- The goal of a business model of holding a financial asset is the collection of contracted cash flows and
- Contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Debt instruments are valued as FVOCI only if the following criteria are met and are not indicated as FVTPL:

- The goal of the business model of holding a financial asset is the collection of contracted cash flows and sales, and
- Contractual terms of a financial asset lead to cash flows that represent only payments of principal and interest.

Subsequently, gains or losses on the financial assets of the FVOCI will be recognized through the other comprehensive income, except for income or expense on impairment of financial assets and exchange rate differences, until the moment when the recognition of a financial asset ceases or when it is reclassified.
When the recognition of a financial asset ceases, the cumulative gain or loss previously recognized in the other comprehensive income will be reclassified from equity to the income statement. Interest calculated using the effective interest rate is recognized in the income statement. IFRS requires that all financial assets, other than derivatives and equity instruments, be analysed through a combination of the business model of managing a financial asset from one, and the characteristics of contracted cash flows on the other side.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Classification and measurement (continued)

The Bank has started the analyses of business models at the portfolio level of financial assets. The existing portfolio policies and strategies, as well as their application in practice, were considered. Also, the information and method of evaluating and reporting on the performance of the portfolio, information on the risks that affect the performance of the portfolio and how they are managed are considered. In addition, the frequency, scope and timing of the sale of financial assets in the past periods, the reasons for the sale as well as the plans for the sale of financial assets in the future period are considered.

In assessing whether the contractual cash flows represent only the payment of principal and interest, the Bank has reviewed the contractual terms of financial instruments and whether they contain stipulations that could change the time or amount of contracted cash flows, which would result in fair valuation of instruments. The analysis concluded that there are no credit products of the Bank whose contractual terms and conditions do not lead to cash flows that represent only payments of principal and interest on the principal balance at certain dates, which would require fair value valuation.

The results of the initial assessment indicated that:

- Loans and placements to customers and banks in accordance with IFRS 9 are assessed continuously as in accordance with IAS 39, at amortized cost;
- Financial instruments that are traded and whose value is measured at fair value through the Income Statement are still assessed in the same way;
- Debt instruments classified as available for sale in accordance with IAS 39 are largely estimated at fair value through other Other comprehensive income.

Taking into account the nature of the Bank's obligations, the accounting of financial liabilities will be the same as in accordance with the requirements of IAS 39. The Bank does not have a designated financial obligation as FVTPL and does not intend to do so. The conducted analysis does not indicate that there are material effects of the requirements of IFRS 9 regarding the classification of financial liabilities.

Impairment of financial assets

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

Impairment of financial assets (continued)

Stage 1

Impairment allowance of financial instruments that are not deemed to have a significant deterioration in credit risk are calculated on the basis of 12-month expected losses (ECL) in accordance with IFRS 9. Stage 1 also includes exposures to the Republic of Serbia, the National Bank of Serbia and other exposures with a credit risk weight of 0, in accordance with the Decision on capital adequacy of the bank, except for the exposure on the basis of mandatory reserve and similar exposures.

Steg 2

All financial instruments for which credit risk has significantly increased are classified in Stage 2 and impairment allowance are calculated on the basis of expected losses for the entire life of the instrument (lifetime ECL).

The Bank is considering whether there is a significant increase in credit risk by comparing the life probability of probability of default against the initial recognition of the asset in relation to the risk of default at the end of each reporting period. According to the internal policy of the bank, a significant increase in credit risk is considered to be a delay of 31 to 90 days, customer restructuring, and clients on the watch list.

Stage 3

Similarly as in accordance with IAS 39, financial instruments are included in Stage 3, where there is objective evidence of impairment and there is no change in the coverage of loans classified in that segment, with the introduction of multiple collection scenarios. The impairment calculation on an individual basis will continue on the same principle.

In the assessment of expected credit losses (ECL), the Bank also included information on the expected trends in macroeconomic parameters for the next three years, for which a statistically significant dependence was established.

As different levels of impairment result in different ways of calculating the expected credit losses, the Bank has developed a methodology and accounted for risk parameters in accordance with the requirements of IFRS 9.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) "Financial Instruments" Classification and Measurement of Financial Assets and Liabilities - IFRS 9 (continued)

(iii) De-recognition

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risk and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualifies for de-recognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Bank enters in transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risk and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of transferred asset.

(iv) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.
Income and expenses are presented on net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(k) Cash and Cash Equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortized cost in the balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Property and Equipment

(i) Recognition and Measurement

Items of property and equipment are measured at cost.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Following initial recognition items of equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Following initial recognition, property is measured at valuation amount which represents its fair value at valuation date less subsequent accumulated depreciation and subsequent accumulated impairment losses. Valuation is performed regularly in order to ensure that net book value does not differ significantly from reported amounts that would result from using the fair value approach at the end of reporting period.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item or property and equipment, and are recognized net within other income in profit or loss.

(ii) Subsequent Costs

The cost of replacing part of an item of property or equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated depreciation rates for the current and comparative periods were as follows:

Asset	Estimated useful life (in years)	Rate %
Buildings	40	2.50%
Computer equipment	4	25.00%
Furniture and other equipment	2 – 15	6.70%-50.00%
Investments in other fixed assets	1 – 23.5	4.25%-86.20%
Leased fixed assets	1.1-14.6	6.90-92.31%

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Property and Equipment(continued)

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

Maintenance costs for assets are recognized in the profit or loss in the period when occurred.

(lj) Intangible Assets

Intangible assets acquired by the Bank are stated at cost less accumulated amortization and accumulated impairment losses.

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful life of the intangible asset, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life of intangible assets is 3 to 10 years and amortization rates used range between 10.00% and 33.34%.

Amortization methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

(m) Investment Property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is initially measured at cost. Cost of acquired investment property comprises the purchase price and all expenses that can be directly attributed to the acquisition of the asset.

For subsequent measurement of investment property the Bank uses the cost model, such that investment property is measured at cost less accumulated depreciation and impairment losses.

Estimated useful life of investment property amounts to 40 years, while the depreciation rate used amounts to 2.5%. Depreciation is provided for in profit or loss on a straight line basis over the useful life of a given item of property, given that it reflects best the expected exploitation of the useful economic value embodied in the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Impairment of Non-Financial Assets

The carrying amounts of the Bank's non-financial assets, other than investment property and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. An impairment loss is recognized if the carrying amount of an asset exceeds its estimated recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(o) Deposits, Borrowings and Subordinated Liabilities

Deposits, debt securities, borrowings and subordinated liabilities are the Bank's main sources of financing.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits, debt securities, borrowings and subordinated liabilities are initially measured at fair value increased for all directly attributable transaction costs, while they are subsequently measured at amortized cost using the effective interest rate method.

(p) Provisions

A provision is recognized if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Employment Benefits

In accordance with regulatory requirements in The Republic of Serbia, the Bank is obligated to pay contributions to tax authorities and to various state social security funds, which guarantee social security insurance benefits to employees. These obligations involve the payment of taxes and contributions on behalf of the employee, by the employer, in an amount computed by applying the specific, legally-prescribed rates. The Bank is also legally obligated to withhold contributions from gross salaries to employees, and on behalf of its employees, to transfer the withheld portions directly to government funds. These taxes and contributions payable on behalf of the employee and employer are charged to personnel expenses in the period in which they arise.

In accordance with the Labor Law, the Bank is under obligation to pay its vesting employees retirement benefits. Long-term liabilities for retirement benefit provisions upon fulfillment of retirement criteria reported as of December 31, 2019 represent the present value of the expected future payments to employees as determined by actuarial assessment using assumptions disclosed in Note 34(b).

(s) Financial Guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognized at their fair value, and the initial fair value is amortized over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are reported under off-balance sheet items.

(t) Capital and Reserves

The Bank's equity consists of founders' capital, shares of subsequent issues, share premium, profit reserves, revaluation reserves and unrealized losses on available for sale securities, retained earnings and current period result.
The Bank's equity is comprised of funds invested by the Bank's founders in monetary form and non-monetary form. A founder cannot withdraw funds invested in the Bank's equity.

(u) Earnings per Share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders for the effects of preferred convertible shares and dividing the adjusted amount by the weighted average number of ordinary shares outstanding during the period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Segment Reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by Bank management (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which separate financial information is available.

In accordance with IFRS 8 "Operating Segments", the Bank discloses information on performance of segments, thus providing the users of the financial statements with additional information on income and expenses arising from its key business activities.

Upon determining operating segments, the Bank uses the following:

a) different products and services offered by the segments
b) separate segment management, and
c) internal reporting structure.

3.1. Changes of accounting policies for leases

IFRS 16 – Leasing is implemented and put into effect for the reporting periods on or after the January, 1 2019. IFRS 16 is superseding IAS 17 – Leasing, IFRIC 4 Determination of whether a contract contains a leasing element, SIC-15 Operational leasing – incentives and SIC-27 Assessment of substance of transactions which include a legal form of leasing. The Standard establishes principles for the recognition, measurement, presentation and disclosure of leasings and requirements of lessees so that the majority are recognized in the Income Statement.

The Bank adopted IFRS 16 by applying a modified retrospective approach on the day of the initial application January 1, 2019, so that the cumulative effects of the application of the standard are recognized on the day of the initial application.

The Standard allows two exceptions when recognizing leases – leases of low-value assets and short-term leases (i.e. leases that have a term which is less than 12 months). The Bank decided on using these two standard allowed exceptions.

From January 1, 2019, the Bank recognizes rights of use as leasing assets and liabilities for leasing contracts which satisfy all of the standard's terms and conditions, except for leases of low-value assets and short-term leases. Rights of use are recognized as the amount equal to the leasing liability adjusted for any advance or calculated lease payments that refer to those contracts that were recognized. Leasing liabilities are recognized by the level of the present value of the outstanding leasing payments, discounted for the incremental borrowing rate on the day of the initial application.

Comparative data on December 31, 2018 do not reflect these policy changes.

4. RISK MANAGEMENT

The Bank has recognized risk management process as the key element of business management given that risk exposure is an inseparable part of banking and is managed through a process of continued identification, measurement, monitoring, minimizing and setting of risk limits and through other types of control, including reporting in accordance with adopted strategies and policies.

The Bank has established a comprehensive and reliable risk management system that includes: risk management strategies, policies and procedures, appropriate organizational structure, effective and efficient process of managing all risk it is exposed to, adequate system of internal controls adequate information system and process of internal capital adequacy assessment. Risk management process involves clear determining and documenting risk profile and adjusting risk profile to the Bank's aptitude to assume risk in accordance with the adopted strategies and policies.

The basic objectives that the Bank set for the risk management system within its risk management and capital management strategies are the following: minimizing the negative effects of the financial result and the capital by respecting the defined framework of acceptable risk level, diversification of the risk that the Bank is exposed to, maintaining the required levels of capital adequacy, maintaining the NPL's participation in the total loan to the receiving level for the Bank, most collector of the level of non-performing loans, maintaining indicators of liquidity coverage assets above the level prescribed by the regulations and internal limits, development of the Bank's activities in accordance with business strategies, opportunities and market development this to gain competitive advantage. The objectives of risk management are in line with the Bank's planning provisions.

Taking into account the changes in the regulations of the National Bank of Serbia and the need for further improvement of risk management, the Bank made significant changes in the organizational structure during the year 2019.

Risk Management System

The risk management system is governed by the following internal enactments:

- Risk Management Framework
- Risk Management Strategy and Capital Management Strategy;
- Risk Management Policies;
- Risk Management Procedures;
- Methodologies for Managing Individual Risks; and
- Other enactments.

With it's Risk Management Framework, the Bank formalized it's tendency towards taking risks, through defined goals (aims), tolerance (triggers) and limits, based on quantitative and qualitative analysis. The Risk Management Framework is an integrated process of decision-making within the Bank, as well as the process for strategic planning – development of the Strategy and Business plan.

Risk Management Strategy sets out:

- Long-term objectives, defined by the Bank's business policy and strategy and its attitude to assume risk determined in accordance with those objectives;
- Basic principles of risk undertaking and management;
- Basic principles of the process of internal assessment of the Bank's capital adequacy;
- Overview and definitions of all types of risk the Bank is exposed to or may be exposed to.

Also, the risk management strategy defines the criteria for determining, as well as the basic principles of managing bad assets and the highest acceptable level of bad assets for the Bank.

4. RISK MANAGEMENT (continued)

Risk Management System (continued)

The Bank has identified the basic principles of risk management in order to fulfill its long-term goals:

- Organization of the business of a separate organizational unit for risk management;
- Functional and organizational separation of risk management activities from the regular business activities of the Bank;
- Comprehensive risk management;
- Effectiveness of risk management;
- Cyclical risk management;
- Developing risk management as a strategic commitment;
- Risk management is part of the business culture.

The principles of managing bad assets and risk placements include:

- Active risk management;
- Preventive measures and activities aimed at minimizing further deterioration in asset quality;
- Defining bad asset management strategies - a set of activities and measures aimed at recovering the debtor's financial condition or initiating appropriate enforcement procedures;
- Early identification of debtors who are facing financial difficulties or are in arrears or non-settlement obligations (Watch List);
- Assessment of the borrower's financial condition;
- A set of indicators for involving the borrower into the scope of the organizational unit responsible for managing bad assets;
- Segregation of bad assets;
- Principle of materiality in defining possible measures;
- Increased frequency of monitoring the value of collateral and the funds obtained from collection;
- Organizational separation of the Sector for Prevention and Management of Risk Placements;
- Inclusion in corporate governance and risk management of indicators for bad asset tracking;
- Transparent reporting.

Management policies for certain types of risk define in more detail:

- The way of organizing the Bank's risk management process and clear delineation of the responsibilities of employees at all stages of the process, including the process of managing bad assets or risk placements;
- The method of assessing the risk profile of the Bank and the methodology for identification and measurement, or risk assessment;
- Ways of monitoring and controlling risks and establishing a system of limits, that is, the type of limits that the Bank uses and their structure;
- The manner of deciding and acting in case of exceeding established limits, while defining exceptional circumstances in which the approval of overdraft is possible within the legal framework;
- Measures to mitigate risks and rules for the implementation of these measures;
- Method and methodology for implementing the process of internal capital adequacy assessment of the Bank;
- Principles of functioning of the internal control system;
- The framework and frequency of stress testing, as well as treatment in cases of adverse stress test results.

The Bank closely defines risk management process and the responsibilities and responsibilities of all organizational parts of the Banke in the risk magaement system by Risk management procedures.
The Bank has closely prescribed the methods and approaches used in the risk management system by Individual methodologies.

4. RISK MANAGEMENT (continued)

Jurisdiction

The Board of Directors is in charge and responsible for the adoption of risk management strategy and strategy and capital management strategy, establishing a system of internal controls in the Bank and supervising its effectiveness, overseeing the work of the Executive Board, adopting quarterly reports on risk management, adopting the Recovery Plan, and implementation of the process of internal capital adequacy assessment, and others.

The Executive Board is responsible and responsible for the implementation of risk management strategy and policies and capital management strategies by adopting risk management procedures, ie identifying, measuring and assessing risks, and ensuring their implementation and reporting to the Governing Board in relation to those activities. Also, the Executive Board analyzes the risk management system and at least quarterly reports the Board of Directors on the level of risk exposure and risk management and decides, with the prior approval of the Board of Directors, of any increase in the Bank's exposure to a person related to the Bank, and shall inform the Management Board thereof.

The Audit Committee (the Banking Supervision Committee) is responsible and responsible for analyzing and monitoring the applied and adequate implementation of the adopted risk management strategies and policies and the internal control system. The Audit Committe report the Board of Directors at least one monthly on its activities and identified irregularities, and proposes the way in which it will be eliminated, propose improvements in risk management policies and procedures and implement the internal control system.

The Assets and Liabilities Management Committee is competent and responsible for monitoring the Bank's exposure to risks arising from the structure of its balance sheet claims, liabilities and off-balance sheet items, as well as proposing measures for managing interest rate risk and liquidity risk.

The Credit Committee decides on credit requirements within the framework of the Bank's regulations, analyzes the Bank's exposure to credit, interest and currency risk, analyzes the loan portfolio, and also proposes measures to the Executive Board of the Bank.

The risk management function defines and proposes to adopt the strategy, policies, procedures and risk management methodologies, identify, measure, mitigate, monitor and control and report on the risks to which the Bank is exposed in its operations. It is also responsible for developing models and methodologies for identifying, measuring, mitigating, monitoring and controlling risks, as well as for reporting to the competent authorities of the Bank.

The asset management sector is responsible for managing assets and liquidity, as well as in managing the assets and liabilities of the Bank. It also participates in the management of liquidity risk, interest rate risk and foreign exchange risk.

The internal audit function is responsible for the continuous implementation of an independent evaluation of the risk management system, as well as for the regular assessment of the adequacy, reliability and efficiency of the internal control system. The Internal Audit reports the Audit Committe and the Board of Directors on its findings and recommendations.

The business compliance control function is obliged to identify and evaluate the risks of such compliance at least annually and to submit risk management plans, on which it draws up a report to the Executive Board and the Board for monitoring the operations of the Bank.

4. RISK MANAGEMENT (continued)

Risk Management Process

The Bank regularly measures, or estimates, the risks it identifies in its business. Measurement implies the application of qualitative and quantitative methods and measurement models that enable the detection of changes in the risk profile and the assessment of new risks.

For all identified risks, the Bank determines their significance based on a comprehensive risk assessment inherent in certain Bank's products, products, activities and processes.

Risk mitigation involves diversification, transfer, reduction and / or avoidance of risks, and the Bank implements it in accordance with risk profile, risk aversion and risk tolerance.

Monitoring and control of risk is carried out through continuous monitoring of exposure according to different criteria, as well as through monitoring and control of the limits established by the Bank, which depend on the business strategy and market environment, as well as on the level of risk that the Bank is willing to accept.

The Bank has established a system of regular reporting on risk exposure and risk profile that enables relevant employees at all levels in the Bank to provide timely, accurate and sufficiently detailed information that is necessary for making business decisions and efficient risk management, ie safe and stable operation.

Risk management reports are regularly submitted to: the Board of Directors, the Executive Board, the Audit Committee, the Assets and Liabilities Management Committee and the Credit Committee, which contain all the information necessary for the risk assessment and risk conclusions of the Bank.

In its regular course of business, the Bank is particularly exposed to the following risks: credit risk and risks associated with the credit risk, liquidity risk, market risk, operational risks, investment risk, exposure risk and country risk as well as to all other risks that may arise from the Bank’s regular operations.

4.1. Credit Risk

Credit risk represents the risk of negative effects on the Bank’s financial result and capital arising from debtors’ inability to settle the matured liabilities to the Bank.

The Bank has defined criteria for loan approval and rescheduling and restructuring of receivables prescribed by its loan approval procedures and methodology.

Prior to loan approval, the Bank assesses the creditworthiness of the borrower based on internally defined criteria as a primary and offered collateral as a secondary source of collection/loan repayment. Based on the identified and measured credit risk level (assessed financial situation and credit worthiness of the borrower, value and legal security of the credit hedge and other relevant factors), and independent risk assessment, the Bank’s competent bodies enact a loan approval decision in accordance with the defined decision making system.

Decisions on credit risk exposure are defined through the decision making system that depends on the type of customer and exposure level. Credit decision makers with different levels of authority are: persons with special powers from the Risk Management function, the Credit Committee, the Executive Board and the Board of Directors.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

In decision making the principle of double control, the so-called "four eyes principle," is observed which ensures that there is always a party that proposes and a party that approves a particular loan/investment.

For loans contracted in foreign currencies or RSD loans indexed to a currency clause, the Bank estimates the effects of the changes in foreign exchange rates on the financial situation and creditworthiness of debtors and particularly analyzes adequacy of the debtor's cash flows in relation to the changed level of liabilities per loans assuming that there will be certain fluctuation in RSD exchange rates on an annual basis.

The organizational model of credit risk management system enables adequate communication, information exchange and collaboration at all organizational levels within the Bank as well as clear operational and organizational separation of functions for independent risk management and supporting activities on one hand and the activities of risk assumption on the other, i.e. segregation of duties, competencies and responsibilities. The Bank has also established an adequate information system for full coverage of persons involved in credit risk management system and appropriate management reporting.

Credit Risk Management

In accordance with the scope, type and complexity of the operations it performs, the Bank has organized a credit risk management process and clearly delineates the responsibilities of employees at all stages of the process.

The level of credit risk exposure acceptable to the Bank is in line with the defined risk management strategy and depends on the Bank's portfolio structure based on which is limited negative effects on the Bank's financial result and capital adequacy.
The basic principles of credit risk management are as follows:

- Managing credit risk at the individual loan level as well as the Bank's entire portfolio level;
- Maintaining credit risk level that minimizes the negative effects on the Bank's financial result and capital;
- Loan rating according to risk;
- Operating in accordance with best banking practices of loan approval;
- Ensuring adequate credit risk management controls.

In its effort to manage credit risk the Bank seeks to do business with customers that have good credit rating and to acquire appropriate collaterals to secure repayments. The Bank assesses creditworthiness of each customer upon the submission of a loan application and regularly monitors its debtors, loans and collaterals, in order to be able to undertake appropriate activities for the purpose of collecting its receivables.

The Bank performs quantitative and/or qualitative measurement, i.e. assessment of the identified credit risk. The credit risk measurement process is based on measuring risk level of individual loans and investments based on the internally adopted rating system.

The rating system is merely an instrument for encasement of individual decisions and assessing risk levels of individual investments. Besides the above mentioned, rating system is used for assessing the risk level of whole portfolio, and is also used in process of loan impairment for the purpose loan ranking by risk level and stating realistic value of receivables. Internal rating system is subject to regular review and improvements.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Credit Risk Management (continued)

In addition to the internal rating system, in credit risk analysis the Bank also uses principles prescribed by the National Bank of Serbia, which require classification of loans based on the prescribed criteria as well as calculation of the reserve for estimated credit risk losses. In December 2018, in accordance with the amendments to the regulations of the National Bank of Serbia, adopted the amending regulations that from January 1, 2019 confirms the cancellation of calculation of the reserves for the estimated credit losses.

Mitigating credit risk entails maintaining the risk at the level acceptable to the Bank's risk profile, i.e. maintaining acceptable quality level of the Bank's loan portfolio.

Basic credit risk mitigation techniques are:

• Exposure Limits - concentration risk,
• Diversification of investments,
• Collaterals.

The Bank's exposure limits per individual debtor are based on the assessment of the debtor's creditworthiness, whereas the exposure limits at the portfolio level are focused on restricting exposure concentration within the portfolio. The Bank continuously controls credit risk movements within a defined risk profile.

The concentration risk includes: large exposures (exposure to one person or group of related persons and persons associated with the Bank), exposure groups with the same or similar risk factors such as economic sectors, product types, geographical areas and similar, credit protection instruments.

The Bank monitors exposure according to defined limits with the same or similar risk factors, and depending on general economic trends, developments in certain sectors and geographic areas, values stated in the Bank's business plan, and carries out regular review of the defined limits and proposes redefining them in case of changes in risk factors.

By the Decision on risk concentration management based on the exposure of the bank to certain types of products, the National Bank of Serbia, from January 1,.2019 banks were obliged to monitor the risk of concentration or exposure of the bank to groups of products, primarily exposure to cash, consumer and other loans granted to households of agreed maturity over 8 years in 2019, over 7 years in 2020 and 6 years from 2021.

Monitoring investment quality at the individual debtor level is primarily based on obtaining updated information on the financial situation and creditworthiness of the debtor as well as on the market value of collateral, whereas credit risk monitoring at the portfolio level is performed through identification of changes at the level of client groups with certain preset levels of risk, investment, collateral and required reserves for estimated and unexpected losses for the purpose of establishing management of the asset balances and quality.

Credit risk control entails a process of continuous reconciling business operations with the defined system of limits, as well as under conditions of large credit exposure approaching the upper risk profile limit, i.e. upon introduction of new products and business activities.

As a hedge against counterparty default risk, the Bank undertakes the following steps in respect to collection of due receivables: rescheduling or restructuring; out-of-court settlement; seizure of goods or properties in order to collect receivables; sale and/or assignment of receivables; executing agreements with interested third parties; and instigating court proceedings and other measures.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Credit Risk Management (continued)

If the undertaken measures for regulating collection, i.e. enforced collection and court proceedings fail to provide expected results, i.e. when receivables cannot be collected in full, the Bank initiates reversal of the remaining receivables, or a transfer from the balance sheet to off balance sheet.

Apart from credit risk exposure, the Bank also has off-balance sheet exposures (various types of payment and performance guarantees, acceptances and letters of credit) based on which the Bank has contingent liabilities to make payments on behalf of third parties. For off-balance sheet exposures the Bank uses the same control processes and procedures that are used for credit risk.

Credit risk reporting includes internal and external reporting systems executed on a monthly basis according to a preset schedule and in conformity with the defined reporting system.

IFRS 9 financial instruments

In 2019, the Bank continuously applied the IFRS 9. In accordance with IFRS 9 financial assets can be classified and evaluated as:

- Financial instruments at amortized cost (AC), a business model for collecting contractual cash flows of principal and interest, and fulfilled SPPI criteria;
- Financial instruments at fair value through other comprehensive income (FVOCI), SPPI fulfilled, but the business model is the collection of contractual cash flows and sales;
- Financial instruments at fair value through profit and loss account (FVTPL).

The Bank's business model is defined as holding for the purpose of collecting cash on the basis of principal and interest, which is supported by an analysis that indicates that there are no facts that the Bank has defined a different business model. From the aspect of classification and measurement, IFRS 9 requires that all financial assets, other than equity instruments and derivatives, are estimated on the basis of the business model of managing specific financial assets and contractual characteristics of cash flows of the instruments themselves (based on the SPPI criteria test). Cash flows of financial instruments that are measured at amortized cost consist of principal and interest payments whose components are fees for the time value of money, credit risk, administrative costs and profit margin.

Equity instruments, in entities other than subsidiaries that are not held for trading, are classified as assets whose value is measured at fair value through other comprehensive income, with a reclassification of profit and loss through the income statement.

Also, by applying IFRS 9, the Bank calculates impairment for credit placements given to the countries and Central Banks of the Bank's members (for assets not available immediately) recorded at the expense of the income statement, as well as impairment based on the securities recorded through other comprehensive result.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Identification of problematic and restructured claims

The Bank monitors the quality of the portfolio based on the identification and analysis of early warning signals of clients. Warning signs are monitored on a regular time basis and based on analysis of those signs, customers are classified into the category Standard, Potentially risky (Watch list) and NPL clients (clients with problematic claims).

In accordance with the application of IFRS 9, starting from January 1, 2018, The Bank also introduced impairment Stages (Stage 1, Stage 2 and Stage 3) that monitor the status of the client. Standard clients rank as Stage 1, clients identifying credit risk increase (Watch List clients, days past due from 31 days to 90 days) are ranked as Stage 2, and NPL clients rank as Stage 3. Clients located in Stage 1 and 2 are impaired on a group basis, while Stage 3 clients, with the fulfillment of the criteria of material significance, are impaired individually. NPL clients at Stage 3, with less material exposure, are impaired on a group basis, while respecting the requirements of IFRS 9 standards in at least two collection scenarios.

Restructured unproblematic clients are classified as potentially risky clients, that is, to Stage 2 of impairment, while restructured problematic are classified as problematic clients, and are categorized into Stage 3 impairment.

The purpose of monitoring the quality of the portfolio is to prevent the direct transfer of Standard clients into the category of clients with problematic claims without prior identification of clients as potentially risky and without implementing measures to prevent the occurrence of risky placements,ie mitigating and reducing credit risk through the implementation of an adequate strategy and action plans. Potentially risky clients are more closely monitored than Standard clients, and if further credit risk is identified, clients are reclassified to category of problematic receivables.

Problematic receivables include all receivables that have days past due more than 90 days, for any material liability to the Bank, its parent or subordinated companies, receivables in which it is estimated on the basis of the financial condition that the borrower will not be able to settle its obligations in full without taking into account the possibility of the realization of credit protection instruments (regardless of whether they are late in settling liabilities), receivables for which the amount of the impairment was determined on an individual basis. Problems are also deemed to arise from: the cessation of the recording of interest income, fees and charges in the income statement, specific adjustments for credit risk that are calculated due to significant deterioration of credit quality following the occurrence of exposure, significant loss effected by the transfer of receivables, restructuring receivables made due to the financial difficulties of the debtor, as well as filing a motion for initiating bankruptcy proceedings against the debtor. Problematic receivables are all receivables from the debtor, if one receivalbe is classified as problematic receivable.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Identification of problematic and restructured claims (continued)

Restructuring of receivable is the approval, due to the financial difficulties of the borrower, the concessions in connection with the repayment of individual receivable that would not be approved to the debtor if he were not in such difficulties, irrespective of whether there are any due liabilities, whether the receivable was impaired and whether it was in the status of default. Restructuring is carried out in one of the following ways: by changing the conditions under which the receivable was originated, especially if the subsequent contractual terms of repayment are more favorable than originally agreed (interest rate reduction, write-off of principal and / or interest, change in maturity dates, etc.) as well as refinancing of receivables. Such circumstances are often called in practice "forbearance". In addition, the category of restructured receivables also includes receivables in which:

- The change in the contractual terms of repayment is implemented, and those receivables that, in the absence of such changes, would be classified as problematic,
- The change in the contractual terms of repayment debts which led to a complete or partial write-off in a materially significant amount is implemented,
- The Bank has activated the contractual clauses on restructuring on which the repayment conditions are changing due to the occurrence of certain events (embedded clauses) against the debtor whose claim has been already classified in a group of problematic receivables, or would have been so classified that are not activated this clause,
- If the debtor has, at the same time a new claim was approved (or over a short period before or after the approval), made a payment on the basis of other claims of the Bank (or other legal entity to which the ceded claim against the debtor), which was classified or fulfilled the requirements to be classified in group problematic or, in the absence of new claims would be classified in the above group, i.e. fulfilled the requirements.

In accordance with implementing IFRS 9 standard, any restructuring of claims due to financial difficulties is considered to be modified or changed financial asset.

Modifications that cause the derecognition of the old financial assets and initial recognition of the new, and that they were motivated by a drop in the credit standing and repayment capacity, lead to initial recognition financial assets that standard defined as "POCI", ie. funds that are impairment at the time of initial recognition, and are initially valued at fair value. They do not have at the time of initial recognition impairment, but you must include the expected credit losses during lifetime assets in the calculation of effective interest rates.

Consequently, the Bank includes an initial expected credit losses in estimating cash flows, when Bank calculate a credit-adjusted effective interest rates of financial assets that are considered to be impairment at the time of initial recognition. Also, for purposes of calculation of impairment, this means going for the whole period of duration stay in Stage 3.

IFRS 9 in the event of a significant modification of a financial instrument, indicates the need to derecognise an old financial asset and recognise the new one at fair value at the date of recognition.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Identification of problematic and restructured claims (continued)

Termination of recognition leads to a sustained gain or loss recognized in the income statement and an equal difference between the amortized value of an old financial asset and the fair value of a new financial asset minus the amount of expected loan losses recognized as impairment on a new financial asset.

With every change made to credit terms, for placements that are not part of a problematic (PL) client's status, or the status of bad (NPL) clients, the Bank calculates a 10% test with the aim of determining whether the modification made is highly significant or less significant.

In it's system, the Bank keeps a record of every made assets modification, regardless of whether the modification is considered to be highly or less significant, and regardless of whether the modification occured due to changes in market conditions for good (PL) clients or due to bad (NPL) clients' business issues.

The Bank regularly follows the measures for restructuring of risky placements and controls the timeliness of undertaking these measures. Monitoring of the measures taken, ie realization of them, such as, for example, settlement of matured liabilities is done on a daily basis. The monitoring of the operations of the restructured clients is done regularly every 6 months, or more often, if necessary. The analysis of the financial statements, the analysis of indebtedness, the checking of the adequacy of the provision of monitoring the overall performance of strategies towards debtors are the key points of the mentioned monitoring.

Restructured claim which is classified into a group of problematic claims is, after the expiry of one year from the date of its restructuring, classified in the Bank of claims which are not considered problematic if the following conditions are met:

- Impairment amount of restructured claim has not been determined and the status of default has not occurred;
- During the past 12 months the payments were made on time or with a delay not greater than 30 days, in accordance with the changed conditions of repayment;
- Based on the analysis of the financial condition and creditworthiness of the client, it is estimated that it will be able to settle its obligations in full in accordance with the changed conditions of repayment.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Risk of asset quality change - asset delinquency

The quality of the Bank's assets is measured by the degree of exposure to particular risk categories according to the criteria defined by the internal rating system. The internal rating system is based on quantitative and qualitative parameters for determining the rating of the borrower. The rating scale contains five risk categories, divided into 19 sub-categories. Different exposures to the same borrower define the same rating category, regardless of the specificity of the different types of loans.

The Bank uses different rating models for credit risk depending on the type of clients. The calculation of the rating is done on a monthly basis based on qualitative and quantitative parameters and timely settlement of liabilities.

A low level of risk involves dealing with clients with good creditworthiness and is acceptable to the Bank (rating categories 1 and 2), a higher level of risk is the business with clients who have certain business problems and which can negatively affect the settlement of liabilities and whose business is intensively monitors (rating category 3 and 4) and a high level of risk denotes clients with negative business results and bad credit history (risk categories 4d, 4dd, and 5). Risk Category 4 is divided into five sub-categories: 4+, 4 and 4- – Non-risk clients (PE), 4D risk clients (NPE) with delay of up to 90 days and 4DD risky clients (NPE) with a delay of 91 to 180 days.

The Bank protects itself against the risk of asset quality changes through continuous monitoring of client's operations, identifying changes that may result from deterioration of the debtor's balance, delay in repayments or changes in the environment, and the provision of appropriate collateral.

Risk of asset value change – impairment of assets

The impairment of the placement is aimed at ensuring a reasonable, careful and timely determination of losses in order to protect the bank's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the contingent liabilities.

Impairment of placements and provisions are made only when there is a reasonable basis, ie when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, the difficulties in the cash flows of the borrower (financial difficulties) , the decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that the real loan will be settled from these assets.

The Bank assesses the impairment of receivables on a group and on a individual basis.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Individual and Group Assessment at Stage 3

The bank estimates impairment allowance for each individually significant placement with default status (risky placement, under a risk category 4D, 4DD and 5 according to the internal rating system), ie placements that are classified in stage 3 in accordance with IFRS 9. For this purpose, financial position of the loan beneficiary is taken into account, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the creditworthiness of the client, the value of the collaterals and the certainty of fulfillment of the client's obligations towards the members of the bank, a new assessment of the impairment of the placements is made.

The materiality threshold the bank determines on the basis of an analysis of the value structure of the portfolio by types of clients and products.

An impairment loss on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

Objective evidence that indicates the need for impairment of placements is considered to be:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfillment of other contractual provisions;
- when the members of the Bank , due to the financial difficulties of the borrower, substantially change the terms of repayment of claims in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) etc.

Evidence can be documented by analysis in the Watchlist process, information on the increased Stage of risk of the borrower.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the planned future cash flows of the borrower.

When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Bank recognizes the existence of multiple collection scenarios when estimating the expected future cash flows in accordance with IFRS 9, which is applicable from January 1, 2018. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Bank on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

For a group of smaller material receivables that are clasiffied at Stage 3, when calculating the impairment, there are also several collection scenarios that are applied with certain probabilities, where these probabilities are calculated on the basis of statistical models using historical collection information.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Group assessment

Impairment is assessed on a group Stage for all placements where no objective evidence of impairment has been identified and are Stage 1 - standard clients and Stage 2 - clients with identified credit risk increase, as well as receivables based on commissions and other receivables that are not reduced to the present value.

The bank estimates are carried out by groups according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the economy sector and by rating groups by type of placements in the household sector), based on the internal rating system at the monthly Stage. The impairment methodology has significantly changed and instead of the approach to the incrred credit loss in accordance with IAS 39, the principle of future expected loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of statistically proven interdependencies.

In accordance with IFRS 9, the impairment is measured as follows:

- Stage 1 - Loans in which no deterioration in credit risk has been identified in relation to the moment of initial recognition. The Bank calculates the impairment charge based on the 12-month expected credit losses;
- Stage 2 - Loans in which a significant deterioration in credit risk has been identified in relation to the moment of initial recognition. The Bank calculates the impairment charge based on the expected credit losses for the entire life of the instrument.

The cost of impairment of financial instruments that are not considered to have significant credit risk deterioration are calculated on the basis of 12-month expected losses (ECL). Stage 1 includes exposures to the State and Central Banks of the Bank's members and other exposures with a credit risk weight of 0, in accordance with the Bank's Capital Adequacy Resolution, except for the exposure on the reserve requirement and similar exposures, on the basis of which the expected credit losses amount to 0.

All financial instruments in which credit risk detoriation has occurred are classified into Stage 2 and impairment costs are calculated on the basis of expected losses for the entire life of the instrument.

The bank considers whether there is a significant increase in credit risk from initial recognition of the asset in relation to the default risk at the end of each reporting period. The identification of a significant deterioration in credit risk is based on defined quantitative and qualitative criteria (such as early warning signals, overtime of over 30 days, and the like). In 2019, the Bank made ammendments to its Methodology for imapairment in the part referring to additional criteria for transfer to Stage 2, where it added a new quantitative criteria for credit risk deterioration from the inception date to the date of impairment calculation.

The bank calculates the cost of impairment of debt securities that are valued at fair value through other comprehensive income (FVOCI), as the accumulated amount of impairment that also affects the Income Statement. However, the expected credit losses do not reduce the amount of gross financial assets in the balance sheet.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Group assessment (continued)

For the corporate and retail sectors, the Bank calculates the expected credit losses (impairment) in the following way:

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

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

This formula is used to calculate the expected credit losses (impairments) at Stages 1 and 2, along with respect to the time horizon.

EAD, that is, the exposure at default, represents an estimate of the carrying amount in accordance with IFRS 9 at the time of default, taking into account the profile of contracted cash flows and the possible use of funds from approved credit lines before the default moment.

Exposure at default (EAD) represents the gross carrying amount of financial instruments is subject to impairment calculation, taking into account the ability of the client to increase its exposure at default.

For the calculation of EAD for Stage 1, the Bank assesses the possibility of default within 12 months for the calculation of a twelve month expected credit loss (ECL), that is, the impairment for a loan in the Stage 1 is calculated, which is expected to result in payment inability of obligations in the period of 12 months from the balance sheet date. For Stage 2, exposure to non-fullfilment of payment liabilities is required to be considered over the life of instrument.

PD represents an estimation of the probability of default in a given period of time. Failure to fulfill obligations may occur only at a specified time during the estimated period, unless it has previously ceased to recognize the instrument, and the Bank is still exposed. Based on historical data, the Bank calculates the PD parameter, especially in the corporate and retail sectors. In the corporate sector, PD is calculated by type of entity (large enterprises, medium-sized enterprises, small enterprises ...), and in the retail sector by type of product (housing loans, cash loans, agricultural loans ...). After calculating historical PDs, the Bank includes forward looking component through a Beta factor that predisposes the impact of the movement of macroeconomic variables (the movement of the GDP, unemployment, inflation rate, industrial production ...) to the future PD. The beta factor is calculated using statistical and econometric models.

In 2019, the Bank improved it's forward looking component by including it in the value of the Beta factor for all three scenarios of macroeconomic variable movements (optimistic, realistic, pessimistic), after which comes the weighting of probabilities of expected realisations of the three mentioned scenarios, in order to arrive at the final Beta factor which contains all three scenarios (optimistic, realistic, pessimistic)

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Group assessment (continued)

To calculate impairment for Stage 1, the Bank uses one-year PDs for the first 12 months, which are the product of the historical PD and Beta factor calculated for the first year.

When calculating impairment for Stage 2, where the impairment is calculated for each year of a financial asset, the Bank uses a marginal PD that represents the difference between two cumulative PD, between t + 1 and t, where t represents a time period of one year. The cumulative PD refers to the default probability that will occur with the period t. The probability that the default will be realized before or at the end of maturity T corresponds to the lifetime PD, ie the probability of default for the entire life of the financial instrument.

PD parameters are updated semi-annually (for the dates of 30 June and 31 December) and are applied in the next half of the year, except for 31 December when PD parameter is applied for 31 December. LGD represents Loss given default and is an estimate of losses that arise in the event of default at a specified time. It is calculated as the difference between the contracted cash flows and the cash flows the creditor expects to receive, including the realization of any collateral. This is usually expressed as a percentage of EAD.

The Bank, in its assessment of credit losses assessed in accordance with the Impairment Assessment Methodology and IFRS 9, wishes to reflect the possibility of collecting cash flows from regular cash flows, but also from the realization of collateral and other collateral, which are directly related to a financial instrument. In that sense, the Bank applies the general concept of a separate LGD secured and LGD unsecured parameter, depending on the degree of securing individual placements. For the purpose of calculating the LGD Secured, or the expected loss rate after collateral, the Bank takes into account all internally available collaterals where there is an estimate of the probability of collectability.

The final step in calculating the impairment is the discount factor - DF for the purpose of reducing to the present value. For discounting, the initial effective interest rate is used, which includes only those interest and fees that can be identified as direct income of the Bank. At stage 2, the period of discounting depends on the duration of the financial asset, while at stage 1, the time factor is always equal to one year (12 months).

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Group assessment (continued)

For the purpose of calculating impairment for exposures to countries, financial institutions and impairment of securities, the Bank uses a different method of calculating impairment. The Bank does not have an adequate history in terms of migration and default exposure to countries and financial institutions. When assessing the impairment and default risk exposure towards securities issued by the Goverment and its bodies, central banks and financial institutions, it relies on surveys and external rating data of Moody's agency. It then uses all available resources that can be obtained with undue cost and effort, in order to adequately determine the probability of default for the purposes of impairment calculation. The probability of default for a period of one year is determined as the probability of migration from the specified external rating of the counterparty (or a rating of the related counterparty if no external rating is available) in the default status. The cumulative PD is determined simply by exponential elevation to the degree of one-year defaults, in the following way:

$$CPD_t = 1 - e^{-(default\ rate*t)}$$

The values of the annual rate of PD used in the calculation of the impairment of securities and financial institutions are reduced to monthly level.

For LGD unsecured the parameter used is prescribed for exposures to countries and financial organizations, in accordance with Basel standards. LGD secured (if there is a collateral) is used in the same way as in the corporate and retail sector.

Impairment of placements to the corporate and retail, countries and financial institutions reduces the value of placements and is recognized as an expense within the income statement, and impairment of securities is recorded through other comprehensive income.

Determining the probable loss on off-balance sheet items

Determining the individual probable loss on off-balance sheet items (contingent liabilities - payable and performance guarantees, letters of credit, and other off-balance sheet items) is carried out when there is estimated that there is a sufficient certainty that an outflow of funds will be made to settle the contingent liabilitiy and the borrower is classified at level 3. Also, for levels 1 and 2, the Bank establishes an estimate of the probable loss on off-balance sheet items for all off-balance sheet items, including unused commitments. The method of impairment of off-balance sheet items for level 1 and level 2 is the same as the impairment of balance sheet receivables other than in the part of recognition of EAD. When estimating the probable loss on off-balance items, the Bank reduces exposure for the Conversion Factor (CCF). In accordance with IFRS 9, the Bank calculated credit conversion factors (CCFs) based on experience that represent the likelihood of conversion of off-balance sheet exposures into balance sheet exposures and concluded that it does not have sufficient historical data to define CCF. Therefore, the bank uses the best approximation of CCF, and these are the conversion factors defined by the regulations of the Central Banks of the Bank's members.

For unused commitments for which the Bank has contracted an unconditional cancellation of a contract or the possibility of terminating a contractual obligation if the client violates the contractual obligations, the bank does not account for provisions based on unused commitments.

The probable loss on off-balance sheet items is recognized as an expense in the income statement.

4. RISK MANAGEMENT (continued)

4.1. Credit Risk (continued)

Means of protection against credit risk (collateral)

In order to protect against exposure to credit risk, the most common practice that the Bank members use, in addition to regular monitoring of clients' operations, is to obtain security instruments (collaterals), which secure the collection of receivables and minimizes credit risk. The amount and type of collateral required depends on the credit risk assessment of the other counterparty.

As standard security instruments, the Bank provides contracting authorities and bills of exchange to clients, while as additional instruments, depending on the assessment of credit risk, and types of placements, other collaterals can be contracted:

- For commercial loans or corporate loans and loans for small businesses - mortgages on movable and immovable items (mortgages), deposits, banking, corporate and government guarantees, guarantees, stocks on securities, shares and receivables;
- For household loans - mortgages on real estate, deposits, guarantees of a solidary debtor, insurance of the National Corporation for securing housing loans at the parent Bank, and others;
- For borrowed securities and repurchase agreements - money or securities.

When assessing real estate or mortgages on movable property, members of the Bank require a professional and independent assessment of the value of immovable property by authorized appraisers in order to minimize the potential risk of unrealistic valuation. Property, goods, equipment and other movable items that are the subject of inventory must be and are insured by an insurance company acceptable to the Bank, and the policies are vinkulated for the benefit of the Bank.

In order to protect against the change in market values of collateral (mortgages, pledges, securities, etc.), the estimated collateral value is corrected for a defined percentage (haircut) depending on the type of collateral and location, which are regularly reviewed and revised. In this way, the Bank protects against potential losses due to inability to collect collateral from collateral.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

Means of protection against credit risk (collateral) (continued)

The correction factor (haircut) represents the difference between the estimated value of the collateral and the cash inflow that can be realized by selling collateral in the collection process. Haircut brings down the estimated market value of each collateral instrument to the expected value that will be collected by its realization in the future, taking into account the volatility of market value, the possibility of realization and cash outflows based on activation and sales costs (court fees, tax costs that fall under the burden of the seller, costs of consultants and advertising and other costs), the expected decline in market value from the moment of estimation to the moment of the planned realization, as well as the inherent uncertainty in determining the value.

Members of the bank pay attention to the regular valuation of collaterals. For non-risk placements (standard clients) - level 1 and clients on the Watch list - level 2, mortgages on residential and business properties are assessed at least once in three years by an authorized appraiser. For risky placements (NPE) - level 3, mortgages on residential buildings are estimated at least once in three years, mortgages on business premises (business premises, premises, warehouses, construction land with and without building permit, agricultural land, other) at least once in 18 months, and mortgages on industrial facilities are estimated at least once a year (12 months) by an authorized appraiser. Securities are assessed on a monthly basis for all placements.

Regular monitoring of the value of real estate implies checking the value of the real estate based on available data and information, comparing the values of the real estate values with the values of the value on the market of the member countries of the Bank (realized sales, supply and demand) by the regions specified in the collateral catalog, using the statistical model, etc. For all business real estate, the Bank conducts a check of value at least once a year, and for residential and other real estate at least once in three years.

The value of collateral and the trend of movement is monitored and updated by the members of the bank in order to minimize the potential risk of unrealistic estimation and, if necessary, may require additional collateral in accordance with the concluded contract. Collaterals represent a secondary source of collection of receivables.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk

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

Total exposure to credit risk

In thousands of RSD

	31.12.2019		31.12.2018	
	Gross	Net	Gross	Net
I. Assets	456,990,222	432,380,443	427,668,873	401,165,980
Cash and balances with the central bank	67,558,219	67,558,219	63,595,710	63,595,710
Loans and advances to banks and other financial institutions	24,952,308	24,733,958	18,705,766	18,477,729
Loans and receivables from customers	192,872,896	180,852,563	181,694,980	167,545,674
Financial assets (securities and derivatives)	138,470,153	138,469,551	133,183,262	133,181,667
Other assets	9,339,310	7,100,360	8,657,056	6,612,268
Non monetary assets	23,797,336	13,665,793	21,832,099	11,752,932
II. Off-balance sheet items	53,123,735	52,932,759	42,261,680	41,986,725
Payable guarantees	4,210,006	4,185,429	3,107,502	3,037,138
Performance guarantees	4,764,048	4,722,824	3,004,569	2,962,498
Irrevocable liabilities	43,588,232	43,487,483	35,783,262	35,646,780
Other	561,449	537,023	366,347	340,309
Total (I+II)	509,759,001	484,937,673	469,930,553	443,152,705

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Changes in loans and receivables to customers by Stage of risk during 2019

In thousands of RSD

	Stage 1	Stage 2	Stage 3	Total
31.12.2018	158,867,478	3,330,552	19,496,950	181,694,980
New receivables	27,527,105	292,921	74,701	27,894,727
Decrease/collection of receivables	(13,167,541)	(392,575)	(2,842,481)	(16,402,597)
Transfer to Stage 1	-	(900,675)	(304,024)	(1,204,699)
Transfer to Stage 2	(6,654,156)	-	(191,619)	(6,845,775)
Transfer to Stage 3	(555,125)	(231,513)	-	(786,638)
Transfer from other Stages	1,204,699	6,845,775	786,638	8,837,112
Other changes	3,062,450	(2,199,163)	(1,177,501)	(314,214)
31.12.2019	170,284,910	6,745,322	15,842,664	192,872,896

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

In thousands of RSD

	Stage 1	Stage 2	Stage 3	Total
31.12.2018	1,036,247	247,682	12,865,378	14,149,307
New receivables	201,275	14,334	69,000	284,609
Decrease/collection of receivables	(117,990)	(10,520)	(1,653,639)	(1,782,149)
Transfer to Stage 1	-	(23,215)	(137,084)	(160,299)
Transfer to Stage 2	(88,063)	-	(67,482)	(155,545)
Transfer to Stage 3	(4,501)	(5,940)	-	(10,441)
Transfer from other Stages	160,299	155,545	10,440	326,284
Other changes	(312,772)	(252,688)	(65,973)	(631,433)
31.12.2019	874,495	125,198	11,020,640	12,020,333

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

During 2019, transitions of exposures by Stages are consequence of regular business transactions:

- transition to Stage 1 from Stage 2 and 3 is a consequence of the improvement of business parameters according to the financial statements for 2018, or due to the settlement of due liabilities in whole or in part (decrease in arrears);
- transition to Stage 2 from Stage 1 is a consequence of the modification made to the segment of Methodology that refers to the criteria for transfers to Stage 2, as well as an increase in credit risk in a certain number of clients;
- Transition to Stage 3 from Stage 1 and 2 is a consequence of an increase in credit risk (account blockage longer than 60 days, and an increase in over 90 days in most cases). During the year, Stage 1 receivables were at Stage 2 before they went to Stage 3. Reduction of Stage 3 receivables is due to the regulation of risk claims (collection from collateral and regular business operations of clients).
- The decrease of impairment allowance in other changes is mostly due to the improvement of risk parameters that are used for the impairment of PL (good) placements and were placed in the Bank's portfolio on the December 31, 2018 and December 31, 2019.
- Other changes are mainly related to increase / decrease of exposuret with clients who did not change stages on both dates. Additionally, other changes include the calculation of interest, exchange rate differences and more.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level of risk
In (000) RSD

31.12.2019	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	40,137,803	563,216	993,518	41,694,537	55,720	18,722	487,612	562,055	41,132,483
Cash Loans	34,456,268	369,714	250,163	35,076,145	161,194	19,467	196,477	377,138	34,699,007
Agricultural Loans	9,316,462	121,427	275,822	9,713,711	103,186	12,406	127,555	243,147	9,470,564
Other Loans	4,793,469	44,820	159,663	4,997,952	36,250	1,080	153,449	190,779	4,807,173
Micro Business	7,937,996	779,822	549,999	9,267,817	127,880	21,209	286,938	436,027	8,831,790
Total retail	96,641,998	1,878,999	2,229,165	100,750,162	484,230	72,884	1,252,031	1,809,145	98,941,017
Large corporate clients	30,404,295	4,177,915	6,273,603	40,855,813	81,782	43,052	3,714,019	3,838,853	37,016,960
Middle corporate clients	7,749,403	178,584	1,753,845	9,681,832	31,326	2,997	1,335,764	1,370,087	8,311,745
Small corporate clients	3,571,658	95,640	1,149,243	4,816,541	20,410	781	656,700	677,891	4,138,650
State owned clients	21,847,484	413,490	170,672	22,431,646	110,876	5,464	132,088	248,428	22,183,218
Other	10,070,072	694	4,266,136	14,336,902	145,871	21	3,930,037	4,075,929	10,260,973
Total corporate	73,642,912	4,866,323	13,613,499	92,122,734	390,265	52,315	9,768,608	10,211,188	81,911,546
Total	170,284,910	6,745,322	15,842,664	192,872,896	874,494	125,199	11,020,639	12,020,333	180,852,563
Due from banks	24,737,891	-	214,417	24,952,308	3,933	-	214,417	218,350	24,733,958

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total exposure to credit risk (continued)

Loans and receivables from customers, banks and other financial organizations by level
In (000) RSD

31.12.2018	Stage 1	Stage 2	Stage 3	Total	Impairment allowance Stage 1	Impairment allowance Stage 2	Impairment allowance Stage 3	Impairment allowance	Net
Housing Loans	37,397,786	654,204	1,521,937	39,573,927	32,149	18,803	722,406	773,358	38,800,570
Cash Loans	30,038,802	289,400	226,782	30,554,984	98,846	13,125	153,963	265,933	30,289,051
Agricultural Loans	8,357,877	91,169	263,341	8,712,387	60,893	3,809	138,525	203,227	8,509,160
Other Loans	5,193,080	56,258	179,373	5,428,711	31,736	1,384	167,551	200,671	5,228,039
Micro Business	8,694,031	115,982	656,885	9,466,898	120,679	4,018	317,218	441,915	9,024,982
Total retail	89,681,576	1,207,013	2,848,318	93,736,907	344,303	41,139	1,499,663	1,885,105	91,851,802
Large corporate clients	33,953,918	1,658,522	11,595,741	47,208,181	310,263	197,878	7,901,653	8,409,794	38,798,387
Middle corporate clients	6,995,710	211,590	1,935,944	9,143,244	67,366	3,164	1,287,520	1,358,050	7,785,194
Small corporate clients	3,458,723	121,341	1,207,560	4,787,624	36,736	631	632,196	669,563	4,118,060
State owned clients	12,989,199	132,086	503,850	13,625,135	86,779	4,870	139,220	230,869	13,394,267
Other	11,788,352	-	1,405,537	13,193,890	190,800	-	1,405,126	1,595,926	11,597,963
Total corporate	69,185,902	2,123,539	16,648,632	87,958,073	691,944	206,543	11,365,715	12,264,202	75,693,871
Total	158,867,478	3,330,552	19,496,950	181,694,980	1,036,247	247,682	12,865,378	14,149,307	167,545,673
Due from banks	18,494,474	-	211,292	18,705,766	16,745	-	211,292	228,037	18,477,729

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Changes in impairement allowance of receivables in the Balance Sheet

	31.12.2018	Increase in impairment allowance	Reversal of impairment allowance	Other changes	31.12.2019
Total retail	1.885.105	1,644,843	(1,243,242)	(477,561)	1.809.145
Total corporate	12.264.202	3,820,362	(4,942,058)	(931,318)	10.211.188
Total	14.149.307	5,465,205	(6,185,300)	(1,408,879)	12.020.333
Due from banks	228,037	40,853	(53,644)	3,105	218,351

* Other changes relate to the transfer of 100% written-off receivables from balance sheet to off-balance sheet records, exchange rate differences and other changes.

Problematic loans and receivables – Stage 3

Problematic loans and receivables are those loans and receivables for which the Bank has determined that there is objective evidence that indicates impairment and for which it does not expect the payment of due principal and interest due in accordance with the loan agreement (impaired receivables). Estimates of impairment for problematic receivables are made for each individually significant placement with the status of default (risk sub-category 4D and 4DD according to the internal rating system and risk category 5), if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of the financial asset and if there is a measurable decrease in future cash flows. Also, problematic loans include less materially significant Stage 3 loans, and their impairment calculation is done on a group basis in accordance with the requirements of IFRS 9.

Non-problematic loans and receivables – Stage 1 and 2

For non-problematic receivables in Stages 1 and 2 (rating categories 1, 2, 3 and subcategory 4), impairment is assessed on a group Stage (non-impaired receivables). Group estimates are carried out by groups according to similar credit risk characteristics that are formed on the basis of an internally prescribed methodology (rating groups by type of clients and placements), based on the internal rating system at the monthly Stage.

The impairment assessment on a group basis is based on the expected credit loss in accordance with probability unfulfilled commitments over the next 12 months (claims in Stage 1), unless there is a significant deterioration of credit risks in relation to the time of the initial recognition, when you estimate credit losses made on the basis of the probability of the neizmirenja obligations for a period of life of the instrument (claims at Stage 2). By appreciating specificity in dealings with clients, in particular establishes the migration for economic

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Receivables by days past due – Stage 1 and 2

In RSD thousands

	Stage 1						Stage 2					
31.12.2019	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	40,126,089	11,714	-	-	-	40,137,803	451,982	-	45,275	65,960	-	563,217
Cash Loans	32,496,413	1,959,855	-	-	-	34,456,268	133,784	78,369	119,376	38,185	-	369,714
Agricultural Loans	9,182,949	133,513	-	-	-	9,316,462	37,608	2,214	72,794	8,813	-	121,429
Other Loans	4,494,377	299,092	-	-	-	4,793,469	11,870	10,364	16,342	6,244	-	44,820
Micro Businesses	7,230,512	707,484	-	-	-	7,937,996	446,233	325,680	6,485	1,423	-	779,821
Retail clients	93,530,340	3,111,658	-	-	-	96,641,998	1,081,477	416,627	260,272	120,625	-	1,879,001
Large corporate clients	30,091,092	313,203	-	-	-	30,404,295	3,753,403	424,512	-	-	-	4,177,915
Middle corporate clients	7,523,028	226,375	-	-	-	7,749,403	108,098	70,483	3	-	-	178,584
Small corporate clients	3,474,992	96,666	-	-	-	3,571,658	68,993	26,647	-	-	-	95,640
State owned clients	21,034,676	812,809	-	-	-	21,847,485	394,081	19,409	-	-	-	413,490
Other	10,064,196	5,875	-	-	-	10,070,071	694	-	-	-	-	694
Corporate clients	72,187,984	1,454,928	-	-	-	73,642,912	4,325,269	541,051	3	-	-	4,866,323
Total	165,718,324	4,566,586	-	-	-	170,284,910	5,406,746	957,678	260,275	120,625	-	6,745,324
Out of which: restructured	-	-	-	-	-	-	580,045	420,214	439	1,656	-	1,002,354
Due from banks	22,532,883	2,205,008	-	-	-	24,737,891	-	-	-	-	-	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Receivables by days past due – Stage 1 and 2

In RSD thousands

	Stage 1						Stage 2					
31.12.2018	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	37,223,680	174,106	-	-	-	37,397,786	427,559	53,801	69,467	103,377	-	654,204
Cash Loans	27,792,930	2,245,873	-	-	-	30,038,803	65,876	55,360	119,999	48,165	-	289,400
Agricultural Loans	8,205,610	152,267	-	-	-	8,357,877	28,645	1,027	45,606	15,891	-	91,169
Other Loans	4,860,799	332,280	-	-	-	5,193,079	16,828	3,441	24,572	11,418	-	56,259
Micro Businesses	7,751,492	942,539	-	-	-	8,694,031	58,824	33,394	23,166	597	-	115,981
Retail clients	85,834,511	3,847,065	-	-	-	89,681,576	597,732	147,023	282,810	179,448	-	1,207,013
Large corporate clients	33,652,823	301,095	-	-	-	33,953,918	1,255,394	81,730	321,397	-	-	1,658,521
Middle corporate clients	6,765,412	230,298	-	-	-	6,995,710	163,902	35,601	12,088	-	-	211,591
Small corporate clients	3,404,257	54,466	-	-	-	3,458,723	110,899	10,433	9	-	-	121,341
State owned clients	12,980,623	8,576	-	-	-	12,989,199	100,167	31,754	165	-	-	132,086
Other	11,788,352	-	-	-	-	11,788,352	-	-	-	-	-	-
Corporate clients	68,591,467	594,435	-	-	-	69,185,902	1,630,362	159,518	333,659	-	-	2,123,539
Total	154,425,978	4,441,500	-	-	-	158,867,478	2,228,094	306,541	616,469	179,448	-	3,330,552
Out of which: restructured	-	-	-	-	-	-	295,208	26,407	-	9,571	-	331,186
Due from banks	18,494,474	-	-	-	-	18,494,474	-	-	-	-	-	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Impaired receivables by days past due – Problematic receivables, Stage 3

In RSD thousands

31.12.2019	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	272,633	5,087	30,698	60,758	624,342	993,518
Cash Loans	54,228	18,653	14,590	11,590	151,102	250,163
Agricultural Loans	67,141	9,151	5,927	5,333	188,270	275,822
Other Loans	6,490	563	641	55	151,914	159,663
Micro Businesses	13,633	76,424	7,607	16,416	435,918	549,998
Retail clients	414,125	109,878	59,463	94,152	1,551,546	2,229,164
Large corporate clients	1,652,779	52,063	55,309	-	4,513,452	6,273,603
Middle corporate clients	199,802	-	-	-	1,554,043	1,753,845
Small corporate clients	22,076	-	-	6,556	1,120,610	1,149,242
State owned clients	334	-	-	-	170,337	170,671
Other	1,319,701	-	-	-	2,946,437	4,266,138
Corporate clients	3,194,692	52,063	55,309	6,556	10,304,879	13,613,499
Total	3,608,817	161,941	114,772	100,708	11,856,425	15,842,663
Out of which: restructured	1,424,595	58,846	71,849	20,037	5,766,584	7,341,911
Due from banks	214,417	-	-	-	-	214,417

Receivables with a delay of less than 90 days in Stage 3 relate to clients who have financial difficulties and the Bank has estimated that there is a risk of default by the end of the loan repayment, given that when considering the same, a set of different criteria is used.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.1. Total Credit Risk Exposure (continued)

Impaired receivables by days past due – Problematic receivables, Stage 3

In RSD thousands

31.12.2018	Not due	Due up to 30 days	From 31-60 days	From 61-90 days	Over 90 days	Total
Housing Loans	298,814	69,763	40,848	48,572	1,063,940	1,521,937
Cash Loans	60,889	23,413	12,821	17,977	111,682	226,782
Agricultural Loans	18,824	6,326	3,129	824	234,239	263,342
Other Loans	12,035	1,240	295	1,446	164,357	179,373
Micro Businesses	69,907	21,155	5,536	16,953	543,333	656,884
Retail clients	460,469	121,897	62,629	85,772	2,117,551	2,848,318
Large corporate clients						
Middle corporate clients	1,850,212	7,008	258,670	372,861	9,106,992	11,595,743
Small corporate clients	74,482	-	-	-	1,861,461	1,935,943
State owned clients	39,097	326,954	13,413	-	828,096	1,207,560
Other	324,552	8,458	-	-	170,839	503,849
Corporate clients	1,404,715	-	-	-	822	1,405,537
	3,693,058	342,420	272,083	372,861	11,968,210	16,648,632
Total	4,153,527	464,317	334,712	458,633	14,085,761	19,496,950
Out of which: restructured	2,122,009	23,622	36,725	21,914	10,893,051	13,097,322
Due from banks	211,292	-	-	-	-	211,292

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables

Participation of problematic receivables, Stage 3 in total loans

In RSD thousand

31.12.2019	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructered receivables	Stage 3 Impairment allowance	Share of Stage 3 in total loans (%)	Collateral value Stage 3
Total retail	100,750,162	1,809,145	2,229,165	527,968	1,252,031	2.21%	1,903,216
Housing Loans	41,694,537	562,054	993,518	209,731	487,612	2.38%	984,826
Cash Loans	35,076,145	377,138	250,163	11,929	196,477	0.71%	112,631
Agricultural Loans	9,713,711	243,147	275,822	44,886	127,555	2.84%	255,180
Other	4,997,953	190,779	159,663	-	153,449	3.19%	598
Micro Businesses	9,267,816	436,027	549,999	261,422	286,938	5.93%	549,981
Corporate clients	92,122,734	10,211,188	13,613,499	6,813,943	9,768,608	14.78%	12,126,609
Agriculture	4,169,876	64,802	60,217	-	56,463	1.44%	60,385
Manufacturing Industry	13,054,066	1,214,467	2,958,078	2,879,046	1,165,968	22.66%	2,958,078
Electric Energy	91,586	1,116	-	-	-	0.00%	-
Construction	9,048,163	500,834	673,359	10,276	486,253	7.44%	673,708
Wholesale and Retail	23,100,789	567,209	845,424	607,050	455,214	3.66%	839,099
Service Activities	13,284,210	1,301,523	1,579,328	1,571,626	1,220,425	11.89%	1,578,182
Real Estate Activities	5,182,425	490,297	1,031,805	687,601	482,859	19.91%	1,029,573
Other	24,191,628	6,070,940	6,465,288	1,058,344	5,901,426	26.73%	4,987,584
Total	192,872,896	12,020,333	15,842,664	7,341,911	11,020,639	8.21%	14,029,825
Due from banks	24,952,308	218,350	214,417	-	214,417	0.86%	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables

Participation of problematic receivables, Stage 3 in total loans

In RSD thousand

31.12.2018	Gross exposure	Impairment allowance of gross amount	Stage 3	Stage 3 restructered receivables	Stage 3 Impairment allowance	Share of Stage 3 in total loans (%)	Collateral value Stage 3
Total retail	93,736,907	1,885,105	2,848,318	856,108	1,499,664	3.04%	2,539,572
Housing Loans	39,573,928	773,359	1,521,938	439,228	722,407	3.85%	1,511,459
Cash Loans	30,554,984	265,933	226,782	28,097	153,963	0.74%	132,048
Agricultural Loans	8,712,387	203,227	263,341	16,409	138,525	3.02%	237,991
Other	5,428,711	200,671	179,373	-	167,551	3.30%	1,191
Micro Businesses	9,466,897	441,915	656,884	372,374	317,218	6.94%	656,883
Corporate clients	87,958,074	12,264,202	16,648,632	12,241,214	11,365,714	18.93%	14,951,036
Agriculture	5,368,696	114,450	222,617	13,411	85,212	4.15%	222,785
Manufacturing Industry	14,604,683	2,420,833	4,160,130	3,818,420	2,322,335	28.48%	4,154,270
Electric Energy	99,306	3,105	27,298	-	19	27.49%	27,298
Construction	7,781,109	1,205,744	1,592,833	832,676	998,515	20.47%	1,593,206
Wholesale and Retail	23,677,087	901,765	1,875,109	1,612,891	651,402	7.92%	1,868,834
Service Activities	7,280,885	1,223,932	1,494,901	1,477,865	1,187,702	20.53%	1,494,901
Real Estate Activities	4.699.746	729,500	1,323,324	983,040	704,066	28.16%	-
Other	24,446,562	5,664,873	5,952,420	3,502,911	5,416,463	24.35%	4,265,943
Total	181,694,981	14,149,307	19,496,950	13,097,322	12,865,378	10.73%	17,490,608
Due from banks	18,705,766	228,037	211,292	-	211,292	1.13%	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.2. Problematic receivables (continued)

Changes in problematic receivables

In RSD thousand

	31.12.2018	New problematic receivables – Stage 3	Decrease in problematic receivables – Stage 3	Foreign exchange rate effect	Other changes	31.12.2019	Net value at the end of the year
Housing Loans	1,521,937	267,043	(754,206)	16,944	(58,201)	993,518	505,905
Cash Loans	226,782	200,417	(164,611)	(72)	(12,353)	250,163	53,686
Agricultural Loans	263,341	138,504	(101,341)	(1,037)	(23,645)	275,822	148,267
Other Loans	179,373	64,674	(83,749)	(20)	(615)	159,663	6,215
Micro Businesses	656,885	115,648	(85,576)	(2,143)	(134,814)	549,999	263,061
Retail	2,848,318	786,286	(1,189,483)	13,672	(229,628)	2,229,165	977,134
Large corporate clients	11,595,741	52,229	(2,369,380)	(38,523)	(2,966,465)	6,273,602	2,559,584
Middle corporate clients	1,935,943	13,744	(39,355)	(7,893)	(148,594)	1,753,845	418,081
Small corporate clients	1,207,560	32,900	(67,381)	(4,522)	(19,314)	1,149,243	492,542
State owned clients	503,850	118	(35,756)	(2,177)	(295,363)	170,672	38,584
Other	1,405,537	6,438	(412)	(5,634)	2,860,207	4,266,137	336,100
Corporate Clients	16,648,631	105,429	(2,512,284)	(58,749)	(569,529)	13,613,499	3,844,891
Total	19,496,950	891,715	(3,701,767)	(45,077)	(799,157)	15,842,664	4,822,025
Due from banks	211,292	-	-	-	3,125	214,417	-

The decrase of restructured receivables mostly relates to the cession of fee receivables, permanent write-off and the transfer of 100% impaired receivables to off-balance sheet records at the parent Bank. Other changes relate to a partial increase/decrease in the amount of restructured receivables within one lot during the year and mostly to the partial collection at parent Bank.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.3. Nonproblematic receivables (Stage 1 and Stage 2)

In RSD thousand

	31.12.2019				31.12.2018			
	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals	Low (IR 1,2)	Medium and High (IR 3, 4)	Total	Value of collaterals
Housing Loans	40,600,372	100,647	40,701,019	40,522,852	37,897,797	154,193	38,051,990	37,867,041
Cash Loans	34,666,856	159,126	34,825,982	10,813,597	30,006,894	321,308	30,328,202	6,122,364
Agricultural Loans	9,415,826	22,063	9,437,889	8,032,833	8,419,685	29,361	8,449,046	6,617,026
Other Loans	4,817,669	20,620	4,838,289	101,654	5,211,496	37,842	5,249,338	91,821
Micro Businesses	8,341,708	376,110	8,717,818	8,706,933	8,414,374	395,639	8,810,013	8,804,246
Retail	97,842,431	678,566	98,520,997	68,177,869	89,950,246	938,343	90,888,589	59,502,500
Large corporate clients	31,140,683	3,441,528	34,582,211	34,670,639	30,369,732	5,242,708	35,612,440	32,707,216
Middle corporate clients	7,869,442	58,545	7,927,987	7,916,337	7,100,191	107,110	7,207,301	7,044,748
Small corporate clients	3,631,327	35,971	3,667,298	3,665,949	3,521,734	58,329	3,580,063	3,632,286
State owned clients	14,856,901	7,404,073	22,260,974	22,554,545	10,926,175	2,195,210	13,121,386	10,060,358
Other	4,862,214	5,208,551	10,070,765	7,645,774	11,788,160	92	11,788,252	8,742,174
Corporate Clients	62,360,567	16,148,668	78,509,235	76,453,244	63,705,993	7,603,449	71,309,442	62,186,782
Total	160,202,998	16,827,234	177,030,232	144,631,113	153,656,238	8,541,792	162,198,031	121,689,281
Due from banks	24,737,891	-	24,737,891	-	18,494,474	-	18,494,474	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables

In RSD thousand

31.12.2019	Gross exposure	Impairment of gross exposure	Resturctured receivables	Impairment of restructured receivables	Resturctured receivables stage 2	Impairment of restructured receivables- stage 2	Resturctured receivables stage 3	Impairment of restructured receivables- stage 3	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Total retail	100,750,162	1,809,145	783,965	220,652	255,997	14,316	527,968	206,336	0.78%	781,141
Housing Loans	41,694,538	562,054	436,581	98,673	226,850	13,525	209,731	85,147	1.05%	436,581
Cash Loans	35,076,145	377,138	28,678	9,606	16,749	463	11,929	9,143	0.08%	26,246
Agricultural Loans	9,713,711	243,147	51,963	8,103	7,077	326	44,886	7,778	0.53%	51,571
Other	4,997,952	190,779	-	-	-	-	-	-	0.00%	-
Micro Businesses	9,267,816	436,027	266,743	104,270	5,321	2	261,422	104,268	2.88%	266,743
Corporate Clients	92,122,734	10,211,188	7,560,299	4,081,967	746,357	4,927	6,813,943	4,077,040	8.21%	7,560,299
Agriculture	4,169,866	64,802	-	-	-	-	-	-	-	-
Manufacturing Industry	13,054,066	1,214,467	2,879,045	1,139,334	-	-	2,879,046	1,139,334	22.05%	2,879,045
Electric Energy	91,586	1,116	-	-	-	-	-	-	-	-
Construction	9,048,163	500,834	746,514	10,460	736,238	4,895	10,276	5,565	8.25%	746,514
Wholesale and Retail	23,100,789	567,209	609,526	337,956	2,476	32	607,050	337,924	2.64%	609,526
Service Activities	13,284,210	1,301,523	1,571,626	1,219,163	0	-	1,571,626	1,219,163	11.83%	1,571,626
Real Estate Activities	5,182,425	490,297	695,244	452,272	7,643	-	687,601	452,272	13.42%	695,244
Other	24,191,629	6,070,940	1,058,344	922,782	-	-	1,058,344	922,782	4.37%	1,058,344
Total	192,872,896	12,020,333	8,344,264	4,302,619	1,002,354	19,243	7,341,911	4,283,376	4.33%	8,341,440
Due from banks	24,952,308	218,351	-	-	-	-	-	-	0.00%	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

In RSD thousand

31.12.2018	Gross exposure	Impairment of gross exposure	Resturctured receivables	Impairment of restructured receivables	Resturctured receivables stage 2	Impairment of restructured receivables- stage 2	Resturctured receivables stage 3	Impairment of restructured receivables- stage 3	Percantage of restructured in total receivables (%)	The amount of collateral for restructured receivables
Total retail	93,736,907	1,885,105	1,096,805	344,729	240,697	7,605	856,108	337,124	1,17%	1,094,194
Housing Loans	39,573,927	773,358	675,476	191,582	236,248	7,545	439,228	184,037	1,71%	675,277
Cash Loans	30,554,984	265,933	28,097	11,556	-	-	28,097	11,556	0,09%	25,912
Agricultural Loans	8,712,387	203,227	17,857	5,531	1,448	-	16,409	5,531	0,20%	17,630
Other	5,428,711	200,671	-	-	-	-	-	-	0,00%	-
Micro Businesses	9,466,897	441,915	375,375	136,060	3,001	61	372,374	135,999	3,97%	375,375
Corporate Clients	87,958,074	12,264,202	12,331,703	8,712,244	90,489	14,972	12,241,214	8,697,272	14,02%	12,296,249
Agriculture	5,368,696	114,450	13,411	-	-	-	13,411	-	0,25%	13,411
Manufacturing Industry	14,604,682	2,420,833	3,818,420	2,301,616	-	-	3,818,420	2,301,616	26,15%	3,812,560
Electric Energy	99,306	3,105	-	-	-	-	-	-	0,00%	-
Construction	7,781,109	1,205,744	832,676	811,000	-	-	832,676	811,000	10,70%	832,676
Wholesale and Retail	23,677,087	901,765	1,692,947	561,400	80,056	14,972	1,612,891	546,428	7,15%	1,663,353
Service Activities	7,280,885	1,223,932	1,477,865	1,187,615	-	-	1,477,865	1,187,615	20,30%	1,477,865
Real Estate Activities	4.699.746	729,500	993,473	683,104	10,433	-	983,040	683,104	21,14%	993,473
Other	24,446,562	5,664,873	3,502,911	3,167,509	-	-	3,502,911	3,167,509	14,33%	3,502,911
Total	181,694,980	14,149,307	13,428,508	9,056,973	331,186	22,578	13,097,322	9,034,395	7,39%	13,390,443
Due from banks	18,705,766	228,037	-	-	-	-	-	-	0,00%	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Changes in restructured receivables

In RSD thousand

	31.12.2018	New restructured receivables	Decrease in restructured receivables	Foreign exchange rate effect	Other changes*	31.12.2019	Net
Housing Loans	675,476	13,862	(33,510)	11,110	(230,357)	436,581	337,908
Cash Loans	28,097	5,888	(1,057)	(56)	(4,194)	28,678	19,072
Agricultural Loans	17,857	36,993	(173)	(91)	(2,623)	51,963	43,860
Other Loans	-	-	-	-	-	-	-
Micro Businesses	375,375	9,747	(6,367)	(843)	(111,169)	266,743	162,474
Retail	1,096,805	66,490	(41,107)	10,120	(348,343)	783,965	563,314
Large corporate clients	10,862,610	736,238	(5,355,689)	(35,592)	(49,095)	6,158,472	3,051,836
Middle corporate clients	1,079,829	-	-	(5,075)	(638)	1,074,116	327,056
Small corporate clients	389,263	9,432	(55,854)	(1,984)	(13,146)	327,711	99,440
State owned clients	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Corporate Clients	12,331,702	745,670	(5,411,543)	(42,651)	(62,879)	7,560,299	3,478,332
Total	13,428,507	812,160	(5,452,650)	(32,531)	(411,222)	8,344,264	4,041,646
Due from banks	-	-	-	-	-	-	-

The decrase of restructured receivables mostly relates to the cession of fee receivables, permanent write-off and the transfer of 100% impaired receivables to off-balance sheet records. Other changes relate to a partial increase/decrease in the amount of restructured receivables within one lot during the year and mostly to the partial collection.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.4. Restructured receivables (continued)

Measures that the Bank implements in the restructuring of receivables

The bank implements different restructuring measures depending on the needs of clients, respecting the Bank's interest in taking into account the complete business, financial and collateral position of clients.

The measures that the Bank members most often implement during the restructuring of placements are:

- The extension of the maturity period, which is mainly followed by the adjustment of the interest rate, which is in line with the financial position of the clients,
- The introduction of a grace period or moratorium on the settlement of obligations within a specified period
- Supporting clients in the implementation of reinvestments i.e. the sale of non core assets with the aim of lowering their exposure to the Bank
- Capitalization of days past due, if there are matured liabilities due to maturity, they are returned to unexpected liabilities during the implementation of the restructuring, or a new initial balance of claims is formed,
- Refinancing of receivables - in justified cases it is possible to refinance receivables from other creditors in order to improve the position of the Bank (collateral or financial approval of favorable repayment terms),
- partial write-offs - in the past period, the Bank members did not carry out partial write-offs in the course of restructuring,
- The conversion of debt into equity - has not been carried out in the past period

These measures can be implemented individually or by implementing a number of measures depending on each individual restructuring process.

4.1.5. Risk of concentration

The Bank manages the risk of concentration through a set limit system that includes exposure limits with the same or similar risk factors (according to sectors / activities, geographical areas, individual debtors or groups of related parties, credit protection instruments ...). Establishing appropriate exposure limits is the basis for risk concentration control in order to diversify the loan portfolio. Bank on an annual basis depending on market trends, appetite for risk, business policy Bank and the annual business plan, reviewed and, if necessary, changes internally set limits.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

Loans and receivables from banks and other financial organizations by branch and geographical concentration of exposures

In RSD thousand

	Non problematic receivables					Problematic receivables				
31.12.2019	Serbia	Montenegro	B&H	EU	Other	Serbia	Montenegro	B&H	EU	Other
Retail	98,520,997	-	-	-	-	2,229,165	-	-	-	-
Housing Loans	40,701,019	-	-	-	-	993,518	-	-	-	-
Cash Loans	34,825,982	-	-	-	-	250,163	-	-	-	-
Agricultural Loans	9,437,889	-	-	-	-	275,822	-	-	-	-
Other	4,838,289	-	-	-	-	159,663	-	-	-	-
Micro Businesses	8,717,818	-	-	-	-	549,999	-	-	-	-
Corporate Clients	68,444,773	2,782,938	7,281,524	-	-	13,613,499	-	-	-	-
Agriculture	4,109,650	-	-	-	-	60,217	-	-	-	-
Manufacturing Industry	10,095,988	-	-	-	-	2,958,078	-	-	-	-
Electric Energy	91,586	-	-	-	-	-	-	-	-	-
Construction	8,374,803	-	-	-	-	673,359	-	-	-	-
Wholesale and Retail	22,255,366	-	-	-	-	845,424	-	-	-	-
Service Activities	11,704,882	-	-	-	-	1,579,328	-	-	-	-
Real Estate Activities	4,150,620	-	-	-	-	1,031,805	-	-	-	-
Other	7,661,878	2,782,938	7,281,524	-	-	6,465,289	-	-	-	-
Total	166,965,770	2,782,938	7,281,524	-	-	15,842,664	-	-	-	-
Due from banks	5,734,421	8,720	86,932	5,465,156	13,442,662	-	-	-	-	214,417

Total credit exposure nonproblematic receivables are Montenegro and Bosnia and Herzegovina and are located in Stage 1.
Depending on general economic trends and developments in individual industrial sectors, the Bank members carried out the diversification of investments in industrial sectors that are resistant to the impact of negative economic developments.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

Loans and receivables from banks and other financial organizations by branch and geographical concentration of exposures

In RSD thousand

	Non problematic receivables					Problematic receivables				
31.12.2018	Serbia	Montenegro	B&H	EU	Other	Serbia	Montenegro	B&H	EU	Other
Retail	90,888,589	-	-	-	-	2,848,318	-	-	-	-
Housing Loans	38,051,990	-	-	-	-	1,521,937	-	-	-	-
Cash Loans	30,328,202	-	-	-	-	226,782	-	-	-	-
Agricultural Loans	8,449,046	-	-	-	-	263,341	-	-	-	-
Other	5,249,338	-	-	-	-	179,373	-	-	-	-
Micro Businesses	8,810,013	-	-	-	-	656,884	-	-	-	-
Corporate Clients	59,521,054	3,442,252	8,346,136	-	-	16,648,632	-	-	-	-
Agriculture	5,146,080	-	-	-	-	222,617	-	-	-	-
Manufacturing Industry	10,444,552	-	-	-	-	4,160,130	-	-	-	-
Electric Energy	72,008	-	-	-	-	27,298	-	-	-	-
Construction	6,188,277	-	-	-	-	1,592,833	-	-	-	-
Wholesale and Retail	21,801,978	-	-	-	-	1,875,109	-	-	-	-
Service Activities	5,785,984	-	-	-	-	1,494,901	-	-	-	-
Real Estate Activities	3.376.422	-	-	-	-	1,323,324	-	-	-	-
Other	6,705,753	3,442,252	8,346,136	-	-	5,952,421	-		-	-
Total	150,409,643	3,442,252	8,346,136	-	-	19,496,950	-		-	-
Due from banks	6,459,266	8,705	105,045	9,334,204	2,587,254	-	-		-	211.292

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.5. Risk of concentration (continued)

Loans and receivables to customers by geographical concentration of exposures in Serbia

In RSD thousand

	31.12.2019				31.12.2018			
	Vojvodina	Belgrade	Central Serbia	Total	Vojvodina	Belgrade	Central Serbia	Total
Total retail	21,993,459	43,544,444	35,212,259	100,750,162	21,009,431	39,629,904	33,097,571	93,736,906
Corporate clients	26,806,493	39,856,528	15,395,251	82,058,272	28,958,035	31,100,893	16,110,758	76,169,686
Total	48,799,952	83,400,972	50,607,510	182,808,434	49,967,466	70,730,797	49,208,329	169,906,592

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.6. Financial assets

In RSD thousand

	31.12.2019		31.12.2018	
	Gross	Net	Gross	Net
Financial assets:				
– at fair value through profit and loss	10,289,019	10,289,019	4,813,880	4,813,880
– at fair value through other comprehensive income	128,181,134	128,180,532	128,369,382	128,367,788
Total	138,470,153	138,469,551	133,183,262	133,181,668

Financial assets at fair value through profit and loss relate to investment units of the Kombank Monetary Fund, which are valued by mark to market, as well as securities of the Republic of Serbia, which are assessed according to the methodology of internally developed models (mark to model) , as well as swap transactions and bonds of the Republic of Serbia, which are held at fair value through the other comprehensive income, or on the basis of market prices for securities traded on the stock market (mark to market).

Financial assets at fair value through other comprehensive income are placements for which there is an intent to hold them in an unspecified period of time and which can be sold due to liquidity needs or due to changes in interest rates, foreign exchange rates or market prices. They consist, in large part, of treasury bills and bonds issued by the Republic of Serbia, the Republic of Srpska municipality bonds and bonds of other banks and countries.

Securities at fair value through other comprehensive income are initially estimated at cost, and their fair value is calculated on a monthly basis, based on market prices for securities traded on the stock market (mark to market), as well as applying internally developed models (mark to model) in the event that independent sources of market information are not available for a particular financial instrument, or when the available prices do not change regularly nether there are significant trading volumes. This model of valuation is based on the maturity date of the security and level of risk free interest rates.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral)

In the following reviews, the value of the collateral is presented at the fair value of the collateral, so that the collateral value is only shown up to the amount of gross placements (in cases where the value of the collateral exceeds the amount of the loan). When the collateral value is lower than the value of gross placement, the value of the collateral is expressed.

The value of collateral and guarantees received in order to mitigate the exposure to credit risk arising from the placement of clients is shown in the following review.

Loans and receivables from customers covered by collateral

In RSD thousand

	Stage 1					Stage 2				
31.12.2019	Real Estate	Deposits	Guarantees	Other Collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	37,671,653	12,071	-	2,276,421	39,960,145	537,227	-	-	25,479	562,706
Cash Loans	79,624	379,175	-	10,182,910	10,641,709	3,716	10,779	-	157,393	171,888
Agricultural Loans	3,938,071	13,765	5,272	3,964,160	7,921,268	47,139	845	-	63,582	111,566
Other	-	3,252	-	89,540	92,792	-	26	-	8,836	8,862
Micro Businesses	1,003,601	680,428	-	6,243,075	7,927,104	183,232	106,480	-	490,117	779,829
Total Retail	42,692,949	1,088,691	5,272	22,756,106	66,543,018	771,314	118,130	-	745,407	1,634,851
Large Corporate Clients	16,292,099	192,603	2,469,948	11,449,633	30,404,283	3,423,605	0	-	754,322	4,177,927
Middle Corporate Clients	2,536,852	493,534	29,424	4,677,942	7,737,752	16,152	0	-	162,433	178,585
Small Corporate Clients	949,624	145,321	-	2,475,364	3,570,309	31,488	12,859	-	51,294	95,641
State	838,223	-	4,871,883	16,137,378	21,847,484	-	-	-	413,490	413,490
Other	-	-	-	7,645,774	7,645,774	-	-	-	-	-
Corporate Clients	20,616,798	831,458	7,371,255	42,386,091	71,205,602	3,471,245	12,859	-	1,381,539	4,865,643
Total	63,309,747	1,920,149	7,376,527	65,142,197	137,748,620	4,242,559	130,989	-	2,126,946	6,500,494
Of which: restructured	-	-	-	-	-	234,926	5,242	-	760,332	1,000,500
Due from banks	-	-	-	-	-	-	-	-	-	-

* Other collateral relating to the pledge on the goods, the lien on the receivables, the pledge on equipment, warranty.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In RSD thousand

	Stage 3				
31.12.2019	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	955,804	-	-	29,022	984,826
Cash Loans	3,576	12,032	-	97,023	112,631
Agricultural Loans	200,440	-	-	54,740	255,180
Other	-	122	-	477	599
Micro Businesses	370,819	246	-	178,916	549,981
Total Retail	1,530,639	12,400	-	360,178	1,903,217
Large Corporate Clients	5,176,426	40	-	1,093,501	6,269,967
Middle Corporate Clients	1,540,779	-	-	211,115	1,751,894
Small Corporate Clients	932,356	-	-	216,886	1,149,242
State	7,306	-	334	-	7,640
Other	2,759,593	-	-	185,635	2,945,228
Corporate Clients	10,416,460	40	334	1,707,137	12,123,971
Total	11,947,099	12,440	334	2,067,314	14,027,188
Of which: restructured	6,394,982	-	-	945,958	7,340,940
Due from banks	-	-	-	-	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In RSD thousand

	Stage 1					Stage 2				
31.12.2018	Real Estate	Deposits	Guarantees	Other Collaterals	Total	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	34,299,759	12,509	-	2,901,626	37,213,894	634,773	-	-	18,374	653,147
Cash Loans	44,976	544,305	-	5,411,958	6,001,240	-	14,515	-	106,609	121,125
Agricultural Loans	3,128,582	126,409	14,064	3,271,857	6,540,912	52,141	-	-	23,974	76,115
Other	-	4,389	-	87,364	91,753	-	-	-	69	69
Micro Businesses	1,479,436	648,308	-	6,560,521	8,688,265	14,236	3,908	-	97,837	115,981
Total Retail	38,952,754	1,335,919	14,064	18,233,327	58,536,063	701,150	18,424	-	246,863	966,436
Large Corporate Clients	21,269,065	322,031	101,803	9,385,388	31,078,288	554,800	-	-	1,074,128	1,628,928
Middle Corporate Clients	2,168,776	280,297	-	4,384,084	6,833,158	120,526	-	21,718	69,347	211,590
Small Corporate Clients	1,098,757	190,487	-	2,221,647	3,510,891	66,590	54,796	-	9	121,395
State	614,943	1,182	1,580,848	7,731,818	9,928,791	-	-	-	131,567	131,567
Other	-	-	-	8,742,174	8,742,174	-	-	-	-	-
Corporate Clients	25,151,541	793,998	1,682,652	32,465,111	60,093,302	741,915	54,796	21,718	1,275,050	2,093,479
Total	64,104,295	2,129,917	1,696,716	50,698,438	118,629,365	1,443,065	73,220	21,718	1,521,913	3,059,916
Of which: restructured	-	-	-	-	-	286,060	-	-	15,532	301,592
Due from banks	-	-	-	-	-	-	-	-	-	-

* Other collateral relating to the pledge on the goods, the lien on the receivables, the pledge on equipment, warranty.

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

Loans and receivables from customers covered by collateral

In RSD thousand

	Stage 3				
31.12.2018	Real Estate	Deposits	Guarantees	Other Collaterals	Total
Housing Loans	1,438,831	-	-	72,628	1,511,459
Cash Loans	9,982	1,165	-	120,901	132,048
Agricultural Loans	172,246	-	192	65,552	237,991
Other	-	-	-	1,191	1,191
Micro Businesses	513,503	5,157	-	138,223	656,883
Total Retail	2,134,562	6,322	192	398,495	2,539,572
Large Corporate Clients	9,904,778	-	-	1,686,932	11,591,710
Middle Corporate Clients	1,548,980	-	-	267,116	1,816,096
Small Corporate Clients	1,098,275	-	-	113,097	1,211,372
State	7,306	-	297,254	27,298	331,859
Other	-	-	-	-	-
Corporate Clients	12,559,340	-	297,254	2,094,442	14,951,036
Total	14,693,902	6,322	297,447	2,492,938	17,490,608
Of which: restructured	11,513,479	-	-	1,575,372	13,088,851
Due from banks	-	-	-	-	-

4. RISK MANAGEMENT (continued)

4.1. Credit risk (continued)

4.1.7. Collateral against credit risk (collateral) (continued)

The ratio of the amount of loans and the estimated value of the real estate held as collateral is monitored according to the range of Loan To Value Ratio - LTV ratios.

Overview of loans covered by mortgages according to LTV range

In thousands of RSD

	December 31, 2019	December 31, 2018
Less than 50%	25,360,866	27,640,458
50% - 70%	20,106,604	18,738,367
71% - 100%	22,014,570	19,798,281
101% - 150%	6,032,339	8,671,141
More than 150%	7,166,289	10,272,865
Total exposure	80,680,668	85,121,112
Average LTV	64.10%	68.98%

4.1.8. Foreclosed assets

Foreclosed assets taken by the Bank in the process of collection of placements are presented in the following review:

In thousands of RSD

	Residental Premises	Business Premises	Equipment	Land and Forests	Securities	Total
31.12.2018	75,116	1,919,147	111,543	162,889	-	2,268,695
Acquisiton	-	67,690	7,686	-	1,940	77,316
Transfer to invesment proprety	-	(60,474)	-	-		(60,474)
Write-off	(5,510)					(5,510)
31.12.2019	69,606	1,926,363	119,229	162,889	1,940	2,280,027
Impairment Allowances	32,165	817,169	92,109	43,853	1,940	987,236
Net	37,442	1,109,194	27,120	119,036	-	1,292,791

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk

Liquidity risk is the possibility of adverse effects on the Bank's financial result and capital due to the Bank's inability to settle its obligations, and in the event of insufficient liquidity reserves and inability to cover unexpected outflows and other liabilities.

The Bank respects the basic principles of liquidity in its business, achieving sufficient level of funds to cover short-term liabilities, and it respects the solvency principle by forming an optimal structure of own and borrowed funds and establishing a sufficient level of liquidity reserves that do not jeopardize the realization of the planned return on capital.

The liquidity risk is manifested in the difference between the inflow of funds on one hand, and the maturity of liabilities on the other hand, including the possibility of delaying planned inflows as well as unexpected outflows. Liquidity risk can arise in the form of risk of sources of funds and market liquidity risk. The problem of liquidity from the aspect of sources of funds refers to the structure of liabilities and is expressed through the potentially significant share of unstable sources, short-term sources or their concentration. On the other hand, the risk of liquidity is manifested through the deficit of reserves and the difficult or impossible acquisition of liquid assets at acceptable market prices.

The Bank has established an appropriate organizational structure, which clearly delineates the process of taking liquidity risk out of the process of its management. The primary role in the liquidity risk management process is performed by the Assets and Liabilities Management Committee of the parent Bank within its competencies, as well as other relevant committees of the Bank members, whose decisions may influence the Bank's exposure to this risk.

In order to minimize liquidity risk, the Bank:

- diversifies sources of funds, by currency and maturity;
- form and maintain sufficient level of liquidity reserves;
- manages funds;
- monitor future cash flows and liquidity on a daily basis;
- limits the basic sources of credit risk that have the most significant impact on the liquidity risk;
- defines and periodically tests the Liquidity Management Plans in Crisis Situations.

Liquidity risk management process consists of identification, measurement, mitigation, monitoring, controlling and reporting on liquidity risk.

Identification of liquidity risk in a comprehensive and timely manner the causes that lead to the occurrence of liquidity risk and includes the determination of current liquidity risk exposure as well as liquidity risk exposure arising from new business products and activities.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk(continued)

Measurement, or liquidity risk assessment, is a quantitative and/or qualitative assessment of the identified liquidity risk, using the following methods:

- GAP analysis;
- Ratio analysis;
- Stress test.

Mitigation involves maintaining the liquidity risk at an acceptable level for the Bank's risk profile by defining a system of limits that includes regulatory and internal limits, as well as the timely undertaking of risk mitigation measures and operations within these limits.

Liquidity risk control and monitoring includes the process of monitoring compliance with internally determined limits, as well as monitoring the defined measures for mitigating the Bank's liquidity risk exposure, which includes control at all levels of liquidity risk management, as well as an independent control system implemented by organizational units responsible for internal audit and compliance control business.

Liquidity risk reporting includes the internal and external reporting system, is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Bank adjusts its operations with the liquidity indicator, as follows: 0.8 calculated for one business day; then a minimum of 0.9 for no more than three consecutive working days, i.e. a minimum of 1 as the average of all working days of the month 0.5 calculated for one working day; then a minimum of 0.6 not more than three consecutive working days, i.e. a minimum of 0.7 as the average of all working days of the month.

During 2019 the Bank has aligned its operations with a liquidity coverage ratio indicator in all currencies, which maintains at a level not lower than 100%.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Compliance with externally defined liquidity limits:

	Liquidity Ratio		Rigid Liquidity Ratio		Liquidity Coverage Ratio	
	2019	2018	2019	2018	2019	2018
As at December 31	4.08	3.86	3.83	3.56	410%	395%
Average for the period	4.22	4.38	3.95	4.10	432%	444%
Maximum for the period	4.75	4.92	4.43	4.68	495%	495%
Minimum for the period	3.55	3.19	3.38	2.94	391%	388%

During 2019, the liquidity indicator, the narrow liquidity indicator and the indicator of liquidity coverage ratio ranged above the defined limits, as well as within the framework of the defined risk tolerance.

The Bank defines the internal limits, based on the internal report on GAP's liquidity.

Compliance with internally defined liquidity limits on the last day:

	Limits	2019	2018
GAP up to 1 month / Total assets	Max (10%)	1.71%	1.57%
Cumulative GAP up to 3 months / Total assets	Max (20%)	1.83%	1.85%

In addition, the Bank limits and adjusts the operations with the limits of the structure of liabilities and the limits defined by the maturity aspect for significant currencies.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at December 31, 2019

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	67,558,219	-	-	-	-	67,558,219
Loans and receivables due from other banks and other financial institutions	23,827,458	256	15,500	890,744	-	24,733,958
Loans and receivables due from Customers	11,134,447	8,530,912	39,435,619	80,203,795	41,547,790	180,852,563
Financial assets (securities)	3,154,455	4,939,204	13,939,546	97,736,585	18,699,761	138,469,551
Other assets	1,397,572	543,680	1,628,444	-	1,481	3,571,177
Total	107,072,151	14,014,052	55,019,109	178,831,124	60,249,032	415,185,468
Deposits and other liabilities due to banks, other financial institutions and central bank	3,570,345	90,624	1,219,573	141,214	-	5,021,756
Deposits and other liabilities due to Customers	257,052,575	7,849,735	30,584,788	38,288,073	1,541,983	335,317,154
Other liabilities	1,099,397	272,537	11,087,392	587,848	45,034	13,092,208
Total	261,722,317	8,212,896	42,891,753	39,017,135	1,587,017	353,431,118
Net liquidity gap As of December 31, 2019	(154,650,166)	5,801,156	12,127,356	139,813,989	58,662,015	61,754,350
As of December 31, 2018	(140,270,556)	8,779,267	4,766,593	132,935,906	48,927,417	55,138,627

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The maturity structure of monetary assets and monetary liabilities as at December 31, 2018

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 -12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	63,595,710	-	-	-	-	63,595,710
Loans and receivables due from other banks and other financial institutions	15,216,102	2,227,838	1,190	1,032,599	-	18,477,729
Loans and receivables due from Customers	8,456,758	7,926,685	36,576,671	71,432,208	43,153,352	167,545,674
Financial assets (securities)	11,067,634	10,552,127	17,775,934	86,258,304	7,527,668	133,181,667
Other assets	1,823,922	563,471	1,399,901	-	-	3,787,294
Total	100,160,126	21,270,121	55,753,696	158,723,111	50,681,020	386,588,074
Deposits and other liabilities due to banks, other financial institutions and central bank	3,825,579	1,768,283	35,548	33,338	-	5,662,748
Deposits and other liabilities due to Customers	234,415,598	10,547,173	44,778,288	25,734,422	1,753,603	317,229,084
Other liabilities	2,189,505	175,398	6,173,267	19,445	-	8,557,615
Total	240,430,682	12,490,854	50,987,103	25,787,205	1,753,603	331,449,447
Net liquidity gap						
As of December 31, 2018	(140,270,556)	8,779,267	4,766,593	132,935,906	48,927,417	55,138,627
As of December 31, 2017	(123,441,719)	14,070,310	526,461	121,922,574	37,718,448	50,796,074

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

The report on the maturity structure of monetary assets and liabilities contains monetary balance positions arranged according to the remaining maturity, i.e. a conservative assumption is made that all transaction and a-vista deposits will be withdrawn within one month.

The Bank collects deposits of corporate and retail secotr, which usually have shorter maturities and can be withdrawn on demand. The short-term nature of these deposits increases the Bank's liquidity risk and requires the active management of this risk, as well as the constant monitoring of market trends.

The Bank manages short-term liquidity risk by monitoring and controlling positions in all significant currencies in order to timely consider the need for additional sources of financing in the event of maturity of the respective positions, i.e. in the long-term plans the structure of its sources and placements in order to provide sufficiently stable sources and sufficient liquidity reserves.

The management believes that the appropriate diversification of the portfolio of deposits by the number and type of depositors, as well as the previous experience, provide a good precondition for the existence of a stable and long-term deposit base, which is why no significant outflows are expected on this basis.

The Bank regularly reviews the Liquidity Management Plan in crisis situations and checks the survival and solvency period, the availability of sources for covering the liabilities that would possibly arise, or assess the support under the assumed conditions of the crisis.

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows of monetary assets and monetary liabilities as at December 31, 2019

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 - 12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	67,558,219	-	-	-	-	67,558,219
Loans and receivables due from other banks and other financial institutions	23,868,946	569	18,629	892,565	-	24,780,709
Loans and receivables due from customers	11,855,610	9,870,701	44,800,742	94,080,850	52,268,229	212,876,132
Financial assets (securities)	3,154,455	4,939,204	13,939,546	97,736,585	18,699,761	138,469,551
Other assets	1,397,572	543,680	1,628,444	-	1,481	3,571,177
Total	107,834,802	15,354,154	60,387,361	192,710,000	70,969,471	447,255,788
Deposits and other liabilities due to banks, other financial institutions and central bank	3,577,589	91,751	1,243,209	147,939	-	5,060,488
Deposits and other liabilities due to customers	257,188,893	7,942,741	30,964,958	39,664,572	1,866,523	337,627,687
Other liabilities	1,099,397	272,537	11,087,392	587,848	45,033	13,092,207
Total	261,865,879	8,307,029	43,295,559	40,400,359	1,911,556	355,780,382
Net liquidity gap						
As of December 31, 2019	(154,031,077)	7,047,125	17,091,802	152,309,641	69,057,915	91,475.406
As of December 31, 2018	(139,731,065)	10,020,297	9,442,567	146,707,702	61,688,473	88,127,973

4. RISK MANAGEMENT (continued)

4.2. Liquidity risk (continued)

Undiscounted cash flows of monetary assets and monetary liabilities as at December 31, 2018

In thousands of RSD

	Up to 1 month	From 1 - 3 months	From 3 - 12 months	From 1 - 5 years	Over 5 years	Total
Cash and cash funds held with the central bank	63,595,710	-	-	-	-	63,595,710
Loans and receivables due from other banks and other financial institutions	15,217,369	2,236,892	6,369	1,042,878	-	18,503,508
Loans and receivables due from customers	9,174,190	9,253,466	41,737,558	86,420,854	56,288,262	202,874,330
Financial assets (securities)	11,067,634	10,552,127	17,775,934	86,258,304	7,527,668	133,181,667
Other assets	1,823,922	563,471	1,399,901	-	-	3,787,293
Total	100,878,825	22,605,956	60,919,762	173,722,036	63,815,930	421,942,508
Deposits and other liabilities due to banks, other financial institutions and central bank	3,829,992	1,783,138	35,838	35,190	-	5,684,158
Deposits and other liabilities due to customers	234,590,393	10,627,123	45,268,089	26,959,699	2,127,457	319,572,761
Other liabilities	2,189,505	175,398	6,173,268	19,445	-	8,557,616
Total	240,609,890	12,585,659	51,477,195	27,014,334	2,127,457	333,814,535
Net liquidity gap						
As of December 31, 2018	(139,731,065)	10,020,297	9,442,567	146,707,702	61,688,473	88,127,973
As of December 31, 2017	(122,823,021)	15,211,425	5,093,059	135,183,557	49,982,773	82,647,793

Undiscounted cash flows arising from the positions of monetary assets and liabilities include future cash flows based on balance sheet positions and future interest rates.

4. RISK MANAGEMENT (continued)

4.3. Market risk

Market risk is the possibility of adverse effects on the Bank's financial result and equity due to changes in market variables and includes interest rate risk in the banking book, foreign exchange risk for all business activities it performs and price risk of trading book positions.

The Bank is exposed to price risk, foreign exchange risk, counterparty risk, and the risk of settlement delivery based on items listed in the trading book. The trading book contains balance sheet and off-balance sheet items of assets and liabilities based on financial instruments held for trading purposes or for the protection of positions in other financial instruments held in a trading book.

The Bank has established an appropriate organizational structure, which clearly delineates the process of taking over market risks from the process of its management. The primary role in the market risk management process is performed by the Assets and Liabilities Management Committee, the Investment Board as well as other relevant committees of the parent Bank, as well as the relevant committees of the Bank members whose decisions may influence the Bank's exposure to this risk.

4.3.1. Interest rate risk

Interest rate risk is the risk of adverse effects on the Bank's financial result and equity based on positions in the banking book due to adverse changes in interest rates. Exposure to this type of risk depends on the ratio of interest-sensitive assets and interest-sensitive liabilities.

The Bank manages the following types of interest rate risk:

- risk of time mismatch of repayment and repricing risk;
- yield curve risk - to whom it is exposed due to change in yield curve shape;
- base risk - to which it is exposed due to different reference interest rates in interest-sensitive positions with similar characteristics in terms of maturity or re-pricing;
- optionality risk - to whom it is exposed because of contracted options - loans with the possibility of early repayment, deposits with the possibility of early withdrawal, and others.

The main objective of interest rate risk management is to maintain an acceptable level of exposure to interest rate risk from the aspect of impact on the financial result, by maintaining an adequate policy of maturity adjustment of the period for re-forming the interest rate, matching the appropriate sources with placements according to the type of interest rate and maturity, as well as the projection of the movement of the yield curve on the foreign and domestic market. Primarily, the Bank manages the internal yield margin through the cost of loans and deposits, focusing on the interest margin.

The Bank particularly examines the impact of changes in interest rates and the structure of interest-bearing assets and liabilities from the aspect of maturity, re-forming interest rates and currency structure and managing their impact on the economic value of capital.

The Bank assesses the impact that standardized interest rate shocks (parallel positive and negative interest rates on the reference yield curve of 200 basis points) could have for each significant currency individually and for all other currencies together.

The process of managing interest rate risk is carried out through identification, measurement, mitigation, monitoring, control and reporting of interest rate risk.

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.1. Interest rate risk (continued)

Identification of interest rate risk involves a comprehensive and timely identification of the causes that lead to the creation of risks and involves determining current exposure as well as exposure to interest rate risk based on new business products and activities.

Measurement, or interest rate risk assessment, is a quantitative assessment of the identified interest rate risk using the following methods:

- GAP analysis;
- Ratio analysis;
- Duration;
- Economic value of capital;
- Stress test.

Interest rate risk mitigation involves maintaining the risk at an acceptable level for the Bank's risk profile and implies the process of defining the Bank's exposure limits, as well as defining and implementing measures to mitigate interest rate risk.

The control and monitoring of interest rate risk includes the process of monitoring compliance with the established system of limits, as well as monitoring the defined measures for reducing the Bank's interest rate risk. Interest rate risk control involves control at all levels of governance as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Interest rate risk reporting involves a clearly defined system of internal reporting to the competent committees and bodies of the Bank's members on interest rate risk management.

Internal limits are determined on the basis of the internal interest report GAP, which includes all balance sheet items.

The compliance with internally defined interest rate risk limits on the last day was as follows:

	Limits	2019	2018
Relative GAP	Max 15%	1.26%	2.01%
Coefficient of Disparity	0.75 – 1.25	1.02	1.02

During 2019, interest rate risk indicators moved within internally defined limits.

In addition, the Bank has defined the internal limits for exposure to interest rate risk by significant currencies and the limit of the maximum economic value of capital.

Compliance with internally defined limits of economic value of capital:

	2019	2018
On December 31st	3.74%	4.30%
Average for period	4.60%	4.77%
Maximum for period	5.56%	5.72%
Minimum for period	3.74%	4.00%
Limit	10%	20%

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.1. Interest rate risk (continued)

GAP report - interest rate risk of the monetary sub-balance on December 31, 2019

Exposure to interest rate risk can also be seen on the basis of the GAP Report on interest rate risk for monetary assets and liabilities:

In thousands of RSD

	Up to 1 Month	From 1 - 3 Months	From 3 -12 Months	From 1 - 5 Years	Over 5 Years	Interest-Bearing	Non-Interest Bearing	Total
Cash and Cash Funds held with the Central Bank	22,839,264	-	-	-	-	22,839,264	44,718,955	67,558,219
Loans and receivables due from banks and other financial institutions	23,594,947	-	15,500	67,595	-	23,678,042	1,055,916	24,733,958
Loans and receivables due from customers	46,079,592	22,595,240	54,075,083	55,114,328	2,584,885	180,449,128	403,435	180,852,563
Financial assets (securities)	2,641,823	4,939,204	13,939,546	97,736,585	18,699,761	137,956,919	512,632	138,469,551
Other assets	-	-	-	-			3,571,177	3,571,177
Total	95,155,626	27,534,444	68,030,129	152,918,508	21,284,646	364,923,353	50,262,115	415,185,468
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,690,041	90,624	1,219,568	21,214	-	5,021,447	309	5,021,756
Deposits and other liabilities due to customers	260,562,899	9,877,622	39,724,362	22,788,002	1,401,236	334,354,121	963,033	335,317,154
Other liabilities	39,743	-	-	-	-	39,743	13,052,465	13,092,208
Total	264,292,683	9,968,246	40,943,930	22,809,216	1,401,236	339,415,311	14,015,807	353,431,118
Interest rate GAP								
-At December 31, 2019	(169,137,057)	17,566,198	27,086,199	130,109,292	19,883,410	25,508,042	36,246,308	61,754,350
-At December 31, 2018	(143.449.929)	14.576.342	18.032.010	118.027.670	11.869.726	19.055.819	36.082.808	55.138.627

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.1. Interest rate risk (continued)

GAP report - interest rate risk of the monetary sub-balance on December 31, 2018

Exposure to interest rate risk can also be seen on the basis of the GAP Report on interest rate risk for monetary assets and liabilities:

In thousands of RSD

	Up to 1 Month	From 1 - 3 Months	From 3 -12 Months	From 1 - 5 Years	Over 5 Years	Interest-Bearing	Non-Interest Bearing	Total
Cash and Cash Funds held with the Central Bank	23,573,523	-	-	-	-	23,573,523	40,022,187	63,595,710
Loans and receivables due from banks and other financial institutions	15,108,994	2,227,838	1,190	200,130	-	17,538,152	939,577	18,477,729
Loans and receivables due from customers	46,406,690	14,941,447	43,932,737	56,082,686	5,877,718	167,241,278	304,396	167,545,674
Financial assets (securities)	11.065.869	10.552.011	17.313.062	86.255.911	7.527.551	132.714.404	467.263	133.181.667
Other assets	-	-	-	-	-	-	3.787.294	3.787.294
Total	96.155.076	27.721.296	61.246.989	142.538.727	13.405.269	341.067.357	45.520.717	386.588.074
Deposits and other liabilities due to banks, other financial institutions and the central bank	3,829,350	1,767,067	35,548	33,338	-	5,665,303	(2,555)	5,662,748
Deposits and other liabilities due to customers	235,775,655	11,377,887	43,179,431	24,477,719	1,535,543	316,346,235	882,849	317,229,084
Other liabilities	-	-	-	-	-	-	8,557,615	8,557,615
Total	239.605.005	13,144,954	43,214,979	24,511,057	1,535,543	322.011.538	9.437.909	331,449,447
Interest rate GAP								
-At December 31, 2018	(143.449.929)	14.576.342	18.032.010	118.027.670	11.869.726	19.055.819	36.082.808	55.138.627
-At December 31, 2017	(121,279,033)	14,046,387	7,000,395	108,437,184	10,012,306	18,217,238	32,578,836	50,796,074

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.1. Interest rate risk (continued)

The GAP report on the interest rate risk of the monetary sub-balance sheet contains monetary balance positions arranged according to the period of re-forming the interest rate or the remaining period to maturity, depending on which period is shorter. In accordance with the above, a conservative assumption was made that all transactions and avista deposits will be withdrawn within one month.

The management of the Bank members believes that the appropriate position matching by type of interest rate and re-establishment period provides a good precondition for existence with the required financial result while preserving the economic value of the capital.

Risk of interest rate changes

In addition to monitoring interest rate GAP, interest rate risk management involves monitoring the sensitivity of Bank's assets and liabilities to different interest rate scenarios, the Bank regularly implements stress-based interest rate risk testing, which assesses the impacts of the change of key factors on the interest rate risk of the Bank.

In modeling the scenario, in addition to changing interest rates, the impact of early withdrawal of deposits and early repayment of loans, assessed by the Bank on the basis of historical developments and expert assessments, is specifically considered, the Bank has carried out an estimate of the movement of transaction deposits, demand deposits and household savings by applying relevant statistical models from domain analysis of time series.

The standard scenario implies a parallel change (increase and decrease) of the interest rate of 100 basis points (b.p.). The analysis of the Bank's sensitivity, or the impact on the financial result of the increase and decrease in the interest rate, assuming symmetrical movements and a constant financial position, is given in the table:

In thousands of RSD

	Parallel increase of 100 b.p.	Parallel reduction of 100 b.p.
2019 At December 31,	423,942	(423,942)
2018 At December 31,	397,617	(397,617)

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.2. Foreign exchange risk

The process of managing foreign currency risk is carried out through identification, measurement, mitigation, monitoring, control and reporting on foreign exchange risk.

The Bank comprehensively identifies in a timely manner the causes that lead to the creation of foreign currency risk, which implies determining the current exposure to foreign exchange risk, as well as the exposure to foreign exchange risk based on new business products and activities.

Measurement, or foreign exchange risk assessment, is a quantitative assessment of the identified foreign currency risk, using the following techniques:

- GAP analysis and foreign exchange risk indicator;
- VaR;
- Stress test;
- Backtesting,

Foreign exchange risk mitigation involves maintaining the risk at an acceptable level for the Bank's risk profile by setting a transparent system of limits and defining measures to mitigate foreign exchange risk.

Foreign exchange risk control and monitoring includes monitoring and the compliance of positions with internally and externally defined limits, as well as monitoring of defined and undertaken measures. Continuous monitoring and control of foreign currency risk enables timely measures to be taken to maintain foreign exchange risk within defined limits. Foreign exchange risk control involves control at all levels of governance, as well as an independent control system implemented by organizational units responsible for internal audit and compliance monitoring.

Foreign exchange risk reporting includes the internal and external reporting system and is carried out on a daily basis and according to the established dynamics, and in accordance with the defined system.

The Bank coordinates its operations with the regulated foreign currency risk indicator, which represents the ratio of the open foreign exchange position and position in gold and regulatory capital.

Overview of the total risk foreign currency position and the regulated foreign currency risk indicator as at December 31:

	2019	2018
Total risk foreign exchange position	1,257,900	1,064,940
Foreign exchange risk indicator	1.98%	1.9%
Regulatory limit	20%	20%

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.2. Foreign exchange risk (continued)

Overview of monetary assets and monetary liabilities by currencies as at December 31, 2019

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	32,435,373	152,839	6,191,696	575,597	39,355,505	-	-	-	28,202,714	67,558,219
Loans and receivables due from banks and other financial institutions	6,314,769	2,897,452	858,499	2,453,557	12,524,277	-	-	-	12,209,681	24,733,958
Loans and receivables due from customers	13,222,029	-	-	-	13,222,029	117,831,474	-	60,074	49,738,986	180,852,563
Financial assets (securities)	61,081,935	10,372,443	1,799,460	-	73,253,838	173,617	-	-	65,042,096	138,469,551
Other assets	412,158	165,375	787	1,585	579,905	-	-	-	2,991,272	3,571,177
Total	113,466,264	13,588,109	8,850,442	3,030,739	138,935,554	118,005,091	-	60,074	158,184,749	415,185,468
Deposits and other liabilities due to banks, other financial institutions and the central bank	1,471,665	274,197	105,512	26,043	1,877,417	30,331	-	-	3,114,008	5,021,756
Deposits and other liabilities due to customers	226,094,811	12,792,858	8,701,959	2,892,981	250,482,609	187,138	-	-	84,647,407	335,317,154
Other liabilities	1,787,432	87,964	99,406	32,018	2,006,820	882,332	-	-	10,203,056	13,092,208
Total	229,353,908	13,155,019	8,906,877	2,951,042	254,366,846	1,099,801	-	-	97,964,471	353,431,118
Net Currency Position, December 31, 2019	(115,887,644)	433,090	(56,435)	79,697	(115,431,292)	116,905,290	-	60,074	60,220,278	61,754,350

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.2. Foreign exchange risk (continued)

Overview of monetary assets and monetary liabilities by currencies as at December 31, 2018

In thousands of RSD

	EUR	USD	CHF	Other Currencies	FX Total	Currency Clause EUR	Currency Clause USD	Currency Clause CHF	RSD Items	Total
Cash and cash funds held with the central bank	32,651,089	114,133	620,428	481,553	33,867,203	-	-	-	29,728,507	63,595,710
Loans and receivables due from banks and other financial institutions	7,361,578	2,063,711	3,065,118	2,197,712	14,688,119	-	-	-	3,789,610	18,477,729
Loans and receivables due from customers	15,297,168	-	-	-	15,297,168	101,017,998	-	3,651,403	47,579,105	167,545,674
Financial assets (securities)	66,540,863	11,114,968	1,702,199	-	79,358,030	249,591	-	-	53,574,046	133,181,667
Other assets	1,148,340	95,892	63,825	1,295	1,309,352	-	-	-	2,477,942	3,787,294
Total	122,999,038	13,388,704	5,451,570	2,680,560	144,519,872	101,267,589	-	3,651,403	137,149,210	386,588,074
Deposits and other liabilities due to banks, other financial institutions and the central bank	2,337,798	828,756	364,639	29,583	3,560,776	19,073	-	-	2,082,899	5,662,748
Deposits and other liabilities due to customers	218,260,607	11,894,683	8,620,407	2,590,604	241,366,301	468,239	19,705	-	75,374,839	317,229,084
Other liabilities	742,789	121,323	108,507	30,146	1,002,765	-	-	-	7,554,850	8,557,615
Total	221,341,194	12,844,762	9,093,553	2,650,333	245,929,842	487,312	19,705	-	85,012,588	331,449,447
Net Currency Position, December 31, 2018	(98,342,156)	543,942	(3,641,983)	30,227	(101,409,970)	100,780,277	(19,705)	3,651,403	52,136,622	55,138,627

4. RISK MANAGEMENT (continued)

4.3. Market risk (continued)

4.3.2. Foreign exchange risk (continued)

A review of the ten-day VaR

The Bank also performs stress testing of foreign exchange risk, which assesses the potential impact of specific events and/or changes in more financial variables on the financial result, equity and foreign exchange risk indicator.

VaR denotes the largest possible loss in the Bank's portfolio for a certain period and at a predetermined confidence interval. The Bank calculates one-day and ten-day VaR, with a confidence interval of 99%, on foreign currency positions (foreign currency VaR). The Bank calculates VaR using the autoregressive-heteroscedic model GARCH, for which it did not request the approval of the National Bank of Serbia, in order to assess regulatory capital requirements for foreign exchange risk.

Foreign currency VaR is accounted for in foreign currency positions, as well as in positions of indexed currency clauses contained in the banking book and trading book.

A review of the ten-day VaR with a confidence interval of 99% for 2019 and 2018 is shown as follows:

In thousands of RSD

	As at December 31,	Average	Maximum	Minimal
2019				
Foreign currency risk	7,247	7,674	27,366	365
2018				
Foreign currency risk	18,360	14,039	36,751	554

4. RISK MANAGEMENT (continued)

4.4. Operational risk

Operational risk represents the possibility of negative effects on the Bank's financial result and equity due to employee errors (intentional or accidental), inadequate procedures and processes in the Bank, inadequate management of information and other systems in the Bank, as well as occurrence of unforeseen external events. Operational risk includes legal risk.

Operational risk is defined as an event that occurred as the result of inappropriate or unsuccessful internal processes, employee and system actions or system and other external events, internal and external abuses, hiring and security practices at the workplace, customer receivables, product distribution, fines and penalties for infractions, damage incurred to property, disruptions in operations and system errors and process management.

The Bank monitors operational risk events according to the following business lines: corporate financing, trade and sales, retail brokerage services, corporate banking, retail banking, payment transfers, agency services and asset management.

The process of operational risk management represents an integral part of the Bank's activities conducted on all levels and ensures identification, measuring, relieving, monitoring and reporting continually on operational risks ahead of their realization, as in accordance with the legal requirements and deadlines. The existing process relies on known methods of measuring operational risk exposures, database on operating losses, an updated control and reporting system.

The Bank monitors operational risk events daily and manages operating risks. For the purpose of efficient operational risk monitoring, the Bank appoints employees who are in charge of operational risk with the objective of monitoring operational risk in its every organizational part, where such employees are responsible for accuracy and timeliness of information about all operational risk events that occur in their organizational unit, as well as for keeping records about all such events in the operational risk database. The organizational part of the Bank which is responsible for risk management monitors and reports operational risks to the Bank's Board of Directors, the Bank's Executive Board and the Audit Committee.

Measurement and assessment of operational risk at the Bank is done through quantitative and/or qualitative assessment of identified operational risk. The Bank measures operational risk exposure through event records, self-assessment and stress testing.

Self-assessment consists of assessment of risk exposure by organizational units based on the roadmap for identifying operating risks, through measurement of potential ranges and frequencies of events that can result in losses, identification of levels of control that business areas must maintain over these risks and measures of improvement.

The Bank cannot eliminate all operational risks, but by introducing a rigorous framework of control, monitoring and response to potential risks it is capable of managing these risks. The Bank takes measures in order to relieve operational risks and ensure proactive response to events potentially creating operational risks through continued monitoring of all activities, application of adequate and reliable information system and by applying project approach orientation, the implementation of which helps improve the business practice and optimize the Bank's business processes.

4. RISK MANAGEMENT (continued)

4.4. Operational risk (continued)

Through reliable reporting on the implementation of measures undertaken to mitigate operational risks, the Bank has established a system for monitoring the activities undertaken by the Bank’s organizational parts in order to reduce arising operational risks. The Bank assess the risk of entrusting third parties with activities related to the Bank’s operations and based on the service contracts executed with such third parties which clearly define terms, rights, obligations and responsibilities of the contracting parties.

With the objective of smooth and continued operation of all significant systems and processes in the Bank, and to limit losses that could be incurred in extraordinary circumstances, the Bank adopted the Business Continuity Plan, in order to ensure the restoration and recovery of the information technology systems in the event of interruption or stoppage of operations, the Bank adopted the Disaster Recovery Plan.

4.5. Risks of investment

The risk of the Bank's investment represents the risk of investments in other legal entities and in fixed assets and investment property. The Bank's investment in a person who is not a person in the financial sector may be up to 10% of the Bank's capital, whereby this investment implies an investment by which members of the Bank acquire a holding or shares of a person other than a person in the financial sector. The Bank's total investments in non-entities in the financial sector and in fixed assets and investment property of the Bank may be up to 60% of the Bank's capital, except that this restriction does not apply to the acquisition of shares for their further sale within six months of the date of acquisition.

4.6. Exposure risk

The Bank's large exposure to a single entity or a group of related parties, including entities related to the Bank, is an exposure that exceeds 10% of the Bank's capital.

In its business, the Bank takes care of compliance with the regulatory defined exposure limits:

- Exposure to a single client or a group of related parties must not exceed 25% of the Bank's equity;
- The sum of all large Group exposures must not exceed 400% of the Bank's equity.

Defined limits of exposure to one client or a group of related parties also applies to clients related to the Bank.

The Bank's exposure to one entity or group of related parties, as well as the exposure to clients related to the Bank, was within the prescribed limits.

4. RISK MANAGEMENT (continued)

4.7. Country risk

The risk of the country is a risk that relates to the country of origin of the entity to which the Bank is exposed, or the risk of the possibility of adverse effects on the Bank's financial result and capital due to the inability of the Bank members to collect receivables from the debtor for reasons arising from political, economic or social country of origin of the debtor. The country's risk includes the following risks:

- Political and economic risk, which implies the likelihood of a loss due to the inability of members of the Bank to collect receivables due to restrictions established by the acts of the state and other authorities of the country of origin of the debtor, as well as the general and systemic circumstances in that country;
- Transfer risk, which implies the likelihood of a loss due to the inability to collect receivables denominated in a currency other than the official currency of the country of origin of the debtor, due to the limitation of the payment of obligations towards creditors from other countries in a particular currency as determined by the acts of the state and other authorities of the debtor country.

The Bank manages the country's risk at the level of individual placements and portfolio level. Measuring and controlling the exposure of an individual country's risk exposure to a country's risk is determined by the category of internal rating of the debtor country, based on the rating assigned by internationally recognized rating agencies and determining the exposure limit as a percentage of the Bank's capital, depending on the country's internal rating category.
The measurement and control of a portfolio's exposure to country risk the Bank performs based on the Banking of claims according to the degree of risk of the borrower countries.

In order to adequately manage the country's risk, the Bank defines the exposure limits individually by country of origin of the debtor.

Placements of the Bank that are approved by debtors originated outside of The Republic of Serbia, for the financing of business established in the Republic of Serbia, where repayment of financial liabilities towards the Bank is expected to be covered from the resources arising from the business established in the Republic of Serbia, represent Bank's receivables with no country risk exposure towards the country of origin of the debtor.

4. RISK MANAGEMENT (continued)

4.8. Fair value of financial assets and liabilities

4.8.1. Overview of the carrying amount and fair value of financial assets and liabilities not measured at fair value

In thousands of RSD

	31.12.2019		31.12.2018	
	Carrying value	Fair value	Carrying value	Fair value
Financial Assets				
Loans and receivables due from customers	180,852,563	179,731,191	167,545,674	163,189,685
Financial Liabilities				
Deposits and other liabilities due to customers	335,317,154	335,262,611	317,229,084	317,294,651

Calculating the fair value of loans and loans to clients is estimated using the model of discounting cash flows, for loans and placements with fixed interest rates. Discount rates are based on current interest rates, which are offered for instruments under similar conditions to clients, approximately the same credit quality. Also, liabilities to customers with maturities fixed at a fixed interest rate are discounted taking into account the applicable terms and conditions in accordance with the type of deposit, term of deposit and currency.

For loans that are no longer approved, nor is it possible to approve (loans indexed to CHF), discounting was made at the same interest rates. During 2019, in compliance with the Law of conversion of home loans to loans indexed to CHF, the Bank converted most of it's home loans to home loans indexed to EUR. Also, for loans subsidized by the state, with a fixed interest rate, discounting was made at the same rate, as members of the Bank would not approve loans at low interest rates if there was no subsidization of part of the interest by the state. All loans and liabilities with a variable interest rate are in accordance with the applicable market conditions and Business Policy of the members of the Bank.

4. RISK MANAGEMENT (continued)

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

4.8.2. Financial instruments measured at fair value

In thousands of RSD

	31.12.2019				31.12.2018			
Finacial assets	Level 1	Level 2	Level 3	Total fair value	Level 1	Level 2	Level 3	Total fair value
Financial assets at fair value through profit and loss (in RSD)	512,632	4,877,762		1,657,268	459,586	1,197,681	-	1,657,268
Financial assets at fair value through profit and loss (in foreign currency)	174,460	4,724,165		3,156,612	318,499	2,838,113	-	3,156,612
Financial assets at fair value through other comprehensive income (in RSD)		59,651,701		51,916,780	-	51,916,780	-	51,916,780
Financial assets at fair value through other comprehensive income (in foreign currency)	11,997,444	56,357,770	173,617	76,451,007	12,476,019	63,725,398	249,590	76,451,007
Total	12,684,536	125,611,398	173,617	133,181,667	13,254,104	119,677,972	249,590	133,181,667

Level 1 comprises financial instruments with whom it can be traded on the stock exchange, while level 2 contains securities whose fair value is estimated based on internally developed models based on information from the auctions on the secondary securities market.

The fair value of assets for which no direct trading information is available is assigned to level 3 (municipal bonds).

4. RISK MANAGEMENT (continued)

4.9. Capital Management

The Bank has established a risk management system in accordance with the scope and structure of its business activities, and the goal of capital management is the smooth realization of the Bank's business policy objectives.

The calculation of capital and capital adequacy ratios has been in accordance with Basel III standard as of June 30, 2017.

The main objectives of capital management are:

- maintaining of the minimum regulatory requirement (EUR 10 million);
- maintenance of individual capital buffers;
- respect of the minimum regulatory capital adequacy ratios increased for the combined capital buffer;
- maintaining confidence in security and business stability;
- realization of business and financial plans;
- supporting the expected growth in placements;
- enabling the optimism of future sources of funds and their use;
- achieving dividend policy.

The Bank’s regulatory capital represents the sum of Tier 1 capital (composed of the Common Equity Tier 1 capital and the additional Tier 1 capital) and Tier 2 capital, reduced for the deductible items. Capital adequacy ratio represent the ratio of capital (total, Tier 1 or Common Equity Tier 1) of the Bank and the sum of: risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries, settlement/delivery risk except on the basis of free delivery), market risks (including foreign exchange and position risk), operational risk and other risks from Pillar I. Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries are determined in accordance with the prescribed risk weight for all exposure classes. Risk exposure amount for operational risks calculated by multiplying the reciprocal value of the prescribed capital adequacy and capital requirements for operational risk, determined as the three-year average of the product of the exposure indicator in all lines of business and the prescribed capital requirements for each business line.

4. RISK MANAGEMENT (continued)

4.9. Capital Management (continued)

Capital adequacy ratios

	In thousands of RSD	
	31.12.2019	31.12.2018
Tier 1 capital	65,426,275	58,512,822
Common Equity Tier 1 capital	65,052,765	58,139,312
Additional Tier 1 capital	373,510	373,510
Deductible items of capital	(1,779,291)	(1,473,139)
Capital	63,646,984	57,039,683
Risk weighted exposure amounts for credit, counterparty and dilution risks and free deliveries	169,432,937	161,828,271
Risk exposure amount for operational risk	32,768,254	31,379,213
Risk exposure amount for market risks	4,238,173	2,281,232
Capital adequacy ratio (min. 14.27%)	30.83%	29.18%
Tier 1 capital adequacy ratio (min. 12.27%)	30.83%	29.18%
Common Equity Tier 1 capital adequacy ratio (min. 10.77%)	30.65%	28.99%

During 2019, all prescribed capital adequacy ratios were above regulatory limits (8% + combined capital buffer, 6% + combined capital buffer and 4.5% + combined capital buffer for indicators of adequacy of total, Tier 1 and Common Equity Tier 1 capital respectively).

By the Capital Management Strategy and Plan, the Bank ensures the maintenance of the level and structure of internal capital that provides adequate support for the growth of placements, future sources of funds and their use, the implementation of dividend policy, and adjustment to changes in regulatory requirements.

During 2019, the Bank calculated the leverage ratio in accordance with the regulatory requirement, which represents the ratio of the Tier 1 capital and the amount of exposures that are included in the calculation of the ratio.

The Capital Management Plan, as part of the capital management system, includes:

- Strategic goals and the period for their realization;
- A description of the process of managing the available internal capital, planning its adequate level and responsibility for this process;
- Procedures for planning an adequate level of available internal capital;
- The way to reach and maintain an adequate level of available internal capital;
- Restrictions on available internal capital;
- Demonstrating and explaining the effects of stress testing on internal capital requirements;
- Allocation of capital;
- Business plan in case of occurrence of unforeseen events.

4. RISK MANAGEMENT (continued)

4.9. Capital Management (continued)

On a continuous basis, the Bank conducts the process of internal capital adequacy assessment in accordance with the nature, scope and complexity of its business activities, in accordance with the Risk Management Strategy, Individual Risk Management Policies and the Capital Management Strategy.

The process of internal capital adequacy assessment, as a documented and continuous process, meets the following requirements:

- is based on identification and risk measurement;
- provides a comprehensive assessment and monitoring of the risks to which the Bank is exposed or may be exposed;
- Provides adequate available internal capital in accordance with the risk profile of the Bank;
- is involved in the Bank's management system and decision making;
- Subject to regular analysis, monitoring and verification.

The stages of the internal capital adequacy assessment process in the Bank include:

- Determination of materially significant risks, in accordance with qualitative and quantitative criteria;
- Calculation of the amount of internal capital requirements;
- Calculation of stressed internal capital requirement for individual risks;
- Determining the total internal capital requirement;
- Comparison of the following elements:

    a. capital and available internal capital;
    b. minimum capital requirements and internal capital requirements for individual risks;
    c. the sum of minimum capital requirements and total internal capital requirements.

5. USE OF ASSESSMENT

The management uses assumptions and estimates that have an effect on the presented values of assets and liabilities during the reporting period. Estimates, as well as assumptions on the basis of which estimates have been made, are the result of regular checks. These estimates and assumptions are based on previous experience, as well as different information available on the day of drawing up financial statements, which act in a realistic and reasonable manner in the circumstances.

Key sources of estimation uncertainty

Provisions for credit losses

Assets that are valued at amortised cost are assessed for impairment in the manner described in accounting policy 3 (j).

The impairment of placements aims ensure a reasonable, careful and timely determination of losses in order to protect the Bank's capital in the period when the loss is and is definitely confirmed (realized) due to the inability to collect the agreed amounts or the outflow of funds to settle the contingent liabilities.

Impairment of placements and provisions are only made when there is a reasonable basis, i.e. when there is objective evidence of impairment as a result of events that occurred after the initial recognition of the loan, and which adversely affect the future cash flows from the loan.

The main elements in assessing the impairment of placements are the following: exceeding the principal or interest payment period, the difficulties in the cash flows of the borrower (financial difficulties), the decline in the credit rating or the change in the original terms from the contract, and others.

Impairment of placements is based on an estimate of expected future cash flows from client's operations or the realization of collateral, if it is estimated that the loan will be settled from these assets.

The Bank assesses the impairment of receivables on a group and on a individual basis.

Individual assessment

The Bank assesses the impairment allowance for each individually significant placement with the default status (risky placement, sub-category risk 4D, 4DD and 5 according to the internal rating system) , i.e. placements that are classified at stage 3 in accordance with IFRS 9. On this occasion, account is taken of the financial position of the loan beneficiary, the sustainability of the business plan, its ability to improve its performance in case of financial difficulties, projected revenues, the availability of other types of financial support and the value of collateral that can be realized, as well as the expected cash flows. If new information that according to the assessment significantly changes the client's creditworthiness, the value of collateral and the certainty of fulfillment of client's obligations towards the Bank, a new assessment of the impairment of placements is made.

The materiality threshold is determined by the Bank on the basis of an analysis of the value structure of the portfolio by types of customers and products.

An impairment allowance on an individual basis is accounted for if there is objective evidence of impairment resulting from one or more events occurring after the initial recognition of a financial asset and if there is a measurable decrease in future cash flows.

5. USE OF ASSESSMENT (continued)

Individual assessment (continued)

Objective evidence that indicates the need for impairment of placements is considered to be:

- when the financial condition of the debtor points to significant problems in his business;
- when there are data on default, frequent delay in repayment or non-fulfillment of other contractual provisions;
- when the members of the Bank, due to the financial difficulties of the borrower, substantially change the terms of repayment of claims in relation to those initially contracted;
- the debtor cannot settle his obligations in full without the realization of the collateral
- continuous blocking of the current account over 60 days;
- when there are significant financial difficulties in the client's business (bankruptcy, liquidation, bankruptcy or some other type of financial reorganization of debtors) and the like.

Evidence can be documented by the analysis of the Watch process, information on the increased level of debtors' risk, reports from meetings held with the debtor, reports on the monitoring of clients collateral, reports of enforced collection and days of blockade, reports on loans in arrears and other information which the Bank has.

In addition, the documentation required as evidence for the impairment of placements is also evidence of an estimate of the expected inflows on the placement, which primarily relate to the documentation of the planned future cash flows of the borrower.
When there is objective evidence, the impairment amount is calculated as the difference between the gross carrying amount of the assets and the present value of the estimated future cash flows, whereby the Bank recognizes the existence of multiple collection scenarios when estimating the expected future cash flows. On that occasion, a scenario that can be considered are scenarios from operations (restructuring/ agreements, etc.), the scenario of the realization of collateral (non-judicial / court / bankruptcy, etc.) and the sale of receivables. The probability of a particular scenario is assessed by the Bank on the basis of historical realization and collection of problematic cases, the specifics of the individual client, and the forecasting of future possible outcomes, whereby the sum of all scenarios is 100%.

Group assessment

Impairment is assessed on a group level for all placements where no objective evidence of impairment has been identified and which are not individually significant in default status and for placements for which impairment allowance calculated on individual assessment has not been determined, as well as receivables based on commissions and other receivables that are not reduced to the present value.

Bank estimates are carried out by groups according to similar credit risk characteristics that are formed based on the internally prescribed methodology (by types of clients in the economy sector and by rating groups by type of placements in the household sector), based on the internal rating system at the monthly level. The impairment methodology has significantly changed and instead of the approach to the incrred credit loss in accordance with IAS 39, the principle of expected loss is applied in accordance with IFRS 9 through the inclusion of the impact of the expected movement of macroeconomic variables on the future trend of loss probability on the basis of statistically proven interdependencies.

5. USE OF ASSESSMENT (continued)

Group assessment (continued)

Group-based impairment is based on the expected credit loss in accordance with the probability of default in the next 12 months (stage 1 receivables), except in cases where there is a significant increase in credit risk in relation to the moment of initial recognition, when the credit loss assessment is carried out on the probability of default for the instrument's life span (stage 2 receivables).

By appreciating the specifics of the clients, migrations for corporate clients, micro businesses, retail clients by product types, financial institutions and exposure to countries are determined separately.

The impairment allowance reduces the gross amount of the placements and is recognized as an expense in the income statement.

Determining the probable loss on off-balance sheet items

Determining the probable loss on off-balance sheet items (contingent liabilities) is carried out when it is estimated that there is enough certain expectation that an outflow of funds will be made to settle the contingent liability. The Bank also determines the probable loss for unused commitments, for which there is not unconditionall and without prior notice, possibile cancelation the contracted obligation. When calculating provisions based on unused commitments, the Bank uses a conversion factor (CCF) that adjusts the carrying amount of unused commitments.

Determination of fair value

The fair value of financial instruments is the amount by which assets can be exchanged or liabilities settled between the well informed, willing parties in a transaction under market conditions.

The Bank performs valuation of financial instruments by:

- Fair value through profit and loss
- fair value through other comprehensive income, with the recognition of "recycling" or without recognition in the income statement.

Financial assets and liabilities classified at fair value through the profit and loss account are subsequently measured at the fair value without including the cost of sales or other expenses when the recognition is terminated. Gains / losses arising from the change in the fair value of these financial instruments, their dividend income, and exchange rate differences are recognized in the income statement. There is no test of the potential impairment of these financial instruments.

5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

After initial recognition, equity instruments are subsequently measured depending on whether they have a quoted market price. Instruments of capital which have a quoted market price are measured at market value, and investments in equity instruments that do not have a quoted market price in an active market are measured using valuation techniques, combining more available approaches and techniques for measuring fair values.

Investments in equity instruments that are not held for trading and which are measured at fair value through other comprehensive income are subsequently measured at fair value excluding the cost of sales or other expenses in case of derecognition.
With the exception of received dividends recognized in the income statement, all other related gains and losses, including a component of foreign exchange differences, are recognized in the other comprehensive income, through equity.

The amounts shown in the other comprehensive income can not be subsequently transferred to the income statement, although cumulative gains or losses can be transferred within equity, to undistributed profits.

Investments in debt instruments that are valued at fair value through other comprehensive income are valued in the following way after initial recognition:

a. gains / losses from impairment, which are derived from the same methodology, which is also applied to financial assets measured at amortized cost, are recognized in the income statement;
b. gains / losses on exchange differences are recognized in the income statement;
c. interest income, calculated using the effective interest method, is recognized in the income statement;
d. gains / losses from changes in fair value are recognized through other comprehensive income;
e. in case of modification made, the gain / loss from modification is recognized in the income statement and
f. in case of derecognition, the cumulative gain / loss previously recognized through the other comprehensive income is reclassified from equity to the income statement, as adjustment due to reclassification.

5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

Financial derivatives are subsequently translated at market value. Market values of financial derivatives are obtained on the basis of various valuation techniques, including the discounting of cash flows. The change in the value of financial derivatives is accounted for in the balance sheet and income statement.

Changes in the fair value of financial liabilities for liabilities that are measured at fair value are made in the case of:

- a change in fair value that is a consequence of a change in its own credit risk of an obligation is reflected in the other comprehensice income, and
- the remaining amount of the change in the fair value of the liability is recorded in the income statement.

Financial liabilities held for trading and derivatives, after initial recognition and impairment, are valued at fair value.

The change in the fair value of a financial liability held for trading is included in income statement of the period in which it was incurred.

If the Bank settles its obligations towards creditors and employees in cash, which is determined in relation to the price of the shares or has the option to determine between these two methods of settling the obligation, the valuation of such transactions is carried out in accordance with the relevant IFRS.

The concept of fair value

When measuring fair values, the Bank identifies methods/techniques that need to maximize the use of observable observable inputs and to minimize the use of unobservable inputs.

There are 3 approaches for measuring fair values:

- market approach
- income approach
- cost approach

The Bank determines the fair value of financial instruments at the balance sheet date. Whenever possible, the Bank performs measurement of fair value using the market prices available in the active market for the given instrument. The market is considered active if quoted prices are easily and regularly available and represent real and regular market transactions at market conditions.

5. USE OF ASSESSMENT (continued)

Determination of fair value (continued)

In the event that the market for financial instruments is not active, fair value is determined using estimation methodology. Estimation methodologies include transactions at market terms between the well informed, willing parties (if available), reference to the existing fair value of other instruments that are essentially the same, discounted cash flow analyzes, and other alternative methods. The selected estimation methodology maximizes the use of market data, is based on the least possible extent on the Bank-specific estimates, includes all factors that market participants consider as determining for the price, in accordance with the accepted economic methodologies for determining the price of financial instruments. Input data for estimation methods reasonably reflect market expectations and risk-bearing factors that are contained in a financial instrument. The assessment methods are adjusted and tested for their correctness by using the prices from perceptible existing transactions on the market for the same instruments, based on other available observable market data.

The best evidence of the fair value of a financial instrument in the initial recognition is the price achieved in the transaction, i.e. the fair value of the consideration given or received, unless the fair value of the instrument is proven by comparison with other remarkable existing transactions on the market for the same instruments (without modification or re-formulation) or is based on an estimation method whose variables include only data that is visible on the market. When the price achieved in a transaction gives the best evidence of fair value at initial recognition, financial instruments are initially measured at the cost of the transaction and all the differences between that price and the value initially established by the valuation method are subsequently recorded in the income statement, depending on the individual facts and circumstances transactions, but not later than the moment when the assessment is supported by perceptible market data or when the transaction is completed.

Any difference between the fair value at initial recognition and the amount that may depend on the non-observable parameters are recognized in the income statement without delay but are recognized over the life of the instrument in an appropriate manner or when they are purchased, transferred or sold, or when the fair value becomes noticeable. The assets and long positions are measured at the offered price, and the obligations and short positions are measured at the required price. The fair value reflects the credit risk of the instrument and includes adjustments that reflect the credit risk of the Bank and other counterparties, where relevant. Estimates of fair values based on assessment models are corrected for all other factors, such as liquidity risk or uncertainty models, to the extent that the Bank considers that third parties can take them into account when determining the transaction price.

Determination of the fair value of financial instruments and recognition of the effects of the assessment is carried out on the basis of the provisions of the Methodology for determining the fair value of financial instruments , based on Politics and Strategy risk management .

6. SEGMENT REPORTING

The Bank has three operating segments – profit centers, which are the Bank's strategic divisions and their business is object of segment reporting.

The following summary describes the operations in each of the Bank's reporting segments:

Corporate Banking	Includes loans, deposits and other transactions and balances with corporate customers but not with banks
Retail Banking	Includes loans, deposits and other transactions and balances with retail customers, micro businesses, entrepreneurs and agriculture clients
Investment banking and interbank operations	Include securities and other financial instruments, as well as transactions with banks

In 2019, the net gain from indirect write-offs amounting to RSD 2,425,931 thousand, had a significant impact on the result (of which the collected written off receivables amounted to RSD 1,086,560 thousand).

Also, the profit of the year has been impacted by the derecognition loss of the financial assets measured at amortized cost in the amount of RSD 579,933 thousand, due to the implementation of the Law of conversion of mortgage loans indexed in Swiss francs.

When producing segment reports, operational operating costs are divided into direct operating costs (directly under the control of business segments or directly linked to segment business) and indirect operating costs (the amount of these costs is not directly controlled by the segments or there is no direct link to the business of the segments).

Each business segment is granted with direct operating costs relating to this segment as well as with part of indirect operating expenses (distribution of these costs to segments is performed using the corresponding keys that are used for the allocation of costs of cost centers to profit centers).

Direct operating expenses at Bank level amounted to RSD 7,759,261 thousand and make up 70% of total operating costs. Direct operating costs are mostly comprised of expenses that are directly attributable to the business segments (salaries, rental costs, depreciation costs, marketing and other costs), and a minor part are comprised of expenses that are allocated to the segments based on management decisions.

The amount which refers to the segment of retail banking was RSD 5,818,576 thousand of direct costs (75% of total direct costs) as a result of large business network and number of employees in the retail sector.

In accordance with the aforementioned, in 2019, the Bank realized pre-tax profit in the amount of RSD 8,268,685 thousand.

6. SEGMENT REPORTING (continued)

Operating segments report for 2019 is provided below:

In RSD thousand

Revenues and expenses	Retail Banking	Corporate Banking	Investment and Interbank operations	Other	Total
Interest income	6,980,294	2,189,786	4,460,594	-	13,630,674
Interest expenses	(705,481)	(211,120)	(89,155)	(19,534)	(1,025,290)
Net interest income	6,274,813	1,978,666	4,371,439	(19,534)	12.605.384
Net income/expenses from related party transactions	3,912,956	812,561	603,479	-	5,328,996
Net fee and commission income	6,980,294	2,189,786	4,460,594	-	13,630,674
Profit before impairment allowance	10,187,769	2,791,227	4,974,918	(19,534)	17,934,380
Net gains/losses from impairment allowance	(479,074)	2,029,564	875,441	-	2,425,931
Profit before operating expenses	9,708,695	4,820,791	5,850,359	(19,534)	20,360,311
Direct operating expenses	(5,818,576)	(1,734,099)	(206,586)	-	(7,759,261)
Net foreign exchange gains/losses	-	-	38,228	-	38,228
Net other income and expenses	(1,101,590)	(136,425)	172,770	-	(1,065,245)
Profit before indirect operating expenses	2,788,530	2,950,268	5,854,770	(19,534)	11,574,034
Indirect operating expenses	(1,868,570)	(1,158,962)	(277,817)	-	(3,305,349)
Profit before tax	919,960	1,791,306	5,576,953	(19,534)	8,268,685
Assets per segment					
Cash and cash funds held with the central bank	-	-	67,558,219	-	67,558,219
Loans and receivables due from banks and other financial institutions	-	-	24,733,958	-	24,733,958
Loans and receivables due from customers	98,957,179	81,895,384	-	-	180,852,563
Investment securities	-	-	138,469,551	-	138,469,551
Other	-	-	3,433,697	17,332,456	20,766,152
	98,957,179	81,895,384	234,195,425	17,332,456	432,380,443
Liabilities per segment					
Liabilities to banks	-	-	5,021,756	-	5,021,756
Obligations to clients	281,378,192	47,948,279	5,990,683	-	335,317,154
Other	-	-	-	16,189,360	16,189,360
	281,378,192	47,948,279	11,012,439	16,189,360	356,528,270

6. SEGMENT REPORTING (continued)

Operating segments report for 2018 is provided below:

In RSD thousand

Revenues and expenses	Retail Banking	Corporate Banking	Investment and Interbank operations	Other	Total
Interest income	6,680,347	2,461,416	4,603,145	-	13,744,908
Interest expenses	(630,059)	(178,255)	(101,956)	-	(910,270)
Net interest income	6,050,288	2,283,161	4,501,189	-	12,834,638
Net income/expenses from related party transactions	(727,305)	(601,012)	1,328,317	-	-
Net fee and commission income	3,835,447	757,668	617,034	-	5,210,149
Profit before impairment allowance	9,158,430,	2,439,817	6,446,540	-	18,044,787
Net gains/losses from impairment allowance	(25,518)	22,453	12,558	-	9,493
Profit before operating expenses	9,132,912	2,462,270	6,459,098	-	18,054,280
Direct operating expenses	(5,764,006)	(1,410,121)	(179,085)	-	(7,353,212)
Net foreign exchange gains/losses	-	-	(7,458)	-	(7,458)
Net other income and expenses	(174,451)	488,639	233,847	-	548,035
Profit before indirect operating expenses	3,194,455	1,540,788	6,506,402	-	11,241,645
Indirect operating expenses	(1,590,128)	(1,193,677)	(336,767)	-	(3,120,572)
Profit before tax	1,604,327	347,111	6,169,635	-	8,121,073
Assets per segment					
Cash and cash funds held with the central bank	-	-	63,595,710	-	63,595,710
Loans and receivables due from banks and other financial institutions	-	-	18,477,729	-	18,477,729
Loans and receivables due from customers	91,855,167	75,690,507	-	-	167,545,674
Investment securities	-	-	133,177,598	-	133,177,598
Other	-	-	2,611,859	15,757,411	18,369,270
	91,855,167	75,690,507	217,862,895	15,757,411	401,165,980
Liabilities per segment					
Liabilities to banks	-	-	5,662,748	-	5,662,748
Obligations to clients	261,120,783	49,937,553	6,170,748	-	317,229,084
Other	-	-	-	10,713,635	10,713,635
	261,120,783	49,937,553	11,833,496	10,713,635	333,605,467

7. FINANCIAL ASSETS AND LIABILITIES - ACCOUNTING CLASSIFICATION AND FAIR VALUES

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

(i) Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are highly liquid or having a short term original maturity (less than one year) it is assumed that the carrying amount is approximate to their fair value. This assumption is also applied to demand deposits, saving accounts without a specific maturity and all variable interest rate financial instruments.

(ii) Fixed rate financial instruments

The fair value of fixed interest rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The assessed fair values of assets and liabilities with fixed interest rates mostly correspond to the carrying values thereof given that the interest rates applied do not depart from market interest rates. There are no materially significant departures in this respect.

8. NET INTEREST INCOME / EXPENSES

Net interest income / expenses include:

		(000) RSD
	Year ended	31 December
	2019	2018
Income from:		
Loans and receivables due from banks (REPO)	163,551	245,310
Loans and receivables due from customers	9,169,584	9,141,760
The National Bank of Serbia (liquid assets deposited and mandatory reserves	265,487	283,703
Investment securities	4,031,553	4,074,135
Leasing contracts - derecognition	499	-
Total interest income	13,630,674	13,744,908
Exprenses from:		
Deposits and liabilities due to banks and other financial institutions	72,512	18,773
Deposits and liabilities due to customers	920,133	812,122
Borrowings received	13,112	79,375
Leasing liabilities	19,533	-
Total interest expenses	1,025,290	910,270
Net interest income	12,605,384	12,834,638

Total interest income and expenses calculated using the effective interest rate method presented in the table above relate to financial assets and liabilities other than those at fair value through profit or loss.

9. NET INCOME / EXPENSES FROM FEES AND COMMISSIONS

Net fee and commission income includes:

	Year ended 2019	(000) RSD 31 December 2018
Fees and commission income in domestic currency		
Payment transfer operations	3,421,718	3,577,857
Fees on issued loans and guarantees	108,163	114,521
Fees on purchase and sale of foreign currencies	587,035	410,146
Brokerage and custody fees	35,486	31,343
Fees arising from card operations	1,974,586	2,188,083
Credit Bureau processing fees	79,848	69,291
Other banking services	577,143	481,160
	6,783,979	6,872,401
Fees and commission income in foreign currencies		
Payment transfer operations	106,371	101,003
Fees on issued loans and guarantees - corporate customers	4,939	8,772
Brokerage and custody fees	23,145	20,858
Fees arising from card operations	206,369	204,768
Other banking services	26	70
	340,850	335,471
	7,124,829	7,207,872
Fee and commission expenses in domestic currency		
Payment transfer operations	150,202	135,377
Fees arising on purchase and sale of foreign currencies	18,431	32,831
Fees arising from card operations	557,489	931,307
Credit Bureau processing fees	72,110	64,462
Other banking services	158,347	132,197
	956,579	1,296,174
Fee and commission expenses in foreign currencies		
Payment transfer operations	117,113	79,817
Fees arising from card operations	667,125	577,283
Other banking services	55,016	44,449
	839,254	701,549
	1,795,833	1,997,723
Net fee and commission income	5,328,996	5,210,149

10. NET GAINS / LOSSES FROM CHANGES IN FAIR VALUE OF FINANCIAL INSTRUMENTS

Net gains on the financial assets held for trading include:

(000) RSD

	Year ended 2019	31 December 2018
Gains on the sales of securities and other financial assets held for trading – SWAP	-	11,915
Gains on the fair values of securities and other funds are valued at fair value through PL-Bonds of the Republic of Serbia	84,157	22,647
Gains on the fair value adjustment of securities – investment units	8,632	9,586
	92,789	44,148
Losses on the sales of securities and other financial assets held for trading – SWAP	(4,070)	-
Losses on the fair values of securities and other funds are valued at fair value through PL-Bonds of the Republic of Serbia	(17,105)	(72)
Net gain / loss	71,614	44,076

11. NET GAINS / LOSSES FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

Net gain/loss on the grounds of termination of recognition consists of:

(000) RSD

	Year ended 2019	31 December 2018
Gains arising from the cessation of recognition of Finn. instr at fair value through Other Comprehensive Income	238,373	86,991
Gains arising from the cessation of recognition of securities at fair value through the income statement	117,563	162,425
Gains arising from the cessation of recognition of derivatives at fair value through the income statement - FORWARD	3,789	-
Losses arising from the cessation of recognition that Fin. instr are valued at fair value through Other Comprehensive Income	(69)	(688)
Losses from the sale of securities at fair value through income statement	(6,166)	(18,534)
Net gain / loss	353,490	230,194

Gains arising from derecognition of finanical assets valued at fair value through Other Comprehensive Income in the amount of RSD 238,373 thousand relates to bonds of the Republic of Serbia, out of which amount of RSD 52,679 thousand relates to bond denominated in dinars and RSD 185,694 thousand to bonds denominated in foreign currency.

Gains arising from derecognition of securities and other investments at fair value through income statement in the amount of RSD 117,563 thousand relates to: bonds of the Republic of Serbia in dinars in the amount of RSD 70,314 thousand, the bonds of the Republic of Serbia in foreign currency amounting to RSD 43,963 thousand and investment units in total of RSD 3,286 thousand.

11. NET GAINS / LOSSES FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE (continued)

Gains arising from derecognition of derivatives at fair value through the income statement (forwards) in the amount RSD 3,789 thousand relates to revenues from FX transactions with commercial banks.

Losses arising from derecognition of financial instruments which are measured at fair value through the Other Comprehensive Income of RSD 69 thousand enirely relates to bonds of the Republic of Serbia.

Losses arising from derecognition of securities and other investments at fair value through income statement amounting to RSD 6,166 thousand relatess to: bonds of the Republic of Serbia in dinars amounting to RSD 3,789 thousand and the bonds of the Republic of Serbia in a foreign currency of RSD 2,377 thousand.

12. NET EXCHANGE RATE GAINS / LOSSES AND GAINS / LOSSES ON AGREED CURRENCY CLAUSE

		(000) RSD
	Year ended 2019	31 December 2018
Positive currency clause effects	562,986	1,345,260
Positive currency clause effects – value adjustment of securities	808	2,627
Foreign exchange gains – value adjustment of liabilities	2,587	5,503
Positive currency clause effects – leasing contracts	8,970	-
Foreign exchange gains	1,005,190	555,299
	1,580,541	1,908,689
Negative currency clause effects	(1,086,510)	(1,452,551)
Negative currency clause effects – value adjustment of securities	(2,035)	(3,357)
Negative currency clause effects – value adjustment of liabilities	(1,580)	(4,636)
Negative currency clause effects – leasing contracts	(3,528)	-
Foreign exchange losses	(448,660)	(455,603)
	(1,542,313)	(1,916,147)
Net gain / (loss)	38,228	(7,458)

13. NET GAIN FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT

Net income from reduction in impairment of financial assets relates to:

	Year ended 31 2019	(000) RSD December 2018
Impairment allowance of financial assets measured at amortised cost	(5,867,890)	(5,726,589)
Provisions for off-balance sheet items	(244,521)	(360,293)
Impairment allowance for debt securities measured through other comprehensive income	(85,685)	(80,945)
Losses arising from modifications of financial investments	(14,631)	-
Reversal of impairment allowance of financial assets valued at amortised cost	7,168,031	5,487,456
Reversal of provisions for off-balance sheet items	328,498	305,089
Income from collection of receivables previously written-off	1,086,560	329,451
Gains from Securities at fair value through Other Comprehensive Income	55,569	55,324
Net gain	2,425,931	9,493

The Bank recorded impairment of the foreclosed assets in the amount of RSD 82,470 thousand (note 31) at the position Expense of indirect write-offs, based on the fair value appraisals of property and equipment by certified appraisers, in accordance with the internal Act of the Bank.

In the course of 2019 the Bank collected written-off receivables in the amount of RSD 1,086,560 thousand. Out of the total amount of collected written-off receivables, the largest individual amount refers to a collection from Febuary 2019, which the Bank achived through the realization of a contract between two clients, in compliance with the legal provisions of Reorganization Plan (UPPR), on the basis of the purchase of storage space over which the Bank is entitled to the mortgage. The total collection amount of RSD 442,089 thousand was recognized in the income statement on the basis of the collection of writen-off receivables.
The other remaining part of the full amount is mostly related to debt collection from off-balance records for which their was a previously executed write-off carried out by a transfer from on-balance to off-balance, out of which collection from retail clients amounts to RSD 148,765 thousand and the remained of RSD 495,706 thousand relates to the collection of loans from legal entities.

By the end of January 2020 the Bank did not make materially significant collections from imapaired placements that would affect the reversal of impairment.

Effects arising from the credit risks of debt securities in the amount of net loss of RSD 30,116 thousand the Bank recognised in Equity, in the position losses of the debt instruments (Expenses of debt securities at fair value through Other Comprehensive Income in the amount of RSD 85,685 thousand and income on the same basis in amount of RSD 55,569 thousand). These positions are exempt from the structure of the table of changes in the impairment and provisions for off-balance sheet items.

13. NET GAIN FROM REDUCTION IN IMPAIRMENT OF FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE THROUGH INCOME STATEMENT (continued)

MOVEMENT ON IMPAIRMENT ACCOUNTS AND PROVISIONS FOR OFF-BALANCE

	Loans and receivables due from banks (Note 24.2)	Loans and receivables due from customers (Note 25.2)	Investment securities (Notes 23)	Investments in Subsidiaries (Note 26)	Other assets (Note 31)	Off-balance sheet liabilities (Note 34)	Total
Balance as at January 1, 2019	228,037	14,149,307	1,594	2,869,029	1,952,107	274,954	19,475,028
New impairment allowance	40,853	5,465,204	74	-	361,759	244,521	6,112,411
Decrease in impairment allowance	(53,644)	(6,185,300)	(1,059)	(821,838)	(106,190)	(328,498)	(7,496,529)
Positive effect of a decrese in impairment allowance by the Law of conversion of loans to CHF	-	(278,567)*	-	-	-	-	(278,567)
Foreign exchange effects	3,105	(22,814)	(7)	-	(768)	-	(20,484)
Permanent Write-offs	-	(1,294,991)	-	-	(11,234)	-	(1,306,225)
Write-off – decrease of value adjustments on the bases of the Law of conversion of loans to CHF	-	(1,733)*	-	-		-	(1.733)
Other changes	-	189,227**	-	-	(37,373)	-	151,854
Balance as of December 31, 2019	218,351	12,020,333	602	2,047,191	2,158,301	190,977	16,635,755

* effect of the implementation of the Law of conversion of loans indexed in CHF – the part that refers to the reversal of impairments in CHF before the conversion of loans to EUR ,in accordance with the instructions of the NBS
** effect of recognition of interest income on impaired loans using an alternative concept IRC method that relates to the netting of interest income and expense of value adjustments

In 2019, the Bank increased net expenses from impairment of placements at amortized cost, off-balance provisions and the net effect of valuation of equity stakes in subsidiaries in total amount of RSD 1,384,118 thousand, out of which the positive effect of the valuation of equity stakes in subsidiaries, which are held at cost are amounted to RSD 821,838 thousand (note 26).

Among other changes on the impairment accounts the amount of RSD 1,306,225 thousand relates to permanent write-off that the Bank carried out in 2019, i.e. transfer from on-balance to off-balance records on the basis of the decisions of the NBS of the accounting write-off.

14. NET GAINS / LOSSES FROM DERECOGNITION OF THE FINANCIAL INSTRUMENTS MEASURED AT AMORTISED COST

		(000) RSD
	Year ended	31 December
	2019	2018
Net gains/losses from derecognition of the financial instruments measured at amortised cost	(579,933)	526,547
Net gain / loss	(579,933)	526,547

The loss realized in 2019 relates entirely to the net effects of the implementation of the Law of conversion of mortgage loans indexed in Swiss francs in April 2019, by which banks were obliged to recognize the expense of conversion and the impairment of the outstanding debt in the income statement of the current period.
According to the Law, the amount obtained by the conversion of outstanding debt from Swiss francs to debt indexed to EUR using a conversion exchange rate for all clients that signed a contract with the Bank, is impaired by 38% where 23% of that impairment is borne by the Bank's income statement of the current period, and for the 15% of impairment there is a formed claim from The Republic of Serbia. The negative net effect shown in the income statement of the Bank is related to the recalculation of 23% impairment of net receivables on the basis of derecognition of loans in Swiss francs.
The new, decresed amount of loan receivables in EUR, with the new repayment plans, are recorded by the Bank under the position Loans and receivables due from customers.

15. OTHER OPERATING INCOME

		(000) RSD
	Year ended	31 December
	2019	2018
Other income from operations	137,310	145,233
Revenues from dividends and shares	14,011	10,736
Net income	151,321	155,969

In the other operating income from operations in the amount of RSD 137,310 thousand, the most significant amounts relate to revenue from lease of properties, including advances received for rental in the amount of RSD 64,216 thousand and refunds of court costs and utility costs in the amount of RSD 48,456 thousands, revenues from charged costs for the use of business mobile phones upon employee authorization and the cost of using business vehicles for private purposes in the amount of RSD 14,033 thousand.

In the course of 2019, the Bank received dividends from shares and securities held for trading in amount of RSD 14,011 thousand (2018: RSD 10,736 thousand), which form part of the position of Other income, and dividends from shares in the VISA Inc. in the amount of RSD 7,893 thousand, Dunav Osiguranje ADO of RSD 4,422 thousand and MasterCard of RSD 1,696 thousand.

16. SALARIES, SALARY COMPENSATIONS AND OTHER PERSONAL EXPENSES

Costs of salaries, salary compensation and other personal expenses consist of:

	(000) RSD	
	Year ended 31 December	
	2019	2018
Net salaries	2,596,042	2,630,690
Net benefits	484,417	463,408
Payroll taxes	379,934	381,607
Payroll contributions	824,871	822,864
Considerations paid to seasonal and temporary staff	3,283	6,141
Provisions for retirement benefits – net (Note 34)	31,113	80,266
Other personal expenses	597,872	57,823
Total	4,917,532	4,442,799

In 2019, majority of other personal expenses relates to annual benefits to employees.

17. DEPRECIATION COSTS

	(000) RSD	
	Year ended 31 December	
	2019	2018
Amortization costs – intangible assets (Note 27.2)	204,577	139,188
Depreciation costs – property and equipment (Note 28.2)	369,410	376,772
Depreciation costs – investment property (Note 29.1)	38,420	36,028
Depreciation costs – right of use assets (Note 28.2)	393,430	-
Total	1,005,837	551,988

18. OTHER INCOME

Other income consists of:

	Year ended	31 december
	2019	2018
Income from reversal of unused provisions for litigations and other liabilities	512,334	134,110
Income from decrease of liabilities	5,391	40,650
Other income	203,070	105,469
Total	720,795	280,229

Within the position of Other income in 2019, the most significant items are revenues:

- On the basis of litigation finished in favour of the Bank or disputes temporarily ceased until finalization of related case in the amount of RSD 512,334 thousand
- On the grounds of reducing liabilities in the amount of RSD 5,391 thousand
- From a change in value of fixed assets in the amount of RSD 19,018 thousand,
- Interest payments from previous years – from retail clients in total of RSD 30,863 thousand and from entrepreneurs in the amount of RSD 291 thousand
- interest payments from previous years – from corpotate clients in total of RSD 129,961 thousand

19. OTHER EXPENSES

Other expenses include:

	(000) RSD	
	Year ended 31 December	
	2019	2018
Cost of materials	302,604	334,632
Cost of production services	1,366,843	1,877,932
Non-material costs (without taxes and contributions)	2,601,773	2,432,612
Taxes payable	164,512	147,540
Contributions payable	710,856	740,120
Other operating costs	25,765	26,427
Other expenses	422,499	304,928
Losses from sales of fixed assets and intangible investments	709	-
Losses arising from write-off of fixed assets and Intangible assets	6,650	12,405
Expenses arising from changes in value of investment property and assets held for sale	69,100	20,410
Expenses arising from provisions for litigations (Note 34)	1,252,461	270,971
Total	6,923,772	6,167,977

a) Other expenses

Within the position of other expenditures in the amount of RSD 422,499 thousand, among others the following are recorded:

- expenditure arising from paid invoices of insurance companies for life insurance policies of clients in favour of the Bank in the amount of RSD 219,695 thousand, and whose payment was covered by the Bank. The specified policies are used as collateral for loans granted to individuals. Additionally, this position also includes expenditures related to insurance policies for users of current account sets and travel insurance international payment cards in the amount of RSD 67,243 thousand, and

b) Provision for litigations

Expenditures on the basis of provisions for litigation totalling to RSD 1,252,461 thousand (note 34) are result of increased expenditures for 3,435 new cases during the year 2019, and increase expenditures for active cases from previous years.

20. INCOME TAX – current tax and deferred tax

20.1 Components of income taxes as of December 31 were as follows:

	(000) RSD Year ended 31 December 2019	2018
Gains from deferred taxes	1,482,667	700,754
Gains from deferred taxes	(795,593)	(676,645)
Total	687,074	24,109

In 2019 and 2018 the Bank din not pay current income taxes, based on the applicable tax regulations.

20.2 Reconciliation of the effective tax rate is presented in the table below:

	2019	2019	2018	(000) RSD 2018
Profit for the year before taxes		8,268,685		8,121,073
Tax calculated using the local income tax rate	15%	1,240,303	15%	1,218,161
Expenses not recognized for tax purposes	2.61%	216,264	1.05%	85,015
Tax effects of the net capital losses /gains	-0.01%	(386)	-0.01%	(621)
Tax effects of income reconciliation	-0.91%	(75,645)	-0.24%	(19,773)
Tax effects on IFRS 9	-0.42%	(34,851)	-0.43%	(34,851)
Tax credit received and used in the current year	-9.02%	(746,013)	-7.80%	(632,773)
Tax effects of the interest income from debt securities issued by the Republic of Serbia, AP Vojvodina or NBS	-6.77%	(599,672)	-7.57%	(615,158)
Tax effect adjustments (used and new ones)	-8.31%	(687,074)	-0.30%	(24,109)
Tax effects stated within the income statement		687,074		24,109

20.3 Movements in deferred taxes as at December 31 are presented as follows:

	(000) RSD Year ended 31 December 2019	2018
Balance as of January 1	840,967	857,096
Occurrence and reversal of temporary differences	233,230	(16,129)
Balance as of December 31	1,074,197	840,967

In the course of 2019, the Bank has not paid taxes on the profit, given that when it calculated tax on income for 2018 it did not state it's liability to pay tax, due to the usage of tax losses carried forward and withholding tax paid in another country.

20. INCOME TAX – current tax and deferred tax (continued)

20.4. Deferred tax assets and liabilities

20.4.1. Deferred tax assets and liabilities refer to:

(000) RSD

	2019			2018		
	Asset	Liability	Net	Asset	Liability	Net
Difference in the present value of fixed assets for tax and financial reporting purposes	39,299	-	39,299	69,359	-	69,359
Transfer tax losses	1,259,350	-	1,259,350	878,000	-	878,000
Effect of increase in deferred tax liabilities for securities available for sale and equity investments	570	(1,008,254)	(1,007,684)	4.885	(570,187)	(565,302)
Long-term provisions forretirement benefits	53,838	-	53,838	49,098	-	49,098
Impairment of assets	324,857	-	324,857	295,225	-	295,225
Employee benefits under Article 9 paragraph 2. CIT Law - calculated but not paid in the tax period	1,213	-	1,213	1,183	-	1,183
Accrued and unpaid public duties	163	-	163	13	-	13
First implementation of IFRS 9	104,552	-	104,552	-	-	-
Conversion based tax loan	76,119	-	76,119	-	-	-
Provisions for litigations	242,231	-	242,231	135,023	-	135,023
Difference in net carrying amount of tangible assets for tax and financial reporting purposes	-	(19,741)	(19,741)	-	(21,632)	(21,632)
Total	2,102,192	(1,027,995)	1,074,197	1,432,786	(591,819)	840,967

Tax losses carried forward that are not recorded in the books of the Bank and on basis of which deferred tax assets were not formed, but can be used to cover taxes on profits in the coming periods amount to RSD 595,917 thousand which relate to a part of the tax loss realized in 2016.

Deferred tax assets were not formed for tax credits on the basis of fixed asset investments in the amount of RSD 12,508 thousand, while tax credit for intercompany dividends of RSD 13,154 thousand is entirely utilized in 2019.

20.4.2. Overview of tax credits for which deferred tax assets were not recognized:

(000) RSD

Type of tax credit	Year	Amount as of 31.12.2019	Amount as of 31.12.2018	Expiration date for use
	2014			2019
	2015			2020
Tax losses carried forward	2016	595,917	7,979,816	2021
Total tax losses		595,917	7,979,816	
Impact of tax losses on future income tax (15%)		89,388	1,196,972	2019 -2021
Tax credit on the basis of investment in fixed assets	2013	12,508	15,692	2023
Tax credit on the basis of intercompany dividends	2014	-	13,154	2019
Total for the coverage of future profit tax liabiliites		101,896	1,225,818	

20. INCOME TAX – current tax and deferred tax (continued)

20.4. Deferred tax assets and liabilities

20.4.3. Movements in temporary differences during 2019 and 2018 are shown as follows:

(000) RSD

2019	As of 1 January	Through P&L	Through OCI	Directly through retained earnings	As of 31 December
Property, plant and equipment	69,359	(16,707)	(13,353)	-	39,299
Tax losses carried forward	878,000	381,350	-	-	1,259,350
Securities	(565,302)	-	(442,382)	-	(1,007,684)
Long term provisions for employee benefits	49,098	4,740	-	-	53,838
Actarial gains	(21,632)	-	1,891	-	(19,741)
Impairment of assets	295,225	29,632	-	-	324,857
Assets based on the payment of other employee liabilities	1,183	30	-	-	1,213
Accrued and unpaid public duties	13	150	-		163
Tax credit based on first implementation of IFRS 9	-	104,552	-	-	104,552
Tax credit based on conversion of CHF loans	-	76,119	-	-	76,119
Provisions for legal disputes	135,023	107,208	-	-	242,231
Total	840,967	687,074	(453,844)		1,074,197

(000) RSD

2018	As of 1 January	Through P&L	Through OCI	Directly through retained earnings	As of 31 December
Property, plant and equipment	112,277	(46,444)	3,526	-	69,359
Tax losses carried forward	878,146	10,854	-	-	878,000
Securities	(529,547)	-	(35,755)	-	(565,302)
Long term provisions for employee benefits	35,322	13,776	-	-	49,098
Actarial gains	(13,623)	-	(8,009)	-	(21,632)
Impairment of assets	265,532	29,693	-	-	295,225
Assets based on the payment of other employee liabilities	1,192	(9)	-	-	1,183
Accrued and unpaid public duties	-	13	-		13
Provisions for legal disputes	118,797	16,226	-	-	135,023
Total	857,096	24,109	(40,238)		840,967

20. INCOME TAX – current tax and deferred tax (continued)

20.5 Tax effects relating to Other comprehensive income

(000) RSD

	2019			2018		
	Gross	Tax	Net	Gross	Tax	Net
Increase due to fair adjustments of equity investments and securities available for sale	2,920,446	(438,067)	2,482,379	54,832	(8,224)	46,608
Net decrease due to actual losses	(12.609)	1,891	(10,718)	53.387	(8,008)	45,379
Valuation of property	111,214	(13,353)	97,861	-	3,526	3,526
Decrease due to fair value adjustments of equity investments and securities available for sale (decrease in equity and securities)	28,767	(4,315)	24,452	(28,403)	4,260	(24,143)
Total	3,047,818	(453,844)	2,953,974	79,816	(8,446)	71,370

21. CASH AND ASSETS HELD WITH THE CENTRAL BANK

Cash and assets held with the central bank include:

(000) RSD

	31 December 2019	31 December 2018
In RSD		
Cash on hand	4,328,913	4,242,968
Gyro account	23,873,701	25,485,440
Other RSD cash funds	99	99
	28,202,713	29,728,507
In foreign currencies		
Cash on hand	9,092,077	2,956,171
Gyro account	30,261,966	30,910,922
Other cash funds	1,463	110
	39,355,506	33,867,203
Total	67,558,219	63,595,710
Adjustment to cash and cash held with the central bank for the purpose of preparing statement of cash flows		
Foreign currency accounts held with foreign banks (Note 24.1)	3,570,398	7,690,960
Foreign currency obligatory reserves	(30,261,966)	(30,910,922)
	(26,691,568)	(23,219,962)
Cash and cash equivalents reported in statement of cash flows	40,866,651	40,375,748

21. CASH AND ASSETS HELD WITH THE CENTRAL BANK (continued)

In the cash flow statement, the bank records cash on the NBS bank account, cash on accounts of foreign banks, funds in the account of the Central Securities Depository and cash at the cash register.

Within the giro account, the RSD mandatory reserve is presented, which represents the minimum reserve of the RSD funds allocated in accordance with the Decision on the obligatory reserve with the National Bank of Serbia. In accordance with the aforementioned Decision, the RSD mandatory reserve is calculated on the amount of the average daily book value of dinar deposits, loans and other RSD liabilities during one calendar month using the rate ranging from 0.0% to 5.00%, depending on the maturity of liabilities and their source, while the calculated RSD obligatory reserve makes the sum: calculated obligatory reserves in RSD, 38.00% of the RSD countervalue of the calculated obligatory reserve in EUR on deposits up to 730 days, and 30.00% of RSD countervalue calculated compulsory reserve in EUR on deposits over 730 days.

The National Bank of Serbia pays interest to the Bank on the allocated funds in RSD in the amount of 1.25% annually up until 18.08.2019, 1% from 18.08 to 17.11 and 0,75% from 18.11.2019.

The Bank shall calculate the foreign exchange required reserve on the 17th day of the month on the basis of the average foreign currency deposit balance during the previous calendar month. The Bank shall allocate foreign currency required reserves in foreign currency to a special account with the National Bank of Serbia and may withdraw these funds as necessary. The bank is obliged to maintain the average monthly balance of the allocated foreign currency reserve in the amount of the calculated foreign currency reserve requirement, while in order to achieve the average daily balance of the allocated reserve requirement, the daily balance on the foreign currency reserve requirement account may be less than or greater than the calculated foreign currency reserve requirement.

Persuant to the Decision on Amendment of the Decision on Obligatory Reserve dated 11.12.2015 (Official Gazzete 102/2015), the rates applied in calculation of the obligatory foreign currency reserve were as follows:

- for foreign currency deposits placed up to 730 days the rate of 20% was applied
- for foreign currency deposits placed for over 730 days the rate of 13% was applied
- for RSD deposits indexed with currency clause the rate of 100% was applied regardless of maturity

In accordance with Decision on Obligatory Reserves Held with NBS, the Bank allocated a part of its foreign currency reserve to its gyro account. The Bank does not realize interest on the obligatory reserve in the currency of the foreign country.

Other foreign currency cash in the amount of RSD 1,463 thousand (2018: RSD 110 thousand) relate to an accruals account at the Central Registry of securities for security trading.

22. RECEIVABLES UNDER DERIVATIVES

(000) RSD

	31 December 2019	31 December 2018
Claims arising from changes in fair value of derivatives in dinars-SWAP	-	4,070
Total	-	4,070

23. SECURITIES

23.1. Securities consist of:

(000) RSD

	31 December 2019	31 December 2018
Securities measured at fair value through profit and loss (in RSD)	5,390,394	1,653,198
Securities measured at fair value through profit and loss in foreign currency	4,898,625	3,156,612
Total	10,289,019	4,809,810
Securities measured at fair value through other comprehensive income (in RSD)	59,825,920	52,167,965
Securities measured at fair value through other comprehensive income in foreign currency	68,355,214	76,201,417
Impairment	(602)	(1,594)
Total	128,180,532	128,367,788
Total	138,469,551	133,177,598

23.2. Breakdown of securities measured at fair value through profit and loss is provided below:

(000) RSD

	31 December 2019	31 December 2018
Republic of Serbia bonds (in RSD)	4,877,762	1,193,611
Investment units of OIF monetary fund (in RSD)	512,632	459,587
Republic of Serbia bonds (in foreign currencies)	4,898,625	3,156,612
Total	10,289,019	4,809,810

Investment units as at December 31, 2019 in the total amount of RSD 512,632 thousand refer to investment units KomBank Monetary Fund, Belgrade.

23. SECURITIES (continued)

23.3. The structure of the securities that are measured at fair value through other comprehensive income:

	31 December 2019	(000) RSD 31 December 2018
In RSD		
Republic of Serbia bonds	59,651,702	51,916,780
Bonds of local government (city of Sabac and municipality of Stara Pazova)	174,218	251,185
Total RSD	59,825,920	52,167,965
In foreign currencies		
Republic of Serbia bonds	65,908,342	73,841,988
Bonds of foreign banks (Raiffeisen Bank International)	1,799,460	1,702,199
Bonds of foreign States (Republika Srpska)	647,412	657,230
Total in foreign currencie	68,355,214	76,201,417
Total	128,181,134	128,369,382

Changes in impairment is presented as follows:

Impairment of securities at fair value through OCI	31 December 2019	(000) RSD 31 December 2018
Individual impairment allowance		
Balance at January 1	1,594	3
Correction of the opening balance:		
IFRS 9 – correction results in capital	-	1,828
Adjusted balance as of 1 January 2018	-	1,831
Change for the year (Note 13)	74	586
Effects of the changes in foreign exchange rates (Note 13)	(7)	(5)
Reversal (Note 13)	(1,059)	(818)
Permanent write-off	-	-
Total individual impairment allowance	602	1,594

24. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

24.1 Loans and receivables due from banks include:

		(000) RSD
	31 December 2019	31 December 2018
RSD loans and receivables		
Per repo transactions	12,000,000	1,500,000
Loans for working capital	-	1,000,000
Overnight loans	200,000	1,260,000
Other receivables	3,148	15,993
Prepayments	6,805	14,744
Allowance	(273)	(1,127)
	12,209,680	3,789,610
FX loans and receivables		
By repo transactions	2,103,540	-
Foreign currency accounts held with foreign banks (Note 21)	3,570,398	7,690,960
Overnight loans	2,161,743	1,587,977
Other loans and receivables due from foreign banks	896,474	751,504
Foreign currency deposits placed with other banks	2,896,134	3,774,544
Prepayments	1,834	1,394
Other receivables	5,958	9,684
Loans to foreign banks (subsidiaries)	67,195	101,309
Secured foreign currency warranties	1,039,080	997,656
Impairment allowance	(218,078)	(226,909)
	12,524,278	14,688,119
Total	24,733,958	18,477,729

As at 31 December 2019, securities acquired in reverse repo transactions with the National Bank of Serbia in the amount of RSD 12,000,000 thousand relate to treasury bills purchased from the National Bank of Serbia, maturing up to 8 days with the annual interest rate of 1.03% to 2.4%.

Short-term time deposits with banks in RSD are deposited for up to one year with an interest rate ranging from 1.05 % to 3.4% per annum. Short term time deposits at banks in foreign currency are deposited for a period not exceeding one year, with interest rates ranging from 0.02% to 0.20% per annum for the EUR, from 1.35% to 2.4% for USD and 0.13% to CHF.

Interest rates on long-term loans extended revolving foreign dependent banks ranged in scope from 2,335% to 4.52% which is a 6m EURIBOR plus a fixed share of 2.75%.

24. LOANS AND RECEIVABLES FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

24.2 Movements on the account of impairment allowance of loans and receivables due from banks are provided in the table below:

Impairment allowance	31 December 2019	31 December 2018
Balance at 1 January	228,037	202,558
IFRS 9 – correction of results through equity	-	25,260
Adjusted balance as of 1 January 2018	-	227,818
Impairment in the current year:		
Increase (Note 13)	40,853	66,805
Effects of the changes in foreign exchange rates (Note 13)	3,105	9,171
Permanent write-off	-	-
Reversal (Note 13)	(53,644)	(76,584)
Other	-	827
Balance at 31 December	218,351	228,037

25. LOANS AND RECEIVABLES DUE FROM CLIENTS

	2019			2018		
25.1 Loans and receivables due from customers:	Gross Amount	Impairment Allowance	Carrying Amount	Gross Amount	Impairment Allowance	Carrying Amount
Corporate customers and agro						
Transaction account overdrafts	520,354	(13,158)	507,196	752,971	(20,901)	732,070
Working capital loans	41,530,893	(3,815,411)	37,715,482	33,354,044	(4,395,390)	28,958,654
Investment loans	40,409,450	(960,446)	39,449,004	32,805,889	(1,269,586)	31,536,303
Loans for payments of imported goods and services	2,062,163	(19,802)	2,042,361	2,072,507	(18,613)	2,053,894
Loans for discounted bills of exchange, acceptances and payments made for guarantees called on	362,298	(328,945)	33,353	386,037	(289,188)	96,849
Other loans and receivables	26,213,573	(5,749,113)	20,464,460	36,744,167	(6,894,653)	29,849,514
Prepayments	87,657	(1,260)	86,397	106,661	(19,262)	87,399
Accruals	(156,819)	-	(156,819)	(151,278)	-	(151,278)
	111,029,569	(10,888,135)	100,141,434	106,070,998	(12,907,593)	93,163,405
Retail customers – private individuals						
Transaction account overdrafts	3,159,725	(169,167)	2,990,558	3,564,677	(173,254)	3,391,423
Housing loans	41,752,415	(533,828)	41,218,587	39,641,860	(742,907)	38,898,953
Cash loans	35,107,841	(359,512)	34,748,329	30,684,586	(247,009)	30,437,577
Consumer loans	197,000	(1,070)	195,930	131,729	(1,069)	130,660
Other loans and receivables	1,847,862	(65,086)	1,782,776	1,915,763	(74,749)	1,841,014
Prepayments	268,705	(3,535)	265,170	249,874	(2,726)	247,148
Accruals	(490,221)	-	(490,221)	(564,506)	-	(564,506)
	81,843,327	(1,132,198)	80,711,129	75,623,983	(1,241,714)	74,382,269
Balance as of December 31	192,872,896	(12,020,333)	180,852,563	181,694,981	(14,149,307)	167,545,674

25. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

25.2 Movements on the account of impairment allowance of loans and receivables due from customers are presented in the table below:

	31 December 2019	31 December 2018
Individual impairment allowance		
Balance at January 1	12,865,378	17,031,882
IFRS 9 – correction of result through equity	-	109,895
Adjusted balance as of 1 January 2018	-	17,141,777
Impairment in the current year		
Increase (Note 13)	2,383,710	1,672,859
Reclassification from Bank;s impairment	(846,629)	346,947
Effects of the changes in foreign exchange rates (Note 13)	(12,394)	(6,146)
Reversal (Note 13)	(2,243,131)	(1,773,670)
Reduction of impairment CHF-EUR Conversions under the Law on Conversion of Loans in CHF	(165,317)	-
Permanent write-off	(960,161)	(4,518,125)
Conversion of CHF-EUR write-off under the Law on Conversion of Loans in CHF	(816)	-
Other (Note 13)	-	1,736
Individual impairment allowance	11,020,640	12,865,378
Group impairment allowance		
Balance at January 1	1,283,929	1,002,717
IFRS 9 – correction of result through equity	-	109,895
Adjusted balance as of 1 January 2018	-	1,644,874
Impairment in the current year		
Increase (Note 13)	3,081,495	3,759,011
Reclassification to Individual impairment allowance	846,629	(346,947)
Effects of the changes in foreign exchange rates (Note 13)	(10,420)	(5,591)
Permanent write-off	(3,942,169)	(3,345,664)
Reduction of impairment CHF-EUR Conversions under the Law on Conversion of Loans in CHF	(113,250)	-
Reversal (Note 13)	(334,830)	(606,661)
Conversion of CHF-EUR write-off under the Law on Conversion of Loans in CHF	(917)	-
Other	189,226	184,907
Total Group impairment allowance	999,693	1,283,929
Balance as of December 31	12,020,333	14,149,307

Loans and receivables due from retail customers

During 2019, short-term and long-term loans to retail customers in RSD were approved for a period of 30 days to 120 months in RSD with nominal interest rates ranging from 1.80% to 13.95% per annum.

Short-term loans to retail customers in foreign currency are approved for a term up to twelve months with nominal interest rates ranging from 1.40% to 8.00% annually.

Long-term loans to retail customers in foreign currency are approved for the period from thirteen to thirty-sixteen months with nominal interest rates ranging from 1.50% to 8.00% annually.

25. LOANS AND RECEIVABLES DUE FROM CLIENTS (continued)

Loans and receivables due from legal entities

Short-term loans to legal entities in RSD were approved for a period of up to twelve months with a range of interest rates ranging from 2.70% to 6.95% annually. In foreign currency, short-term loans were granted for a period up to twelve months with an interest rate of EUR 1.20% to 5.45% annually. Long-term loans in RSD were approved for a period of thirteen months to one hunderd and twenty months at an interest rate of 2.73% to 5.80% annually. Long-term loans in foreign currency were granted for a period of hunderd and forty-four months at an interest rate of EUR 1.07% to 4.45% annually.

Risks and Uncertainties

The management of the Bank calculates provision for possible loan losses by applying the concept of expected credit losses. Losses due to the impairment of financial assets held at amortised cost are measured as the difference between the carrying value of the financial asset and the present value of the estimated future cash flows discounted with the initial interest rate of the asset. Losses are recognized in the income statement and are measured at the position of impairment and of financial assets. When events after the balance sheet date is affected by a reduction in the amount of loss due to impairment, such a reduction is recognized as revenue of the abolition of impairment, through the income statement.

Loans and other receivables are shown in the amount less the Bank and the individual calculation of impairment. Individual and group provisions are deducted from the book value of loans that are identified as impairment to their value reduced to their recoverable value. In order to protect against the risk of default in dealings with customers, the Bank is undertaking the following measures for the regulation of claims: extension, restructuring, alignment, retrieval of assets for the purpose of securing payment of claims, the conclusion of contracts with interested third party, launch litigation and other measures. If measures regulating investments, or foreclosure and court proceedings have not produced the expected results, or when there is no possibility of the collection in its entirety, initiates the proposal for a permanent write-off of the remaining claims of the banks, or transfer from on-balance to off-balance records.

26. INVESTMENTS INTO SUBSIDIARIES

	31 December 2019	31 December 2018
KomBank INVEST a.d., Beograd	140,000	140,000
Komercijalna banka a.d., Banja Luka	2,974,615	2,974,615
Komercijalna banka a.d., Podgorica	2,366,273	2,366,273
Impairment allowance	(2,047,191)	140,000
Total	3,433,697	2,611,859

Effects of conducted appraisals of investments into subsidiaries

Permanent equity stakes in subsidiaries - banks were impaired in 2016 in the amount of RSD 2,869,029 thousand, in accordance with the requirements of IAS 36, based on an estimate of their fair value by an independent appraiser. Impairment was recognized at the expense of the Bank's expense.

Investments in the permanent stakes of subsidiary banks have been subject to impairment testing at the end of 2017 and 2018, as IAS 36 requires a new estimate of fair value only where there is evidence that the value of the asset can be further reduced (or that the previously recognized impairment has been significantly reduced) .
In 2019, when reviewing the performance of both subsidiaries, after the impairment that was made in 2016, significant changes with positive consequences were identified.
Based on the clear indications with positive effects on the operations of the subsidiary banks, as well as the expectation that such developments will continue in the near future, the Bank engaged an independent valuer in 2019 to determine the fair value of the subsidiaries' equity interest. Based on the results of the assessment, a part of previously recognized impairment of interest in subsidiaries was reversed in the total amount of RSD 821,838 thousand as at 31 December 2019.

As at 31 December 2019. the net value of the investement in subsidiaries amounts to RSD 3,433,697 thousand.

27. INTANGIBLE ASSETS

27.1 Intangible assets comprise:

(000) RSD

	31 December 2019	31 December 2018
Intangible assets	638,758	384,273
Intangible assets in progress	26,977	172,778
Total	665,735	557,051

27. INTANGIBLE ASSETS (continued)

27.2 Movements on the account of intangible assets in 2019 and 2018 are presented below:

(000) RSD

	Licenses and Software	Intangible Assets in Progress	Total
Cost			
Balance as of January 1, 2018	2,089,953	119,603	2,209,556
Additions	-	235,976	235,976
Transfers	182,801	(182,801)	-
Expenditures	(4,948)	-	(4,948)
Balance as of December 31, 2018	2,267,806	172,778	2,440,584
Balance as of January 1, 2019	2,267,806	172,778	2,440,584
Additions	-	313,261	313,261
Transfers	459,062	(459,062)	-
Disposals	(7,087)		(7,087)
Balance as of December 31, 2019	2,719,781	26,977	2,746,758
Impairment			
Balance as of January 1, 2018	1,749,293	-	1,749,293
Amortization (Note 17)	139,188	-	139,188
Expenditures	(4,948)	-	(4,948)
Balance as of December 31, 2018	1,883,533	-	1,883,533
Balance as of January 1, 2019	1,883,533		1,883,533
Amortization (Note 17)	204,577	-	204,577
Disposals	(7,087)		(7,087)
Balance as of December 31, 2019	2,081,023	-	2,081,023
Net carrying value			
Balance as of December 31, 2018	384,273	172,778	557,051
Balance as of December 31, 2019	638,758	26,977	665,735

28. PROPERTY, PLANT AND EQUIPMENT

28.1 Property, plant and equipment comprise:

(000) RSD

	31 December 2019	31 December 2018
Property	4,907,488	4,898,896
Equipment	526,522	520,557
Investments in progress	43,224	199,625
Right of use assets	960,703	-
Total	6,437,937	5,619,078

28. PROPERTY, PLANT AND EQUIPMENT (continued)

28.2 Movements on the account of property and equipment in 2019 and 2018 are presented below:

(000) RSD

	Property	Equipment	Investments in progress	Leased business premises	Leased equipment	Total
Cost						
Balance as at January 1, 2018	6,875,719	3,473,864	132,565	-	-	10,482,148
Additions	-	-	304,152	-	-	304,152
Transfer from investments in progress	67,899	169,193	(237,092)	-	-	-
Transfer from investment property	49,341	-	-	-	-	49,341
Write-off	(42,228)	(123,758)	-			(165,986)
Shortages	-	(23,058)	-	-		(23,058)
Balance as at December 31, 2018	6,950,731	3,496,241	199,625	-	-	10,646,597
Balance as at January 1, 2019	6,950,731	3,496,241	199,625		-	10,646,597
Correction of opening balance as at January 1, 2019 – adoption of IFRS 16	-	-	-	1,330,695	18,760	1,349,455
Adjusted opening balance as at January 1, 2019	6,950,731	3,496,241	199,625	1,330,695	18,760	11,996,052
Additions and new lease contracts	-	-	149,631	63,187	6,010	216,211
Transfer from investments in progress	74,255	231,777	(306,032)		-	-
Write-off	(11,675)	(122,621)				(134,296)
Revaluation gain	244,948	-	-		-	244,948
Revalaution loss	(142,218)				-	(142,218)
Shortages	-	(541)	-		-	(541)
Modification of leasing contracts	-	-	-	(29,891)	-	(29,891)
Leasing - other				(49,121)	-	(49,121)
Balance as at December 31, 2019	7,116,041	3,604,856	43,224	1,314,870	24,770	12,103,761
Accumulated Depreciation						
Balance as at January 1, 2018	1,924,883	2,902,017	-	-	-	4,826,900
Depreciation (note 17)	159,206	217,566	-	-	-	376,772
Write-off	(32,254)	(121,327)	-	-	-	(153,581)
Shortages	-	(22,572)	-	-	-	(22,572)
Balance as at December 31, 2018	2,051,835	2,975,684	-	-	-	5,027,519
Balance as at January 1, 2019	2,051,835	2,975,684	-			5,027,519
Depreciation (note 17)	144,592	224,818	-	383,941	9,489	762,840
Write-off	(10,598)	(121,640)				(132,238)
Revaluation gain	57,793	-	-	-	-	57,793
Revalaution loss	(35,069)	-				(35,069)
Shortages	-	(528)	-	-	-	(528)
Modification of leasing contracts	-	-	-	(2,893)	-	(2,893)
Leasing - other	-	-	-	(11,600)	-	(11,600)
Balance as at December 31, 2019	2,208,553	3,078,334	-	369,448	9,489	5,665,824
Net carrying value						
Balance as at December 31, 2018	4,898,896	520,557	199,625	-	-	5,619,078
Balance as at December 31, 2019	4,907,488	526,522	43,224	945,422	15,281	6,437,937

28. PROPERTY, PLANT AND EQUIPMENT (continued)

The Bank does not have mortgaged buildings to secure repayment of the loans.

Due to incomplete cadastral books, on 31 December 2019, for 24 objects with the present value of RSD 484,488 thousand the Bank still does not have evidence of ownership (the number of facilities includes assets acquired through collection of receivables). The Bank's management takes all necessary measures for the acquisition of ownership papers. Completion of this process depends on the conduct of the competent national authorities.

In 2019, a total write-off of fixed assets and derecognition of permanently unusable fixed assets with the present value of RSD 2,058 thousand was made, of which, based on the Annual Count, write-off and derecognition of permanently unusable fixed equipment with the present value of RSS 981 thousand was made and shortages of RSD 13 thousand.

29. INVESTMENT PROPERTY

29.1. Changes in investment property during 2019 and 2018 are shown in the following table

	(000) RSD Total
Cost	
Balance as of January 1, 2018	2,252,473
Transfer from investments in progress	-
Transfer to PPE	-
Sales	(49,341)
Fair valuation – decrease	(7,700)
Balance as of December 31, 2018	2,195,432
Balance as of January 1, 2019	2,195,432
Sales	-
Transfer to PPE	-
Fair valuation – decrease	-
Balance as of December 31, 2019	2,195,432
Accumulated Depreciation	
Balance as of January 1, 2018	263,865
Depreciation (Note 17)	36,028
Transfer to PPE	-
Sales	-
Fair valuation – decrease	(808)
Balance as of December 31, 2018	299,085
Balance as of January 1, 2019	299,085
Depreciation (Note 17)	38,420
Sales	-
Fair valuation – decrease	-
Balance as of December 31, 2019	337,505
Net Book Value	
Balance as of December 31, 2018	1,896,347
Balance as of December 31, 2019	1,857,927

As of 31 December 2019 the Bank has reported investment properties with the net book value of RSD 1,857,927 thousand, which comprise leased properities.

29. INVESTMENT PROPERTY (continued)

As of December 31, 2019, the net result from investment property is negative and amounts to RSD 10,488 thousand.

Property	Area in m^2	Total expenses	Realized rental income	Difference in 000 RSD
Beograd, Trg Politike 1	3,354	(22,910)	9,551	(13,359)
Nis, Vrtiste nova d-zgrada	1,816	(4,692)	-	(4,692)
Nis, TPC Kalča	85	(802)	4,198	3,396
Beograd, Omladinskih brigada 9	15,218	(22,474)	16,989	(5,485)
Sabac, Majur, Obilazni put bb	1,263	(1,784)	-	(1,784)
Lovcenac, Marsala Tita bb	46,971	(2,894)	7,071	4,177
Negotin, Save Dragovica 20-22	658	(823)	-	(823)
Nis, Bulevar 12 Februar bb	816	(649)	5,725	5,076
Beograd, Radnička 22	7,190	(18,619)	17,198	(1,421)
Novi Sad, Vardarska 1/B,	291	(1,715)	3,463	1,748
Novi Sad, Bulevar Oslobodjenja 88, 3 lokala	44	(198)	496	298
Kotor, Stari Grad, Palata beskuca, business office, Br.1	207	(2,250)	4,386	2,136
Beograd, Luke Vojvodica 77a	80	(623)	868	245
Total		(80,433)	69,945	(10,488)

30. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

(000) RSD

	December 31, 2019	December 31, 2018
Non-current assets held for sale and assets from discontinued operations	196,300	227,630
Total	196,300	227,630

Non-current assets held for sale:

Property	Area in m^2	Carrying Value
Jasika, business premises	75.87	511
Pozarevac, Mose Pijade 2, business office	826.82	26,530
Pozarevac, Mose Pijade 2, business office	880.86	21,952
Vrbas, M. Tita 49, business space	145.56	2,022
Kotor, business space 1 and 2	690.00	87,002
Beograd, Palmira Toljatija 5	637.00	58,283
Total		196,300

During 2019, based on the fair value appraisals of an authorized external appraisers, a decrease in the value of non-current assets held for sale amounted to RSD 10,332 thousand.

During 2019, the Bank sold three facilities in the amount of RSD 11,747 thousand, and on that basis, a loss on sale in the amount of RSD 709 thousand was recognized at the expense of the income statement. The difference between the sale value of RSD 11,747 thousand and the present value of assets sold of RSD 20,998 thousand in the amount of RSD 9,251 thousand reduced revaluation reserves in the balance sheet in the amount of RSD 9,040 thousand, recognized profit of the previous year in the amount of RSD 498 thousand RSD (based on revaluation of depreciation) and loss from sale in the amount of RSD 709 thousand. The Bank's management still intends to carry out the sale for all assets that have not been sold in the past year.

31. OTHER ASSETS

Other assets comprise:

In RSD thousand

	31 December 2019	31 December 2018
In RSD		
Fee receivables per other assets	116,335	106,138
Inventories	121,434	135,901
Foreclosed assets	2,280,027	2,268,696
Prepaid expenses	164,077	141,291
Equity investments	2,398,583	1,747,050
Other RSD receivables	3,782,343	3,219,110
	8,862,799	7,618,186
Impairment allowance on:		
Fee receivables per other assets	(78,391)	(68,497)
Foreclosed assets	(987,236)	(949,729)
Equity investments	(446,661)	(446,661)
Other RSD receivables	(830,057)	(850,384)
	(2,342,345)	(2,315,271)
In foreign currencies		
Fee receivables per other assets	1,409	807
Other receivables from operations	367,911	913,961
Receivables in settlement	270,124	381,106
Other foreign currency receivables	283,728	189,655
	923,172	1,485,529
Impairment allowance on:		
Other receivables from operations	(265,877)	(98,373)
Receivables in settlement	(77,390)	(77,804)
	(343,267)	(176,177)
Total	7,100,359	6,612,267

31. OTHER ASSETS (continued)

Movements of other assets and prepayments impairment allowance is shown in the following table:

In RSD thousand

	31 December 2019	31 December 2018
Individual impairment allowance		
Balance at January 1	243,567	212,592
Corection of opening balance:		
IFRS 9 – correction of result through equity	-	
	-	13,637
Adjusted balance as of 1 January 2018	-	226,229
Increase (Note 13)	4,621	10,584
Reversal (Note 13)	(1,509)	10,980
Permanent write-off	-	(4,226)
Individual impairment allowance	246,679	243,567
Group impairment allowance		
Balance at January 1	1,708,540	2,244,271
Corection of opening balance:		
IFRS 9 – correction of result through equity	-	(443,121)
Adjusted balance as of 1 January 2018	-	1,801,150
Increase (Note 13)	357,138	216,744
Effects of the changes in foreign exchange rates (Note 13)	(768)	117
Reversal (Note 13)	(104,681)	(301,700)
Permanent write-off	(11,234)	-
Other (Note 13)	(37,372)	(7,771)
Total Group impairment allowance	1,911,622	1,708,540
Balance as of December 31		
Group impairment allowance	2,158,301	1,952,107
Inventory impairment allowance (not exposed to credit risk)	80,650	92,680
Balance as of December 31	2,238,951	2,044,787

31. OTHER ASSETS (continued)

a) Equity investments

Other assets also comprise equity investments and are shown in the following table

Equity investments	2019	2018
Equity investments in banks and other financial organizations	80,270	80,270
Equity investments in companies and other legal entities	465,249	410,760
Equity investments in non-resident entities abroad	1,853,064	1,256,020
	2,398,583	1,747,050
Impairment allowance of:		
Equity investments in banks and other financial organizations	(80,270)	(80,270)
Equity investments in companies and other legal entities	(366,391)	(366,391)
	(446,661)	(446,661)

Equity investments in banks and other financial organizations relate to: Euroaxis banka a.d., Moskva in the amount of RSD 78,387 thousand, Union banka a.d., in the amount of RSD 1,874 thousand and Universal banka in bankruptcy in the amount of RSD 9 thousand.

Equity investments in companies mostly relate to: 14. Octobar a.d. Krusevac in the amount of RSD 324,874 thousand, Dunav osiguranje a.d.o. Beograd in the amount of RSD 86,902 thousand, RTV Politika d.o.o. Beograd in the amount of RSD 37,634 thousand, Beogradska berza a.d. in the amount of RSD 2,246 thousand and Politika a.d. Beograd in the amount of RSD 2,244 thousand.

Equity investments in non-resident entities abroad relate to VISA Company in the amount of RSD 1,475,253 thousand and MASTER Card in the amount of RSD 377,811 thousand.

Impairment allowance of equity investments totaling RSD 446,661 thousand relates to the impairment of cost of those equity investments that have no market value, out of which the major portion refers to: 14. October a.d., Krusevac in the amount of 324.874 thousand dinars, Euroaxis bank Moscow worth 78.387 thousand dinars, RTV Politika Belgrade driver, to the tune of thousands of dinars 37.633, Politika a.d. and PPD Dobricevo d.o.o. Cuprija amounting to RSD 2,563 thousand.

31. OTHER ASSETS (continued)

b) Other receivables and receivables from operations

Other RSD receivables mostly refer to receivables from purchase and sale of foreign currencies totaling to RSD 1,528,740 thousand (impairment of RSD 801 thousand), operating receivables of RSD 250,607 thousand (impairment of RSD 88,772 thousand), foreclosed assets of RSD 2,287,027 thousand (impairment of RSD 987,236 thousand), advances paid for working capital assets of RSD 84,543 thousand, (impairment of RSD 5,607 thousand), rental receivables of RSD 372,546 thousand (impairment of RSD 283,807 thousand) and interest receivables per other assets of RSD 203,067 thousand (impairment of RSD 156,189 thousand) and receivables from operations per court verdict totaling to RSD 209,085 thousand (written off in total, 100%).

Other receivables from operations in foreign currencies totaling to RSD 270,124 thousand for the most part relate to receivables for spot transactions of RSD 180,460 thousand.

v) Foreclosed assets

Foreclosed assets totaling to RSD 2,280,027 thousand gross, less recorded impairment allowance of RSD 987,236 thousand, with the net carrying value of RSD 1,292,791 thousand relate to:

I Foreclosed properties classified in accordance with the classification decision that applied before December 30, 2013 years

(000) RSD

Description	Area in m^2	Value	Date of acquisition
Novi Pazar, Kej Skopskih zrtava,44 local	82.95	2,021	27.09.2006
Gnjilica, field VII class	2,638	55	15.04.2008
Cacak, Hotel "Prezident", Bulevar oslobodjenja bb	2,278.92	82,315	21.01.2009
Budva, Montenegro, forest, IV class	8,292	86	12.10.2010
Buce, forest, IV class	974	3,751	27.05.2011
Prijevor, forest IV class	1,995	4,339	27.05.2011
Belgrade, 14 Miajla Avramovic, building	925.35	156,017	21.11.2011
Krusevac, Kosevi, production and office building I.C.P.	12,836	42,533	08.06.2012
Mladenovac, Sopot-Nemenikuce, field III class	16,633	250	25.06.2012
Obrenovac, Mislođin, field III class	10,017	983	11.07.2012
Novi Pazar, Ejupa Kurtagica 13, House	139.90	3,370	24.07.2012
Majur, Tabanovačka, field	14,452	1,524	10.08.2012
Mali Požarevac, large field, field III and IV classes	21,915	299	27.09.2012
Cuprija, Aleksa Santic 2/24, apartment	72.40	770	15.01.2013
NIS, Ivana Milutinovica 30, business office	438.39	4,677	23.04.2013
NIS, Triglavska 3/1, flat	79.80	3,007	04.06.2013
Mladenovac, field-lug III class	1,142	392	18.07.2013
NIS, Bulevar 12. februar, outhouse-storage	2,062	37,156	30.07.2013
Kula,Zeleznicka bb,business office,land	7,959	20,890	01.10.2013
Prijepolje, Karosevina, sawmill	450	797	08.11.2013
Total I		365,232	

31. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

II Foreclosed properties classified in accordance with the classification decision that is applied after December 30, 2013

(000) RSD

Description	Area in m2	Value	Date of acquisition
Vukovac,, Milatovac, agricultural land	132,450	534	16.05.2014
BOR, Nikole Pasica 21, commercial building, warehouse	3,823	42,503	08.05.2014
Subotica, Magnetic fields, 17, production hall and warehouse	2,492	42,381	18.07.2014
Mokra Gora, land, forests, fields, houses	58,400	3,479	31.01.2014
Kopaonik, House with land	337	3,739	31.01.2014
Novi Sad, Bulevar oslobođenja and 30th, commercial property 6/3	29	2,821	31.01.2014
Novi Sad, Bulevar oslobođenja 30 and commercial property 7/3	44	4,280	31.01.2014
Novi Sad, Bulevar oslobođenja and 30th, commercial property 8/3	35	3,405	31.01.2014
Novi Sad, Bulevar oslobođenja and 30th, commercial property 9/3	34	3,308	31.01.2014
Novi Sad, Bulevar oslobođenja and 30th, commercial property 10/3	39	3,794	31.01.2014
Novi Sad, Bulevar oslobodjenja 88, commercial/23	253	18,490	31.01.2014
Novi Sad, Tihomira Ostojića 4, office space 7	134	5,254	31.01.2014
Novi Sad, Polgar Andrasa 40/a, office space 8	81	4,531	31.01.2014
Novi Sad, Polgar Andrasa 40/a, office space 9	79	4,418	31.01.2014
Novi Sad, Polgar Andrasa 40/a, office space 10	408	23,468	31.01.2014
Zrenjanin, Novosadski put 4, building, pump and land	9,144	31,921	14.08.2014
Budva, Reževici, Montenegro, rocks, forest	1,363.20	18,846	22.07.2014
Budva, Reževici, Montenegro, forest V class	5,638.54	76,958	22.07.2014
NIS, Ivana Gorana Kovacica 31, residential building	434.58	4,142	17.04.2013
Mladenovac, Americ, field IV class	7,768	237	03.10.2014
Valjevo, Rađevo selo, warehouse	394	402	11.06.2014
Bela Crkva, Kajtasovo, forest	4,187	66	03.10.2014
Mladenovac, fields, orchards	25,136	502	03.10.2014
Valjevo, Vojvode Misica 17, family building	106	1,569	25.09.2014
NIS, Čajnička bb, residential buildings with additional building	825.74	9,851	14.03.2013
NIS, Sjenička 1, commercial buildings, warehouses, workshops	1,452.73	12,129	14.03.2013
Belgrade, Zemun, Cara Dusana 130, factory complex	6,876	92,109	16.06.2014
NIS, Sumadijska 1, Office space	504.60	1,658	04.12.2014
Valjevo, Worker 6, place	69	2,550	28.05.2014
Prokuplje, field III class	12,347	536	28.08.2015
Mionica, Prote Zarko Tomovica bb, House	107	1,594	10.09.2015
Prokuplje, Maloplanska 7, building with land	490	257	11.06.2012
Sokobanja, agricultural land, Orchard, field IV class	417,908	5,142	31.07.2012
Sokobanja, production hall with land	5,042	21,684	31.07.2012
Sokobanja, space with land	2,005	623	31.07.2012
Sokobanja, House with land	4,194	3,370	31.07.2012
Belgrade, Pivljanina 83, residential buildings	278.52	55,648	23.08.2012
Divčibare, meadows V class	8,012	3,982	02.12.2015
Lebane, Branka Radičevica 17, residential and commercial building	768.42	5,232	27.08.2015
Loznica, Lipnica, Karađorđeva, residential and commercial building with land	146	1,897	15.10.2015
Vrhpolje, lodging hospitality	1,334	2,169	16.05.2013
Krusevac, century village, a concrete base with land	100,560	124,605	11.03.2016
Zrenjanin, Bagljas, pasture II class	230	46	22.12.2015
Svilajnac, Kodublje, Office building, halls and land	10,462	28,184	26.02.2016
Aleksandrovo, Merosina, building with land	8,527	13,428	23.12.2015
Cacak, Suvo polje, buildings 1 and 2 with land	1,225	10,986	05.05.2016
Bojnik, Mirosevce, fields, pasture, vineyard	29,550	216	31.03.2016
Valjevo, Bobove, field VI and VII class	20,599	289	19.05.2016
Kotor, Montenegro, Office space, building No. 1	106	19,591	22.12.2016
Kotor, Montenegro, Office space, building No. 1	345	60,714	22.12.2016
Kotor, Montenegro, Office space, building No. 1	345	56,594	22.12.2016
Nis, Trg Ucitelja Tase br. 10/1, office space	79.40	5,808	13.03.2019
Curug, Nikole Pasica bb, silosi sa pomocnim objektima	910	58,498	07.10.2019
Total II		900,438	

31. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

III Equipment foreclosed before December 30, 2013 – that do not meet requirements according to the NBS classification of balance and of-balance sheet items

(000) RSD

Description	Value	Date of acquisition
Krusevac, moveable assets (\machinery, furniture, equipment)	6,160	08.06.2012
Nis i Soko Banja Moveable assets (lines for processing coffee, transport devices and devices for maintaining hygiene)	5,527	31.07.2012
Paracin, lines for production for coffee	2,276	31.12.2012
Vranic, lines for production	3,913	09.07.2013
Total III	17,876	

IV Equipment acquired in periods after December 30, 2013 – which do not classify as balance and off-balances items in accordance with the relevant NBS decision

(000) RSD

Description	Value	Date of acquisition
Moveable property, agricultural equipment and tools	53	03.06.2015
Equipment supplies raw materials	1,380	18.07.2014
Motor vehicle, installation material	609	13.05.2014
Other	239	
Total IV	2,281	

V Equipment acquired in the periods after December 30, 2013 which does not qualify under the NBS decision on the classification of balance sheet assets and off-balance sheet items

(000) RSD

Description	Value	Date of acquisition
Equipment	6,964	07.10.2019
Total V	6,964	

VI Securities acquired through the collection of receivables

(000) RSD

Description	Value	Date of acquisition
Securities acquired through the collection of receivables	1,940	12.09.2019
Impairment of securities	(1,940)	
Total VI	-	
Total (current value) I + II+ III+ IV+V+VI	1,292,791	

31. OTHER ASSETS (continued)

v) Foreclosed assets (continued)

The effect of the impairment of assets acquired through collecting receivables in 2019 is shown in the table:

In 000 RSD

Effects of property impairment	77,716
Effects of equipment impairment	2,814
1. Total impairment of real estate and equipment	80,530

2. Effect of Impairment of foreclosed securities	1,940

(1.+2.) Total effect of the proceeds from the collection of receivables	82,470

Total negative effect amounted to RSD 82,470 thousand and it was recognized as expense of a period as follows (note 13):

- Impairment of real estate in the amount of RSD 28,505 thousand based on the estimated lower market value of real estate and land, as well as impairment calculated in accordance with the internal act due to the inability to sell for a period longer than twelve months in the amount of RSD 49,211 thousand for real estate whose fair value is higher than net book value
- for equipment in the amount of RSD 2,814 thousand based on the estimate of the lower market value and in accordance with the Bank's internal act
- Impairment of securities received by collection of receivables in the amount of RSD 1,940 thousand was made on the basis of the legally adopted UPPR as an executive document obligatory for all creditors.

By engaging an authorized external appraiser, the Bank carried out a reassessment of fixed assets acquired through collecting receivables acquired prior to the twelve month period.

31. OTHER ASSETS (continued)

v) Foreclosed assets(continued)

G.1.1 Appraisal value of foreclosed properties

In 000 RSD

Property	Area in m^2	Book value before the appraisal	Appraisal value In EUR	Appraisal value Net current value in RSD	Difference in value
Belgrade, Mihaila Avramovica 14a,building	925.35	164,228	1,397	156,017	(8,211)
Krusevac, St. selo, a concrete base with land	100,560	131,163	1,115	124,605	(6,558)
Cacak, Hotel "Prezident", Bulevar oslobodjenja BB	2,278.92	98,456	837	82,315	(16,141)
Belgrade, Zemun, Cara Dusana 130, factory complex	6,876	96,957	825	92,109	(4,848)
Budva, Reževici, Montenegro, forest V class	5,638.54	79,502	676	76,958	(2,544)
Curug, Nikole Pasica bb, silos with auxiliary facilities	910	61,577	524	58,498	(3,079)
Kotor, Montenegro, Office space, building No. 1 PD 4	345	60,860	518	60,714	(146)
Kotor, Montenegro, Office space, building No. 1 PD6	345	60,860	518	56,594	(4,266)
Belgrade, Pivljanina 83, Office building	278.52	58,577	498	55,648	(2,929)
BOR, Nikole Pasica 21, commercial building, warehouse	3,823	46,813	398	42,503	(4,310)
Subotica,Magnetna polja 17, production hall and warehouse	2,492	44,612	379	42,381	(2,231)
Krusevac, Kosevi bb, production and office building I.C.P.	12,836	45,433	386	42,533	(2,900)
NIS, Bulevar 12. Februara bb, extra building-warehouse	2,062	39,112	333	37,156	(1,956)
Sokobanja, link, port, with land, Orchard, House, field IV kl.	429,149	32,340	275	30,819	(1,521)
Zerenjanin,Bagljas,Novosadski put 4,building,pump,land, pasture	9,374	33,649	286	31,967	(1,682)
Svilajnac, Kodublje, partner, buildings, halls and land	10,462	29,667	252	28,184	(1,483)
Novi Sad, Polgar Andrasa 40/a, pressing business. Space 10	408	24,703	210	23,468	(1,235)
Kula, Zeleznicka bb, commercial property, land	7,959	21,990	187	20,890	(1,100)
Kotor, Montenegro, Office space, building No. 1 PD2	106	20,622	175	19,591	(1,031)
Novi Sad, Bulevar oslobodjenja 88, Office 23	253	19,463	165	18,490	(973)
Budva,Rezevici, Montenegro,forest	1,363.20	19,469	165	18,846	(623)
Aleksandrovo, Merosina, administration building with land	8,527	14,135	120	13,428	(707)
Nis, Sjenicka 1, commercial buildings, warehouses, workshops	1,452.73	12,767	108	12,129	(638)
Cacak, Suvo polje,building 1 и 2 with land	1,225	11,564	98	10,986	(578)
Nis, Cajnicka BB, building	825.74	10,369	88	9,851	(518)
Novi Sad, Tihomira Ostojica 4, business office 7	79.40	6,114	51	5,808	(306)
Lebane, Branka Radičevica 17, residential and commercial building	134	5,530	47	5,254	(276)
Aleksandrovo, Merosina, administration building with land	768.42	5,507	46	5,232	(275)
NIS, Ivana Milutinovica 30, business space	438.39	4,923	42	4,677	(246)
Novi Sad, Polgar Andrasa 40/a, , business space 8	81	4,769	40	4,531	(238)
Novi Sad, Polgar Andrasa 40/a, , business space 9	79	4,651	39	4,418	(233)
Novi Sad, Bulevar Oslobodjenja 30a, business space (5 local)	181	18,535	158	17,608	(927)
Prijevor, forest 4 class	1,995	4,559	39	4,339	(220)
NIS, Ivana Gorana Kovacica 31, residential area	434.58	4,360	37	4,142	(218)
Divcibare, meadows V class	8,012	4,114	35	3,982	(132)
Mokra Gora, houses and meadows	58,400	3,986	34	3,479	(507)
Kopaonik, House with land	337	3,936	33	3,739	(197)
Budva, forest IV class	974	3,875	33	3,751	(124)
Novi Pazar, Ejupa Kurtagica 13, House	139.90	3,547	30	3,370	(177)
Nis, Triglavska 3/1, apartment	79.8	3,165	27	3,007	(158)
Valjevo, Radnicka 6, apartment	69	2,684	22	2,550	(134)
Other (26 properties)	-	24,836	211	23,696	(1,140)
Total		1,347,979		1,270,263	(77,716)

31. OTHER ASSETS (continued)

v) Foreclosed assets(continued)

G.1.2 Appraisal value of foreclosed equipment

In 000 RSD

Description	Book value before the appraisal	Net current value in RSD	Difference in value
Movable assets	13,572	12,296	(1,276)
Equipment, supplies, secundary raw material	9,532	8,636	(896)
Other	6,831	6,189	(642)
Total	29,935	27,121	(2,814)

Based on the judgment of the Supreme Court of Montenegro in 2019, the Bank registered real estate acquired through the collection of claims in the present value of RSD 4,592 thousand. (real estate in Tivat).

For three movable items with a total value of RSD 96 thousand, the Bank does not hold any book ownership (items recorded in off-balance sheet records). The Bank's management takes all necessary measures to sell the acquired assets.

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

Deposits and other liabilities due to banks and other financial institutions comprise:

(000) RSD

	December 31, 2019	December 31, 2018
Demand deposits	2,290,676	2,985,493
Term deposits	2,696,719	1,951,518
Borrowings	-	709,168
Expenses deferred at the effective interest rate (deductible item)	-	(2,990)
Other	34,361	19,559
Balance as at December 31	5,021,756	5,662,748

During 2019 term deposits were 1.05% to 1.87% for RSD and foreign currency term deposits placed by banks were deposited at interest rate of 1.4% to 2.7% for USD and 0.01% to 0.05% for EUR.

Borrowings comprise liabilities arising from foreign lines of credit due to foreign legal entities and extraterritorial organizations which, for the purpose of compiling the balance sheet, are regarded as banks.

Breakdown of long-term borrowings included in aforementioned line "Borrowings" is shown as follows:

(000) RSD

	December 31, 2019	December 31, 2018
EBRD	-	709,168
Balance as at December 31	-	709,168

In the first quarter of 2019, the Bank repaid the last installment of the EBRD credit facility in the amount of EUR 6,000 thousand, repaying the liabilities completely.

33. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS

Deposits and other liabilities due to customers comprise:

(000) RSD

	December 31, 2019	December 31, 2018
Corporate customers and agro		
Demand deposits	66,490,499	64,150,115
Overnight and other deposits	9,669,464	10,561,044
Borrowings	1,426,861	2,111,822
Special-purpose deposits	1,874,311	2,085,383
Deposits for loans approved	512,003	610,368
Interest payable, accrued interest liabilities and other financial liabilities	501,280	470,598
Retail customers – private individuals		
Demand deposits	36,182,657	29,277,626
Savings deposits	210,219,965	200,064,602
Special-purpose deposits	5,081,330	4,605,537
Deposits for loans approved	2,287,268	2,322,718
Interest payable, accrued interest liabilities and other financial liabilities	901,117	834,097
Other deposits	170,399	135,174
Balance at December 31	335,317,154	317,229,084

Corporate Customer Deposits

RSD demand deposits of corporate customers mostly comprise balances of transaction deposits of companies and other legal entities. In accordance with the Decision on Interest Rates for 2019, these deposits were interest-bearing. Depending on the average monthly balances on these transaction accounts of the customers, the interest rate is 0.10% per annum if average monthly balance is higher than RSD 50 thousand.

Foreign currency demand deposits of non-resident customers are non-interest bearing, except for specific business arrangements.

In 2019 short-term RSD deposits of corporate customers were placed at annual interest rates ranging between: 0.0% on deposits placed from 3 to 14 days to annual key policy rate less 0.75 percentage points for deposits placed up to a year per annum with minimum RSD 300 thousand deposited. Short-term deposits of entrepreneurs were placed at an interest rate ranging between 0.25% and 2.20% annually with minimum RSD 300 thousand deposited.

Short-term foreign currency deposits of corporate customers and entrepreneurers were placed at an interest rate ranging between 0.0% and 0.40% annually for EUR deposits and from 0.00% to 1.00% for USD.

Long-term RSD deposits of corporate customers were placed at an interest rate determined by the amount of the National Bank of Serbia key policy annual rate decreased from 0.5 to increased 0.20 percentage points, whereas those denominated in foreign currency accrued interest at the annual rate from 0.50% to 0.70% for EUR and from 1.30% to 1.40% annually for USD.

33. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS (continued)

Retail deposits

Dinar and foreign currency savings deposits of the private individuals during 2019 were non-interest bearing.

Short-term retail deposits in dinars were deposited at interest rates ranging from 1.50% to 3.50% annually, and in foreign currency from 0.05% to 0.35% for EUR, and for other currencies from 0.10% to 1.00% annually.

Long-term retail deposits in dinars are deposited at interest rates ranging from 3.75% to 4.00% annually, and in foreign currency from 0.65% to 0.80% for EUR, and for other currencies from 1.00% to 1.50% annually
During the year, the Bank also offered special interest rates on share savings, with limited periods of validity that are not disclosed.

Within the liabilities arising from loans, the total liabilities on foreign credit lines to foreign legal entities that are defined as customers for the balance sheet purposes are recognized.

The structure of long-term and short-term loans that are stated in the position of liabilities to customers is as follows:

(000) RSD

	December 31, 2019	December 31, 2018
Long-term credit		
Government of the Republic of Italy	36,139	103,104
European Investment Bank (EIB)	1,376,259	1,955,882
European Agency for Reconstruction and Development (EAR)	14,463	52,836
Balance at December 31	1,426,861	2,111,822

The maturity of the loans presented is between 2020 and 2030.

On credit lines, the Bank contracted certain financial indicators with creditors. The methodology for calculating contractual financial ratios by credit lines differs from the method of calculating ratios in accordance with the regulations of the National Bank of Serbia in the part of capital calculation and includes items for determining open credit exposure.

During 2019, the Bank made early repayment of a portion of the European Agency for Reconstruction and Development (EAR) line in the amount of EUR 52 thousand.

33. DEPOSITS AND OTHER FINANCIAL LIABILITIES TO OTHER CLIENTS (continued)

33.1. Structure and movement of deposits and other financial liabilities to banks, other financial organizations, central bank and customers are shown below

	December 31, 2019	(000) RSD December 31, 2018
Balance, January 1		
Deposits and other financial liabilities to banks, other financial institutions and the central bank (Note 32)	5,662,748	4,532,505
Deposits and other finan. liabilities to other customers (note 33)	317,229,084	292,471,640
Balance, January 1	322,891,832	297,004,145
Net inflows / outflows - deposits	19,184,637	30,275,999
Net inflows / outflows - loans	(1,255,956)	(4,683,853)
Net inflows / outflows - interest	(919,958)	(947,520)
Net inflows / outflows - fees	(6,320)	(10,755)
Foreign exchange differences	(567,930)	325,072
Accrued interest and other non-cash transactions	1,012,605	928,744
Balance at December 31	340,338,910	322,891,832

	December 31, 2019	(000) RSD December 31, 2018
Deposits and other financial liabilities to banks, other financial institutions and the central bank (Note 32)	5,021,756	5,662,748
Deposits and other finan. liabilities to other customers (Note 33)	335,317,154	317,229,084
Total banks and customers	340,338,910	322,891,832

34. PROVISIONS

Provisions relate to:

(000) RSD

	December 31, 2019	December 31, 2018
Provisions for off-balance sheet items (Note 13)	190,977	274,954
Provisions for litigations (Note 37.4)	1,614,874	900,152
Provisions for employee benefits in accordance with IAS 19	522,279	478,557
Balance at December 31	2,328,130	1,653,663

Movements on the accounts of provisions are provided below:

(000) RSD

	2019				2018			
	Off-balance sheet provisions (Note 13)	Provisions for litigation (Note 37.4)	Provisions for employee benefits (IAS 19)	Total	Off-balance sheet provisions (Note 13)	Provisions for litigation (Note 37.4)	Provisions for employee benefits (IAS 19)	Total
Balance at January 1	274,954	900,152	478,557	1,653,663	124,392	791,982	451,677	1,368,051
Correction of opening balance – IFRS 9	-	-	-	-	95,358	-	-	95,358
Ajusted opening Balance at January 1	-	-	-	-	219,750	791,982	451,677	1,463,409
Changes over the year	244,521	1,252,461	31,599	1,528,581	360,293	270,971	80,266	711,530
Provisions against actuarial gains within equity	-		12,609	12,609	-	-	(53,386)	(53,386)
Release of provisions	-	(25,405)	-	(25,405)	-	(28,691)	-	(28,691)
Reversal of provisions	(328,498)	(512,334)	(486)	(841,318)	(305,089)	(134,110)	-	(439,199)
Balance at December 31	190,977	1,614,874	522,279	2,328,130	274,954	900,152	478,557	1,653,663

34. PROVISIONS (continued)

a) Provisions for litigations

A provision was done on the basis of estimates of future outflows in the amount of claims, including interest and costs. Total provisions for 5,160 cases as of 31 December 2019 amounted to RSD 1,614,874 thousand.

In comparison with 31 Decemebr 2018 there was a change in the overall level of provision in the net amount RSD 714,722 thousand. Of that, a change that relates to the additional provisions for litigations is RSD 740,127 thousand, recognized in the income statement, while the reduction of provisions totaling to RSD 25,405 thousand refers to the use of the provisions for payments and for passed court verdicts.

The largest number of disputes concerns claims for payment of credit processing fees, damages and determination.

b) Provisions for retirement benefits

Provisions for retirement benefits are formed on the basis of an independent actuary's report at the balance sheet date, and are stated in the amount of the present value of expected future payments.

Main actuarial assumptions used in the calculation of provisions for severance pay:

	December 31, 2019	December 31, 2018
Discount rate	4.00%	4.75%
Salary growth rate within the Bank	2.00%	2.00%
Employee turnover	4.00%	4.00%

According to IAS 19, discount rate used should be in line with market yields on high quality corporate bonds, or long-term government bonds. Currently, in the financial market there are no such securities, so, interest rate on long-term bonds issued by the Government of the Republic of Serbia was used to determine the discount rate.

35. OTHER LIABILITIES

Other liabilities include:

		(000)RSD
	December 31, 2019	December 31, 2018
Payables	211,615	471,594
Liabilities to employees (salaries, taxes, contributions and other liabilities to employees)	70,502	71,059
Advances received	23,310	26,820
Leasing liabilities	962,168	-
Deferred income from interest and fees and other income	132,796	144,594
Accrued liabilities and other accruals	636,227	357,763
Liabilities on transitional accounts	2,312,258	2,276,184
Profit liabilities	9,229,643	5,442,133
Liabilities for taxes and contributions	14,654	26,263
Other liabilities	268,057	243,562
Balance at December 31	13,861,230	9,059,972

Liabilities on transitional accounts in the amount of RSD 2,312,258 thousand mainly relate to liabilities arising from the purchase and sale of foreign currency in foreign currency by banks in the amount of RSD 1,528,706 thousand, liabilities in the account for liquidated foreign currency accounts of domestic legal entities in the amount of RSD 215,008 thousand , foreign currency liabilities arising from spot transactions in the amount of RSD 180,759 thousand, liabilities arising from the settlement of clients' accounts in dinars in the amount of RSD 104,932 thousand and transitional liabilities on other bases in dinars in the amount of RSD 65,270 thousand.

a) Profit liabilities in the total amount of RSD 9,229,643 thousand consist of:

- dividend payable on preference shares in the amount of RSD 99,570 thousand,
- dividends on ordinary shares in the amount of RSD 7,701,758 thousand and
- liabilities from profit to employees in the amount of RSD 1,428,315 thousand

By Decision of the Bank's Assembly 4586/3 from 24 April 2019, a portion of retained earnings from previous years was allocated for dividends on ordinary shares in the amount of RSD 3,245,000 thousand and preferential shares in the amount of RSD 13,073 thousand, with the limitation of payment by fulfilling the requirements of Article 25 of the Law on Banks.

During 2019, the Bank did not make payments based on profit sharing for 2014, 2015, 2016, 2017 and 2018 due to the abovementioned limitation.

35. OTHER LIABILITIES (continued)

b) Leasing liabilities

	(000) RSD
Opening balance as at January 1, 2019 – the effect of the first application of IFRS 16	1.349.455
Interest expenses	19.533
Interest income - termination of contracts	(499)
Expenses from the negative currency clause of the leasing contract	3.528
Income from the positive. val. Leasing clauses	(8.970)
Taxes for legal entities and individuals	62.970
Other net income from leasing	(60)
Leasing payments during the year	(459.189)
Other	(4.600)
Balance as at December 31, 2019	962.168

36. EQUITY

36.1 Equity is comprised of:

(000) RSD

	December 31, 2019	December 31, 2018
Issued capital	17,191,466	17,191,466
Share premium	22,843,084	22,843,084
Reserves from profit and other reserves	18,565,207	14,223,535
Revaluation reserves	6,826,518	4,254,737
Retained earnings	1,470,139	902,509
Profit / (Loss) for the period	8,955,759	8,145,182
Balance as at December 31	75,852,173	67,560,513

The Bank's issued (share) capital was established through initial shareholder contributions and the ensuing issues of new shares. Shareholders have the right to manage the Bank as well as to shares in profit distribution. As of December 31, 2019 the Bank's share capital totaled RSD 17,191,466 thousand and comprised 17,191,466 shares with the individual par value of RSD 1 thousand.

Breakdown of the Bank's shares is provided in the table below:

(000)RSD

Share Type	December 31, 2019	Share Count December 31, 2018
Ordinary shares	16,817,956	16,817,956
Preferred shares	373,510	373,510
Balance as at December 31	17,191,466	17,191,466

36. EQUITY (continued)

The structure of the Bank's shareholders with ordinary (common stock) shares at December 31, 2019 was as follows:

Name of the shareholder	No. of shares	% participation
Republic of Serbia	13,997,686	83.23
Jugobanka a.d., Beograd – in I bankruptcy	321,600	1.91
OTP BANKA SRBIJA (custody account)	298,352	1.77
Dunav Osiguranje a.d. Beograd	290,214	1.73
BDD M&V INVESTMENTS AD BEOGRAD (cumulative account)	272,600	1.62
East capital (lux)-Balkan fund	189,756	1.13
GLOBAL MACRO ABSOLUTE RETURN A	133,148	0.79
GLOBAL MACRO CAPITAL OPPORTUNITIES	131,568	0.78
Stancom co. d.o.o. Beograd	117,535	0.70
GLOBAL MACRO PORTFOLIO	84,003	0.50
FRONT MARK OPPORTUN.MASTER	68,404	0.41
DEKA INZENJERING	60,090	0.36
I.N. DRENIK NONWOVENS TRADING	58,950	0.35
ALLIANCEBERNS.NEXT 50E.M.(M)F.	53,837	0.32
Other (1,113 shareholders)	740,213	4.40
	16,817,956	100.00

The structure of the Bank's shareholders with preferred shares at December 31, 2019 was as follows:

Shareholder	Share Count	(000) RSD % share
An individual	85,140	22.79
Jugobanka a.d., Beograd in bankruptcy	18,090	4.84
Others (632 shareholders)	270,280	72.37
	373,510	100.00

On June 26, 2019 the Ministry of Finance of the Republic of Serbia repurchased shares which were held by the shareholders DEG-DEUTSHE INVESTITIONS and SVEDFUND INTERNATIONAL in the total percentage of 6.90%, and on November 26,2019 repurchased EBRD shares 24.43%, IFC CAPITALIZATION FUND LP shares 10.15%, which increased percentage of ownership of Serbian Government to 83.23%.

Revaluation reserves amounting to RSD 6,826,518 thousand (2018: RSD 4,254,737 thousand) relate to the effects of increase in the value of property based on the independent appraisal amounting to RSD 1,004,444 thousand, revaluation reserves from valuation of equity instruments in the amount of RSD 1,631,690 thousand, revaluation reserves arising from the valuation of debt securities amounting to RSD 4,078,523 thousand and actuarial gains of RSD 111,861 thousand. Presented values include deferred tax effects.

36. EQUITY (continued)

36.2. Earnings per share

Basic earnings per share is calculated by dividing the profit (loss) attributable to shareholders (of a parent company) by weighted average number of ordinary shares outstanding for the period.

	2019	2018
Earnings minus preferred dividend (In RSD thousand)	8,942,686	8,132,109
Weighted average number of shares outstanding	16,817,956	16,817,956
Earnings per share (in RSD)	532	484

Basic earnings per share for the year 2019 amounts to RSD 532 or 53.17% of the nominal value of ordinary shares, while for 2018 earning per share was RSD 484, or 48.35% of the nominal value of the ordinary shares

37. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS

(000) RSD

	December 31, 2019	December 31, 2018
Operations on behalf and for the account of third parties	4,152,268	4,228,635
Taken-over future liabilities	53,595,618	44,069,612
Derivatives intended for trading under the contract currency	-	1,772,919
Other off-balance sheet items	402,692,145	407,748,884
Total	460,440,031	457,820,050

37.1 Guarantees and letters of credit

The Bank issues guarantees and letters of credit to vouch to third parties for the liability settlement by its clients. Such contracts have defined validity terms, which most commonly last up to a year. The contractual values of contingent liabilities are presented in the table below:

(000) RSD

	December 31, 2019	December 31, 2018
Payment guarantees (note 4.1.1.)	4,210,006	3,107,502
Performance guarantees (note 4.1.1.)	4,764,048	3,004,569
Letters of credit	281,963	214,361
Balance as at December 31	9,256,017	6,326,432

The above listed amounts represent the maximum amount of loss that the Bank would incur as at reporting date in the event that none of the Bank's clients were able to settle their contractual obligations (Note 4).

37. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

37.2 Commitments

The breakdown of commitments is provided below:

	December 31, 2019	(000) RSD December 31, 2018
Unused portion of approved payment and credit card loan facilities and overdrafts	10,970,821	11,017,337
Irrevocable commitments for undrawn loans	32,550,431	24,627,309
Other irrevocable commitments	818,349	2,098,534
Balance as at December 31	44,339,601	37,743,180

37.3 Other off-balance sheet items comprise managed funds and other off-balance sheet assets

Funds managed on behalf and for the account of third parties amount to RSD 4,152,267 thousand and are mostly comprised of assets for consignment loans of the Republic of Serbia in the amount of RSD 3,448,971 thousand and relate to the long-term housing loans extended to retail customers, loans on the basis of the purchase of social apartments of budget institutions in the amount of RSD 305,001 thousand (loans taken from Beobanka in bankruptcy). Other assets mainly relate to agricultural loans financed by the relevant ministries.

Within other off-balance sheet assets which amount to RSD 402,692,145 thousand, the Bank, among other things, records nominal value of securities per custody operations performed for the account of its clients RSD 49,759,948 thousand, the nominal value of the securities in the portfolio of the Bank RSD 128,417,584 thousand, repo investments in Treasury bills RSD 12,000,000 thousand, the amount written-off of funds in dollars in the amount of 28,787,673 thousand dinars, and the amount written-off of financial assets in foreign currency in the amount of 3,781,298 thousand dinars, according to the NBS of the accounting write off balancing assets. The Bank according to the issued permission to perform custody jobs saved and financial instruments in the accounts of clients ' securities, what is off-balance evidence. The Bank takes no credit risk in respect of managed funds.
Moreover, in accordance with the regulations, other off-balance sheet assets include the value of the tangible assets received as collaterals securitizing loan repayment: residential and commercial real estate properties and other collaterals that amount to RSD 166,846,879 thousand.

37.4 Litigation

Based on the expert estimate made by the Bank's Legal Department and attorneys at law representing the Bank, the Bank made provisions for potential litigation losses for all the legal cases against the Bank in 2019 in the total amount of RSD 1,614,874 thousand (2018: RSD 900,152 thousand) (Note 34).

As of 31 December 2019 contingent liabilities based on legal suits filed against the Bank amounted to RSD 5,650,650 thousand (for 5,933 cases).

Included in this amount are both the binding claims for payment and the value of the subject-matter of the dispute indicated in the claims with the determining claim. The above amount does not include interest and costs of the procedure.

In addition, as at 31 December 2019 the Bank has recorded 12,709 proceedings against third parties in the total amount of RSD 43,661,628 thousand.

37. CONTINGENT LIABILITIES AND OTHER OFF-BALANCE SHEET ITEMS (continued)

37.5 Tax Risks

Tax systems in the Republic of Serbia is undergoing continuous amendments. In different circumstances, tax authorities could have different approach to some problems, and could establish additional tax liabilities together with related penalty interest and fines. The Bank's management believes that tax liabilities recognized in the financial statements are fairly presented.

During 2019, the tax control of the calculation and payment of corporate income tax for 2017 was carried out as part of the reported tax deduction. Upon inspection, no irregularities were identified.

38. RELATED PARTY DISCLOSURES

Legal entities and individuals are considered related parties if one party has control, joint control or significant influence in making financial and operating decisions of another legal entity. Related parties are also those who are under the common control of the same parent company.

In the normal course of business, a number of banking transactions are performed with subsidiaries. These include loans, deposits, investments in equity securities, derivative instruments, payment transactions and other banking operations.

38.1 Shareholders and subsidiaries

The Republic of Serbia, which owns 83.23% of the Bank's ordinary shares, has the largest share in the management actions of the Parent Bank. The parent bank has three subsidiaries: Komercijalna banka a.d., Podgorica, Komercijalna banka a.d., Banja Luka and KomBank INVEST a.d., Belgrade.

38. RELATED PARTY DISCLOSURES

38.1 Parent Bank and subsidiaries

A. Balance as at December 31, 2019

RECEIVABLES

Subsidiarieds	Loans and Receivables	Intrest and fee	Other Assets	Alowa nce	Net Balance Exposure	Off-Balance Sheet Items	Total
1.Komercijalna banka AD Podgorica	6,675	889	-	89	7,475	1,111,252	1,118,727
2 Komercijalna banka AD Banja Luka	83,967	25	549	973	83,568	1,999,078	2,082,646
3. Kombank Invest	-	253	-	1	252	200	452
Total:	90,642	1,167	549	1,063	91,295	3,110,530	3,201,825

LIABILITIES (000) RSD

Subsidiaries	Deposits and loans	Intrest and fee	Other liabilities	Total
1.Komercijalna banka AD Podgorica	950,104	-	7	950,111
2 Komercijalna banka AD Banja Luka	154,073	-	-	154,073
3. Kombank Invest	25	-	-	25
Total	1,104,202	-	7	1,104,209

INCOME AND EXPENSES (000) RSD

Subsidiaries	Interest income	Fee and Commission Income	Interest expenses	Fee and Commission Expense	Net income/ expenses
1.Komercijalna banka AD Podgorica	59	5,033	(2,358)	(100)	2,634
2 Komercijalna banka AD Banja Luka	1,962	3,631	-	(300)	5,293
3. Kombank Invest	-	1,997	-	-	1,997
Total	2,021	10,661	(2,358)	(400)	9,924

Komercijalna Banka AD Beograd realized net negative exchange rate differences in the amount of RSD 7,288 thousand on the basis of transactions with its subsidiaries (in 2018: net negative exchange rate differences in the amount of RSD 10,321 thousand).

38. RELATED PARTY DISCLOSURES

38.1 Parent Bank and subsidiaries

B. Balance as at December 31, 2018

RECEIVABLES

Subsidiarieds	Loans and Receivables	Intrest and fee	Other Assets	Alowance	Net Balance Exposure	Off-Balance Sheet Items	Total
1.Komercijalna banka AD Podgorica	6,651	882	-	93	7,440	-	7,440
2. Komercijalna banka AD Banja Luka	101,737	25	881	1,261	101,382	1,181,946	1,283,328
3. Kombank Invest	-	162	-	-	162	200	362
Total:	108,388	1,069	881	1,354	108,984	1,182,146	1,291,130

LIABILITIES (000) RSD

Subsidiaries	Deposits and loans	Intrest and fee	Other liabilities	Total
1.Komercijalna banka AD Podgorica	1,440,473	-	1,651	1,442,124
2 Komercijalna banka AD Banja Luka	179,992	-	-	179,992
3. Kombank Invest	8	-	-	8
Total	1,620,473	-	1,651	1,622,124

INCOME AND EXPENSES (000) RSD

Subsidiaries	Interest income	Fee and Commission Income	Interest expenses	Fee and Commission Expense	Net income/ expenses
1.Komercijalna banka AD Podgorica	70	2,994	-	(2)	3,062
2 Komercijalna banka AD Banja Luka	3,449	4,073	-	(835)	6,687
3. Kombank Invest	-	1,386	-	-	1,386
Total	3,519	8,453	-	(837)	11,135

Komercijalna banka AD Beograd realized net negative exchange rate differences in the amount of RSD 10,321 thousand (2017: net positive exchange rate differences in the amount of RSD 54,899 thousand) based on transactions with its subsidiaries.

38. RELATED PARTY DISCLOSURES (continued)

38.2 Other related parties

Loans and receivables from related parties

(000) RSD

Loans and Receivables	2019 Balance	Off balance	Total	2018 Balance	Off balance	Total
Bolero ZR	-	-	-	1	-	1
Beomox doo	23,483	1,220	24,703			
PMC Inzinjering	1	-	1	1	-	1
Physical entities	176,512	17,227	193,739	148,782	14,815	163,597
Total	199,996	18,447	218,443	148,784	14,815	163,599

Liabilities	depsits	Borrowings	Total	Deposits	Borrowings	total
PMC Inzinjering	89	-	89	207	-	207
Beomox doo	7,950	-	7,950			
Arhitektonski biro studio 3	100	-	100	1	-	1
JP Jugoimport	4,964	-	4,964	29	-	29
Anfibija doo Cacak	-	-	-	239	-	239
EBRD (note 32)	-	-	-	-	710,563	710,563
International Finance Corporation (note 32, 34)	-	-	-	9	-	9
Reprezend DOO	12	-	12	12	-	12
Bolero ZR	19	-	19	11	-	11
Natural persons	216,065	-	216,065	146,812	-	146,812
Total	229,199	-	229,199	147,320	710,563	857,883

38. RELATED PARTY DISCLOSURES (continued)

38.2 Other related parties (continued)

(000) RSD

	2019		
	Interest	Fees	Total
PMC Engineering	-	35	35
Anfibija			
Architectural Bureau STUDIO 3	-	11	11
Beomox доо	482	318	800
ЈП Југоимпорт	-	4,847	4,847
Bolero ZR	-	18	18
Natural persons	7,667	844	8,511
Total income	8,149	6,073	14,222
Expenses			
EBRD	(4)	(1)	(5)
	(4)	-	(4)
Natural persons	(629)	(15)	(644)
Total expenses	(637)	(16)	(653)
Net expenses	7,512	6,057	13,569

(000) RSD

	2018		
	Interest	Fees	Total
Income			
PMC Engineering	-	12	12
Anfibija	-	7	7
Architectural Bureau STUDIO 3	-	12	12
Bolero ZR	-	18	18
Natural persons	7,207	1,124	8,331
Total income	7,207	1,173	8,380
Expenses			
EBRD	(40,813)	-	(40,813)
Natural persons	(1,109)	(736)	(1,845)
Total expenses	(41,922)	(736)	(42,658)
Net expenses	(34,715)	437	(34,278)

38. RELATED PARTY DISCLOSURES (continued)

38.3 Gross and net remunerations paid to the members of the Bank's Executive Board, Board of Directors and Audit Committee were as follows:

(000) RSD

	December 31, 2019	December 31, 2018
Gross remunerations Executive Board	63,403	58,927
Net remunerations Executive Board	52,981	49,500
Gross remunerations Board of Directors and Audit Committee	29,747	40,324
Net remunerations Board of Directors and Audit Committee	18,801	25,310

39. UNRECONCILED OUTSTANDING ITEM STATEMENTS

Based on the analysis of the regular Annual Count as at December 31, 2019, the Bank has inconsistent statements of outstanding items for ten customers with the stated reason for disputing.

Non-reconciled statements for three clients relate to clients who dispute the amount of receivables for given advances, receivables from issued invoices and rent receivables in the total amount of RSD 27 thousand (thirteen unverified statements in the amount of RSD 6,431 thousand were returned on the same basis of receivables).

For one client, the non-reconciling amounts relate to off-balance sheet items of irrevocable guarantees under the warranty, with the client's reason for not agreeing because the warranty has expired. The object of the dispute is the customs guarantee, which expires within 180 days. The guarantee was issued in the amount of RSD 100,000 thousand.

Four clients dispute the amounts of claims on domestic and foreign payments, unreported amounts from bankruptcy for clearing checks, fees for the affairs of an issue agent in dinars, all in the amount of RSD 117 thousand.

In two cases, the clients partially challenged the amount relating to January overpayments in the amount of RSD 1,154 thousand.

The amount of allowances for disputed claims (and the amount of provisions for balance sheet items) is determined by the Bank's credit risk policy.

The Bank is in the ongoing process of reconciling disputed items.

40. EVENTS AFTER THE BALANCE SHEET DATE

Based on the decision of the Bank's Board of Directors, a call was made to hold a regular session of the Bank's Shareholder Assembly on March 9, 2020, with a proposal for a Decision on approval of the Bank's strategy and business plan for the period 2020 - 2022.

On February 26, 2020 the Ministry of Finance of the Republic of Serbia announced that the representatives of Nova Ljubljanska banka d.d. (NLB) and the Minister of Finance of the Republic of Serbia, have signed Share Purchase Agreement for 83.23% of ordinary shares of Komercijalna banka AD Beograd.

By signing this agreement, the Bank has acquired a new strategic partner, who will take over the management of the Bank upon completion of the transaction.

Apart from the events described in the previous paragraphs, there were no significant events after the balance sheet date that would have to be disclosed in the financial statements.

41. EXCHANGE RATES

Foreign exchange rates determined at the interbank foreign exchange market applied for the reconciliation of balance sheet items in RSD on December 31, 2019 and 2018 for certain major currencies are:

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

In Belgrade, March 16, 2020

Signed on behalf of Komercijalna banka a.d. Beograd by:

Miroslav Perić, PhD
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

Vladimir Medan, PhD
Chief Executive Officer

2019 ANNUAL REPORT OF OPERATION OF KOMERCIJALNA BANKA AD

March 2020

CONTENTS

1. KEY PERFORMANCE RATIOS OF THE BANK

PROFIT AND LOSS STATEMENT (RSD 000)	2019.	2018.	Index 19/18	2017.	2016.	2015.
Profit / loss before tax	8.268.685	8.121.073	101,8	7.187.250	-8.377.636	-6.175.885
Profit / loss after tax	8.955.759	8.145.182	110,0	8.117.368	-8.063.183	-6.061.358
Net interest income	12.605.384	12.834.638	98,2	12.446.197	13.462.734	13.768.082
Net fee income	5.328.996	5.210.149	102,3	5.082.226	4.817.314	4.899.947
*Operating expenses **	11.064.609	10.473.783	105,6	10.833.081	11.086.858	10.799.510
Net income / expense of indirect write-offs of loans and provisions	2.425.931	9.493		17.883	-14.907.539	-13.008.526

** Note: Operating expenses include earnings, tangible and intangible operating expenses*

BALANCE SHEET (RSD 000)	2019.	2018.	Index 19/18	2017.	2016.	2015.
BALANCE SHEET ASSETS	432.380.443	401.165.980	107,8	369.183.538	400.017.469	393.439.874
RETAIL						
*Loans ***	99.057.214	92.033.605	107,6	81.712.222	75.522.465	70.784.957
*Deposits ****	280.484.488	260.296.411	107,8	241.210.420	231.312.395	218.836.847
CORPORATE						
Loans	81.504.403	75.264.373	108,3	71.725.704	74.083.897	89.204.275
Deposits	47.879.400	49.879.580	96,0	41.371.592	78.300.568	55.503.896
Securities	138.469.551	133.177.598	104,0	117.288.767	136.366.773	129.607.464

**** Note: The loans item does not include other loans and receivables, the deposits item does not include other liabilities and funds received through credit lines. At the request of the auditor, a correction of the balance sheet for 2015 was made in 2017.*
**** Note: At the end of 2017, RSD 11.2 billion of micro-customers' deposits were transferred from the corporate to retail, which is why the data was adjusted in relation to 2017 Annual Business Report*

RATIOS	2019.	2018.	Index 19/18	2017.	2016.	2015.
LOANS TO DEPOSITS RATIO						
Gross loans / deposits	57,7%	58,4%		61,3%	58,7%	67,4%
Net loans / deposits	54,9%	54,8%		56,1%	50,7%	57,2%
CAPITAL (RSD 000)	75.852.173	67.560.513	112,3	63.260.055	55.424.302	62.838.046
Capital adequacy	30,83%	29,18%		27,89%	26,97%	22,70%
Number of employees	2.744	2.766	99,2	2.806	2.858	2.877
PROFITABILITY RATIOS						
ROA	2,00%	2,13%		1,89%	-2,05%	-1,56%
ROE-total equity	11,71%	12,57%		11,91%	-13,86%	-8,99%
Net interest margin on total assets	3,0%	3,4%		3,3%	3,3%	3,5%
Cost / income ratio	61,7%	58,0%		61,8%	60,7%	57,9%
Assets per employee (in 000 EUR)	1.340	1.227	109,2	1.111	1.134	1.124

During 2019, business entities operated in a relatively stable macroeconomic environment. Key macroeconomic indicators achieved positive values. The last year was marked by the growth of gross domestic product (GDP), a record high level of foreign direct investment (FDI), the republican budget surplus, a decrease in the public debt to GDP ratio, appreciation of the dinar against the euro and a fall in the unemployment rate.

In the previous year, the National Bank of Serbia (NBS), as part of its activities to further strengthen the overall stability of the banking sector, adopted the Decision on Amendments to the Decision on Risk Management by Banks, Decision on Amendments and Supplements of the Decision on Capital Adequacy of Banks, Decision on Amendments and Supplements of the Decision on the Classification of Bank Balance Sheet Assets and Off-Balance Sheet Items, Decision on Amendments and Supplements of the Decision on Reporting Requirements for Banks, Decision on Amendments of the Decision on Reporting on Capital Adequacy of Banks, etc.

The Instant Payment System (IPS), introduced by NBS starting in October 2018, continued to operate successfully throughout 2019, as evidenced by the increase in the number and value of transactions performed. IPS NBS payment system works 24 hours a day, 7 days a week, 365 days a year (24/7/365).

As of May 2019, the Law on Conversion of Housing Loans Indexed in Swiss Francs has been implemented. In this way, the NBS intervened in the banking market in order to regulate the long-standing problem of individual retail clients indebted in Swiss francs based on housing loans granted by commercial banks.

The sector capital adequacy indicator is at a high and stable level during the first three quarters of 2019. Interest rates on new loans granted to businesses and retail clients are at a stable and low level.

Low inflationary pressures in 2019 caused the NBS to further relax its monetary policy by lowering its benchmark interest rate to a lowest level which amounted to 2.25%.

Serbia's risk premium was reduced to 64 b.p. in the third quarter of 2019[1], the largest decrease compared to other countries in the region. Serbia's risk premium, as measured by the EMBI index, reached its lowest value since September 18, 2019, since this indicator has been monitored and came to 49 b.p.[2] This further demonstrates investors' confidence in the good macroeconomic prospects of the Serbian economy.

The Bank remains in the group of the system significant banks, with stable participation in the assets and capital in the sector. At the end of the third quarter of 2019, the Bank participates in the banking sector's assets with 10.5%, while in the share capital of the sector it participates with 10.4%. The Bank continues to stand out as a leader in the volume of retail foreign currency savings in the sector. At the end of 2019, retail savings deposits amounted to EUR 1,773.2 million.

As key goals set for the Bank's management in 2019, safe, stable and profitable operations have been achieved. The Bank achieved growth in balance sheet assets and operating profit with high liquidity and high capital adequacy. The total capital of the Bank, as one of the key indicators of business security, grew by 12.3% in 2019. At the end of 2019, the Bank had total capital in the amount of RSD 75,852.2 million or EUR 645.0 million. The Bank's capital adequacy ratio at the end of 2019 was 30.83% (minimum 8% + capital buffer required).

Following the changes made in 2018, at the end of 2019, the Bank provided retail services through a network of 203 branch offices grouped in six Business Centres and Kosovska Mitrovica Branch. Operations with legal entities were carried out through three Divisions in charge of working with small and medium business and Corporate Division - in charge of operations with large corporate clients.

The fact that the society we live in increasingly rests on the Internet and e-commerce has influenced the Bank to implement modern technologies in its operations. Fully aware of these changes and needs, the Bank set as one of its significant goals the continuation of business digitization throughout 2019. Today, the Bank provides, by the highest standards, almost all digital banking services to its customers in the same way that these services are available to customers in the most developed countries of the world. Digitization is also a process that the Bank uses, among other things, to improve existing

1 NBS, Inflation Report, November 2019

2 NBS, Inflation Report, November 2019

business processes, that is, to increase efficiency and quality of work.

In accordance with the NBS regulation, in order to further improve the risk management system, the Bank has taken all necessary measures for quality management of credit and other business risks. Credit risk remained the highest risk in the Bank's and banking sector's operations. As a result of the established risk management system, and the implementation of NBS regulations, the Bank significantly reduced the non-performing loan ratio (NPL ratio) in 2019. At the end of 2019, the NPL ratio was 7.2%, compared to 2018 when it was 9.5%.

The Bank ended 2019 with a pre-tax profit of RSD 8,268.7 million. The positive results achieved in the last three years and the high values of the capital adequacy ratio have enabled the Bank to accumulate a significant amount of profit reserves. Profit reserves increased by RSD 6,913.5 million y.o.y.

In the next three-year period, according to the Strategy and Business Plan, the Bank’s focus will be on:

- growth of lending;
- maintaining the quality of the loan portfolio;
- maintaining and improving the client structure;
- an increase in the share of fees and commissions;
- control of operating expenses;
- maintaining and strengthening the Bank's capital base.

Financial objectives of the Bank (in%)	Achieved in 2019	Plan for 2020	Plan for 2021	Plan for 2022
Asset growth	7,8	3,6	5,9	6,0
Profit / Loss before tax (RSD million)	8.269	8.446	8.878	9.365
ROA	2,0	1,9	1,9	1,9
ROE - total equity	11,7	11,0	11,1	11,3
Interest margin (net interest income / average assets)	3,0	3,0	2,9	2,7
Cost / Income ratio	61,7	58,1	57,1	55,1
NPL	7,2	4,8	4,0	3,3

2. MACRO-ECONOMIC OPERATING CONDITIONS

According to the International Monetary Fund (IMF) forecast of October 2019, the global economic growth projection for 2019 is 3.0%[3]. For developing countries, the year-on-year growth projection has been reduced to 1.7% for 2019.[4] In the United States, investment dynamics slowed while employment rates and population spending were significant. Growth in 2019 is expected to be 2.4% to 2.1% in 2020[5]. For euro area countries, year-on-year growth is projected to be 1.2% in 2019 and 1.4% in 2020[6]. Japan's economy is projected to grow 0.9% in 2019. Growth in emerging markets and a group of developing countries will decline to 3.9% in 2019, while rising to 4.6% in 2020. The incentive policy is expected to continue in China, with growth expected to be 6.1% in 2019 and 5.8% in 2020. India should reach an annual growth rate of 6.1% in 2019 and a growth of 7.0% in 2020[7]. For Serbia, the GDP growth estimate for 2019, according to the IMF, is 3.5% for 2019 and 4.0% for 2020.[8]

In the international financial market and throughout 2019, there was a diversity of monetary policies of the leading central banks, the Federal Reserve (Fed, USA) and the European Central Bank (ECB). The Federal Reserve lowered its benchmark rate in October 2019 by 0.25 p.p. (1.50-1.75%), the European Central Bank lowered its benchmark rate by 0.10 p.p. (-0.5%), the Bank of England increased interest rate by 0.25 p.p. (0.75%) at the end of 2019, while the Swiss National Bank reduced its benchmark rate in 2019 by 0.50 p.p. to -0.75%[9]. The divergence of monetary policies of the leading central banks in the world makes global capital flows to developing countries, and thus Serbia, uncertain. At the end of September 2019, the ECB decided to renew the net asset purchase of EUR 20 billion per month from November 2019, which is to be completed shortly before the start of the interest rates increase.[10]. Long-term loans to banks under the TLTRO III program will be granted on even more favourable terms[11], and the decision on the so-called differentiation has been made according to which two levels of excess reserves of banks are defined, and its implementation will start from 30 October 2019.

ECB estimates that euro area annual inflation, measured by the HICP standard, will be 1.2% in 2019, 1.1% in 2020 and 1.4% in 2021.[12] Looking at the future period, by the second quarter of 2020, overall inflation rates are expected to be moderate and somewhat volatile, mainly due to energy price developments (measured by the HICP standard)[13].
The real growth rate of euro area GDP in the third quarter of 2019 was 0.2%.[14] According to the ECB's December 2019 projections, the expected GDP growth rate is 1.2% in 2019, 1.1% in 2020, and slightly adjusted upwards or downwards (respectively) compared to the September estimate[15].

In the commodity market, the fluctuation in the price of crude oil continued. The price of oil was also affected by trade tensions between the US and China at the end of the year. The price of Brent crude oil at the end of 2019 (from December 20 to January 3, 2020) was in the range of USD 66.26 to USD 68.96 per barrel[16].

In the Republic of Serbia, after an initial growth projection of 3.6%, as a result of significant growth in the construction, services and investment sectors, a preliminary estimate of annual GDP growth of 4.0% was reached in 2019.[17]. GDP growth in 2020, as in the next two years, should remain at around 4.0%[18]. Year-on-year inflation is still under control, moving around 2.0% on average over the last six years. Year-on-year inflation at the end of December 2019 was 1.9%[19]. According to the NBS memorandum targeted inflation will remain within the target limits in the period 2020-2022 3,0%±1,5p.p. According to the Labour Force Survey (Q3 2019), the unemployment rate is 9.5%[20]. In the period January-November 2019, the total value of foreign trade amounted to EUR 37.8 billion[21]. Foreign direct investment (FDI) net inflow for the first eleven months of 2019 was EUR 3.1 billion [22]. Central government public debt at the end of

3 Source: IMF, World Economic Outlook, october 2019
4 Source: IMF, World Economic Outlook, october 2019
5 Source: IMF, World Economic Outlook, october 2019
6 Source: IMF, World Economic Outlook, october 2019
7 Source: IMF, World Economic Outlook, october 2019
8 Source: IMF, World Economic Outlook, october 2019
9 NBS, World Financial Market Overview, 12/23/2019 - 01/03/2020
10 NBS, Inflation Report, November 2019
11 NBS, Inflation Report, November 2019
12 Source: ECB, economic and monetary developments, dec 2019, tab 2
13 Source: ECB, economic and monetary developments, dec 2019
14 Source: ECB, economic and monetary developments, dec 2019
15 Source: ECB, economic and monetary developments, dec 2019, tab 1
16 NBS, World Financial Market Overview, 12/23/2019 - 01/03/2020.
17 NBS, Macroeconomic Trends in Serbia, January 2020
18 MFIN, Revised Fiscal Strategy for 2020
19 SORS, Press Release, 1/13/2020.
20 SORS, Labor Force Survey, Third Quarter 2019
21MFIN, Public Finance Bulletin, November 2019
22 NBS, Macroeconomic Trends in Serbia, January 2020

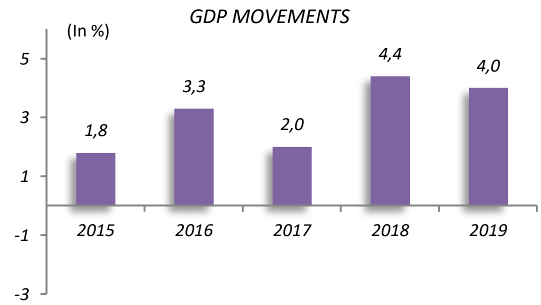
November 2019 amounted to EUR 24.1 billion, representing 52.4% of GDP [23].

Serbia's risk premium, as measured by the EMBI index (developing country bond index), has dropped to its lowest level as of mid-September 2019 since the data have been monitored (49 b.p.) and remains among the lowest risk premiums in the region[24].

The Belgrade Stock Exchange recorded a total turnover of RSD 91.9 billion or EUR 780.6 million in 2019. 31,115 transactions were completed and a market capitalization of RSD 569.6 billion was achieved[25]. The Belex line index ended the year at 1,726.82 while the Belex15 index reached the value of 801,69.

GDP Movements

Realized economic growth of 4.4%[26] in 2018, which was at a record high and the highest in the previous decade. Economic activity continued its positive trends throughout 2019. According to preliminary estimates of the Ministry of Finance of the Republic of Serbia GDP growth was 4.0% in 2019 [27] compared to the previous year. In the third quarter of 2019, GDP recorded a 4.8% y.o.y. growth[28], and in the fourth quarter an additional growth of over 5.0% was achieved[29]. The largest contribution to GDP growth, from the production side, was the growth of the service and construction sector. Industrial production also contributes, while the effect of agricultural production has been slightly negative.[30] Growth in investment as well as private consumption was crucial for GDP growth. In November 2019, industrial production recorded a year-on-year growth of 1.1%.[31] Retail trade turnover in November 2019 increased by 12.0% compared to the same month of the previous year (at current prices)[32]. In November 2019, nights spent in foreign tourists' accommodation increased by 17.8% (y.o.y)[33].

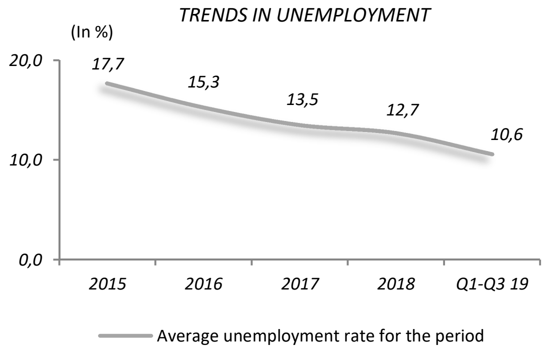


Employment / Unemployment

Throughout 2019 the labour market also continued to recover. The continuation of the positive trend of economic activity has also been reflected in the labour market with a further decrease in the number of unemployed since the beginning of 2019. According to data from the Labour Force Survey at the end of the third quarter of 2019, there was a decrease in unemployment compared to the same period in 2018. The unemployment rate at the end of the third quarter of 2019 was 9.5%, while in the same period of 2018 it was 11.3%.[34] In the third quarter of 2019 the number of employed persons increased by 22,200 and the number of unemployed persons decreased by 25,600[35]. Within the growth of the number of employed persons (22,200), the number of formally employed persons increased by 34,300 in the sectors of agriculture, forestry and fisheries. The number of informally employed persons decreased by 12,100[36] compared to the same period of the previous year.

23 MFIN, Table-Public Debt of the Republic of Serbia, January 2020
24 NBS, Inflation Report, November 2019
25 Belgrade Stock Exchange, annual statistics
26 NBS, Macroeconomic Trends in Serbia, January 2020
27 NBS, Macroeconomic Trends in Serbia, January 2020
28 MFIN, Public Finance Bulletin, November 2019
29 NBS, Macroeconomic Trends in Serbia, January 2020
30 MFIN, Public Finance Bulletin, November 2019
31 MFIN, Public Finance Bulletin, November 2019
32 MFIN, Public Finance Bulletin, November 2019
33 MFIN, Public Finance Bulletin, November 2019

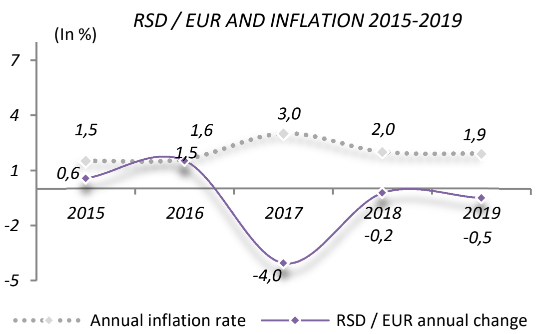
34 SORS, Labor Force Survey, Third Quarter 2019
35 SORS, Labor Force Survey, Third Quarter 2019
36 SORS, Labor Force Survey, Third Quarter 2019



Source: Republic Statistical Office, Labour Force Survey

Inflation

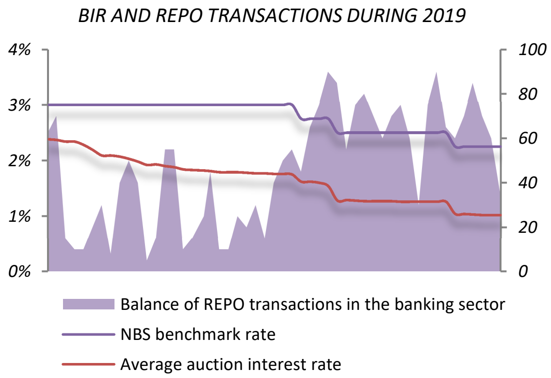
At year-end 2018, year-on-year inflation was 2.0%. At the beginning of 2019, year-on-year inflation was 2.1% in January, and at the end of December it was 1.9% [37]. During 2019, inflation has stabilized at around 2.0%, which has been the average for the last 6 years. The strongest influence on inflation level in December 2019 came from the prices of fresh vegetables and electricity. According to the NBS projection, year-on-year inflation should be around the lower deviation target of the 3.0% ± 1.5p.p. by mid-2020. [38].



Benchmark Interest Rate

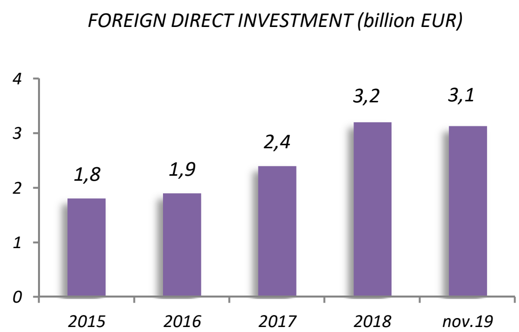
At the end of 2019, the National Bank of Serbia maintained the benchmark interest rate (BIR) at 2.25%, following three reductions during the year (in July, August and November). When making this decision, the National Bank of Serbia had in mind the expected inflation trends in the coming period and other macroeconomic indicators. Monetary policy prudence is still needed due to developments in the international environment. Since October 2019, the European Central Bank has been implementing a new monetary stimulus package. Uncertainty is present regarding the prices of crude oil and primary agricultural products. According to data from the Statistical Office of the Republic of Serbia, annual inflation in December 2019 was 1.9%, while GDP growth will be around 4.0%, year-on-year. With a further decrease in BIR, in the context of low and stable inflation, the National Bank of Serbia supported the growth of credit activity of both corporate and retail sector. Total domestic loans in November 2019 recorded a year-on-year growth of 10.4%.[39] Through reverse repurchase transactions, the National Bank of Serbia has enabled commercial banks to place excess liquid assets of the banking sector in treasury bills.

The average weighted repo rate was 1.02% at the end of 2019, compared to the end of 2018 when it was 2.39%.[40] The volume of REPO transactions ranged from a minimum of RSD 5.0 billion to a maximum volume of RSD 90.0 billion, to finally come to RSD 70.0 billion at the year-end.



Foreign Direct Investments

Foreign direct investment (FDI) reached EUR 3.2 billion in 2018 [41]. For the eleven months of 2019, net FDI volume reaches a volume of EUR 3.1 billion [42] while in the same period in 2018 it amounted to EUR 2.3 billion. Most of the FDI inflow was from the manufacturing industry, particularly in the automotive, metal, food and pharmaceutical industries.

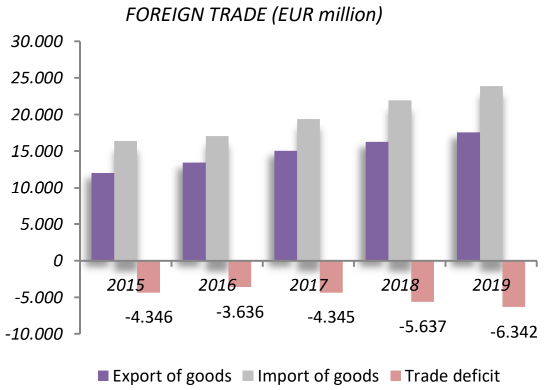


37 SORS Public Release, Consumer Price Index, December 2019
38 NBS, Macroeconomic Trends in Serbia, January 2020
39 NBS, Macroeconomic Trends in Serbia, January 2020
40 NBS, open market transactions
41 NBS, Macroeconomic Trends in Serbia, January 2020
42 NBS, Macroeconomic Trends in Serbia, January 2020

These investments have, inter alia, contributed to the reduction of unemployment, the growth of production and exports of the manufacturing industry. The total current account deficit of the Republic amounted to EUR 2.2 billion in 2018, but was fully covered by FDI and retained a 5.2% share of GDP[43]. In the period January-November 2019, the current account deficit amounted to EUR 2.8 billion.

Foreign Trade

Total foreign trade of the Republic of Serbia in January-December 2019 amounted to EUR 41.4 billion [44]. Compared to the same period in 2018 (EUR 38.2 billion), this exchange volume represents an increase of 8.4%. Exports of goods in the twelve months of 2019 reached a value of EUR 17.5 billion, while imports amounted to EUR 23.9 billion. Foreign trade deficit amounted to EUR 6.3 billion, an increase of 12.5%[45] y.o.y.



The most important export products, in the period January-November, are electrical machines, appliances and appliances with a share of 11,8%[46]. Road vehicles, iron and steel, rubber products and propulsion machines, which, together with electric machines, account for 31.0%[47] of exports.

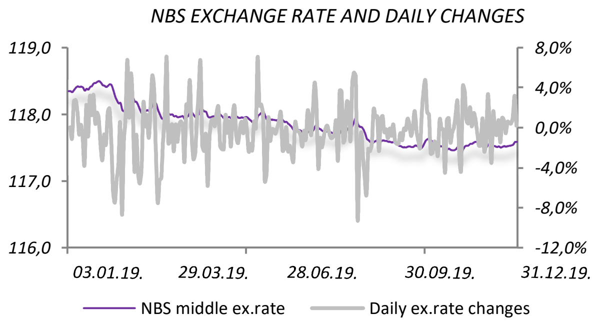
The most important imported products are petroleum and petroleum products, electrical machinery and appliances, road vehicles, iron and general purpose industrial machinery with a share of 26.4%[48] in total imports.

Looking at the structure of foreign trade by region, around 2/3 of foreign trade is still being done with EU countries. Imports from EU countries account for 58.9% of total imports and exports to EU countries 66.9% of total exports[49]. The main EU foreign trade partners in 2019 were Italy and Germany [50].

RSD to EUR Exchange Rate

The EUR / RSD exchange rate at the end of 2019 was 117.59 and is 0.5% lower than the exchange rate at the end of 2018 (118.19). During 2019, the EUR / RSD exchange rate ranged from RSD 117.43 to RSD 118.49 per EUR. The movement of the dinar exchange rate was influenced by favourable macroeconomic indicators, improved credit rating of the country (S&P and Fitch Agencies,[51]), and further decline in risk premiums and growth in foreign direct investments. During 2019, the dinar appreciated against the euro by 0.5% and against the dollar by 1.5%. During 2019, the National Bank of Serbia (NBS) intervened in the inter-change foreign exchange market (MDT) by buying and selling foreign currencies, thus preventing major daily fluctuations in the value of dinars. During 2019, the volume of NBS purchases at MDT was EUR 3,100 million, while the volume of sales was EUR 405 million.

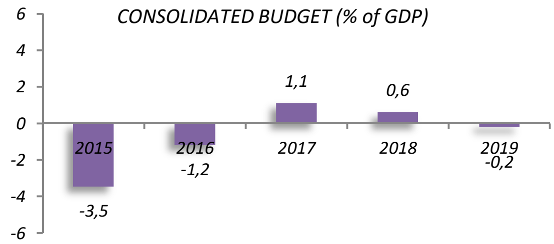
NBS gross foreign exchange reserves at the end of December 2019 reached EUR 13.4 billion and increased by EUR 2.1 billion compared to December 2018 [52].



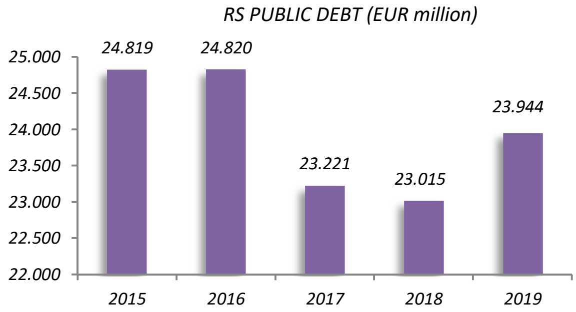
Budget Deficit/Surplus

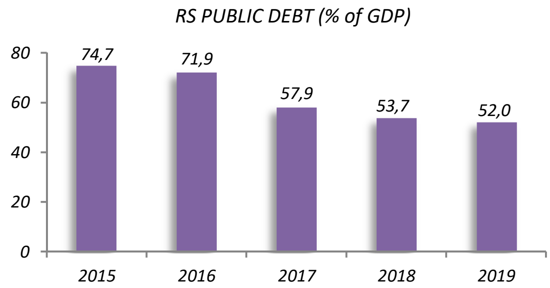
Overall fiscal surplus of RSD 11.1 billion was recorded at the general state level in 2019[53]. According to the budget execution plan for the mentioned period, a total fiscal deficit of RSD 27.1 billion was foreseen, which means that the budget realization was better than planned.

43 MFIN, Table 1, Basic Indicators of Macroeconomic Trends, February 4, 2020
44 MFIN, Table 1, Basic Indicators of Macroeconomic Trends, February 4, 2020
45 MFIN, Table 1 - Basic Macroeconomic Indicators, February 4, 2020
46 MFIN, Public Finance Bulletin, November 2019
47 MFIN, Public Finance Bulletin, November 2019
48 MFIN, Public Finance Bulletin, November 2019
49 MFIN, Public Finance Bulletin, November 2019
50 MFIN, Public Finance Bulletin, November 2019
51 NBS, Macroeconomic Trends in Serbia, January 2020
52 NBS, table - Foreign reserves, 23 January 2020
53 MFIN, December 2019 press release



Source: MFIN (consolidated fiscal result)





During 2019, a budget surplus of RSD 12.8 billion was achieved[54]. In the aforementioned period, revenues in the amount of RSD 1,274.6 billion were collected, while expenditures amounted to RSD 1.261,8 billion. In December 2019, RSD 121.1 billion of budget revenues were collected and most of them were tax revenues (RSD 102.8 billion)[55]. Tax revenue refers to the payment of VAT and excise taxes to the budget. Budget expenditures in the same month amounted to RSD 170.6 billion.[56]

More favourable fiscal results in the last four years are the result, successful fiscal consolidation of budget expenditures as well as revenue growth due to faster GDP growth and better tax collection.

Public Debt

Public debt of the Republic of Serbia (central government), according to available data at the end of December 2019 amounted to EUR 23.9 billion[57] representing 52.0% of GDP. According to available data from the Ministry of Finance, compared to December 2018, the said amount of public debt represents an increase of EUR 929.4 million. The share of public debt in GDP has decreased compared to the same period of the previous year (53.7%) and is a result of lower government borrowing needs and faster GDP growth.

Looking at the currency structure of public debt (December 2019), about 44% of the public debt of the Republic of Serbia is in euros. According to the structure of interest rates, about 84% of the public debt of the Republic of Serbia is at fixed interest rates[58].

Public Debt Management of RS, during 2019 (until the end of December), increased the value of dinar government securities in the domestic financial market (around RSD 51.0 billion [59]) as well as the value of Euro denominated securities (around EUR 216.4 million) compared to the end of 2018.

Foreign Debt

According to NBS data, total external debt of the public and private sector stood at EUR 28.6 billion at the end of September 2019[60], which is an y.o.y increase by ЕУР 2.1 billion. External debt of the private sector increased EUR 2,137.4 million in the observed period, while public sector external debt decreased EUR 7.9 million[61]. The external solvency indicator, presented as a ratio of the volume of external debt and the value of exports of goods and services, slightly improved at the end of September 2019, amounting to 124.4%, (beginning of the year 126.0%)[62].

54 MFIN, December 2019 press release
55 MFIN, December 2019 press release
56 MFIN, December 2019 press release
57 MFIN, Table-Public Debt of the Republic of Serbia, February 2020
58 Public Debt Management RS, Monthly Report, December 2019

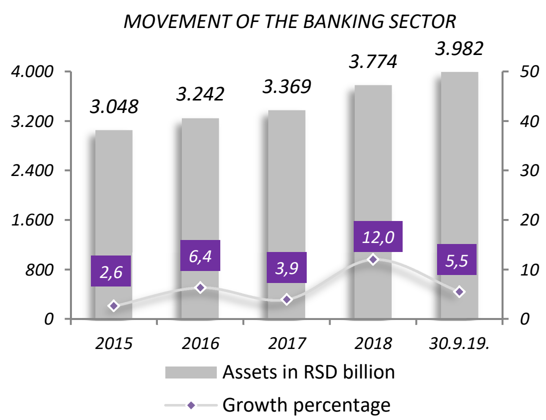
59 Public Debt Management RS, Monthly Report, December 2019
60 NBS, RS foreign debt to debtors as of December 30, 2019
61 NBS, RS foreign debt to debtors as of December 30, 2019
62 NBS, Serbia's External Position Ratios, February 10, 2020

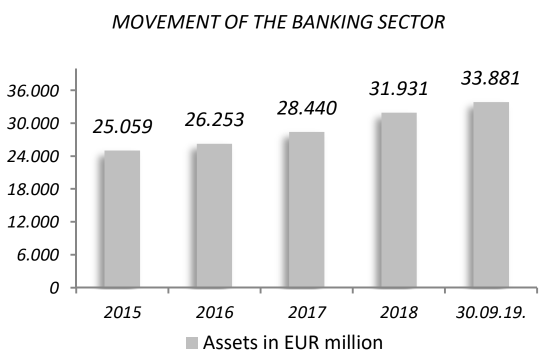
3. BANKING SECTOR OF THE REPUBLIC OF SERBIA AND THE FINANCIAL POSITION OF THE BANK

3.1. Banking Sector

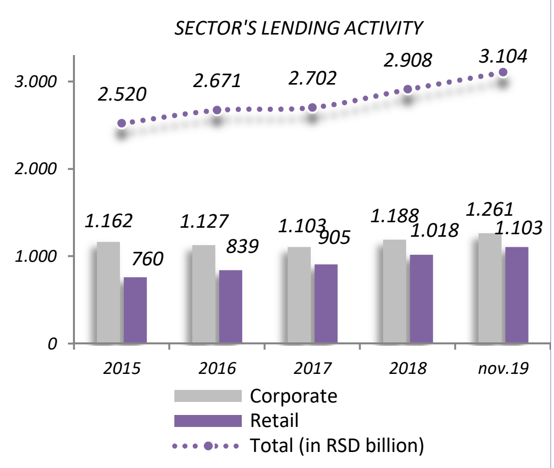
At the end of November 2019, the banking sector of the Republic of Serbia comprises a total of 26 banks with 23,114 employees [63]. Total assets reached RSD 3,982.0 billion and total capital of RSD 696.6 billion at the end of September 2019. The ten largest banks by balance sheet assets account for 79.9% of total sector assets.

The balance sheet assets of the banking sector during the first nine months of 2019 increased by 5.5% compared to the end of 2018, while the total capital increased by 2.9%.





During the first three quarters of 2019, the downward trend in interest rates on RSD newly approved loans to corporate and retail customers continued. The interest rate on RSD corporate loans 2019 was 4.3% in November and the interest rate on retail loans was lowered to a new minimum of 9.1%.[64] This trend has contributed to the growth of total domestic loans of 10.4% (y.o.y in November 2019), driven by the growth of both corporate and retail loans. During the analysed period, the banking sector had significant surpluses in liquid assets, bearing in mind liquidity benchmarks. The excess liquid assets of the banking sector are placed mainly in government securities and NBS repurchase operations. At the end of September 2019, banks' investments in repurchase transactions amounted to RSD 70.0[65] billion, while in June it was RSD 40.0 billion. The share of securities amounted to 16.9%, and of cash and assets with the Central Bank to 14.8% of banking sector assets (as of September 30, 2019).

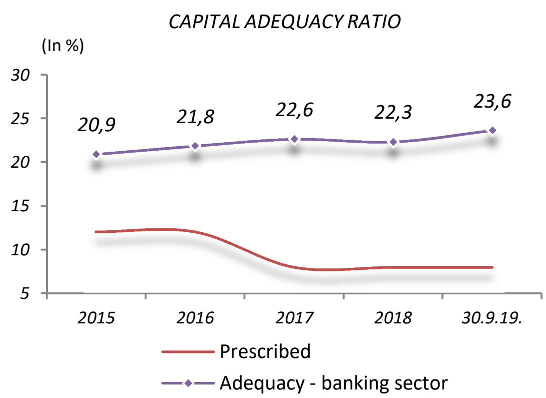


The share of gross NPL loans in total gross loans stood at 4.7% at the end of September 2019 while at 5.7% at the end of December 2018.[66] Impairment provisions for NPL loans cover 60.1% of gross NPL loans [67].

During the observed 2019 also, *retail FX savings* tended to grow steadily. At the end of November 2019, it would reach EUR 10.4 billion[68], representing a 7.7% increase over the end of 2018. Total retail savings, over the same period, reach EUR 11.0 billion, an increase of 8.8% compared to the end of 2018.

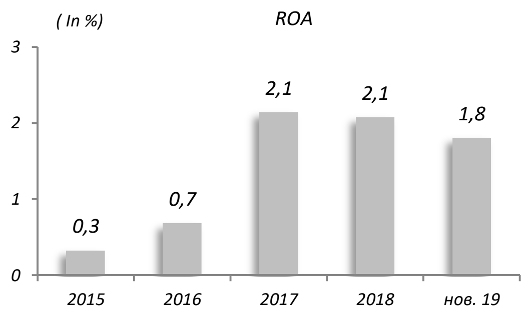
The average value of *capital adequacy* ratio of the banking sector as of September 30, 2019 was 23.6%[69]. Compared to the newly prescribed minimum ratio of 8.0%, the realized value of 23.6% indicates that the banking sector is adequately capitalized. At the end of September 2019, the banking sector's share capital was RSD 385.9 billion.

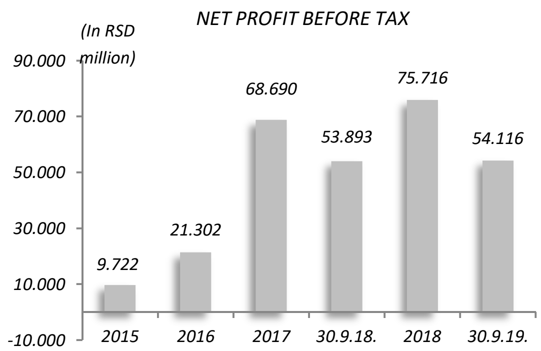
63 NBS, Macroeconomic Trends in Serbia, January 2020, account balance as of the end of November 2019
64 NBS, Macroeconomic Trends in Serbia, January 2020
65 NBS, An Overview of Auction Trades through which NBS Performs Open Market Transactions for 2019.
66 NBS, Key Macroprudential Indicators of the Republic of Serbia, Table 1.1.
67 NBS, Key Macroprudential Indicators of the Republic of Serbia, Table 1.1.
68 NBS, table 1.1.20.-Savings deposited to banks by retail customers
69 NBS, Macroeconomic Trends in Serbia, January 2020

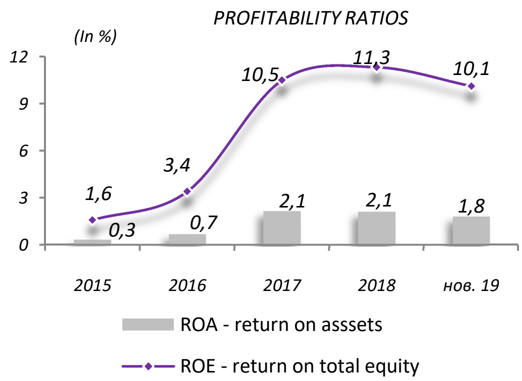


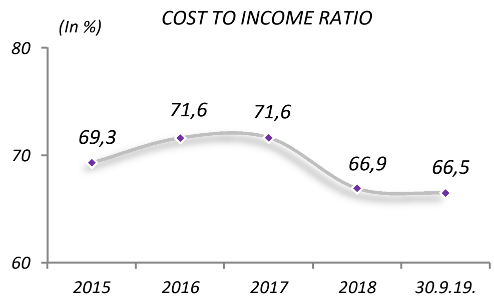
At end-September 2019, banks' borrowing from foreign lending (long-term and short-term loans) amounted to RSD 239.8 billion, up 15.0% from the same period last year[70].

During the first three quarters of 2019, the banking sector recorded a year-on-year increase in profitability. At the end of Q3 2019, a positive net pre-tax financial result of RSD 54.1 billion was generated. In the observed period, 18 banks operated positively with a total profit of RSD 55.8 billion, while 8 banks operated with a total loss of RSD 1.7 billion.





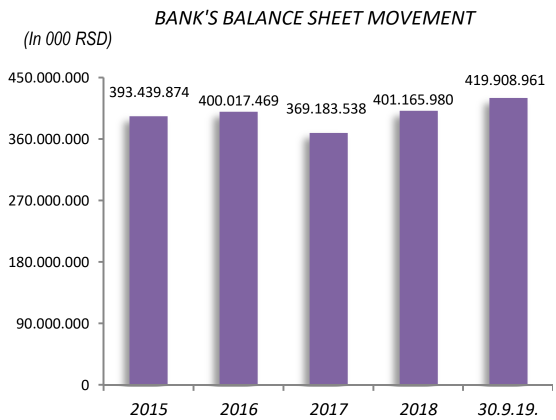




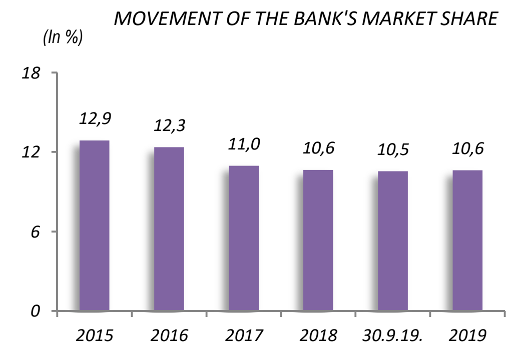
Cost / Income ratio continues its downward trend, after increasing in 2016 and 2017, amounting to 66.5% (on 09/30/2019).

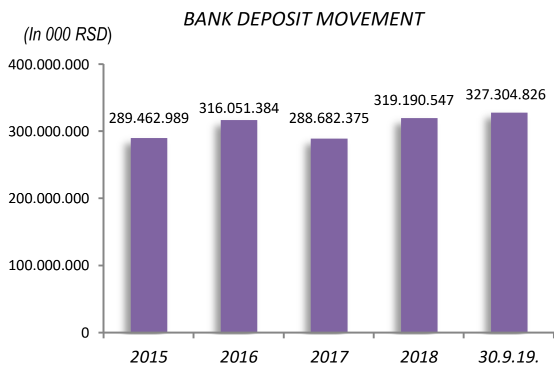
3.2. Financial Position of the Bank Compared to Banking Sector

With the balance sheet assets amounting to RSD 419.909,0 million, Bank occupied 10.5% of the banking sector as of 30.09.2019, that is, it was ranked the third. According to available data on the NBS website, the Bank's share in the banking sector at the end of 2019 was 10.6%.



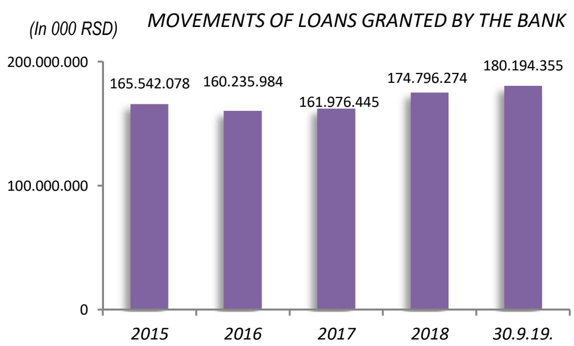
70 NBS, Foreign Banks' Liabilities, Table 2.5., 01/23/2020.





Note: For the sake of comparability with previous years, the graph shows the Bank's deposits, excluding other liabilities and credit lines

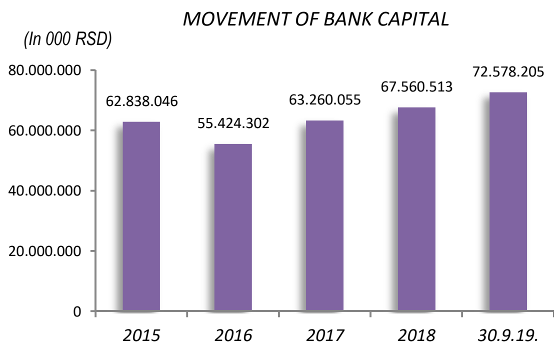
On 30.09.2019, loans and receivables granted by the Bank amounted to RSD 198,390.7 million representing 7.8% of market share. At the end of 2018, the Bank had a 7.9% share in the banking sector, with the amount generated in the above mentioned positions of RSD 186,023.4 million.



Note: For the sake of comparability with previous years, the chart shows the loans granted by the Bank excluding other investments and receivables

The share of deposits and other liabilities of the Bank in the total deposits of the banking sector amounted to 10.5% as at 30.09.2019 (RSD 329,966.3 million), or 10.7% at the end of 2018 (RSD 322,891.8 million).

Considering the position the total capital of the Bank as at 30.09.2019, KB accounted for 10.4% of the banking market (RSD 72,578.2 million), while at the end of 2018 this position accounted for 10.0% of the banking sector (RSD 67,560.5 million).



4. ORGANIZATIONAL STRUCTURE AND BANK'S BODIES

4.1. The Board of Directors

The Board of Directors of the Bank is formed in accordance with the Law on Banks, the Bank's Articles of Association and consists of at least 5 (five) members, including the Chairperson, at least one third of whom must be persons independent of the Bank. The members of the Board of Directors of the Bank are appointed by the General Meeting of Shareholders of the Bank to a period of four years. The proposal for a decision on the appointment of the chairperson and members of the Bank's Board of Directors must be determined by the Board of Directors, at the proposal of the shareholders.

The powers of the Bank's Board of Directors are defined in Article 73 of the Law on Bank and Article 27 of the Bank's Articles of Association. Below are the members of the Board of Directors of the Bank as at 31 December 2019:

NAME AND SURNAME	SHAREHOLDER / MEMBER INDEPENDENT OF THE BANK	FUNCTION
Marija Sokic	*Republic of Serbia*	*Chairperson*
Danijel Pantic, PhD	*Republic of Serbia*	*Member*
Dejan Hadzic	*Republic of Serbia*	*Member*
Katarina Susic	*Member independent of the Bank*	*Member*
Goran Knezevic	*Member independent of the Bank*	*Member*
Prof.Dr. Zoran Jovic	*Member independent of the Bank*	*Member*

A quorum for the work and decision-making of the Board of Directors of the Bank exists if the meeting is attended by a majority of the total number of the Board members. The Chairperson and each member have the right to one vote.

4.2. The Executive Board of the Bank

The Executive Board consists of the President of the Executive Board, the Vice-President of the Executive Board and at least three members. The term of office of the members of the Bank's Executive Board including the President and the Vice-President is set to a four year term starting from the date of appointment.

The powers of the Executive Board are defined in Article 76 of the Law on Banks and Article 31 of the Bank's Articles of Association.
As of December 31, 2019, the members of the Bank's Executive Board are the following:

NAME AND SURNAME	FUNCTION
Vladimir Medan, PhD	*President*
Una Sikimic, PhD	*Vice-President*
Dragisa Stanojevic	*Member*
Miroslav Peric, PhD	*Member*
Pavao Marjanovic	*Member*

There is a quorum for the work and decision-making of the Executive Board if the meeting is attended by a majority of the total number of members of the Executive Board. The Executive Board makes decisions by a majority vote of the total number of members.

4.3. The Bank's Business Monitoring Committee (the Audit Committee)

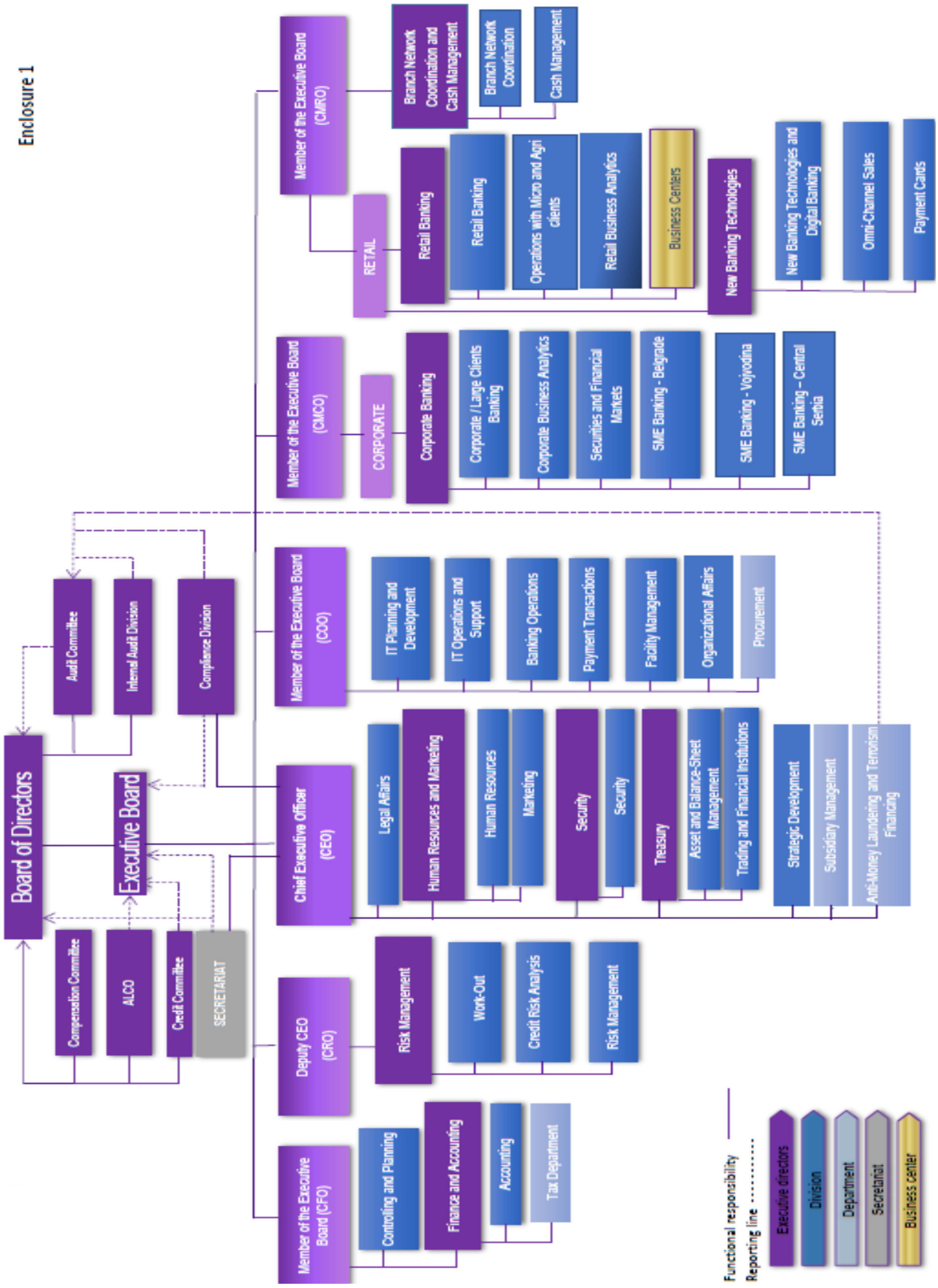
The Bank's Business Monitoring Committee consists of three members, two of whom are members of the Bank's Management Board with relevant financial experience. One member of the Business Monitoring Committee is a person independent of the Bank. The members of this Committee are elected to a four-year term.

The duties of the Audit Committee are defined in Article 80 of the Law on Banks and Article 34 of the Bank's Articles of Association. As of December 31, 2019, the members of the Audit Committee are the following:

NAME AND SURNAME	FUNCTION
Danijel Pantic, PhD	*Chairman*
Dejan Hadzic	*Member*
Milena Kovacevic	*Member*

A quorum for the work and decision-making of the Audit Committee exists if the meeting is attended by a majority of the total number of members of the Audit Committee.

4.4. Organizational Structure of the Bank

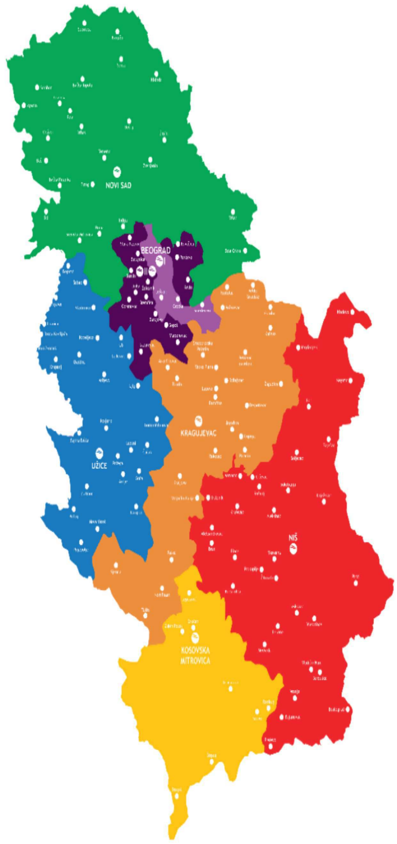


Note: Bank's organizational chart as at 31.12.2019

4.5. Regional Layout of the Bank's Business Network

BANK'S BUSINESS NETWORK

	BUSINESS CENTERS	HEAD OFFICE
1.	BC Belgrade 1	1 Trg Politike, Belgrade
2.	BC Belgrade 2	1 Trg Politike, Belgrade
3.	BC Kragujevac	2 Mose Pijade, Pozarevac
4.	BC Nis	32 Episkopska, Nis
5.	BC Novi Sad	88 Bulevar oslobodjenja, Novi Sad
6.	BC Uzice	4 Petra Celovica, Uzice
	BRANCH OFFICE	**HEAD OFFICE**
1.	Kosovska Mitrovica	Cika Jovina 11, Kosovska Mitrovica
	BUSINESS DIVISIONS	**HEAD OFFICE**
1.	Corporate Division - Large Clients	42-44 Svetogorska st., Belgrade
2.	Business Division in Charge of Small and Medium-Sized Enterprises - Vojvodina	88 Bulevar oslobođenja, Novi Sad
3.	Business Division in Charge of Small and Medium-Sized Enterprises – Belgrade	42-44 Svetogorska st., Belgrade
4.	Business Division in Charge of Small and Medium-Sized Enterprises –Central Serbia	42-44 Svetogorska st., Belgrade



Following 2017 and the first major reorganization of the business network, following an analysis of the effects of the implemented changes on the business, the Bank made additional changes in the business network in early 2018.

In March 2018, a new change was made to the organization within the Corporate Banking Business Function, when formally, instead of Business-Corporate Centres, Divisions in Charge of Small and Medium-Sized Enterprises were formed in Belgrade, Central Serbia and Vojvodina. The substantive change included the functional merger of sales and credit analysis within the same organizational form (Division in Charge of Small and Medium-Sized Enterprises in Belgrade, Central Serbia and Vojvodina). In 2019, there were no organizational changes made in the corporate banking function.

Due to the fact that a large number of the Bank's clients still want a traditional service, that is, a direct relationship with the Bank and its branch office employees, a branched business network was retained. During 2019, the Bank did business in the retail segment through 203 branch offices, which makes us the leader on the market. 286 ATMs and about 13,600 POS terminals are available to our customers, making us one of the market leaders. The Bank continued its activities to improve the customer experience by improving the appearance of its branch offices, by moving to new premises, adjusting/optimizing working hours, etc..

5. BANK'S BRANCHES

In accordance with the new business network organization, which has been in full application since March 2018, the Bank conducts its business activities through a network of Business Centres, one branch and a network of branch offices, the number of which is changing and adjusting to market needs of the Division in Charge of Small and Medium-Sized Enterprises (Belgrade, Vojvodina and Central Serbia) and of the Corporate Banking Division that deals with large clients. During 2019, the Bank's operations were conducted at the Bank's Head Office in Belgrade, 6 Business Centres (intended for work with individuals-retail customers), 203 branch offices and Kosovska Mitrovica Branch (organized for operations in the territory of Kosovo and Metohija), 3 Divisions in Charge of Small and Medium-Sized Enterprises (Belgrade, Central Serbia, Vojvodina, assigned to deal with commercial clients) and the Corporate Banking Division assigned to deal with large clients - Belgrade.

The Bank also has three subsidiaries that together form the Komercijalna Banka a.d. Group, Belgrade:

1. Komercijalna Banka a.d. Podgorica in the Republic of Montenegro (100% of ownership),
2. Komercijalna Banka a.d., Banja Luka in Bosnia and Herzegovina (99.998% ownership) and
3. KomBank INVEST a.d., Belgrade, Investment Fund Management Company (IFMC) (100% ownership).

Komercijalna Banka ad Banja Luka
-159 employees,
-19 organizational units
(10 branches and 9 agencies).

Komercijalna Banka ad Podgorica
-148 employees,
-10 organizational units
(9 branches and 1 branch office).

KomBank Invest Belgrade
-5 employees.

5.1. Significant Transactions with Related Persons

Total exposure to persons related to the Bank as of December 31, 2019 was RSD 631.9 million, representing 1.0% of the regulatory capital of RSD 63,647.0 million (the maximum allowed value of total investments to all persons associated with the Bank under the Law on Banks is 25% of the Bank's capital).

The largest portion of exposures to persons affiliated with the Bank (in accordance with the NBS methodology for the presentation of exposures to persons related to the Bank), as at 31 December 2019, amounted to RSD 513.1 million or 0.8% of the Bank's regulatory capital. The information presented relates to investments made to KomBank Invest ad Beograd.

Pursuant to Article 37 of the Law on Banks, the Bank did not grant loans having better terms to the persons affiliated with the Bank in comparison to the loans granted to other persons that are not affiliated with the Bank, that is, persons not employed by the Bank.

A further overview of the Bank's relationship with related persons is available in the Notes to the Financial Statements.

6. FINANCIAL POSITION AND RESULTS OF BANK'S OPERATION IN 2019

6.1. Introduction

During 2019, great attention of the Bank's management was focused on managing the risks in business, especially credit risk, in order to achieve the highest possible loan portfolio. The Bank's management policy to allocate a significant portion of the generated profit to reserves in previous years has enabled the safety of operations by increasing the capital and ratios of the Bank's capital adequacy.

Net interest income generated in 2019 is lower than in 2018, while KB recorded higher net fees and commissions.

The performance of the Bank in 2019 was influenced by passing of the Law on the Conversion of Housing Loans Indexed in Swiss Francs.

Balance Sheet Sum

At the end of 2019, the Bank's balance sheet sum (net assets) reached RSD 432,380.4 million (EUR 3.7 billion), an y.o.y. increase of 7.8%. During the previous year, the Bank's business focus was on business growth, profitability growth, maintenance and further improvement of the loan portfolio quality. Also, the Bank's management made efforts to find new sources of income and to use more efficiently the available funds.

Funding Sources

During 2019, as in previous years, a steady growth of retail foreign currency savings of EUR 81.1 million continued, which is the Bank's main source of funds. Corporate deposits recorded a decrease of RSD 2,000.2 million compared to the end of 2018 (the amount of corporate deposits was adjusted in early 2018 due to the transfer of micro-client deposits to the retail business line). Deposits from banks and other financial institutions increased by RSD 570.3 million.

During 2019, the Bank repaid approximately EUR 11.7 million to foreign creditors. The amount of the Bank's liabilities arising from credit lines received amounts to RSD 1,426.9 million or decreased by RSD 1,391.1 million y.o.y.

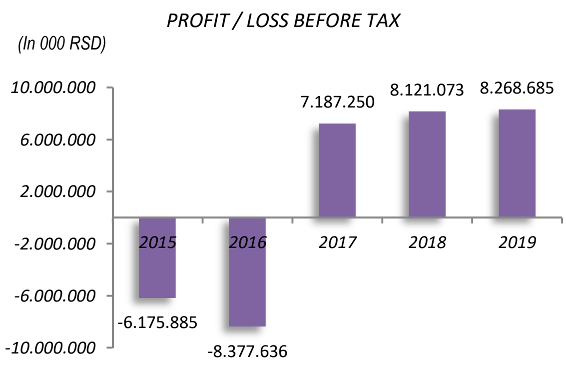
At the end of 2019, the Bank has no subordinated balance sheet liabilities.

Loans and Advances

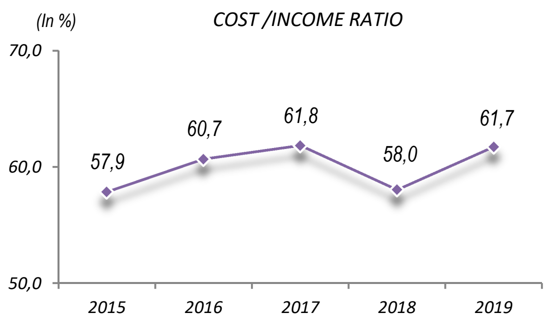
During 2019, the Bank recorded an increase in corporate loans of RSD 6,240.0 million. In the retail segment, there was also an increase in loans of RSD 7,023.6 million. At the end of the year, the structure of the net loan position was dominated by housing and cash loans. The Bank placed a significant portion of its liquid assets in securities. At the end of 2019, RSD 138,469.6 million was invested in securities, which represents an increase of RSD 5,292.0 million (4.0%) compared to the end of 2018..

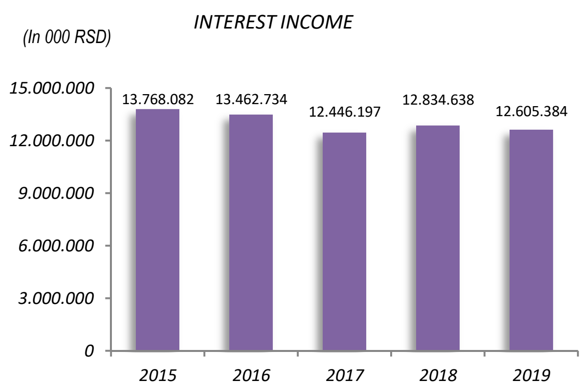
Profitability

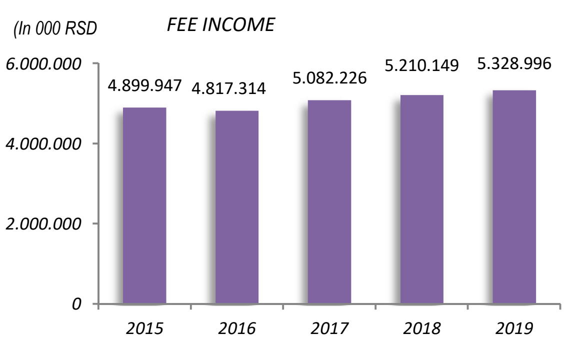
At the end of 2019, the Bank achieved a positive result, a pre-tax profit of RSD 8,268.7 million, which makes y.o.y. increase of RSD 147.6 million.



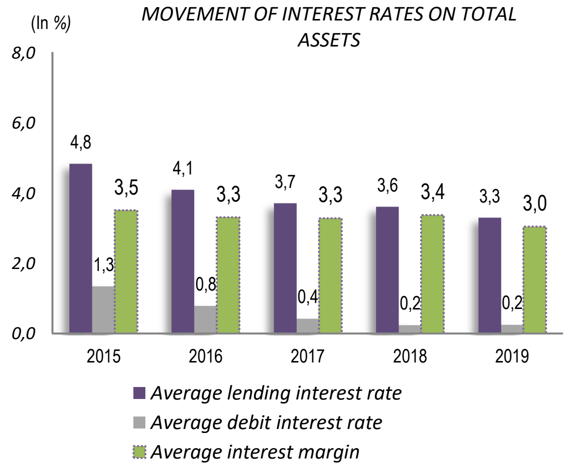
In addition to the increase cost/income ratio - CIR (61.7% at end-2019 vs. 58.0% at end-2018), net income from impairment of financial assets measured at fair value during 2019 was also generated in 2019 (RSD 2,425.9 million).



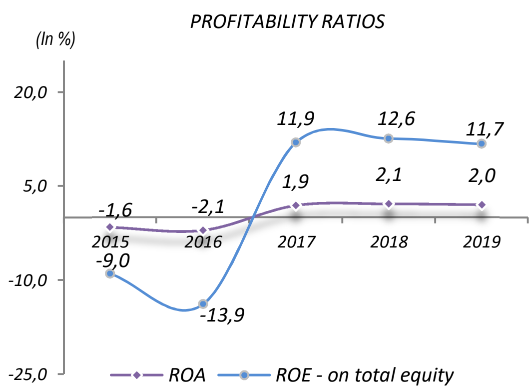




Interest income earned during 2019 declined by 1.8% over the same period in 2018. Fee and commission income earned in 2019 was up 2.3% year-over-year.

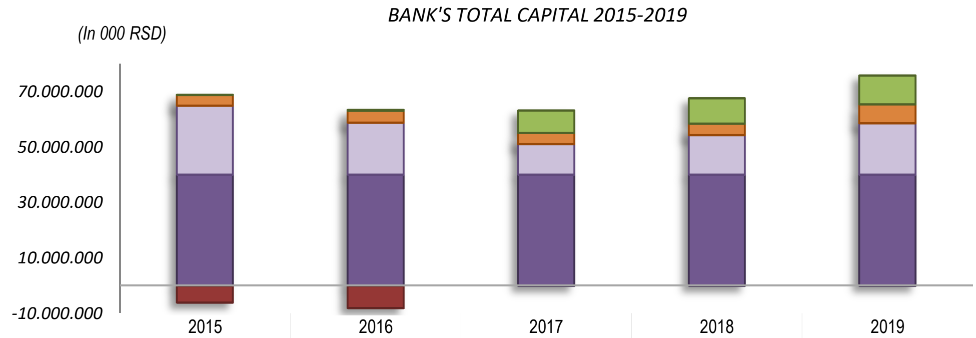


During 2019, the stabilization of both lending and debit interest rates continued. Interest margin on total assets was 3.0%.



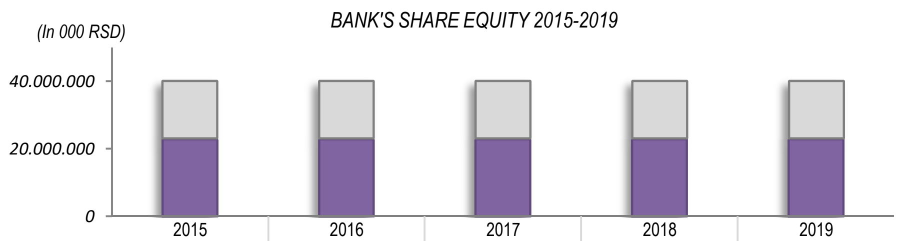
Generated ROA at the end of 2019 are at the level of values achieved at the end of 2018.

Bank Capital



	2015	2016	2017	2018	2019
LOSS	-6.061.358	-8.063.183	0	0	0
NON-ALLOCATED PROFIT	179.550	349.698	8.137.249	9.047.691	10.425.898
REVALUATION RESERVES	3.749.864	4.311.409	4.026.721	4.254.737	6.826.518
PROFIT RESERVES	24.935.440	18.791.828	11.061.535	14.223.535	18.565.207
SHARE CAPITAL	40.034.550	40.034.550	40.034.550	40.034.550	40.034.550
CHANGE IN CAPITAL (%)	-10%	-12%	14%	7%	12%
TOTAL CAPITAL	62.838.046	55.424.302	63.260.055	67.560.513	75.852.173

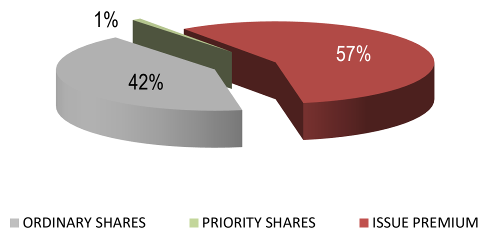
At the end of 2019, the Bank's total equity amounted to RSD 75,852.2 million and increased by 12.3% compared to the end of 2018. From 2011 to 2019, the total capital of the Bank increased by 71.3%. In the same period, the share capital increased by 40.7% or RSD 11,572.0 million. For a long period of time, the Bank has allocated a considerable part of the realized profit to reserves for estimated losses in order to maintain business security and capital adequacy, that is, to protect share capital from possible losses and to increase capital. During the last five years, from the generated profit and on the bases of revaluation, the Bank initially increased its total reserves to partially use it to cover losses recorded at the end of 2015 and 2016. Profit reserves at the end of 2019 increased by RSD 4,341.7 million y.o.y. Together with revaluation reserves, the Bank's total reserves increased RSD 6,913.5 million y.o.y.



	2015	2016	2017	2018	2019
ORDINARY SHARES	16.817.956	16.817.956	16.817.956	16.817.956	16.817.956
PRIORITY SHARES	373.510	373.510	373.510	373.510	373.510
PREFERENCE CONVERTIBLE SHARES					
ISSUE PREMIUM	22.843.084	22.843.084	22.843.084	22.843.084	22.843.084
TOTAL SHARE CAPITAL	40.034.550	40.034.550	40.034.550	40.034.550	40.034.550

The Bank's ordinary shares have been traded on the Standard Listing since 2010, while the preferred shares are traded on the Open Market of the Belgrade Stock Exchange. In 2014, the conversion of preference convertible shares into ordinary shares was made and since then there have been no changes in the structure of share capital. As of December 31, 2019, the Bank has 16,817,956 ordinary (ordinary) shares and 373,510 preferred (preference) shares of an individual par value of RSD 1,000.

SHARE CAPITAL STRUCTURE AS AT 31/12/2019

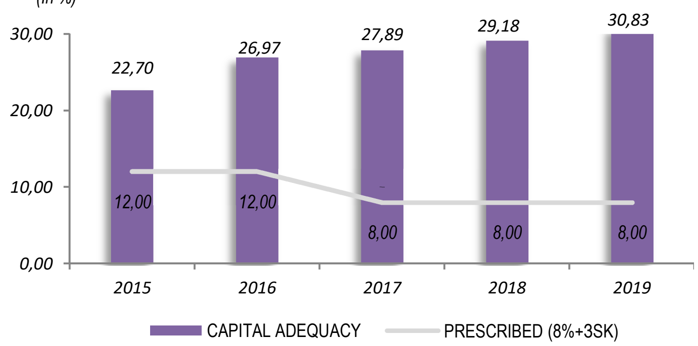


The shareholder of the Bank (with a share exceeding 5%) as at December 31, 2019 are as follows:

SHAREHOLDERS	ORDINARY SHARES	% OF SHARE	PRIORITY SHARES	% OF SHARE	TOTAL SHARES	% OF SHARE IN EQUITY
Republic of Serbia	13.997.686	83,23	0	0,00	13.997.686	81,42
OTHRES	2.820.270	16,77	373.510	100,00	3.193.780	18,58
TOTAL	16.817.956	100,00	373.510	100,00	17.191.466	100,0

Capital Adequacy

At the end of 2019, the Bank's capital adequacy ratio, in addition to the still significant provisioning values, was 30.83%, indicating that the Bank retained adequate capitalization. During 2019, the Bank fulfilled all the business parameters prescribed by the Law on Banks, and fulfilled all obligations, which is a reliable indicator of stable and safe operation.



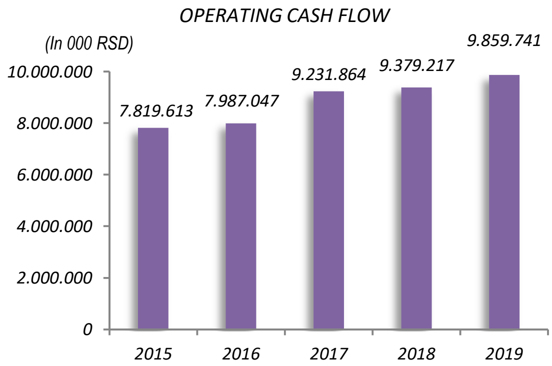
Legally Prescribed Performance Ratios

No.	ITEM	PRESCRIBED	2019.	2018.	2017.	2016.	2015.
1.	CAPITAL ADEQUACY RATIO (CAPITAL/RISK ASSETS); *REQUEST FOR COMBINED CAPITAL BUFFER/PROTECTIVE LAYER	min 8% +зsk*	30,83%	29,18%	27,89%	26,97%	22,70%
2.	RATIO OF INVESTMENT IN NON-FINANCIAL SECTOR PERSONS AND FIXED ASSETS	max 60%	13,05%	13,18%	14,96%	17,47%	23,13%
3.	BANK'S LARGE EXPOSURE RATION	max 400%	26,62%	39,77%	34,96%	38,48%	79,76%
4.	FX RISK RATIO	max 20%	1,98%	1,87%	4,40%	2,96%	10,60%
5.	LIQUIDITY RATIO (monthly, last day of the month)	min 0,8	4,08	3,86	4,30	2,86	2,73

Note: In accordance with NBS regulation, the Bank calculates a capital conservation buffer, a capital buffer for systemically significant banks, and a capital buffer for structural systemic risk.

Operating Cash-Flow

At the end of 2019, year over year operating cash-flow was higher by RSD 480.5 million (an increase of 5.1%). In the observed period, interest income increased by RSD 270.2 million or 1.9%, while fee inflows recorded a fall of RSD 37.7 million or 0.5%. In cash outflow from business activities, interest payments were lower by RSD 27.6 million.



Description of Changes in Company's Business Policies

During 2019, the Bank made no changes to the Business Policy. The Bank's business policy was adopted at the General Meeting of Shareholders on 26.01.2012.

The business policy defines the basic principles of business and operations that the Bank performs in order to fulfil the business results and priorities defined by the current Strategy and Business Plan of the Bank, which is based on:

- KB's position on financial market and acquired clients' confidence,
- Projections of key parameters of macro-economic policy and
- KB's development targets.

The Bank's business policy has been complied with the Risk Management Strategy and the Capital Management Strategy, as well as individual risk management policies.

The Bank operates independently, in accordance with market principles, applying the principles of liquidity, profitability and safety, respecting the laws, other regulations and general principles of banking in achieving its goals in a socially responsible manner, in accordance with its core values and business ethics.

Corporate Governance Rules

The Bank's corporate governance rules are based on relevant legal regulations (primarily the Law on Banks and the Law on Companies).

The authorities and powers of all the bodies of the Bank (Shareholders Assembly, Board of Directors, Executive Board, Audit Committee, Asset and Liability Management Committee, Credit Committee) are based on the relevant legal regulations and defined by internal acts (Memorandum on Association, Articles of Association of the Bank, Rules of Procedure regulating the work of the Bank's bodies and other internal acts).

In its operations and in accordance with the Decision of the Executive Board of the Bank no. 8373 of 09.04.2013, the Bank has been implementing the Corporate Governance Code of the Serbian Chamber of Commerce (Official Gazette of the RS, No. 99/2012), adopted by the Assembly of the Serbian Chamber of Commerce.

Corporate governance rules have been implemented through the Bank's internal acts and there are no discrepancies in their application..

The Corporate Governance Code establishes the principles of corporate practice according to which the corporate governance bodies of the Bank behave and adhere to in banking business. The goal of the Code is to introduce good business practices in the field of corporate governance, equal influence of all stakeholders, existing and potential shareholders, employees, clients, bodies of the Bank, the state, etc. The ultimate goal is to ensure the Bank's long-term and sustainable development.

The text of the Corporate Governance Code was published on the website of the Serbian Chamber of Commerce (www.pks.rs/PoslovnoOkruzenje.aspx?id=1412&p=3) as well as on the Bank's website (http://newdev.kombank.com/corporate-governance).

Project and Project Portfolio Management

In 2019, a total of 12 projects from the project portfolio were completed, while 6 projects continue in 2020.

The focus of the project activities in 2019 was to further enhance the customer experience primarily with regard to the use of digital services, while optimizing business processes to better understand customer needs and provide the right service at the right time.

During 2019, special attention was paid to the following project:

- Instant payment at merchant point of sale - which is a continuation of the implementation of the instant payment system in accordance with the regulatory obligation prescribed by the NBS with the introduction of an innovative method of cashless payment at retailers' points of sale via mobile phones through QR code scanning.

Of the other projects in the project portfolio for 2019, we would like to highlight the following projects:

- Improvement of internal PD models – the project developed statistically based "Credit Scoring" models for SMEs, micro-clients and individuals-retail clients (cards and current account overdrafts), which made it possible to improve the decision-making process, with a more adequate calculation of loan impairment, and more precise determination of the price of product.

- Introducing new cards - The Bank has introduced new Dina debit cards with deferred payment without interest (equal to checks) as well as new revolving credit cards with repayment based on a "charge" principle.

Activities for the improvement of ICT infrastructure continued, and in this sense in 2019 a new server infrastructure was installed along with upgraded virtual infrastructures. Also, the migration of the "CORE" information system to the new version of the database was successfully completed.

In order to improve communications the Bank introduces - **IP telephony as a service –** where within the project classic analogue/digital switchboards have been replaced with a new form of communication which brings significant improvement of the quality of service as well as additional functionalities.

The project, which continues in 2020 and is expected to be completed in the first half of 2020, is related to **signing a contract through two-factor authentication,** aimed to further modernizing and digitizing the Bank's products and services. The implementation of the project will enable the remote conclusion of e-contracts through two-factor product authentication and services of the Bank, where the client is not obliged to be physically present at the bank when signing the contract.

6.2. Corporate Operations

Market-key tendencies

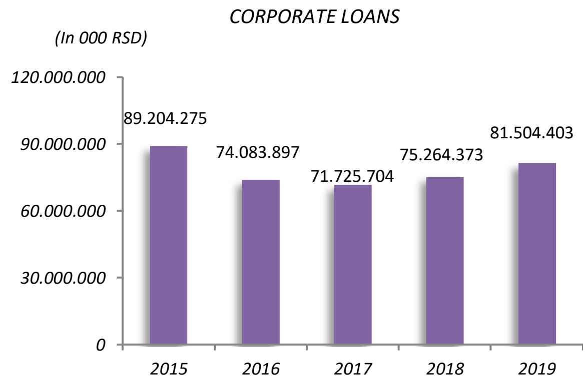
In 2019, the downward trend in interest rates, both in terms of RSD and foreign currency indexed loans, was stopped.

Banks' standards for newly approved corporate loans, which eased in 2018, remained unchanged in 2019, primarily for small and medium-sized enterprises and, to a lesser extent, large enterprises. In terms of maturity and currency, the easing of standards is present in the short and long-term corporate RSD lending, as well as the short-term corporate lending in foreign currency. Banks are also more willing to take risks when lending to corporate clients (especially in the area of loan collaterals).

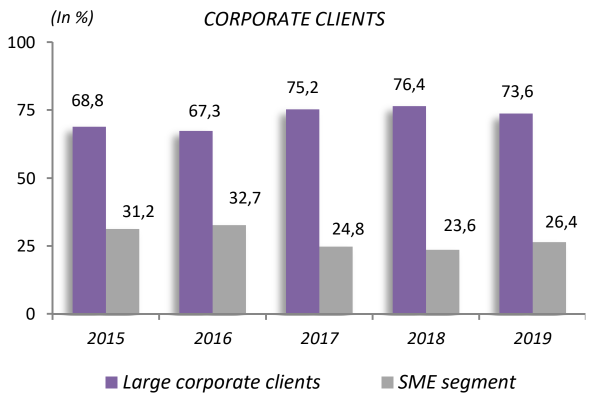
In 2019, after the initial decline, the level of corporate lending stabilized. At the banking sector level, the level of lending is higher than at the end of 2018 (in total, companies, public enterprises and local government recorded an increase of 6.2%, or RSD 74.7 billion).[71]

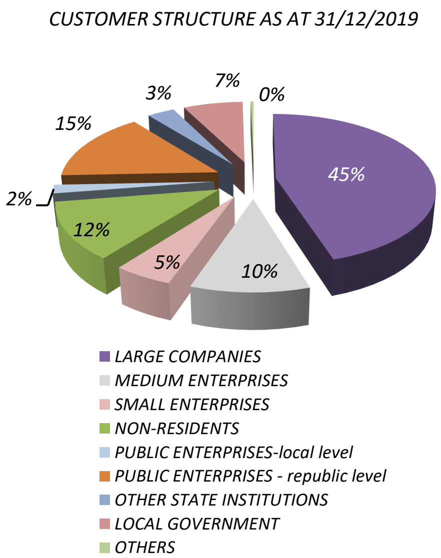
Loans[72] - Operation of the Bank

Realization of newly approved loans in 2019 is higher by RSD 7.2 billion y.o.y. (realization growth of 15%), this being the case in the segment of large corporate clients with higher realization amount by RSD 2.5 billion and in the SME segment amount by RSD 4.7 billion. Balance sheet portfolio increased by 10.1%, and the portfolio structure of large corporate clients decreased from 76.4% (at the end of 2018) to 73.6%.



71 NBS, Banking Sector Consolidated Balance Sheet, November 2019
72 Loans to customers position does not include other loans





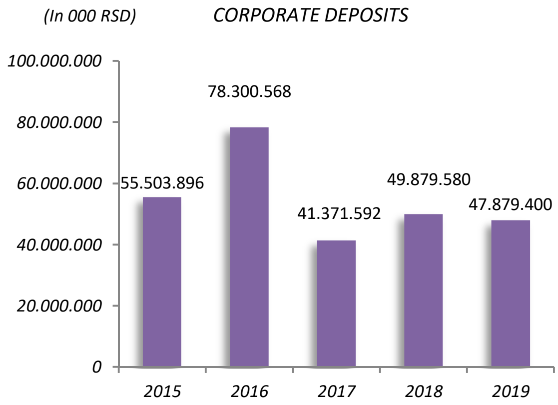
The average weighted interest rates on loans disbursed in 2019 are at a slightly higher level than the loans disbursed in 2018.

The interest rate on loans indexed in EUR remained lower than the interest rate on loans in dinars, which in the conditions of stable exchange rate was the determining factor of the market to show higher demand for loans with a currency sign compared to dinars. Of the total amount of loans disbursed in 2019, 16% were extended in dinars, while 84% were extended as loans with a currency sign in EUR. Accordingly, the share of RSD loans in the portfolio at the end of 2019 came to the level of only 5.6%.

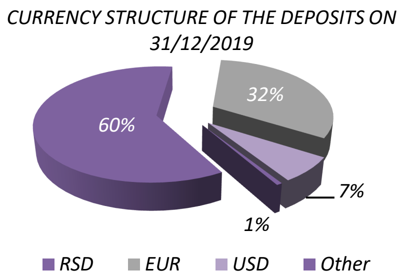
In terms of competition during 2019, the most active were Banca Intesa a.d. Beograd, UniCredit Bank Serbia a.d. Beograd, Raiffeisen Bank a.d. Beograd, OTP Bank a.d. Beograd. A more flexible approach (interest rates, maturities, required collateral) is noticeable with respect to all the competitors when granting loans.

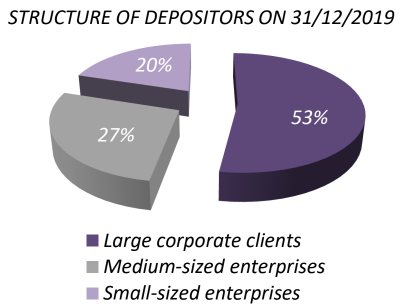
Deposits [73]

High share of transaction deposits of 77% of total corporate deposits results in lower interest expenses and has a positive effect on the Bank's business result.



Note: At the end of 2017, RSD 11.2 billion of micro-client deposits were transferred from corporate to retail banking sector, which makes the data different from the data in the previous annual report; the amount of corporate deposits at the end of 2016 was influenced by one individual deposit.

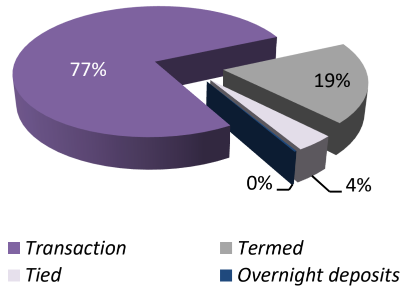




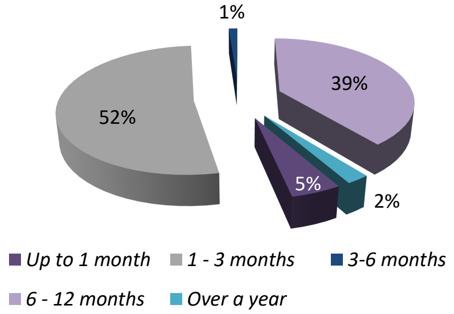
Note: Depositor structure overview has been prepared according to the internal client segmentation.

73 Position deposits does not include other liabilities and funds received through credit lines

MATURITY STRUCTURE OF THE DEPOSITS ON 31/12/2019



MATURITY STRUCTURE OF TERM DEPOSITS ON 31/12/2019



6.3. Retail Banking Operation

The retail business achieved its goals in 2019 and recorded the best results in this decade.

Loans

The focus was on the lending growth and on loan portfolio realization, net income generation and maintaining market share. In 2019, RSD 47.5 billion of loans were realized, which is 5% more than in 2018. The growth of credit realization was achieved thanks to the advancement of technological solutions and constant innovation of the product offer in order to adapt to market demands and improve competitiveness.

The biggest increase was achieved in **housing loans** (34%) due to attractive product offerings, intense demand and adequate supply of new apartments. There is also a noticeable trend in the market of loans not secured by the NMIC. In addition, and taking into account the downward trend in interest rates in the market, the Bank applies a customer retention policy in order to preserve the quality and amount of portfolios. In 2019, the Bank's market share slightly increased to 10.4%.

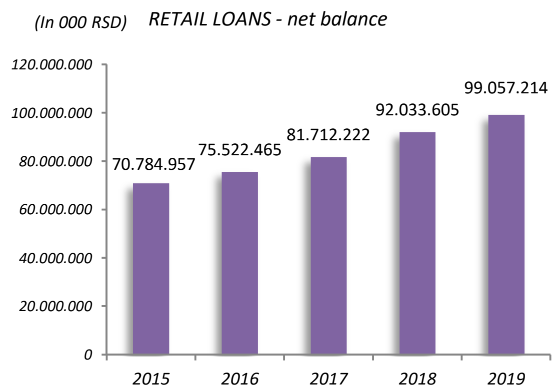
In the segment of **cash loans** there was also an increase in realization, despite the NBS approval deadline being reduced to 95 months and a more restrictive credit rating. This is the segment with the most intense competition in the market, where the offer is based on large amounts (up to RSD 4 million) with bills of exchange as the only security instrument and favourable interest rates. The banks' offer is also largely based on personalized offers with extremely low prices for specific groups of clients, clients with higher incomes and employees of budgetary institutions. Much attention is also paid to retirement loans that make up a significant number of clients. At the beginning of August, the Bank introduced automatic loan approval in accordance with certain standards, reducing the duration of the approval process to the minimum possible time. The Bank's market share in the cash loans segment is 7.3%.

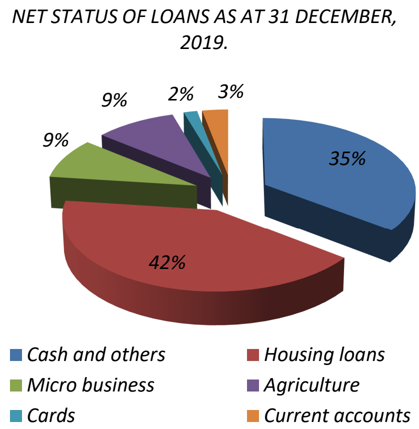
In **agro business** loan realization increased by 6%. In addition to attractive products from the Bank's offer, subsidized loans were granted in cooperation with the Ministry of Agriculture, Forestry and Water Management (we are the first bank by the number of subsidized loans granted), local governments and dealers of agricultural machinery. The offer is universal, covering all areas of agricultural production and all types of farms. We have introduced a special line of credit for the purchase of agricultural land with repayment periods of up to 15 years, which gives clients additional flexibility in terms of optimizing the annuity amount. In 2019, the Bank continued to grow its market share in the agro credit segment and now stands at 14%.

Loan realization in **micro business** segment remained at its 2018 level. It is also a segment with strong competition, primarily due to pre-approvals and favourable long-term loans secured only by bills of exchange. In order to be competitive, we have introduced loans secured by the European Investment Fund guarantee (EDIf and COSME program) in our offer. This segment covers entrepreneurs and micro-enterprises. In the segment of entrepreneurs in 2019, the Bank's market share was retained at 9%.

During 2019, cash loans had the highest realization (51% of total sales), followed by micro-business loans (20%), housing loans (15%) and agricultural loans (14%).

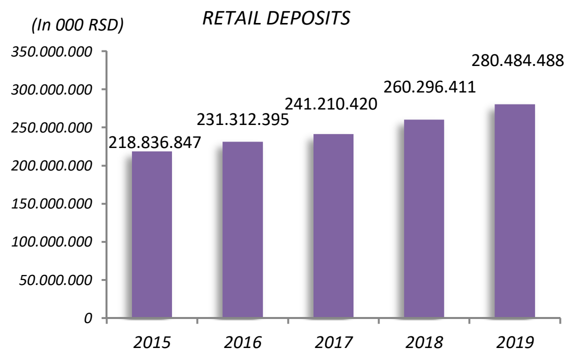
All of the above led to an increase in the net balance of retail lending by RSD 5.2 billion as of 31.12.2018. In the net balance structure, the share of housing loans is 42% and the share of other, more profitable products is 58%.





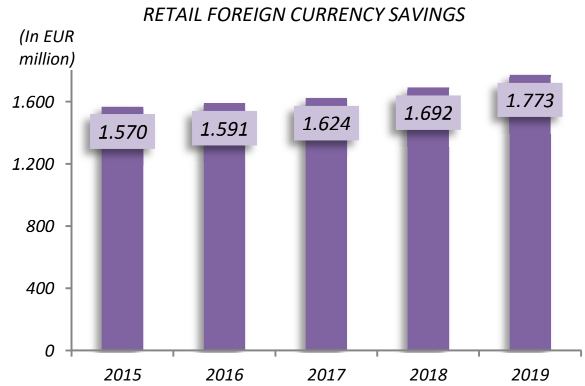
Deposits [74] *- Bank's Operation*

In 2019, positive trends in deposit collection continued. There was a significant increase in retail deposits of RSD 20.1 billion or 8%.



In 2019, the total foreign currency retail deposits in the banking market (excluding micro-enterprises) increased by EUR 826 million, while the Bank maintained its leading position in the market with a share of 18% and EUR 93 million growth. If we look at the "classic retail foreign currency savings", it has increased EUR 81 million during the year.

[74] Position deposits do not include other liabilities and funds received through credit lines



** Foreign currency savings shown do not include tied foreign currency savings accounts (retirees) and entrepreneurs*

Citizens prefer a `vista savings whose share has increased from 63% to 68%, while the share of term savings has dropped to 32%. Savings deposits of up to EUR 50,000 dominate (over 99%, 74%). Due to the citizens-retail clients who favour term savings, we have introduced an action product in our offer - 60 months term savings with the possibility of step-by-step cancellation of the deposit term under stimulating conditions.

After years of decline, debit interest rates on retail foreign currency savings have stabilized (31.12.2018=0,26%, and 31.12.2019=0,24%). A slight increase in the interest rates is expected in the forthcoming period. The clients recognize Komercijalna Banka as the most trusted institution, therefore deposits are constantly growing.

Other Products

The Bank's most valuable asset is its clients, and in the Retail Banking we have a total of 1.2 million, of which 820 thousand active clients. Activities have been carried out to increase the number of clients in all segments, and especially in the most important segment - the number of natural persons (retail clients) having regular income deposited through current account (413,000 clients, the number of clients increased by 4,000 during the year). These clients represent the core of the retail business and are the basis for growth in lending activity, especially current account overdrafts, since these are the most profitable product and are used by every third client. More than 287,000 customers (an increase of 46,000 compared to last year) use the "Set Account" as a better quality product than basic current account, of which about 34,000 use Start Sets, intended for the youngest clients (18-27 years old), thus forming the basis for safe business in the future. The number of debit and credit cards has increased slightly, and currently stands at around 952,000, of which 50% are used regularly.

In the micro-business segment, we have 16,000 Set Accounts (an increase of 6,000 thousand compared to 2018). A total of 75,000 individuals regularly use electronic and mobile banking for payments (14% increase), while the number of micro clients that regularly use electronic services is 14,000 (17% increase).

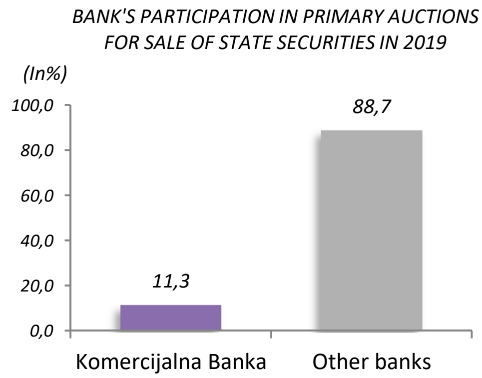
Business Network
We carry out our retail business segment in 203 branch offices, which makes us the market leader. There are 286 ATMs available to our customers (an increase of 15 compared to 2018) and approximately 13,600 POS terminals, making us one of the market leaders. Taking into account the needs of the clients, the Bank continued its activities to improve the customer experience by improving the appearance of its branch offices, moving to new premises, adjusting/optimizing working hours, etc.

Profitability
Due to all the business activities undertaken, the retail business generated total net interest and fee income in the amount of RSD 10.188 million, which is y.o.y. increase of 3%.

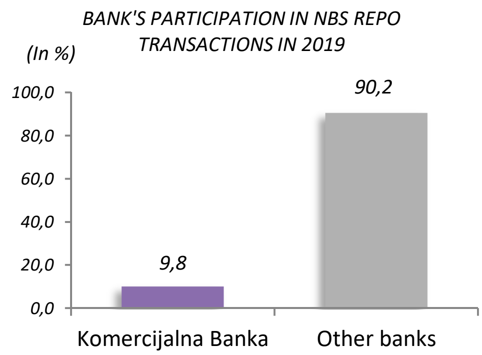
6.4. Asset Management

Starting from the strategic orientation of the Bank, the activity of the Treasury business function is focused on active management of assets and liquidity while ensuring the smooth functioning of the Bank and meeting the business needs of clients.
The environment in which the Treasury function was operating was marked by a decrease in the benchmark interest rate (BIR) in 2019 from 3.00% to 2.25%, stabilization of interest rates at a relatively low level, a downward trend in yields on domestic government securities and negative interest rates on EUR and CHF in foreign markets, which, given the available funds, presented a very significant challenge in managing liquidity.

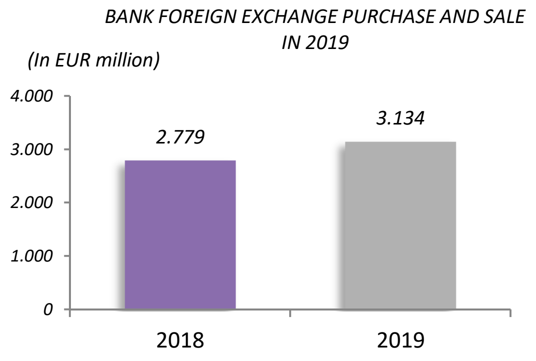
In 2019, the Bank's liquidity position was stable, with liquid assets predominantly invested in government securities of the Republic of Serbia.



Extensive participation of KB in the primary auctions of government securities of the Republic of Serbia was accompanied by a very active engagement in the secondary market, while given the maturity structure of sources; most of the short-term dinar liquidity was placed through short-term investments on the inter-change market, and in reverse repurchase operations with the National Bank of Serbia.



The activities of the Treasury business function in the foreign exchange market were also intense. In total transactions with clients, authorized money changers and other banks in the interchange foreign exchange market, the volume of purchase and sale transactions amounted to EUR 3.134 million (an increase of 12.78% compared to the previous year) and with a total generated net income of RSD 603.8 million.



On 01/08/2019, the Bank signed a Guarantee Agreement with the European Investment Fund (EIF) for the COSME program - the SME Competitiveness Program.

The Treasury function's strategy in the coming period will focus on prudent employment of liquid assets in risk-free and low-risk financial instruments while mitigating the effect of falling yields by investing in longer-term instruments.

Key Results of the New Banking Technologies Business Function, With its Specific Components

Market – Key Tendencies

NBS introduced mandatory instant payment starting October 22, 2018, creating an obligation for banks to provide customers with an infrastructure which would enable instant transfers through one sales channel and from 2019 the obligation for banks to provide instant payment across all payment channels. The amount of merchant fees is stimulating for merchants, contributing to faster adoption of cashless payments.

The Law on Multilateral Interchange Fees and Special Operating Rules for Card-Based Payment Transactions has been in application since the end of 2018, stipulating a reduction of the interchange fee, which in the transitional period (the first six months) must amount to a maximum of 0.5% for debit cards and 0.6% for credit cards. Further reductions in fees, effective since June 18, 2019, has been in line with the European level of 0.2% for debit and 0.3% for credit cards.

NBS also directed banks to use national card scheme and support domestic "Dina" brand, indicating lower costs.

The trend of adopting cashless payment and digital service delivery continues, as has been indicated by key market parameters:

- The number of cash deposits and disbursements has had a long-term downward trend,
- at the same time, orders initiated electronically record increasing annual growth rates followed by traffic growth, the number of transactions on merchants' internet outlets is increasing, cards are still dominant, but the use of electronic money is also on the rise,
- the acceptance network is expanding with the increase of internet e-trading, POS terminals and ATMs,
- the number of active internet and mobile banking users is increasing.

6.5. Development Activities of KB Digital Banking

Analytical Predictive Tool (CRM) was released on February 26, 2019. After 10 months of campaigning, over a million customer responses have been collected to help us enhance the existing campaigns and improve credit product sales.

Also, in 2019, the creation of program code was completed, combining the client responses to the displayed messages with the realization of the products to which that message relates. Activation of the Self Learner model, which, based on the history of accepting/rejecting offers and behaviour of clients, owing to the advanced analytics, predicts client behaviour, has planned to go into production in the first quarter of 2020, which, predictably, will influence the maximization of sales of the Bank's services and products to users of digital channel.

An "RTDM" campaign was created to send the best offer to micro-entities and entrepreneurs through the KOMBANK BIZ WEB application, which started sending messages to the development environment during December 2019.

The existing "RTDM" retail campaign is customized for display on the mobile application. A pilot version of the mobile application has been delivered to production, through which RTDM began sending messages to this channel. We expect all mobile application users to be able to "see" "RTDM" messages by the end of February 2020.

Three basic models have been created to identify customer needs and group them into specific categories, and a new channel is planned for 2020 to display "RTDM" messages. Through this channel, "RTDM" would send messages to all active clients of the Bank, regardless of whether they use mobile or internet applications.

The regulatory requirement for the introduction of instant payment at the merchant's point of sale has directed digital development activities towards facilitating the acceptance of instant payments from the perspective of the Bank as acceptor, as well as and the Bank as an issuer of payment instruments.

- ✓ As an acceptor, the Bank provided an instant payment acceptance service on an infrastructure that relies on the existing payment card acceptance system, and introduced the option of using an independent infrastructure, which does not require a merchant to have a POS terminal.
- ✓ As a payment instrument issuer, the Bank has provided customers with a quick and easy cashless payment transaction service at a merchant's point of sale via the Bank's mobile application using a QR code.

- We have redesigned and improved applications intended for retail clients – natural persons, by optimizing the application in order to improve the user experience.
  - ✓ Number of retail e-banking users – natural persons increased, as well as the outgoing traffic and number of retail e-banking transactions.
  - ✓ Number of retail mobile banking users – natural persons has also increased, followed by the increase in the number of transactions and traffic growth.
  - ✓ Total number of corporate e-banking users – legal persons increased, as well as the total number of corporate e-banking transactions executed by legal persons, followed by the growth of e-Bank share in the total number of transactions and Bank’s payment operations volume.

- Digital branch office „KOMeCENTER “ continued successful work, and the number of applications for products increased 39% year over year. Of all the products offered by the Bank through ”KOMeCENTER”, the highest interest of clients was overdraft approval, where 50% more applications were realized year over year.

6.6. Development Activities for Payment Cards

- New”Dina” 1/24 credit card has been introduced with the most attractive interest rate on the domestic market.
- Project of introducing the „China Union Pay International“ payment cards on Komercijalna Banka’s ATMs was completed.
- New functionality of “Dina” debit card enabling instalment payment – the first card of this type in the Bank’s portfolio of products. This card represents the replacement for cheques – it enables its holders interest free instalment payment with merchants that have signed contracts of this type with Komercijalna Banka.

6.7. Securities Division

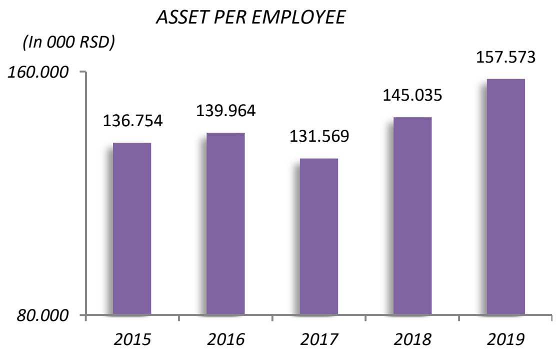
The Securities Division is a separate organizational form of the Bank, consisting of the Authorized and the Custodian Bank, with the permission of the Securities and Exchange Commission to provide investment and additional, or custody services. In 2019 in the financial instruments business, the Bank achieved significant results:

- On the primary and secondary (OTC) market of sovereign debentures denominated in EUR and RSD – dealer operations;
- The Bank is one of the first ten Stock Exchange members by total turnover scope, second by number of transactions, eight by value of transactions;
- Considerable growth of Authorised Bank’s income;
- Increase in the number of clients that use unique web application „Kombank Trader “ which enables „on-line“ trading with financial instruments on the domestic and foreign markets – by using computers and mobile phones;
- Recapitalization of issuers of financial instruments completed, payment of concession fee, disposal of treasury shares, successfully realized transaction of high value (approximately EUR 400 million) - purchase of shares of domestic bank and insurance company by one of the leading foreign owned banks;
- Significant increase of the Custody Bank's clients in terms of the custody services in foreign market;
- Significant increase of clients in domestic market;
- Rise in the number of orders issued by Custody Bank’s clients;
- Continued trend of competitiveness in reference to the traffic volume compared to other custody banks;
- Establishment of business-technical cooperation and initiation of test phase (as preparation for the future services of the custody bank to one of the leaders in the domestic market of pension funds „Dunav Fund “;

- Raising the interest of clients, particularly in voluntary pension funds, as well as professional clients.

6.8. Bank Human Resources

The mission of human resources management at Komercijalna Banka is to develop and maintain a high level of expertise and motivation of employees in order to realize the Bank's business plans. In addition to the continuous optimization of the number and structure of employees in recent years, the efficiency of the Bank, measured by assets per employee, has grown significantly. The Bank is continuously investing in employee training and development.



The development approach is based primarily on identifying the developmental needs of employees, defining and adjusting the content of training, creating and implementing internal training, organizing internal and external training, measuring and improving the quality of training, as well as both training and employee development process itself.

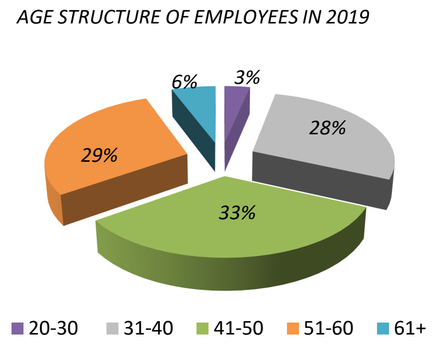
During 2019, the Human Resources Division actively participated in the organization and implementation of employee training. According to the criterion of importance of the topic and coverage of training in terms of number of participants, the most important external professional training in 2019 were: "Compulsory continuing education of authorized representatives in bank insurance", "Advanced excel", "Training in the National Bank of Serbia on performing cash processing operations "," Training for an Authorized Insurance Agent, "" Collateral Management, "" Querying Data with Transact - SQL “.
According to the criterion of importance of the topic and coverage of training in terms of the number of trainees, trainings realized by employees from organizational units of the Bank in cooperation with the Human Resources Division, including on-line training, in 2019 were: "Information Security", "Prevention Money Laundering and Terrorist Financing", "Euro Currency Processing in accordance with the Decision of the National Bank of Serbia", "Typology of Money Laundering", "Code of Conduct, Client Complaints and Conflict of Interest", "Fraudulent Practices", "Management and Improvement of Communication in Branch Office", "Training for newly hired tellers", "Establishing business cooperation with clients", etc..

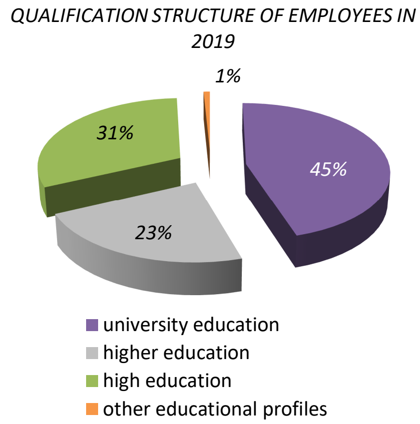
Training organized for the branch employees aim at raising the awareness of the Bank's employees of the importance of adequate communication with clients and resolving disputable situations or objections and complaints, acting in accordance with the law and internal acts of the Bank in daily work with clients, in order to reduce regulatory and reputation risk to the Bank and increased customer satisfaction with the Bank's products and service.

Number of employees	2.744				
Network	1.722				
Divisions	1.022				
Gender	Male		Female		
	726		2.018		
Employment status	Full-time	Fixed term	Job protected time away		
	2.633	106	5		
Education structure	University	College	High school	Non-qualified/ Semi-qualified Fully-qualified	
	1.244	634	846	20	
Age structure	20-30	31-40	41-50	51-60	61+
	91	780	918	798	157

Since 2008, the Bank has been conducting the Annual Evaluation of Employee Performance on the basis of the set annual goals, monitoring the achievement of those goals, as well as the expressed abilities of employees in achieving the goals. Annual evaluation of employee performance is also the basis for remuneration, employee career planning and Budgeting and Employee Training Plan.

The principles of employee remuneration are clearly defined in the Employee Compensation Policy, adopted by the Bank's Board of Directors at the proposal of the Compensation Committee, a Board of Directors body. The aim of this policy is not only to adequately reward employees, but also to motivate them to achieve better work results.


AGE STRUCTURE OF EMPLOYEES IN 2019
6%
3%
28%
29%
33%
20-30
31-40
41-50
51-60
61+


QUALIFICATION STRUCTURE OF EMPLOYEES IN 2019
1%
31%
45%
23%
university education
higher education
high education
other educational profiles

6.9. Balance Sheet of the Bank as at December the 31st 2019.

No.	BALANCE SHEET ITEM	31.12.2019.	31.12.2018.	INDICES	% OF SHARE AS OF 31/12/2019
1	2	3	4	5	6
	ASSETS (in 000 RSD)				
1.	Cash and funds held with the Central Bank	67.558.219	63.595.710	106,2	15,6
2.	Pledged funds	-	-	-	-
3.	Receivables arising from derivatives	-	4.070	-	-
4.	Securities	138.469.551	133.177.598	104,0	32,0
5.	Loans and receivables due from banks and other financial institutions	24.733.958	18.477.729	133,9	5,7
6.	Loans and receivables due from customers	180.852.563	167.545.674	107,9	41,8
7.	Changes in fair value of items that are the subject of hedging	-	-	-	-
8.	Receivables from financial derivatives held for hedging	-	-	-	-
9.	Investments in associated companies and joint ventures	-	-	-	-
10.	Investments in subsidiaries	3.433.697	2.611.859	131,5	0,8
11.	Intangible investments	665.735	557.051	119,5	0,2
12.	Real-estate, buildings and equipment	6.437.937	5.619.078	114,6	1,5
13.	Investment property	1.857.927	1.896.347	98,0	0,4
14.	Current tax assets	-	-		
15.	Deferred tax assets	1.074.197	840.967	127,7	0,2
16.	Fixed assets intended for sale and funds from discontinued operations	196.300	227.630	86,2	-
17.	Other assets	7.100.359	6.612.267	107,4	1,6
	TOTAL ASSETS (1 to 17)	**432.380.443**	**401.165.980**	107,8	100,0

No.	POSITION	31.12.2019.	31.12.2018.	INDICES	% OF SHARE AS OF 31/12/2019
1	2	3	4	5	6
	LIABILITIES (in 000 RSD)				
1.	Liabilities arising from derivatives	-	-	-	-
2.	Deposits and other liabilities to banks, other financial institutions and the central bank	5.021.756	5.662.748	88,7	1,2
3.	Deposits and other liabilities to other customers	335.317.154	317.229.084	105,7	77,6
4.	Liabilities arising from financial derivatives held for hedging	-	-		-
5.	Changes in fair value of items that are the subject of hedging	-	-		-
6.	Liabilities arising from securities	-	-		-
7.	Subordinated liabilities	-	-		-
8.	Provisions	2.328.130	1.653.663	140,8	0,5
9.	Liabilities arising from funds intended for sale and funds from discontinued operations	-	-		-
10.	Current tax liabilities	-	-		-
11.	Deferred tax liabilities	-	-		-
12.	Other liabilities	13.861.230	9.059.972	153,0	3,2
13.	**TOTAL LIABILITIES (1 to 12)**	**356.528.270**	**333.605.467**	106,9	82,5
	CAPITAL				
14.	Share capital	40.034.550	40.034.550	100,0	9,3
15.	Own shares	-	-		-
16.	Profit	10.425.898	9.047.691	115,2	2,4
17.	Loss	-	-		-
18.	Reserves	25.391.725	18.478.272	137,4	5,9
19.	Unrealized gains	-	-		-
20.	Non-controlling interest	-	-		-
21.	**TOTAL CAPITAL (14 to 20)**	**75.852.173**	**67.560.513**	112,3	17,5
22.	**TOTAL LIABILITIES (13+21)**	**432.380.443**	**401.165.980**	107,8	100,0

6.10. Bank's 2019 Protif&Loss Statement

No.	POSITION	31.12.2019	31.12.2018	INDICES (3:4)*100
1	2	3	4	5
	OPERATING INCOME AND EXPENSES (in 000 RSD)			
1.1.	Interest income	13.630.674	13.744.908	99,2
1.2.	Interest expenses	-1.025.290	-910.270	112,6
1.	**Net interest income**	**12.605.384**	**12.834.638**	98,2
2.1.	Fee and commission income	7.124.829	7.207.872	98,8
2.2.	Fee and commission expenses	-1.795.833	-1.997.723	89,9
2.	**Net fee and commission income**	**5.328.996**	**5.210.149**	102,3
3.	Net gains /losses (-) arising from change in fair value of FI	71.614	44.076	162,5
4.	Net gains/losses (-) arising from re-classification of FI	-	-	-
5.	Net gains/losses (-) from de-recognition of FI valued at fair value	353.490	230.194	153,6
6.	Net gain / loss on risk hedging	-	-	-
7.	Net gains / losses on foreign exchange transactions and effects of foreign currency clause	38.228	-7.458	-
8.	Net gains/losses (-) arising from impairment of FI not valued at fair value through profit and loss	2.425.931	9.493	-
9.	Net gains/losses (-) from de-recognition of FI valued at depreciated value	-579.933	526.547	-
10.	Net gain / loss (-) arising from de-recognition of on investments in associated companies and joint ventures	-	-	-
11.	Other operating income	151.321	155.969	97,0
12.	**TOTAL NET OPERATING INCOME**	**20.395.031**	**19.003.608**	107,3
13.	Wages, salaries and other personal expenses	-4.917.532	-4.442.799	110,7
14.	Depreciation costs	-1.005.837	-551.988	182,2
15.	Other income	720.795	280.229	257,2
16.	Other expenses	-6.923.772	-6.167.977	112,3
17.	**PROFIT / LOSS (-) BEFORE TAX (1 to 16)**	**8.268.685**	**8.121.073**	101,8
18.	Profit tax	-	-	-
19.	Profit from deferred tax	1.482.667	700.754	211,6
20.	Loss from deferred tax	-795.593	-676.645	117,6
21.	**PROFIT / LOSS (-)AFTER TAX (17 to 20)**	**8.955.759**	**8.145.182**	110,0
22.	Net profit from discontinued operations	-	-	-
23.	Net loss from discontinued operations	-	-	-
24.	**RESULT FOR THE PERIOD PROFIT / LOSS (-) (21 to 23)**	**8.955.759**	**8.145.182**	110,0

7. INVESTMENTS AIMED AT PROTECTING THE ENVIRONMENT

The Bank respects the highest international standards and values in the creation of financial products and services, develops and implements activities in the field of environmental protection and protection of human and labour rights. The Environmental and Social Risk Management Procedure defines the standards for identifying, measuring and assessing, monitoring and managing environmental and social risks in the process of granting and monitoring loans. The aim of the environmental risk management system is to introduce this system in the process of credit activity and credit monitoring, thus increasing the possibilities for acceptable and sustainable economic development from the point of view of environmental protection and minimizing the possibility of occurrence of environmental and socially negative impacts.

The Bank has also defined a procedure for resolving and responding to complaints regarding the direct or indirect impact of the Bank's business activities on physical and the social environment.

The Bank requires customers to operate in accordance with applicable environmental, health and safety regulations, EU standards and other international good practice standards, where applicable. In order to consistently apply the standard, the Bank applies a list of activities, projects or activities that are excluded from financing or operate in accordance with defined limits for individual activities.

In the process of granting the loan, in accordance with the legislation relevant for environmental protection, the Bank categorizes the client's requirements from the aspect of environmental and social impact using the List of categorization of environmental and social risks.

The Bank monitors the portfolio structure, that is, the participation of risk categories from the aspect of environmental and social impact. At the monthly level, the Credit Committee, the Executive Board, the Audit Committee and the ALKO Committee are reported, and at the quarterly level the Board of Directors is informed about the environmental and social risk exposures. In addition, the Bank continuously monitors emergency events with its customers that may have adverse impact on the environment, health or safety or the community as a whole, and regularly informs the Bank's governing bodies.

On the other hand, the Rules of Conduct and Professional Ethics of Komercijalna Banka AD Belgrade contain a Code of Conduct in order to improve and more precisely regulate the existing principles of business ethics and rules of conduct. Within this Code, a separate section is dedicated to protecting the environment and raising awareness of the importance of protecting the environment. Accordingly, the Bank has had centralized double-sided printing for years, saving both paper and electricity. The toners in these printers are recycled, while paper and plastic recycling boxes have also been installed throughout the Bank.

The bank has a contract with an authorized company to take over electronic waste. The certified company has all the necessary solutions for the transportation, storage and treatment of electronic waste issued by the competent ministry. It is a standard procedure to prepare all electronic waste (defective IT equipment) for safe disposal from the Bank once a year, upon completion of the annual inventory of fixed assets.

8. IMPORTANT EVENTS AFTER THE END OF FISCAL YEAR

From 31 December 2019 to the end of February 2020, one session of the Bank's General Meeting was scheduled.

The regular General Meeting of Shareholders of the Bank is scheduled and held on March 9, 2020.

On General Meeting of Shareholders was adopted:

- Decision on the adoption of the Strategy and Business Plan of Komercijalna Banka ad Beograd for the Period 2020-2022.

A description of event after the end of the fiscal year has been presented in the item "Events after the balance sheet date - Note to the financial statements for 2019".

9. PLAN OF FUTURE DEVELOPMENT OF THE BANK

The main pillars of the Bank's development strategy over the next three-year period are [75]:

- increase in loans to customers (as a key aspect of future profitability in a situation of reduction of interest rates on securities),
- maintaining the quality of the loan portfolio in order to keep the low level of NPL, as well as the cost of credit risk,
- improvement - changing customer structure - targeting customers based on demographics and standards (taking into account the development of innovative products, primarily digitalisation); in addition to large enterprises, the Bank's focus will be on the segment of operations with local governments, public companies, while retaining existing clients;
- increase in share of fees and commissions in relation to interest income (the Bank will have stronger focus on fee and commission income, bearing in mind the tendency of interest rates decrease and application of digitization aimed at attracting new clients from younger population),
- control of operating expenses and further improvement of business efficiency (through stricter financial discipline) with the aim of reducing operating expenses according to the generated income over the entire planning period (CIR),
- maintaining an adequate capital position, with the payment of cumulative dividends from previous years and dividends based on projected profit in the next three-year period (CAR ≈28.4% average over the next planning period).

Retail Banking

In retail banking segment, for the coming period the Bank is planning numerous improvements with the aim of improving business in all segments. Process improvements are given below:

- automation of decision-making processes in all segments;
- automation of contract signing by two-factor email and SMS authentication;
- further complete centralization of back office activities in order to relieve the branches through changes in business processes and development of application solutions;
- revising the market approval policy in order to better exploit the client base and attract new clients.

Business network:

- operation of branches according to service and sale centre model;
- introduction of a specialist to work with the most significant micro clients;
- head office and business network optimization (opening, merging and closing of branch offices in accordance with market potential).

Employees:

- ensuring the optimal number and structure of employees in the branch offices, and hiring younger staff as requirement (including adequate programs for voluntary employment termination programme with the Bank);
- evaluation of salaries through work performance.

One of the Bank's key strategic goals for the coming period is to maintain and increase its customer base while improving its structure in all segments. The focus will be on the acquisition of better performing clients through offering new, innovative products and services, and an individual approach to each client's needs. The aim is to further improve the loan approval process, so that clients can receive funds as soon as possible (approval in the branch office, signing of the contract without coming to the branch office, lending through digital branch office...).

We plan to increase lending activity in all segments while maintaining a similar portfolio structure (40% -42% share of housing loans in the portfolio). The planned growth of loans should lead to the growth of market share in all segments and products.

Cash loans will continue to be a major driver of retail lending growth due to high profitability and strong demand, with the aim of increasing market share in the coming years. Growth in housing loans is also expected due to favourable lending conditions, demand growth, adequate supply of new apartments and expected growth in average wages. Growth is also planned in terms of the micro and agro segment (in the agro segment the Bank is one of the market leaders by most parameters).

75 Strategy and Business Plan of Komercijalna Banka ad Beograd for the period 2020-2022

The fall in lending interest rates in the market is milder than in previous years and will be offset by the growth in the realization of loans and portfolios. As a result of all of the above, interest income from retail operations is projected to grow by 6% in 2020.

In the deposit segment, the Bank's objective is to maintain a leading position in terms of the volume of raised retail foreign currency savings. The plan is ambitious and predicts an increase in total retail deposits of RSD 14 billion in 2020, with retail foreign currency savings being the main growth generator. We have planned for an individual approach to depositors having higher deposit amounts placed in order to prevent them leaving to other banks, given the trend of a slight increase in market interest rates. Due to the expected mild growth of deposit interest rates and significant growth of deposits, interest expenses are also expected to increase.

In 2020, we expect a significant increase in fee and commission income due to growth in all segments, most of all from payment card business. Retail and micro-clients current accounts fees recorded steady growth due to the increase in the number of clients and the transition to "sets" of current accounts. Fees charged for performance of payment services are also growing.

The strategic goal in 2020 is also to increase the number of clients actively using electronic and mobile banking.

Conclusion
As a result of all planned activities, we expect net interest and fee income to grow by 7% in 2020, which will continue years long up-growth business trends and increasing profitability in retail banking segment. In addition, retail banking is the most significant generator of achievement of goals and net income at the Bank level.

Corporate Banking Operations
In corporate banking business function we are planning the following in the period to come:

- to modify internal client segmentation within a function;
- to introduce *„Pre approval"* processes for SME clients, primarily for small businesses,
- to improve the use of the existing corporate client base with the conversion of existing "deposit clients" into clients with *ON* and *OFF* exposure,
- to increase efficiency in the process of granting corporate loans,
- to maintain quality and growth of loan and off-balance sheet portfolios,
- to maintain profitability at projected value levels, with a focus on increasing non-interest income,
- to maintain focus on lending to state and local level public and local government segment (participation in tenders and public calls),
- the Bank's involvement in "syndicated" lending to the public and private sectors in cooperation with other banks,
- The Bank remains open to participate in the cross-border financing in the coming period in the realization of larger credit requirements by clients from the surrounding markets. The Bank will continue to perform these activities in coordination with its subsidiaries in Montenegro and Bosnia and Herzegovina.,
- increasing the volume of loans for financing real estate development projects ("project financing").

During 2020, the Bank expects a stable business environment; forecasts of economic activity tend to grow. Expected GDP growth will be predominantly influenced by the business of export-oriented economic entities, as well as by foreign direct investment (FDI). Domestic demand is expected to increase as a result of public sector wages and pensions. Continued implementation of large-scale infrastructure projects at the state and local level in Serbia and in the region, and the continuation of the development trend of construction projects, followed by investments in equipment. The growth of the banking sector (total net assets, loans and deposits) is expected to continue - the growth of banks' corporate lending activity, with stabilization and a slight increase in lending interest rates.

Operations with Financial Instrument
In 2020, the Securities Division continues to develop and improve its operations through:

- performing servicing of the clients, i.e. redemption, for the account of the Bank, of bonds issued in accordance with the Law on Regulation of the Public Debt of the Republic of Serbia on the basis of unpaid retail foreign currency savings deposited with banks operating in the territory of the Republic of Serbia and their branches in the territories of the former Republics of the SFRY;
- improvements to the "Kombank Trader" web application;

- collateral in the investment units of KomBank Money Fund intended for trade on domestic and foreign stock markets through “KomBank Trader” application;
- improvement of dealer transactions with sovereign debentures via more frequent trading through trading book and widening of the client base for dealer operations with clients from banking insurance and investment funds;
- increase in the number of clients, with the focus on understanding the needs of clients and taking care of long-term business cooperation;
- realization of inter-bank REPO transaction;
- providing professional, fast and safe service, as well as support to clients in achieving their investment objectives;
- improvement of custody services on domestic and foreign markets to clients, in the form of more extensive reliability, speed and operability in realization of the clients’ requests;
- further automation of the operating process, especially “cash settlement” for foreign trading (modelled according to the automation of the settlement procedure for domestic market);
- higher level of automation during controlling the operating process (aimed at higher level of accuracy and decrease in administration and manual engagement by employee);
- further increase in the number of clients, with special emphasis on institutionalized clients (investment funds, pension funds, professional investors, broker houses);
- further increase in the scope of services provided to clients;
- growth of custody portfolio;
- further growth of income and intention of minimizing the operating costs;
- formalization of business cooperation in the part of providing services of the Custody Bank to the largest domestic voluntary pension fund “Dunav Fund”, and as a result of successful test phase which is still on-going;
- continuation of pro-active and affirmative approach to potential clients, listening to their needs and expectation and improvement of operation of the Custody Bank in this sense.

Adhering to the principles of friendly and constructive information sharing, commitment and efficiency, the Securities Division will continue to meet client expectations with ease.

Profitability
In order to increase future profitability, the Bank plans to [76]:

- realize the growth of loans to customers as a key aspect of profitability in the conditions of falling interest rates on securities,
- generate fees and commissions income growth to respond to falling interest rates and interest income,
- more efficient control of operating expenses.

The banking sector of Serbia was marked by a decrease and stabilization of both lending and debits interest rates, especially in the last two years. As a result, there was a significant decrease and stabilization of the interest margin. No further significant decrease of lending and debit interest rates is expected in the future. There is also a slight increase in debit interest rates in the retail sector.
In order to maintain and increase its profitability in the coming period, the Bank will make an effort to increase fees and commissions income. The most important sources of fees will be payment cards, domestic payments and retail current accounts. The development of business digitization and other initiatives are expected to contribute to the growth of fee income. In the corporate banking division, profitability growth will be driven by growth in non-interest income from payment fees and documentary and guarantee products.
In the future, special attention will be paid to controlling the costs of operating the business, which should result in a further reduction of cost/income ration.
The Bank does not expect significant impairment losses in the next three-year period.

As a result of all of the foregoing, the Bank's profitable operations and adequate rates of return on assets and capital have been projected in the next three-year period.

Asset Management *(„Treasury “)*
Below is the Bank's strategy in the area of asset management in the future:

- active management of the entire securities portfolio,
- withdrawal of additional funds from credit lines according to need and
- contribution to the Bank's profitable business.

[76] Strategy and Business Plan of Komercijalna Banka ad Beograd for the period 2020-2022

As a result of the lack of quality demand in the previous period, a significant part of the Bank's assets is in highly liquid and risk-free securities (bonds of the Republic of Serbia). The Bank does not plan further significant growth of investments in securities, but will reinvest the assets released from securities into instruments with longer maturities. This will mitigate the negative effect of falling interest rates, especially on securities with shorter maturities.

The volume of retail and corporate deposits with insufficient quality of demand for loans reduced the Bank's need to use funds from foreign credit lines. The Bank will take new credit lines only if there is an interest of creditworthy clients for loans with the purpose that may be funded by these lines, respecting the criteria of their competitiveness (margin, maturity ...) in relation to other available sources of the Bank.

On the basis of all of the above, the Bank's objectives in terms of asset management are to have adequate liquidity reserves at all times in the form of highly liquid assets that can be quickly converted to cash. The excess liquid assets will be invested in low-risk securities or in other first-class financial institutions for the purpose of obtaining adequate income. The development of innovative products, as well as the operations of buying and selling foreign currencies in the money and capital markets, will also provide an adequate amount of net fee income.

Deposit Potential

Below are the key sources of deposit potential of the Bank in the coming period:

- retail foreign currency savings - remains the dominant source of financial resources in the future,
- deposits of legal entities and financial institutions and
- funds raised in the form of credit lines from international financial institutions.

During a more extensive period of time the Bank has been standing out by the amount of retail foreign currency savings in the banking sector. The Bank's strategic commitment is to continue to be a leader in this segment while striving to optimize the cost and structure of these funding sources. The Bank plans to continue to base its retail foreign currency savings on a large number of relatively small deposits, that is, to have a large number of depositors with individually small cash deposits.

Corporate deposits have been on a stable level over a long period of time, and it is expected that new clients, loan beneficiaries, will transfer their deposits to the Bank as well, which will result in an increase in corporate deposits.

Given the recognized and stable position in the market, the Bank is able to apply in the international financial institutions for funds in the form of dedicated credit lines. The Bank will use this funding source in accordance with its ability to create credit products that are acceptable in the market.

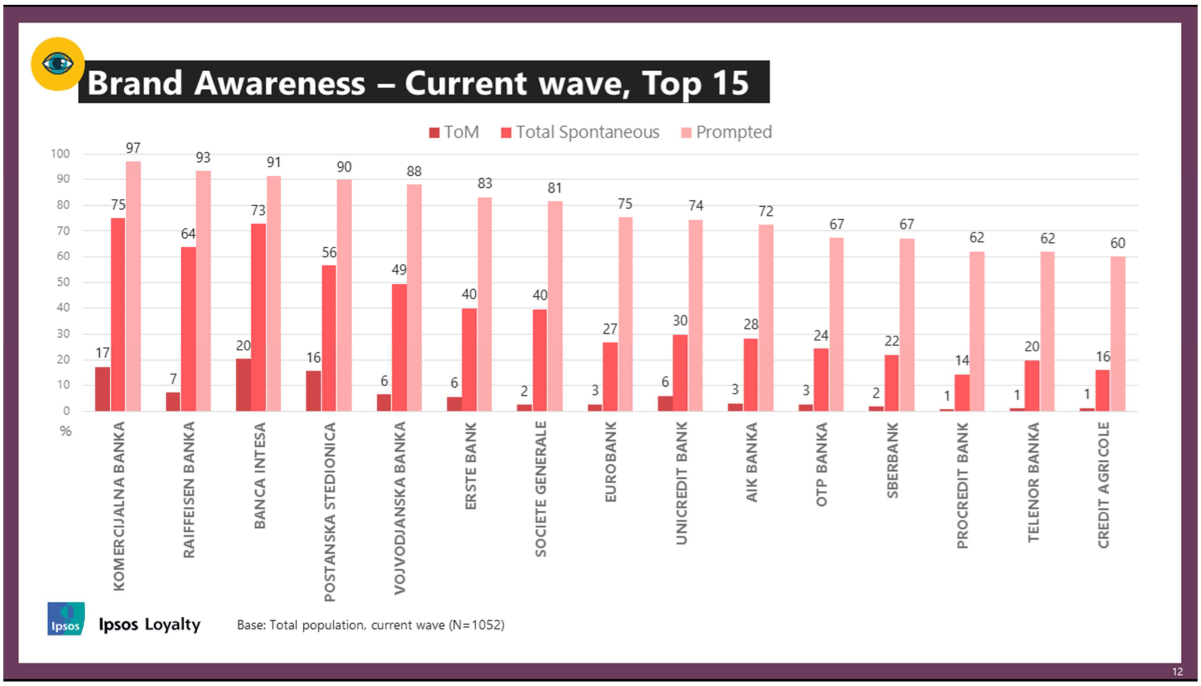
10. RESEARCH AND DEVELOPMENT

During 2019, Komercijalna Banka has been closely and promptly monitoring the developments on the financial market and successfully adapting to the conditions and changes in the financial market in order to maintain its leading position, as shown by the conducted research.

The Bank's market position as a brand, its products and services were further examined in 2019 through the banking omnibus conducted by the IPSOS research agency specialized in this type of research. Research shows that the Bank has been holding one of the leading positions in the public awareness for a long time, measured by the criteria of brand recognition, quality and satisfaction with the products and services used by customers. All research results are published on the Bank's internal portal so that targeted groups are introduced to these results and thus further strengthen the Komercijalna Banka brand..

The latest banking omnibus report (November 2019) shows that, in the opinion of the respondents, Komercijalna Banka was ranked first by the brand recognition criteria among the top 15 banks in Serbia.

Bank Brand Awareness in Serbia (Omnibus Banking, November 2019)



11. SHARE REPURCHASE

As of December 31, 2019 the Bank has had no own shares, nor held any own shares during 2019. Also, the Bank does not intend to acquire its own shares in the future.

12. FINANCIAL INSTRUMENTS SIGNIFICANT FOR THE ASSESSMENT OF FINANCIAL POSITION

The following balance sheet positions are of paramount importance for an adequate assessment of the Bank's financial position at the end of 2019:

• At the asset side:
- ✓ Loans and receivables from customers,
- ✓ Loans and receivables from banks and other financial organizations,
- ✓ Securities,
- ✓ Cash and funds held with the Central Bank.

• At liabilities side:
- ✓ Deposits and other liabilities to other customers,
- ✓ Capital.

Loans and receivables from customers, banks and other financial organizations at the end of 2019 amount to RSD 205,586.5 million and represent 47.5% of total balance sheet assets. The sum of the same two balance sheet items at the end of 2018 amounted to RSD 186,023.4 million and represented 46.4% of the total assets of the Bank. During 2019, the Bank has given great importance to risk management policy, given that loans and other investments account for approx. 50% of total balance sheet assets. The focus was on credit risk monitoring. During 2019, loans and receivables increased by RSD 19,563.1 million or 10.5%. The Bank's extensive loan portfolio, through 2019, was secured by an appropriate amount of impairment provisions and reserves.

At the end of 2019, securities amount to RSD 138,469.6 million, representing 32.0% of total assets. At the end of 2018, the same position amounted to RSD 133,177.6 million, representing an increase of securities of RSD 5,292.0 million, or an increase of 4.0%. Securities mostly consist of securities of the Republic of Serbia - government bonds in RSD and EUR.

Cash and balances with the central bank amounted to RSD 67,558.2 million at the end of 2019 and increased by RSD 3,962.5 million or 6.2% compared to the beginning of the year. The largest part of this position consists of funds in the drawing account (35.3%) and funds allocated with the National Bank of Serbia in the form of required reserves (44.8%).
Considering the asset structure, it can be stated that credit-sensitive assets, as well as other types of risk, were maintained at an optimal level with a reasonable risk-taking policy. The Bank's management has ensured the protection of the credit portfolio through an adequate assessment of credit risk in a much more restrictive manner.

Deposits and other liabilities to banks, other financial institutions, the central bank and other customers (including credit lines) amount to RSD 340,338.9 million at the end of 2019, representing 78.7% of total balance sheet liabilities. Deposits and other liabilities to other customers increased by RSD 18.088,1 million compared to the beginning of the year. The Bank's deposit potential is predominantly comprised of retail foreign currency deposits. On 31/12/2019, retail foreign currency savings amounted to EUR 1,773.2 million, with the structure still being a large number of smaller individual deposits. Despite lower interest rates on retail savings compared to previous years, foreign currency deposits of retail clients recorded an y.o.y. increase of EUR 81.1 million at the end of 2019.

At the end of 2019, the Bank's total capital amounts to RSD 75,852.2 million, representing 17.5% of total liabilities. Total capital was increased by RSD 8,291.7 million or 12.3% at the end of 2019 compared to 2018. The capital increase is a result of the profit generated in 2017, 2018 and 2019. During 2019, the Bank's reserves increased by RSD 6,913.5 million, which also contributed to the growth of capital.
The Bank achieved capital adequacy of 30.83% at the end of 2019, which is above the statutory minimum (8% + requirement for a combined hedging layer).

During 2019, the Bank provided the necessary diversification of funding sources for business operations in terms of the required stability and desired profitability.

13. RISK MANAGEMENT

13.1. Objectives and Policies of Financial Risk Management

Risk management is a key element of business management, since risk exposure arises from all business activities, as an inseparable part of the banking business, which is managed through identifying, measuring, assessing, monitoring, controlling and mitigating, i.e. establishing risk limits, as well as reporting in in line with strategies and policies.

The Bank has put in place a comprehensive and reliable risk management system that includes: risk management framework and risk statement, strategies, policies and procedures for risk management, methodologies for managing individual risks, appropriate organizational structure, effective and efficient process of managing all risks to which the Bank is, or may be exposed in its operations, an adequate internal control system, an adequate information system and an adequate internal capital adequacy assessment process. Also, the Bank's Recovery Plan is integrated into the risk management system, as a mechanism for early identification of a situation of severe financial disruption in which the Bank can take measures, that is apply defined recovery options in order to prevent entry into the early intervention phase with an active participation of a regulator or improvement of an already deteriorated financial condition. The risk management framework is a formalization of the Bank's propensity for materially significant risks, which entails defining objectives, tolerances and limits for all materially significant risks that can be quantified. The risk management strategy and the capital management strategy and plan set the following goals within the risk management system: minimizing the adverse effects on the financial result and capital while respecting the defined frameworks of the acceptable risk tolerance limits, maintaining the required level of capital adequacy, developing the Bank's activities in line with the business strategy and opportunities and market development in order to create competitive advantages, diversify the risks to which the Bank is exposed, maintain the NPL share in total credit the level above the defined limit, the maintaining concentration risk ratios based on exposure to certain types of products below the regulatory prescribed level, maintaining liquid assets coverage ratio above the regulatory prescribed level and the internal limits. The Bank constantly monitors all announcements and changes to the regulatory framework, analyses the impact on the level of risk and takes measures to timely align its operations with the new regulations.

The Bank has implemented activities to comply with the new regulation, which further regulates the Bank's exposure to concentration risk based on certain products, and abolishes the calculation of the reserve for estimated losses and required reserves, which entered into force in early 2019. Through a clearly defined process for introducing new and significantly modified products, services and activities related to processes and systems, the Bank analyses their impact on future exposure to risks in order to optimize its income and costs for the estimated risk, as well as minimize any potential adverse effects on the financial result of the Bank. A more detailed account of the Bank's risk management objectives and policies is set out in the notes to the financial statements.

Policy of Protection from Credit Risk Exposure

In order to protect against credit risk exposure, the Bank applies credit risk mitigation techniques by acquiring acceptable collateral as secondary sources of loans repayment. The Bank strives to do business with clients of good credit standing, assessing it at the moment of application, and to regularly monitor debtors, loans and collaterals, with the aim of timely undertaking of the appropriate activities in the collection process. The types of collateral for receivables depend on the assessment of the borrower's credit risk, and are determined on a case-by-case basis, and their acquisition is made upon conclusion of the contract and before loan disbursement.

The Bank's internal acts regulate the evaluation and management of credit protection instruments.

The Bank pays special attention to the marketability and adequate evaluation of collateral, and in this respect, when assessing the value of collateral, engages authorized appraisers in order to minimize the potential risk of unrealistic evaluation, while the real estate, goods, equipment and other movable property that are subject to pledge must be insured with an insurance company acceptable to the Bank, with tied insurance policies.

In order to protect against changes in market values of collateral, the estimated value is adjusted by the defined impairment percentages depending on the type of collateral and the location of the property, which are regularly reviewed and revised.

The Bank pays special attention to collateral monitoring and undertakes activities to provide new evaluations, but also to obtain additional collateral, primarily regarding the clients with identified business problems, but also the clients whose collateral exposure coverage is reduced due to a decline in the value of collateral acquired.

For the purpose of adequate risk management, the Bank conducts activities of credit risk analysis when approving the loans and through establishing a system of monitoring, preventing and managing risk loans, including adequate identification of potentially risky clients (Watch List), mitigates credit risk of the clients with the status specified above, as well as through taking measures and actions in order to protect the Bank's interests and prevent adverse effects on the Bank's financial result and capital.

During 2019, the Bank continued to improve its risk management system. The Bank revised its Risk Management Strategy (reduced the highest acceptable NPL level, defined objectives, tolerance and limits for the most important risk parameters), amended procedures to comply with changes in domestic and international regulations and improved business practices. In line with the changed regulatory requirements, credit risk management has been improved.

In 2019, KB’s focus was on improving the credit portfolio quality by reducing the events of new non-performing loans and resolving the problem of clients who have already been identified as problematic, and also carried out the activities aimed at reducing the existing non-performing loans (improved collection, sale/assignment, as well as write-off by full transfer of receivables into the off-balance sheet records). The Bank has collected a significant amount of risk loans, which resulted in a significant decrease in the NPL ratio, below the planned value defined by the Business Plan, as well as a decrease in the credit risk appetite through revising the maximum acceptable level of NPL assets. Also, in accordance with the Decision of the National Bank of Serbia on the Accounting Write-Off of the Balance Sheet Assets of Banks, the Bank continued to transfer 100% of impaired loans from balance sheet to off-balance sheet records.

The Bank applies IFRS 9 standard and in accordance with the stated standard calculates impairment of balance sheet assets and probable loss on off-balance sheet items. The Bank applies the concept of “expected losses” by incorporating the impact of the expected movement of macroeconomic factors on the future trend of the probability of default status occurrence, based on statistically proven inter-dependencies, wherewith in 2019 the Bank introduced three scenarios (optimistic, realistic and pessimistic). The portfolio is differentiated into three levels that monitor client status (Level 1 - PL clients with no identified credit risk deterioration, Level 2 - PL clients with identified credit risk deterioration - measured by a set of defined criteria, Level 3 - NPL clients), with defined criteria for transition of higher-level clients to lower levels, which were further enhanced in 2019. Also, in accordance with IFRS 9, the Bank calculates impairment for exposures to the Republic of Serbia and the National Bank of Serbia.

Real decrease in impairment provisions (income statement) in 2019 was caused by higher-than-planned collection of risk loans in the Corporate Banking Division, improvement of PD ratio for PL loans in the Corporate Division due to the conservative policy of loan approval and standard quality of corporate portfolio which is continuously improving from year to year. Also, the real decrease in impairments in the income statement was influenced by a new estimate of the share in equity of subsidiaries, which is significantly higher than the previous one, made by an external house from the "Big Four". The significant decrease in in the balance sheet impairment provisions, in addition to the real decrease in the income statement, was also influenced by the transfer of 100% impaired loans from balance sheet to off-balance sheet records.

13.2. Exposure to Risks (Price, Credit, Liquidity and Cash Flow Risk) With Risk Management Strategy and Assessment of Its Efficiency

In its operations the Bank is particularly exposed to the below listed types of risks:

1. Credit and related risks.
2. Liquidity risk.
3. Market risk.
4. Interest rate risk in the banking book.
5. Operational risk.
6. Investment risk.
7. Exposure risk.
8. Country risk as well as other risks that may appear in the regular operation of the Bank.

Credit risk is the possibility of negative effects on the Bank's financial result and capital due to the debtor's default in fulfilling the financial obligations to the Bank.

Credit risk is conditioned by the debtor's creditworthiness, its orderliness in fulfilling its obligations to the Bank, and the quality of the collateral. The acceptable level of exposure to the Bank's credit risk is in accordance with the defined Risk Management Framework and the Risk Management Strategy and depends on the structure of the Bank's portfolio, based on which it is possible to limit the adverse effects on the Bank's financial result and capital while minimizing capital requirements for credit risk, counter-party risk, the risk of impairment of purchased receivables, the risk of settlement/delivery based on free deliveries and in order to maintain capital adequacy at an acceptable level. The Bank manages credit risk at the level of the client, group of related parties and the entire credit portfolio. The Bank approves loans to clients (legal and natural persons), that are estimated as being creditworthy, through performed analysis, that is, quantitative and/or qualitative measurement and assessment of credit risk and financial condition of the borrower. The process of measuring credit risk is based on measuring the level of risk of individual loans on the basis of the internal rating system, as well as on the application of regulations of the National Bank of Serbia, which requires the classification of each loan on the basis of prescribed criteria.

By monitoring and controlling the portfolio as a whole and by individual segments, the Bank makes comparisons with previous periods, identifies trends and causes of changes in credit risk levels. It also monitors asset quality ratios (NPL movement, NPL coverage by impairment provisions, etc.), as well as exposure to regulatory and internally defined limits. By the Decision on Concentration Risk Management based on the Bank's exposure to certain product types, as of January the 1st 2019, the National Bank of Serbia also prescribed the obligation to monitor the concentration risk, i.e. exposure to product groups, such as exposures based on cash, consumer and other loans granted to retail clients with contracted maturity exceeding 8 years in 2019, or further reduction thereof in the next two years. Also, monitoring and reporting about the level of credit indebtedness of retail clients (DTI ratio) was introduced. The credit quality monitoring process enables the Bank to assess potential losses as a result of the risks to which it is exposed and to take appropriate corrective action. On the other hand, the Bank does not invest in high risk investments, such as investments in potentially profitable but high risk projects, in high risk portfolio investment funds and the like.

Liquidity risk represents the possibility of adverse effects on the Bank's financial result and capital due to the Bank's inability to meet its obligations, resulting from the withdrawal of existing funding sources and the inability to acquire new funding sources - funding source liquidity risk, as well as difficult conversion of assets into liquid assets due to market distortions - market liquidity risk.

Liquidity risk is manifested through the Bank's difficulties in meeting due liabilities in the event of insufficient liquidity reserves and inability to cover unexpected outflows of other liabilities. In its operations, the Bank respects the basic principles of liquidity, obtaining a sufficient level of liquid assets to cover liabilities arising in the short term, that is, respects the principle of solvency, by forming an optimal structure of own and borrowed funding sources and by accumulating a sufficient level of liquidity reserves so as to avoid threats to the planned return on equity.

Liquidity risk is also manifested in the Bank's inability to transform certain parts of assets into liquid assets in the short term. The Bank analyses the funding sources liquidity risks and market liquidity risk. The liquidity problem in terms of the funding sources relates to the structure of liabilities, that is, financial obligations, and is expressed through the potentially significant share of volatile sources, short-term sources or their concentration. The funding sources liquidity is in fact the risk that the Bank will not be able to meet its obligations due to the withdrawal of volatile funding sources, i.e. the inability to obtain new funding sources. On the other hand, liquidity risk is also manifested through a deficit of liquidity reserves and difficult or impossible acquisition of liquid assets at acceptable market prices. During 2019, the Bank complied with regulatory and internally defined limits. The Bank is actively taking preventative measures to minimize liquidity risk exposure.

Market risk represents the possibility of negative effects on the Bank's financial result and capital due to changes in market variables and includes foreign exchange risk for all banking business activities and price risk of the trading book positions.

The Bank is exposed to ***foreign exchange risk*** manifested through the possibility of adverse effects on the financial result and capital due to exchange rate volatility, ratios, changes in the value of the domestic currency against foreign currencies, or changes in the value of gold and other precious metals. In order to minimize foreign currency risk exposure, the Bank diversifies the currency structure of its portfolios and the currency structure of its liabilities, matching open positions by individual currencies, while respecting the principles of maturity transformation of assets. During 2019, the Bank complied with the foreign exchange risk regulatory ratio, which was expressed as 20% of regulatory capital, as well as with significantly more conservative internally defined limits, that is, with the defined Risk Management Framework.

Interest rate risk represents the risk of adverse effects on the Bank's financial result and equity arising from banking book positions due to adverse changes in interest rates. The Bank identifies the causes of the current and assesses the future factors of interest rate risk exposure in a timely manner. Exposure to this type of risk depends on the ratio of interest-sensitive assets to liabilities. Interest rate risk management aims to maintain an acceptable level of exposure to interest rate risk in terms of impact on the financial result and economic value of equity, by pursuing an adequate policy of maturity adjustment of the interest rate repricing period and matching funding sources with loans according to the level of interest rate and maturity structure.

Operational risk is the risk of possible negative effects on the financial result and capital of the Bank due to a failure in the work of employees, inadequate internal procedures and processes, inadequate management of information and other systems in the Bank, as well as due to unforeseen external events. Operational risk also includes legal risk, which is the risk of adverse effects on the financial result and equity of the Bank through judicial or extrajudicial proceedings. The Bank undertakes measures to mitigate operational risks and to react proactively to potential operational risk events through continuous monitoring of all activities, monitoring of key risk indicators which represent an early warning for signalling changes in the Bank's risk profile, implementation of an adequate and reliable information system, whose implementation is being improved. In order to minimize legal risk and its impact on the financial result, the Bank continues to improve its business practices in the timely provisioning for claims against the Bank, in accordance with an estimate of future expected loss on that basis.

Investment risk of the Bank represents the risk of investing in other legal entities and in fixed assets and investment property. In accordance with the regulations of the National Bank of Serbia, the level of permanent investments is monitored and notified to the bank's bodies and committees. This ensures that the Bank's investment in one non-financial sector entity does not exceed 10% of the Bank's capital, and that the Bank's investment in non-financial sector entities and in the Bank's fixed assets and investment property does not exceed 60% of the Bank's capital.

Large ***exposure of the Bank*** to one person or group of related parties, including persons related to the Bank, is an exposure that amounts to at least 10% of the Bank's capital. During 2019, the Bank complied with regulatory and internally defined exposure limits.

Country risk is the risk related to the country of origin of the person to which the Bank is exposed, that is, the risk of the possibility of adverse effects on the Bank's financial result and capital due to the Bank's inability to collect receivables from the debtor for reasons due to political, economic or social circumstances in the debtor's country of origin. The Bank's exposure to country risk is at an acceptable level.

A detailed presentation and explanation of the risks to which the Bank is exposed in its operations is presented in paragraph 4. Note to the financial statements.

14. SOCIALY RESPONSIBLE OPERATION

Particularly contributing to the preservation and enhancement of the corporate image were the activities in the area of Corporate Social Responsibility (CSR), which the Bank carefully selected and supported and in which it actively cooperated with its partners. In 2019, the Bank continued its campaign of donating babies born on World Savings Day, 31 October, in the amount of EUR 50 in RSD equivalent. Also, the Bank continued with the "Together for Babies" campaign, and in 2019 funds and equipment for maternity wards in Ćuprija and Pančevo were donated, paid and ordered for maternity wards in Vršac, Vranje and East Sarajevo. Last year, the humanitarian action ''Handicap Plugin'' continued when 10 boxes of plastic stoppers were handed over and a number of cultural events and manifestations were supported.

Modern market business cannot be imagined without proper PR support. The Bank communicated with its stakeholders in a high quality, clear and targeted manner in order to achieve mutual understanding and favourable opinion on the company and thus maintain its acquired image and reputation.

Marketing Activities of the Bank

Marketing activities in 2019 continued to promote products and services, both existing and new, with constant reminder and refreshment of the brand. The previous year, 2019, was marked by campaigns related to the Bank's existing products and services, such as the campaign for cash and refinancing loans, loans for agriculture, housing loans, payment cards, etc.

We have promoted agrarian loans at the Agricultural Fair in Novi Sad and at several appropriate events throughout Serbia. The emphasis in the promotion of payment cards was placed on the domestic DinaCard, and the new DinaCard credit card was promoted, whose endorser is athlete Ivana Španović.

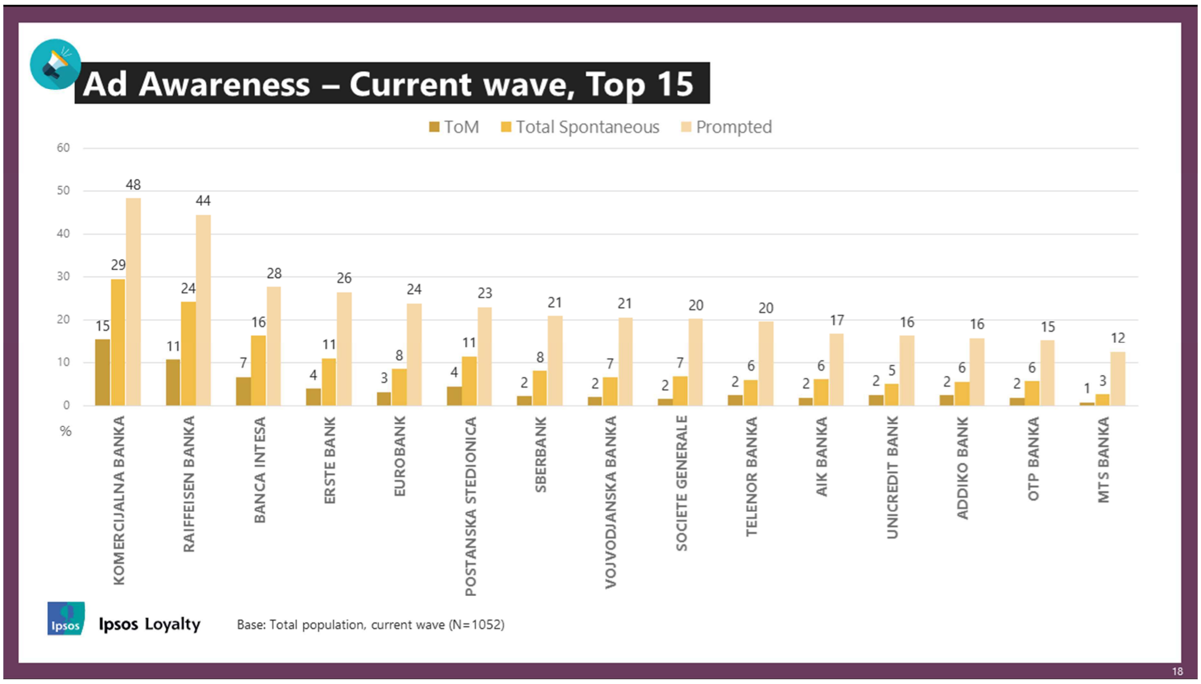
During 2019, the Bank implemented and started to use the new WEB 3.0 e-commerce application, which had an appropriate promotion follow-up so that all customers would be introduced to this application. All advertising of the Bank (advertising in electronic and print media, on the Internet, indoors and outdoors) is in compliance with the new decision of the NBS, effective from 1 July 2019.

The implemented campaigns were integrated, which means that they coordinated numerous communication channels through which we sent a clear and attractive message about the Bank and its product, which is supported by successful data on the position of the Bank when it comes to the visibility of advertising campaigns.

Komercijalna Banka's marketing campaign for Transparent Cash Loans received the prestigious 2019 "Efi" Award in the Finance and Financial Cards category. These awards are given to the best campaigns for marketing effectiveness, extraordinary marketing communication in the segments of creativity, strategy and achieved results.

Last year, Komercijalna Banka was in the first place by all three criteria related to the visibility of advertising campaigns!

Awareness of Bank Advertising Campaigns in Serbia (Banking Omnibus, November 2019):



In addition to the traditional channels of communication, comprehensive communication through social networks continued: Facebook, Twitter, YouTube, Instagrame, and LinkedIn. In this way, the effects of the promotion were at the highest level, given the benefits of both traditional and modern media.
All marketing activities are followed on our website: www.kombank.com, as well as on the Bank's social media accounts.

15. PERFORMANCE OF THE BANK'S BUSINESS PLAN FOR 2019

15.1. Performance of the balance-sheet plan for 2019

No.	ASSETS ITEM	REALIZED IN 2019	PLAN FOR 2019	INDICES
1	2	3	4	5
	ASSETS (in RSD million)			
1.	Cash and assets with the central bank	67.558	60.170	112,3
2.	Securities	138.470	119.563	115,8
3.	**Loans and receivables from banks and other financial organizations**	**24.734**	**15.680**	157,7
3.1.	Loans	5.108	5.254	97,2
3.2.	Other lending and receivables	19.626	10.426	188,2
4.	**Loans and receivables from customers**	**180.853**	**203.591**	88,8
4.1.	Corporate (loans)	81.504	99.695	81,8
4.2.	Retail (loans)	99.057	103.527	95,7
4.3.	Other lending and receivables (cor.+ ret.)	291	369	78,8
5.	Investment in subsidiaries and affiliates	3.434	2.612	131,5
6.	Fixed assets and investment property	8.296	7.347	112,9
7.	Other assets	9.037	7.765	116,4
8.	**TOTAL ASSETS**	**432.380**	**416.729**	103,8

- Balance of cash and assets at the central bank is higher compared to the planned value and due to the lower than planned volume of investment of funds into loans.
- The item securities (sec) is higher than the planned volume by the amount of RSD 18,906.1 million as a result of increased investment activity in new securities of the Republic of Serbia with longer maturities.
- Lending and receivables from banks and other financial organizations are higher than planned, primarily due to higher volume of investment of funds into repo transactions and lower amount of loans granted to banks, compared to the planned values.
- Disbursed corporate loans were lower than the plan for the end of 2019 due to decrease in good quality demand.
- Retail lending is marginally lower compared to the planned annual volume.
- Lower than planned growth in portfolio was compensated for by the growth in investment of funds into securities compared to the planned volume (15.8%).
- Value of fixed assets and investment property of the Bank is higher than planned (12.9%).
- Other assets were realized at a higher than planned level (16.4%), primarily due to the higher than planned realization of other and intangible assets.

No.	LIABILITIES ITEM	REALIZED IN 2019	PLAN FOR 2019	INDICES
1	2	3	4	5
	LIABILITIES (in RSD million)			
1.	**Deposit and liabilities to banks, financial organizations and the central bank**	**11.012**	**10.804**	101,9
1.1.	Deposits	9.585	7.611	125,9
1.2.	Credit lines	1.427	3.192	44,7
1.3.	Other liabilities	1	1	76,6
2.	**Deposits and other liabilities to customers**	**329.326**	**329.095**	100,1
2.1.	**Corporate**	**47.948**	**55.436**	86,5
2.1.1.	Deposits	47.879	55.374	86,5
2.1.2.	Other liabilities	69	62	111,1
2.2.	**Retail**	**281.378**	**273.659**	102,8
2.2.1.	Deposits	280.484	272.759	102,8
2.2.2.	Other liabilities	894	900	99,3
3.	Subordinated liabilities	-	-	-
4.	Provisioning	2.328	1.682	138,5
5.	Other liabilities	13.861	4.320	320,9
6.	**TOTAL LIABILITIES**	**356.528**	**345.900**	103,1
7.	Share capital and issue premium	40.035	40.035	100,0
8.	Reserves from profit and retained earnings	35.818	30.794	116,3
9.	**TOTAL CAPITAL**	**75.852**	**70.829**	107,1
10.	**TOTAL LIABILITIES**	**432.380**	**416.729**	103,8

- Retail deposits reached the amount of just above the values planned for the end of 2019 (2.8%).
- Corporate deposits were below the planned values by 13.5%.
- Deposits by banks and other financial organizations were above the planned values by 25.9%.
- Bank’s total capital is higher than planned (7.1%) due to higher than planned amount of realized profit, as well as due to higher reserves formed from profit.

15.2. Performance of the P&L plan for 2019

No.	ITEM	REALIZED IN 2019	PLAN FOR 2019	INDICES
1	2	3	4	5
	(in RSD million)			
1.1.	Interest income	13.631	14.247	95,7
1.2.	Interest expenses	-1.025	-1.012	101,3
1.	**Interest gains (1.1.-1.2)**	**12.605**	**13.236**	95,2
2.1.	Fee and commission income	7.125	7.562	94,2
2.2.	Fee and commission expenses	-1.796	-1.615	111,2
2.	**Fee and commission gains (2.1. -2.2.)**	**5.329**	**5.948**	89,6
3.	Net exchange rate differences and revaluation (FX clause)	38	-	-
4.	Net cost of indirect write-off of loans and provisions	2.426	-519	-
5.	Other operating income	-1.065	57	-
6.	Operating expenses	-11.065	-11.120	99,5
7.	**OPERATING PROFIT BEFORE TAX**	**8.269**	**7.601**	108,8

- During 2019 realized net interest gains was lower than planned by 4.8%. Corporate and retail interest income was lower than planned. Interest income realized within the Treasury business function was higher than planned. Due to everything mentioned above, total interest income was RSD 616.5 million lower than planned. Total recorded interest expenses during 2019 were RSD 13.6 million higher than planned.
- Net fee and commission income realized during 2019 was 10.4% lower than planned.
- At the end of 2019 realized net income from indirect write-off of loans and provisions amounted to RSD 2,425.9 million, while the plan anticipated a net expense of RSD 519.2 million.
- Operating expenses were lower than planned by RSD 55.4 million.
- Realized other operating income was lower than other operating expenses which resulted in realization of net other operating expenses (RSD 1,065.2 million) while other operating income was planned in the amount of RSD 57.3 million.
- In the period January – December 2019 profit before tax was realized in the amount of RSD 8,269 million, which is more than planned by RSD 668 million or 8.8%.

Signed on behalf of Komercijalna Banka ad Beograd

Member of the Executive Board

Miroslav Perić, PhD

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

Chief Executive Officer

Vladimir Medan, PhD

2P

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11000 Beograd

29.04.2020.

Pursuant to Article 50 of the Law on Capital Market (RS Official Gazette No. 31/2011, 112/2015, 108/2016 and 9/2020) Komercijalna banka AD Beograd issues the following

STATEMENT

I hereby state that, according to my best knowledge and based on the opinion of an external auditor, the annual financial statements have been prepared using the appropriate international financial reporting standards and provide truthful and objective information about the assets, liabilities, financial position and operations, profits and losses, cash flows and changes in equity of the public company.

KOMERCIJALNA BANKA AD BEOGRAD

Miroslav Perić, PhD
Member of the Executive Board

КОМЕРЦИЈАЛНА БАНКА АД БЕОГРАД
БЕОГРАД
4

Vladimir Medan, PhD
President of the Executive Board

2P 8J

KOMERCIJALNA BAKA AD BEOGRAD
THE MEETING OF THE BANK
Number: 4690/1
Belgrade, 28.04.2020

Pursuant to Article 14 of the Articles of Association of Komercijalna banka AD Beograd, the Meeting of Komercijalna banka AD Beograd passes at its regular session held on 28.04.2020 the

DECISION
ADOPTING THE ANNUAL BUSINESS REPORT OF KOMERCIJALNA BANKA AD BEOGRAD AND REGULAR FINANCIAL STATEMENTS FOR 2019 WITH THE OPINION OF THE EXTERNAL AUDITOR

Article 1

Adopted is hereby the 2019 Annual Business Report of the Komercijalna banka AD Beograd, along with the opinion of the Bank's external auditor (Ernst & Young d.o.o. Beograd), in the text which is an integral part of this Decision.

Article 2

Adopted are hereby the regular financial statements of Komercijalna banka AD Beograd for 2019, along with the opinion of the Bank's external auditor (Ernst & Young d.o.o. Beograd):

1. The Balance Sheet as at 31.12.2019;
2. Income Statement in the period between 01.01 and 31.12.2019;
3. Statement of Financial Performance other names in the period between 01.01 and 31.12.2019;
4. Statement of Changes in Capital in the period between 01.01 and 31.12.2019;
5. Cash Flow Statement in the period between 01.01 and 31.12.2019;
6. Notes to the financial statements for 2019, and
7. Statistical Report for 2019

in the text which is an integral part of this Decision.

Article 3

This Decision enters into force as of the date of its passing.

CHAIRPERSON OF
THE BANK MEETING

____
Marijana Markovic

KOMERCIJALNA BANKA AD BEOGRAD

THE BANK MEETING
Number: 4690/3
Belgrade, 28.04.2020

In conformity with Article 14 of the Articles of Association of Komercijalna banka AD Beograd, the Meeting of Komercijalna banka AD Beograd is passing at its regular session held on 28.04.2020 the following

DECISION
ON DISTRIBUTION OF THE 2019 PROFIT AND ON NON-DISTRIBUTED PROFIT OF PREVIOUS YEARS

I

The profit realized in 2019 and non-distrbuted cumulated profit of previous years shall be distributed as follows:

No.	DESCRIPTION	Current profit from 2019	Retained cumulated profit from previous years	TOTAL PROFIT FOR DISTRIBUTION
1	2	3	4	5(3+4)
1.	**PROFIT FOR DISTRIBUTION:**	**8.955.758.841,25**	**1.470.139.349,60**	**10.425.898.190,85**
	THE PROFIT SHALL BE DISTRIBUTED FOR THE FOLLOWING PURPOSES:			
2.1.	Dividends for ordinary shares (ISIN: RSKOBBE16946, CFI: ESVUFR) in accordance with the Dividend Policy	4.464.806.570,63		4.464.806.570,63
2.2.	Dividends for preference shares (ISIN: RSKOBBE19692, CFI: EPNXAR) in accordance with the Decision on Preference Shares Issue	13.072.850,00		13.072.850,00
	The Dividend Day for which the List of Shareholders is drawn up is 18.04.2020. pursuant to Article 13a. of the Memorandum of Association of the Bank			
2.3.	Equity capital – Bank reserves	3.582.000.000,00		3.582.000.000,00
2.4.	Bonuses to employees from the profit	895.575.884,13		895.575.884,13
2.	**TOTAL DISTRIBUTED PROFIT (2.1. + 2.2. +2.3. +2.4.)**	**8.955.455.304,76**	**0,00**	**8.955.455.304,76**
3.	RETAINED PROFIT (1-2)	303.536,49	1.470.139.349,60	1.470.442.886,09

II

Payment of the realized profit from item I, sub-items 2.1 and 2.2 shall be made once the conditions shall be in place therefore as laid down by the Law on Banks and in conformity with the Dividend Policy.
Payment of the realized profit from item I, sub-item 2.4 shall be made once the conditions shall be in place as laid down by the Law on Banks.

III

Relevant bodies of the Bank shall care about the execution of this Decision.

IV

This Decision shall come into force as of the date of its passing.

THE BANK MEETING
CHAIRPERSON
Marijana Markovic